Its economy 'critical,' Russia gets a new government

by Rachel Douglas

Driving the political crisis in Russia, which has gone for a month and a day with only an acting government, is its economic depression, worsened by the acute financial crisis since the world financial shock of late 1997 hit Moscow. President Boris Yeltsin has presented Sergei Kiriyenko to the country as a young "technocrat," who as premier will straighten out the machinery of state and the economy. But, promises made by Kiriyenko in negotiations with the International Monetary Fund (IMF), behind closed doors, would guarantee further economic destruction and new crises.

When the State Duma (parliament) voted on April 24 to approve Kiriyenko, having rejected him in two earlier votes, the specter of dissolution of the Duma, Yeltsin ruling by decree with Kiriyenko as acting premier, and the bankruptcy of the country, loomed over the proceedings. State Duma Speaker Gennadi Seleznyov and former Prime Minister Viktor Chernomyrdin even questioned whether the state could come up with the cash to pay for a parliamentary election. Seleznyov suggested the 2 billion rubles ($325 million) would better be spent on teachers' and soldiers' salaries. Chernomyrdin, interviewed in *Kommersant Daily* on April 21, said that Russia had suffered such financial losses from the Asia crisis and collapse of oil prices that, "if we launch one more [election] campaign, we'll be unable to do anything else until next year."

In his own address to the State Duma on April 10, the day of the first vote, Kiriyenko adopted the approach of "telling it like it is" about the ravages of the financial crisis and recent Russian policies. He gainsaid the claims by government officials in recent months, that growth of so-called Gross Domestic Product had resumed in 1997 and that the impact of the world financial crisis upon Russia was contained. "Growth of GDP has come to a halt," said Kiriyenko. It "was exactly zero in March." He said that the plunge of world prices for oil and other raw materials exports had put the squeeze on the finances of the Russian state, while the Central Bank's increase of interest rates, a decision made in order to keep investors in the Russian GKO (treasury bill) market, had increased budget spending by 20 billion rubles ($3.3 billion). Now, 30% of government budget spending goes for domestic and external debt service.

By April 13, three weeks after Yeltsin dismissed the previous government, the Moscow stock market had fallen by 10% and yields on GKOs (short-term state bonds) rose above 30% again. In February, former finance boss Anatoli Chubais had claimed that those rates were below 28% to stay. The 1998 budget presumes 25% interest rates on GKOs.

The strain of the economic slump on Russian society was "critical," Kiriyenko admitted to the Duma. One-fourth of the population, or 32 million people, receive less than the "subsistence level" of income. The government owes 82 billion rubles for back wages and other internal debts. This is before the full impact of the above-cited aggravating events hits, "in the second half of this year."

Kiriyenko's plans

As for his planned policies, Kiriyenko talked about revitalizing industry—"without it there are no budget revenues, and that means no budget"—by means of low-interest lending, and hinted at protectionist measures to reduce the share of imports in domestic consumption from the 40-50% range, to 15-20%. That would imply huge changes in Russia's radical liberalization, but, in that same April 10 speech, Kiriyenko also said he hoped to satisfy IMF conditions for releasing its credit line to Russia, by demonstrating a will to collect taxes better and to slash budget spending through energy conservation.

Three days before the decisive third vote, *Kommersant Daily* exposed what it said was the secret "plan of primary measures by the government, in the tax and budget sphere," a set of commitments to the IMF by Kiriyenko. Though his tactics "are not to promise anything concrete," behind this facade, charged journalist Andrei Bagrov, Kiriyenko has actually "decided everything." Failure to implement the plan, suggested Bagrov, means that "Russia will receive no more financial assistance from the IMF."

Besides a very generally worded letter of intent, signed by Kiriyenko, Central Bank chief Sergei Dubinin, and the IMF on April 11, reports Bagrov, the acting government promised to implement a still-secret list of severe austerity measures, including sharp reduction in the number of state-paid employees; raising fees for gasoline for individual users; harsh measures against delinquents, including oil-extracting companies (those of them that have debts to the state budget will lose access to export oil pipelines); decreasing import duties for goods having no Russian analogues, and so on.

