

tov—still officially in office because of parliamentary support, despite being fired by Yeltsin—had been prevented from flying to Switzerland. Skuratov was to have attended a conference on fighting corruption and organized crime, to which he had been invited by Switzerland's Chief Prosecutor, Carla Del Ponte. She had been in consultations with Skuratov over tracing flight capital to Swiss bank accounts, and the case of the Mabetex company, in particular, which touches on the financial speculators, now on the upswing, who operate with and around President Yeltsin's family.

Primakov government in retrospect

Russia's former First Deputy Premier Yuri Maslyukov, ousted with Prime Minister Yevgeni Primakov on May 12, wrote an article for Pravda of May 19, titled, "The Fault of the Primakov Government Is That It Saved Russia." When Primakov came in, recalled Maslyukov, things had come to ruin, due to his predecessors' economic policy, the world financial crisis and the panicky actions of Aug. 17, 1998 (the 34% devaluation of the ruble and freeze on domestic debt payments). Industrial production was plummeting, the banking system was paralyzed, there was a payments crisis, some railroads had stopped transporting freight, and real incomes were at the level of January 1992. The "young reformers" (in the Kiriyenko government) had paid no attention to preparing for winter.

The Primakov government's actions allowed Russia to escape socioeconomic catastrophe and bloody political chaos, and began to achieve success in economic reforms. "It is possible he will not be forgiven for this," Maslyukov concluded.

As the commentator in the May 25 "Business Club" column in the weekly newspaper Zavtra, prominent Russian economist Sergei Glazyev analyzed the legacy of the Primakov-Maslyukov government—what it accomplished, and what was left undone, but might still be done in the future. Glazyev's discussion, which appeared in Russian on the Internet site of Zavtra, is excerpted below in translation by EIR. Subheadings have been added by EIR.

I shall begin our discussion of the work of the Primakov-Maslyukov government with official data from the State Statistics Committee. According to that data, industrial production increased by 23.8% from October 1998 through March 1999. This can be called an economic miracle. . . . Industrial growth of 10% per annum is considered a great achievement.



Russia's former Prime Minister Yevgeny Primakov. According to Russian economist Sergey Glazyev, his government stabilized the economy, but failed "to do battle with the oligarchs on behalf of domestic goods producers."

We have just experienced nearly 24% growth in half a year, and 11% in March alone. What is also surprising, is that this economic growth took place in a setting of declining inflation, which fell from a 35% monthly level to 3% per month. In analyzing these facts, it should be noted at the same time, that the Primakov-Maslyukov government adopted virtually no special measures to stimulate economic growth. It resulted chiefly from simply maintaining the macroeconomic conditions, favorable for the growth of production, which came about after Aug. 17 [1998]. Hopes for political stability were also a factor.

Many industrialists and entrepreneurs believed that this was a government of social partnership, which was prepared to solve practical problems and go half-way to meet the desires of business circles, linked with domestic production.

The macroeconomic conditions, which changed after Aug. 17 and worked in favor of growth, included a fourfold devaluation of the ruble, which brought about significant demand for domestically produced goods, almost immediately giving an impulse to their production. Moreover, the government blocked attempts to set up various sorts of new financial pyramids. In September-October, for example, the Central Bank and the Ministry of Finance very much wanted to set up the latest such pyramid, first in the form of seven-day GKO (short-term government bonds), and then with zero-coupon Central Bank bonds with 40-50% yields. The Central Bank launched this activity illegally, since it had no license, but very aggressively. Nonetheless, it was prevented from setting up this new financial pyramid.

The government also managed to pressure the Central Bank not to raise interest rates. Under the Kiriyenko-Fyodorov-Chernomyrdin program, Russia was supposed to have

tightened its monetary policy, not only restricting cash issues, but raising interest rates in order to lower inflation more quickly. The Primakov-Maslyukov government and the new Central Bank leadership chose a diametrically opposite path. They maintained low interest rates, carried out a centralized mutual cancellation of debts, and used cash issues to stabilize the banking system.

