Epicenter of the financial crisis shifts to Russia

by Rachel Douglas and Konstantin George

Without the least abatement in any country in Asia, the epicenter of global financial crisis shifted to Russia, as the second half of 1998 began. In Moscow, the deputy premier of one of the world's great powers, a nuclear power, put it simply in a June 29 interview. "What is the issue?" asked Boris Nemtsov. "Will we succeed in avoiding a bankruptcy of the Russian Federation or not? That is the issue."

The past six weeks' events in Russia confirm that it is at civilization's peril, that an institution such as the International Monetary Fund (IMF) is in charge of managing this crisis. Its approach, in the tradition of the 1919 Treaty of Versailles war reparations that caused so much grief in the 20th century, is that the greatest debt bubble in history must be serviced and maintained, even if it means the annihilation of the debt-servicing countries and their people. Nemtsov echoed the IMF policy-setters for Russia, reiterating during an early July tour of the Russian Far East (where the port city of Vladivostok plunged into darkness, as strikes by power workers led to electricity cut-offs, while Nemtsov toured the coast farther to the north), "We will pay all the debts, whatever the cost."

Anatoli Chubais, the monetarist intimate of IMF officials, brought back into government to deal with the Fund on Russia's behalf, announced in June that Moscow would require $10-15 billion, beyond the periodic disbursements of the IMF's standing $9.2 billion credit to Russia—and, the money would be needed by the end of July. By July 9, Russian officials were leaking to the *Financial Times* of London, that the emergency funding had better be closer to $20 billion.

Russia needs to roll over the equivalent of $1 to $1.5 billion in domestic treasury debt (the GKO and OFZ bonds), each week for the rest of this year. Most of the June and early July auctions failed, with the rollover issues either failing to sell, or selling at yields that pushed 115%—nearly quintuple the interest rates presumed in Russia's 1998 budget plan. Even with receipt of a $670 million loan tranche from the IMF on July 1 and the floating of $3.75 billion in Eurobonds during June, Russian Central Bank reserves fell from $16 billion to $15.1 billion, between June 26 and July 3. With the failure of the July 8 GKO auction, where only one-month bonds were offered, due to the astronomical interest rates, another $725 million had to be spent. Russian stock share prices have now plunged 65% since the beginning of the year; trading on the Moscow exchange has dried up to almost nothing. Discussion of devaluation of the ruble is raging, in Moscow and abroad.

"That's a lot of money," the IMF's Stanley Fischer said about Chubais's cash wish list, as Fischer headed for urgent consultations in Moscow in June. There is no evidence that the IMF has any such lending capability, for Russia or any other recipient. Nonetheless, the potential for a Russian meltdown to detonate eastern and central Europe, and the banking system in western Europe, is no longer the stuff of remote scenarios. The handwriting is right there, on the wall.

Hot autumn, or summer, guaranteed

The Russian government unveiled its austerity "anti-crisis program" on June 23, just as Fischer's IMF delegation arrived. On top of budget austerity, the plan, crafted according to IMF conditionalities, this time requires the Russian parliament, the State Duma, to pass a package of financial laws. The Duma being the institutional expression of Russia's opposition, what the IMF requires is nothing less than the capitulation of that opposition.

With or without new funds, Russia loses. Should there be no bailout, it is only a matter of time before bankruptcy—three weeks, according to sources close to Commonwealth of Independent States secretary and financial power Boris Berezovsky, speaking at the end of June—and a plunge of the ruble, in a free fall, reminiscent of the German Reichsmark in the early 1920s. With a bailout, the austerity implemented to qualify for the aid package, will provoke a dangerous social and political crisis.

The so-called "anti-crisis program" slashes state spending by nearly one-third, across the board, except for debt service. Expenditures are reduced by 42 billion rubles ($6.8 billion), from a ceiling of 147 billion rubles, to 105 billion. A renewed "press gang" approach to tax collection is supposed to increase revenues by about 20 billion rubles ($3.2 billion). The cuts entail the dismissal of 70,000 state employees (20%) by the end of this year, plus "significant cuts" in subsidies to agriculture, industry, and transportation. As of July 3, the State Duma had already rejected two key laws in the new package: a bill that would make the value added tax collectible when goods are delivered, as opposed to when they are paid for, and a new income tax package.