In an interview with journalist John Helmer, versions of which were published in the *Journal of Commerce* and the *Moscow Tribune* on April 17, economist Sergei Glazyev, head of the Department of Information and Analysis of the Federation Council, blasted the IMF's current negotiations with the acting Russian government as "illegal," because the spending cuts and other conditionalities violate laws duly passed by the Russian legislature. The authority of Kiriyenko and Dubinin to commit Moscow to those terms, just 24 hours after Kiriyenko's first rejection by the Duma, is also in question. IMF spokesman Graham Newman told Helmer, "I believe Yeltsin is still the President of Russia, and if he designated someone [to sign], then the legal authority existed." The Russian President, however, has denounced as "a provocation or an invention," the large public-sector job cuts to which the letter evidently commits Russia.

Sources report that Kiriyenko's signing of these documents, in order to please the IMF, was the topic of much discussion in the State Duma before the last vote.

No funds for Army salaries

The latest reports from the military sector, point to the potential social turmoil, to which further economic collapse will lead. On April 15, the State Duma overrode Yeltsin's veto of a law raising the wages of troops and officers in the Russian armed services. Yeltsin acted because the 52 billion rubles ($8.5 billion) over two years, mandated by the law, is not in the 1998 federal budget, which is closely calibrated with the conditionalities for IMF lending. If the Federation Council also overrides, Yeltsin will be required to sign the law, but Itar-TASS reported that acting Defense Minister Igor Sergeyev doubts the money can be found in any event. Sergeyev said the priority should be to pay the 11.4 billion rubles ($1.9 billion) in current wage arrears to the military.

In *Nezavisimaya Gazeta* of April 17, under the headline "Army May Go Out of Control," Vladimir Mukhin wrote that young officers are fleeing the military at a high rate, unable to cope with the lack of pay and other miserable conditions. The average age of retirement for commissioned and warrant officers in 1992-97 was 37. As a result, there is "an acute shortage" in the middle of the officer corps, the levels that work directly with the troops. Mukhin quoted Gen. Col. Ilya Panin, chief of the Main Personnel Directorate of the Russian Defense Ministry, who told an April 16 press conference that nearly one-third of the posts of platoon and crew commanders, and deputy commanders of companies and batteries, are vacant.

Italy's choice: EMU or New Bretton Woods

by Claudio Celani

Following the visit of Lyndon LaRouche to Italy at the beginning of April, the Italian government at its highest level officially endorsed the idea of a New Bretton Woods. Although not acknowledging LaRouche's "copyright" on the idea, the Italian government statements reflect the impact of LaRouche's week-long visit, and especially his discussions with members of Parliament, on the necessity of a reform of the international monetary system.

Thus, during a state visit to Argentina, when Italian Prime Minister Romano Prodi was asked by *EIR* correspondent Gonzalo Huertas whether he thought the April 16 G-22 meeting would deal with the proposal for a New Bretton Woods, Prodi answered:

"I personally believe that we must move toward a New Bretton Woods. And this has to be analyzed very carefully, because the risk level in the international monetary system has greatly increased in the recent period. But it is an issue that can be touched upon at this meeting. It has to be the object of a very serious analysis; it is not something that is going to be done at this moment."

More interesting than Prodi's statements, which do not specify what the "New Bretton Woods" should be, are views expressed almost at the same time by Italian Foreign Minister Lamberto Dini, who became the first Western government official to push for "bankruptcy reorganization." (Putting the entire financial system through "Chapter 11" bankruptcy procedures is key element of LaRouche's approach to the current financial collapse.)

Dini, a former International Monetary Fund (IMF) official and central bank director, criticized the IMF "bailout" approach to the Asian crisis. In an interview with the daily *La Repubblica* on April 6, he said: "We cannot hide it, there is something wrong. You cannot give investors the impression that, if the investment fails, there will be a supranational body coming in, with taxpayers' money. A moral hazard has been created, and we must temper it by introducing a sort of international bankruptcy court, to establish the principle that creditors pay for failures and that an investment has a risk factor. Like with private firms: When one goes bankrupt, you list up the creditors, you maybe reach an agreement, but you never recover the last cent."