The government also restrained price rises on fuels and services provided by the natural monopolies. There was a real battle, for example, with the Railways Ministry, which was trying every ruse possible, in order to index transport fees to the exchange rate of the ruble, thereby introducing the payment of dollar tariffs for domestic freight shipments.

By blocking the increase of interest rates and of prices on the services of the natural monopolies, the Primakov-Maslyukov cabinet limited some destructive tendencies, and this made it possible for industrial production significantly to rise.

What the government failed to do

The government did not, however, decide to do battle with the oligarchs on behalf of domestic goods producers. The premier did not act, for example, on the Federal Assembly's demand that [Anatoli] Chubais be removed from the leadership of [the national electricity company] UES. Therefore, important possibilities were missed for lowering electricity fees. They could be reduced two- or threefold, if proper management were introduced at UES. There are also enormous possibilities for lowering natural gas prices, and freight transport fees. We all know that a substantial part of the export earnings from sales of raw materials just dissolves away abroad. Primakov talked about this, but did not go beyond talk.

In short, the government was unable to penetrate the internal workings of the natural monopolies and put things in order. I don't know what Chubais' salary is today. The press has reported that Brevnov, his predecessor in that job at UES, was paid \$20,000 per month. The leader of the anti-trust regulatory agency, meanwhile, responsible for monitoring electricity fees, gets 5,000 rubles (\$218) per month. How can a person, whose monthly salary is 5,000 rubles, supervise someone receiving \$20,000? It's absurd. The natural monopolies, essentially, are working for the people who run them, not for the economy.

In recent years, the Central Bank issued credits to commercial banks, collateralized by government securities, and it printed money with which to acquire foreign currency. In effect, it was servicing the speculative circulation of money by non-residents. . . Budget policy was also oriented toward financial speculators. The production sector, the real sector was effectively working without cash. In this respect, the Primakov government was unable to do anything, since its intention to reshape monetary policy in the interests of domestic production encountered very strong resistance.

The impressive growth of production was achieved mainly through the enterprises' own resources, and therefore could not be adequately sustained. One serious barrier is the contraction of demand. The population, ever more impoverished due to the previous policy, cannot permit itself to increase demand for domestic products, which would stimulate their production.

The inherent flaws of our financial system make it absolutely useless for developing industry and agriculture.

Therefore, we should first change the entire strategy of our financial policy, shifting to directed regulation of financial flows, which means to expand the money supply in accordance with the demand from the goods-producing sector, which has built up on the market.

In this aspect of policy, the Primakov-Maslyukov cabinet made one serious and stupid mistake. They did not act to begin to de-dollarize our economy. In Russia today, three-quarters of savings go into cash dollars. That means that free funds are taken out of economic circulation, and not invested. The result is that we donate three-quarters of our savings potential to the American Treasury. . . . The government did not even attempt to deal with the dollarization of the economy. But, if the outflow of savings into foreign currency is not halted, there cannot be any expansion of investment or, accordingly, economic upswing.

What must be done

I am personally convinced, that we must shift to limited convertibility of the ruble, allowing full convertibility only for foreign economic operations. If you wish to import goods, be my guest, buy foreign currency. If you wish to travel abroad as a tourist, exchange the relevant sum of rubles into dollars. But the conversion of savings into a foreign currency should be excluded.

The system of measures, which we developed at the Federation Council, includes a fundamental restructuring of monetary and credit policy, which should really be reoriented to the goods-producing sector. The population's confidence in banks must be restored, which means a system of state guarantees for bank deposits, . . . transparency in banking operations, and enforcement of the rules for the use of assets. Of course, there must also be tightened supervision of all the natural monopolies, from Gazprom to the Railways Ministry. . . . We believe that the state must keep natural monopolies fees at a level, where profitability in the energy and transportation sectors and profitability in manufacturing are approximately the same. Today, they differ by an order of magnitude. . . .

The government was unable to carry out its promises to reduce the tax burden. The chief reason was IMF pressure. The International Monetary Fund demands an increase of fiscal collections, so that Russia can continue to service its foreign debts, failing to understand that the problem is not that taxes are too low, but that 1) they aren't paid, and 2) incomes are concealed and taken out of the real sector.