

# Business Briefs

## Russia

### Government Quarrels Break Out Into Open

Mid-August Russian government sessions on monetary, budget and growth targets for 2005 were tense and marked by open disputes. The Central Bank continues to submit more pessimistic prognoses for the rate of inflation, including on politically sensitive products like bread, than the government presumes.

As for the parameter of "GDP growth" (quite apart from the fact that it is axiomatically inadequate for measuring real economic growth or shrinkage), Minister of Economics German Gref and Finance Minister Alexei Kudrin took the posture of "realists" at the Aug. 19 cabinet meeting, confronting Prime Minister Mikhail Fradkov. Reviewing Gref's brief on what is to be done in 2005, Fradkov expressed the opinion that "more reserves could be mobilized to fulfill the President's task of doubling GDP." This seemingly calm assertion unleashed a heated debate. Gref stated that GDP growth will not exceed 6.7% in 2005. Kudrin allowed as how it might be raised to 7.5%, but only if the prime minister were to take personal responsibility for achieving this result—by moving to implement delayed "structural reforms," like the reorganization of the natural gas monopoly Gazprom and reform of residential utilities pricing, upwards. An angry Fradkov rejoined that "in the practice of the government's work, rotation of key ministers is very useful."

Kudrin and Gref met with President Vladimir Putin at his vacation home Sochi on Aug. 21, to seek backing in their disputes, which remained unresolved as of the end of August.

## Foreign Debt

### Argentina's Kirchner: People Come First

Speaking Aug. 26 in Corrientes province, where he had announced a 200 million peso federal investment in public works, Argen-

tine President Néstor Kirchner said that Argentina "must think first, of those men and women who suffer in this land, to be able to move the country forward," and only after that, deal with foreign debt demands. "We must prioritize [redressing] the internal neglect which our Fatherland has suffered," he underscored. "Let no one trample on us or, under any circumstances, frustrate the recovery process." He added, "To those who run the multilateral organizations, I say with all due respect: Argentina has its own way of thinking; Argentina won't renounce its recovery; Argentina wants to stand on its own two feet, and return the smile to its people's faces."

Somehow the International Monetary Fund's Rodrigo Rato must have missed Kirchner's warning. During a ten-hour stop-over in Buenos Aires on Aug. 31, he met with the President. Rato told Kirchner that Argentina has to increase the primary budget surplus, from its current 3% of GDP to 4% or 5%; increase public savings; implement "pending reforms"; and tighten up the budget. Rato also demanded that Argentina quickly complete its negotiations with foreign financial predators (he called them "creditors") so as to "normalize its financial situation with international markets."

President Kirchner would have none of this. On the debt-restructuring offer, he warned that within the "already proposed" 75% write-down, "we'll seek the best agreement." And regarding the primary budget surplus, he stood his ground, telling Rato, "Don't even think it; don't even dream it."

## Depression

### U.S. Bankruptcies Hitting Record Highs

Personal and business bankruptcies in the United States have more than quadrupled since 1984, with a near-record 1.636 million filings over the 12 months ending June 30, 2004, down just 0.9% from the previous 12-month period. Some 5.56 million bankruptcies, both personal and business, have been filed since January 2001, when George Bush took office. The data were released in August by the Administrative Office of the U.S.

Courts. The number of bankruptcies filed in any three months in the United State now exceeds the *annual* filings two decades ago. In the second quarter ending June 30, 2004, some 421,110 bankruptcies were filed, compared to 344,275 bankruptcies in the 12 months ending June 30, 1984.

Another measure of the U.S. depression is the U.S. Census poverty rate released in late August, which puts Cleveland, Ohio at the top of the poverty list for large U.S. cities, with an official poverty rate last year of 31.3%. Poverty among Cleveland's children is 47%.

## Banking

### German S&Ls Fear Runs Due to Hartz IV

Savings banks and insurance companies fear that unemployed Germans will dissolve their savings accounts and liquidate their insurance policies *en masse*, because of the Hartz IV regime. People, especially from eastern Germany, fear that if they lose their jobs, Hartz IV will deny them unemployment subsidies, until they have basically "eaten up" their assets, such as savings accounts and insurance policies. The S&L association is launching an "information campaign" to tell people that this particular clause in Hartz IV only applies to those with large savings. Nonetheless, in the first half of this year, 15,000 people in Berlin and Brandenburg, both in the east, have cashed in their life insurance policies, four times the rate for all of 2003. East Germans no longer trust what they are told by authorities, having been burned once by the mismanagement of reunification (see *Strategic Studies* in this issue). Germans in the eastern states are also liquidating savings accounts, and, they are hoarding the cash under the mattress. Banks and insurance companies are quite nervous this could turn into a full-scale panic.

Further, the East German S&L Association is studying plans to establish a "bad loans bank." Record private and corporate bankruptcies, again in the hardest-hit eastern states, has caused bad loans to balloon, estimated at 225-300 billion euros, of which EU 60-100 billion is owed to S&Ls.