If the Duma fails to pass the package, President Boris Yeltsin may attempt to impose it by decree.

The financial maneuvers in and around Russia are overlaid by a pattern of social and political crisis. On July 9, the latest dive in Russian markets, and the value of the German deutschemark, was touched off by a spate of rumors about Yeltsin's being ill, or even dead. It is no longer taboo, for the nightly news in Moscow to show Yabloko party leader Grigori Yavlinsky, speculating on the prospects for the President to resign. The media report polls, that Yeltsin's rating has gone into negative territory. Coal miners' picket signs, demanding the resignation of the government and the President, may be seen outside government headquarters in Moscow, as well as on the Trans-Siberian Railroad, where the miners' protest blockade resumed on July 2. The demands of the new strike are not only the payment of the miners' own wage arrears, but an effective plan to save the coal industry and industrial regions, and a change of regime.

During June, the ranks of labor protesters were swelled by scientists from the Academy of Sciences, who marched on Moscow from scientific research centers in the surrounding area. "The castration of science means Russia is barren," read their signs. In July, thousands of defense sector workers picketed in Moscow, St. Petersburg, and other towns. For the first time since the Civil War of 1918-21, officers of the Russian Navy's Baltic Fleet joined in a major protest, starting a hunger strike over the lack of anywhere for them to live.

EIR confronts Camdessus

At a conference on July 2 in Frankfurt am Main, Germany, sponsored by the German Bundesbank, the *Frankfurter Allgemeine Zeitung,* and the International Monetary Fund, under the title, "The IMF's Role in Today's Globalized World," the keynotes were by Bundesbank President Hans Tietmeyer and IMF Managing Director Michel Camdessus. Both campaigned for the IMF's role in global crisis management, increased transparency in member countries, and more IMF surveillance in crisis spots in Asia. *EIR*'s William Engdahl asked, "Informed estimates put Russia at best three weeks from default on its foreign obligations. Alone, German banks have an estimated $75 billion at risk in Russia, to say nothing of French, U.S., or other banks. Without outside help on the order of at least $15 billion, from the IMF or BIS [Bank for International Settlements] or whatever, Russia will go. Asia is now teetering on the brink of a new meltdown around the Japanese problems, the immediate risk of possible Chinese and Hong Kong devaluations and economic breakdown. Would you not suggest that something need be done beyond simply calling for greater IMF surveillance in this situation?"

As the panelists' polite smiles froze, Camdessus rose to reply, "We must avoid having catastrophe scenarios. I have with me in my pocket at all times a small card on which I write the major trouble countries; of course, I won't say who is on it. But we are all working to avoid contagion. We are working closely with Russia. I don't share the pessimism that a catastrophe will come in three weeks. Of course it is possible, but many times people have predicted Russian catastrophe in the past and it so far has managed to avoid it. In Asia, we are trying to do what is necessary as well, in order to avoid an atomic explosion there. Not with big amounts of money, but to convince the governments to follow IMF policy recommendations."

Rokhlin murdered

The ill omen of a political explosion matured further, with the murder of Gen. Lev Rokhlin (ret.), at 4 a.m. on July 3. Military hero of the fighting in Chechnya, former chairman of the Duma's Defense Committee, Rokhlin had become a feared opponent of the comprador establishment, when he founded the Movement in Support of the Armed Forces, the Defense Industry, and Science, last year. Within hours, the Security Ministry announced that Rokhlin's wife had confessed to the crime, a rush to judgment that was promptly questioned, on national television, by the general's children, colleagues, and members of the Duma.

On July 7, some 10,000 people flocked to the House of Officers in Moscow, for Rokhlin's funeral. The funeral was delayed several hours, in order to accommodate the crowd, one of the largest gatherings in Moscow since the breakup of the Soviet Union. Moscow Mayor Yuri Luzhkov, who attended the funeral, commented on the absence of "top government officials." While saying that this was "their right, their choice," he added, "They are not really aware of the current situation in the country, I think."