Will Reality Block Neo-Liberal Economic Schemes in Russia?

by Rachel Douglas

The neo-liberal, free-trade formulas, to which President Vladimir Putin would seem to have surrendered Russian economic policy with the appointment of German Gref, Alexei Kudrin, and Andrei Illarionov to his government (see *EIR,* May 26, 2000, p. 9), have swiftly collided with the reality of the economic crisis, at home and abroad. The script, according to which Putin plays the role of "Pinochet"—Chile's authoritarian enforcer of liberal monetarism and austerity—may be torn to shreds by that reality.

In what universe, is the Russian leadership acting? Lyndon LaRouche analyzed Putin's "orbit," during the Schiller Institute's historic conference in Bad Schwalbach, Germany in May: "Russia is not an independent entity. It's living in an Anglo-American-dominated New World Order. It is something, put under the category by the British, of 'Pinochet Option for Russia—Russia Division of the Anglo-American World Empire.' And Putin is trying to get the best bed in the Empire Train. . . . What is going to happen with Putin's options, on the day when what he believes will not happen, will happen? When this system disintegrates—the system to which he's adapted. . . . We would hope that the present government of Russia would reform itself, in conformity with the reality, which we know exists." (See *EIR,* June 23, 2000, pp. 25-28 for entire passage.)

That hasn't happened yet, but in a world where the British political establishment is in turmoil and the imminence of financial meltdown is a matter of open discussion among elites in Europe, there are signs of some reality-induced shifts of emphasis by Moscow. One is Russia's intensifying diplomacy with its neighbors in Asia, which next will take Putin to a bilateral summit in Beijing on July 18-19, before he arrives for the G-8 consultations in Japan, and in which former Premier Yevgeni Primakov and some of his longtime close associates are involved in official capacities. Second, political disputes over the liberal economic agenda were reflected in Putin's first annual "President's Message" to the Federal Assembly, delivered on July 8, even though he reiterated that agenda.

Putin's main theme was saving Russia from disintegration, through consolidation of a "strong and effective state." He listed the priority categories of his government's recently adopted 18-month economic program: defense of property rights, setting of fair rules for competition, more deregulation of the economy, "lowering the tax burden," bringing transparency to the banking system, and "a realistic social policy." But, Putin refrained from any boasts about Russia's recent alleged economic turnaround, which some of his liberal advisers and Moscow investment houses had trumpeted. Putin cautioned that the appearance of "optimistic" economic news, was only by contrast to last year's depths, and was "largely the result of the favorable foreign economic conjuncture," i.e., factors such as high oil prices, which could change at any moment.

The Russian President asked the members of the State Duma and Federation Council (lower and upper houses of Parliament, respectively), rather, to think about Russia's *demographic reality:* "There are fewer and fewer citizens of Russia, each year. For several years now, the population has declined by an average of 750,000 persons per annum. Forecasts show . . . that in 15 years, there could be 22 million fewer Russians. . . . That is one-seventh of the country. If the current tendency continues, the survival of our nation is endangered."

The Winter Crisis Is at Hand

The official rate of inflation in Russia, after hovering below 1% per month during January-May of this year, hit 2.5% in June. Commentators linked with financial institutions, hastened to blame Central Bank Chairman Viktor Gerashchenko for printing rubles with which to purchase the flood of dollars, accruing from the export of Russian oil and natural gas at current high prices. If Gerashchenko and the government were instead to revalue the ruble upwards, these commentators pointed out, Russia would invite a flood of imports at the expense of domestic production, and enter into a new spiral of economic crisis.

Economist Stanislav Menshikov, however, dismisses this analysis as "textbook monetarist formulas with little connection to reality." Professor Menshikov wrote in his July 11 column in the *Moscow Tribune,* that the Central Bank increased the money supply by only 95 billion rubles in January-May, while Central Bank foreign currency reserves rose by $7.5 billion, or 202.4 billion rubles. The surge in inflation, he suggested, was rather due to "steep rises in prices for electricity, gas, public transportation, rents, communal services, and some food necessities, including bread . . . [mostly] explained by actions of the natural monopolies. . . . The government also added to inflationary expectations by sharply raising excise taxes on tobacco, alcohol, and gasoline."

