Moscow's anti-crisis program: layoffs, price increases and tax cuts for the wealthy

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8 July 1998

At the beginning of last week, accompanied by a bombastic media campaign, the Kiriyenko government submitted an anti-crisis programme to support the sinking ruble and overcome the acute financial crisis.

The three-year programme includes massive cuts in public spending ($6.6 billion according to previous reports), a 20 percent reduction in the staff of the state apparatus, an accelerated tax reform and drastic measures to collect taxes.

Figures are circulating that by the end of the year, 70,000 civil service employees could be laid off. At the same time a 5 percent sales tax is to be imposed. Moreover, according to the head of the state tax authority, Boris Fedorov, there are plans to cut the tax on profits from 35 to 20 percent and expand existing privileges for investors.

The background to these measures is the negotiations with the International Monetary Fund over the release of the next $670 million installment of a $10 billion loan. The precondition set by the IMF is strict compliance with specific conditions. Following the financial crisis, which came to a head at the end of May, the IMF was no longer prepared to accept mere declarations of intent, but demanded decisive action from the Russian government.

The current crisis is the third since last Autumn and the most severe in a series of shockwaves pushing Russia to the verge of economic collapse. The first financial eruptions were felt in October-November 1997 and were connected to the widening crisis in Asia. Whatever gains the government had realised earlier in the year in stabilising the financial system were wiped out. The second wave of crisis broke out this year at the end of January. It led to the lowering of Russia's international credit ratings and consequently a rise in the cost of debt repayments.

The government was only able to bring the recent miners strike to an end by resuming wage payments. The Kremlin's policy of filling financial gaps by taking out new loans only compounded its financial difficulties, both internationally and at home.

Problems cropped up when the attempt was made to place regular issues of new short-term public loans (treasury bills) on the financial markets on May 13. The day before, President Boris Yeltsin had signed a law reducing the share of foreign capital in Russia's most profitable power supply company, UES Russia. The spiral of the financial crisis began twisting further out of control.

Despite a series of government statements declaring that the financial markets were not in danger, the Central Bank was compelled to take extraordinary measures on the evening of May 18, raising the interest rate for refinancing loans from 30 to 50 percent. With this rate, banks could borrow money from the Central Bank, which in turn could be made available to business concerns.

Speculators, anticipating a devaluation of the currency, have been buying up credits in rubles in order to exchange them for dollars. Following devaluation, they receive substantially more rubles for their dollars and reckon the difference as profit. But even with the increase in interest rates, speculative pressure increased on the financial markets.

The immediate cause for the crisis flaring up a third time was the dramatic fall in oil prices on international markets. As a result, the government failed to find a buyer for the oil giant Rosneft. The planned privatisation of the company for a proposed $2.1 billion came to nothing.

To guarantee the placing of further treasury bills to finance the growing budget deficit, the government had to increase interest rates to 80 percent on May 27. This triggered a real panic, which spread to the share and currency markets. Prices started to fall rapidly. On one day Moscow's share index sank by 11 percent. It has declined 50 percent since the beginning of the year.

The ruble fell below the limit established by international finance institutions of 6.2 rubles for one US dollar. In order to prevent the spread of chaos, the Central Bank did its utmost and tripled the interest rate for refinancing loans from 50 to 150 percent.

It was not possible, however, to overcome the growing loss of confidence in the government on the part of the banks and international corporations. The fear that the government would not be able to fulfill its commitments led to panic sales of treasury bills and Russian company shares. The rubles released in the sales were exchanged for dollars, thereby putting the ruble under even more pressure.

The weakness of the government is also revealed in declining tax revenues. In the first quarter of this year no more than 40 billion rubles (approximately $6.6 billion) in taxes were collected, a situation which worsened further in April. On the other hand, the debt servicing charges for treasury bills in the second quarter will require more than 120 billion rubles (around $19.7 billion). Every interest rate increase of 1 percent leads to a further increase of the debt burden of at least 600 million dollars.

According to Prime Minister Kiriyenko's latest figures, 34 percent of the national budget must now be allocated to debt repayments. This figure however, does not include outstanding wage payments, which reached a volume of around $10.5 billion on June 1.

While the government sought to limit speculation with massive increases in interest rates, these measures restricted all flows of finance to the economy, thus delivering a further severe blow. On May 29 *Komsomolskaya Pravda* wrote: 'So one can bury the economic upturn which was promised to the Russians this year. With such gigantic interest rates as those which have now been set, no company can get money from a bank to keep production going. It is impossible to acquire credit to pay out wages or buy a flat.'