With questions remaining unsettled such as the price-setting prerogatives of the natural monopolies, and whether the Value-Added Tax is to be collected at the moment of delivery or the moment of payment for products delivered, a war of non-payment and non-supply broke out among the monopoly firms. In April, clashes between the natural gas monopoly, Gazprom, and United Energy Systems (UES), the national electricity utility, were calmed only by Presidential mediation. Three months later, they flared anew. On July 1, Gazprom cut off natural gas deliveries to nine power plants, for non-payment of overdue bills. The cuts hit many regions, including Central Russia, the North Caucasus, the Urals, the Volga, and the Northwest. In Vladivostok, the port city in Russia's Far East, residential electricity was supplied for only eight hours per day in early July. As of Aug. 1, the government will impose stiff export duties on crude and fuel oil to force its availability for domestic consumption, something that usually happens later in the heating season; the oil companies, meanwhile, protest that Russian utilities fail to pay for fuel oil. As of July 12, UES announced that it had only 59% of the fuel needed for next winter, and would initiate new power cuts to its own debtors, on July 15.

Government Must Answer Glazyev

Ineffective in the face of these renewed impasses in the real economy, Premier Mikhail Kasyanov and other government members have had to respond to Dr. Sergei Glazyev's criticisms of their 18-month program of measures, adopted June 28, and the ten-year perspective, worked out under Minister for Economic Development and Trade Gref. The latter, according to Kasyanov, is still to be finalized through consultations with the Russian Academy of Sciences, of which Glazyev is now a Corresponding Member, and whose economics leaders, Academicians Dmitri Lvov and Leonid Abalkin, have exposed the Gref document as incompetent. Glazyev, as Chairman of the State Duma Committee on Economic Policy, attended the June 28 cabinet session on the two programs.

In a TV interview on July 2, Gref went off the rails in his attempts to propitiate Glazyev, claiming: "I can describe [Glazyev] as a co-author of the program because we are very closely interacting with him. He is the chairman of the relevant committee in the Duma. He is a very competent person. . . . Of course, there is no full consensus to this day. Sergei Yuryevich Glazyev criticized some sections of the program. We agreed to cooperate further, to work on some moments."

Kasyanov was interviewed the day of the cabinet session, for publication in the June 30 *Vedomosti*. Asked why he didn't object, when Glazyev questioned the projection of a minimum 5% GDP growth rate under the government's policy, Kasyanov acknowledged that Glazyev's approach was fundamentally different, then proceeded to lay it out in some detail: "As for Glazyev's statement, it manifests a contest of different approaches and different schools of thought. Glazyev thinks, as he himself put it, in terms of driving engines of the economy. That is, two to four sectors are chosen in which financial resources are to be concentrated. Based on this logic, he says that the government's program does not envisage such investments, and therefore a growth rate of 5% is unrealistic. Indeed, our program implies a different set of mechanisms. The situation will be improved not through all-embracing state investment because the Treasury does not have such resources. The state will create the necessary conditions in all the sectors of the economy so that they could earn and invest themselves."

Kasyanov went on to tell about different types of deregulation, which he claimed would free the hands of businesses and launch growth in Russia. Then, he outlined his thinking on banking policy, which echoes both Glazyev, and former First Deputy Premier Yuri Maslyukov.

Vedomosti: "But you agree with Glazyev when it comes to investment instruments of the state. You save Promstroibank from bankruptcy, you are ready to finance the economy through the Russian Development Bank [RDB], and you restore Rosselkhozbank as a conduit for funnelling budgetary money into agriculture."

Kasyanov: "I see no contradictions there. The banking sector today is in poor shape, to put it mildly. . . . Banks mainly use short money and often cannot afford to issue credits for more than three months. This is not enough in serious projects. Speaking about RDB, we see it above all as an instrument of credit policy. Take for instance, a project that takes two years to recoup its cost. Private banks are nothing loath to issue a credit, but they fear that something untoward will happen in the two years. To allay the fears of private banks the state will offer them to share risks equally with the RDB. In this way we want to attract capital to the real sector."

Some of the government's inflation-driving tax hikes have yet to be passed. The State Duma will interrupt its summer recess for a one-day extraordinary session on July 19, when it is supposed to deal not only with a political crisis over Putin's proposed removal of regional governors from the Federation Council, but with the tax bills it has rejected so far: elimination of a 1% turnover tax, in favor of a sixfold increase of the gasoline tax, and other excise taxes. Without the tax laws, adopted as a package, Gref warned in July 12 in apocalyptic tones, "there will be nobody left—no governors for another term, no [Duma] deputies, and this government will be gone, because nobody will survive the next crisis."

Gref also raised the specter of "default again," like in 1998, if Russia is unable to channel revenues into making large foreign debt payments, which begin to hit next year. On the other hand, whether or not Putin secures the commitment of Russia's G-8 partners, to restructure its $42 billion in Soviet-era "Paris Club" debt, it could be high time for a complete change of economic policy in Russia, along with the rest of the world.