'The most unpleasant thing,' according to the commentator for *Isvestya*, W. Nikonov, 'is the burial of the chances for economic growth, on which the president and the government were counting to bridge the most important social and economic gaps this year.'

There are many further indications that Russia's economic situation has worsened dramatically. Gold reserves have shrunk from $22.9 billion to $14.7 billion. In the month of May alone the GNP sank by 1.2 percent, as compared to the same month last year. On the May 8 the Tokobank, one of Russia's biggest banks, was taken forcibly into trust by the Central Bank after Tokobank announced that it was insolvent.

Behind these changes are the worldwide deflationary tendencies which have intensified due to the Asian crisis, leading to a rapid drop in prices for raw materials on the world market.The price of oil fell by half, from $25 a barrel in January 1997 to less than $13 in June 1998. The price for heavy and precious metals dropped by 30 percent over the same period. Russia's exports had already fallen by 15 percent in the first quarter of 1997, resulting in a further decline in tax revenues.

The government can no longer continue with its policy of maneouvering and half measures. It stands with its back to the wall, squeezed between the growing pressure of the working class--which has waited months for outstanding wages and is no longer prepared to be bought off with empty promises--and the draconian demands of the IMF.

A further inflation of the debt pyramid would inevitably lead to the collapse of state finances. The consequence would be a double-figure devaluation of the ruble and the eruption of hyper-inflation, with disasterous results for the economy and society. In its July 1 edition, the German financial newspaper *Handelsblatt* quoted the Russian economics minister as saying, 'No more than 30 of our 1,500 banks would survive such a devaluation.'

In light of this situation Yeltsin has concentrated in the last few months on putting together a government able to push through new, savage attacks against the rights and living conditions of the working class. With the appointment of Kiriyenko as prime minister, Yeltsin has chosen a man who is committed to the IMF programme. Kiriyenko is a cold-blooded technocrat whose career began in the bosom of the Soviet bureaucracy.

This also explains why the ultra-reformer Anatoly Chubais was re-appointed by Yeltsin to his former high government position on June 17. Amidst accusations of corruption, he had been fired from his post as vice-prime minister in March at the instigation of the Russian financial oligarchy, which feared international capital was gaining too much influence due to Chubais's reforms.

The Moscow financial paper *Kommersant-Daily* expressed its astonishment at the renewed appointment with the biblical headline: 'The Third Apparition.' No one has closer contacts with the IMF and the World Bank than Chubais. 'We have only got one Chubais,' Yeltsin explained, holding onto the person he has already fired twice, and who is supposed to negotiate a loan of up to $15 billion with the IMF.

Former economics minister Boris Fedorov was appointed chief of the tax authority. Fedorov has also had his problems with the finance oligarchy in Russia because of his 'over enthusiasm.' On the June 27, the British magazine the *Economist* reported: 'Mr. Kiriyenko's government has also been boosted by the addition of Boris Fedorov and the co-option of Anatoly Chubais, two of Russia's toughest and most clear-headed reformers.... Imperceptibly, Russia has now got its most unitedly reform-minded team since 1992.'

With this policy, preparations are under way to strike out openly against the large majority of the population. The still numerous companies and mines subsidized by the state will now be threatened with closure on a massive scale. This will necessarily lead to large-scale class confrontations. The recent miners strikes, which paralysed a large part of the country, were only a pale anticipation of what is coming. The long drawn-out confrontation with the working class can no longer be put off.

The ruling elite in Russia, as well as the leading financial circles represented by the IMF, are preparing to employ brutal methods. Despite their competing interests, both are united in their hostility to the working class. Behind the thin and derisory facade of 'Russian democracy'--with its virtually unlimited powers for the president--preparations for another, dictatorial regime are already in full swing.

In this connection General Lebed, despite being out of Yeltsin's favour, is increasingly promoted as a possible candidate for president. Lebed was elected governor of the Siberian region Krasnoyarsk five weeks ago, thanks to massive financial support from Boris Beresowski, Russia's richest man. Lebed cut the administrative authority's budget by 30 percent immediately upon assuming office.

Lebed is increasingly regarded by the West as a future partner. On June 25 in Frankfurt, in a ceremony attended by German government representatives, Lebed was awarded the Hessen Peace Prize. He received the prize from Egon Bahr, the minister of foreign policy for Eastern Europe in the Social Democratic government of Willie Brandt in the 1970s. Lebed was hailed not only as a man of peace, but a 'democrat' to boot. Somewhat astonished at this tribute, he declared, 'I do not possess the boldness to wear such a garland.'

Also in German

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[4 June 1998]