

Down the rathole. (U.S. loans to Russia)

By Vladimir Kvint

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The West is about to start pumping out loans to Russia. Doesn't anyone remember what happened to the sovereign loans to Latin America or to Mikhail Gorbachev's regime?

THE RECENT political summit in Munich ended with only one concrete result. The leaders of the industrialized countries agreed to give the Russian government \$1 billion through the International Monetary Fund. This amount will likely be followed by another \$6 billion stabilization fund to support the ruble by year's end, with many more billions to follow. But anyone who thinks this money will improve the situation in Russia is in for a big disappointment. It will be money down a rathole, as people from the staff of the Russian government find ways to take part of the cash.

The IMF is working according to the following logic: Mr. Yeltsin is fighting with the Communist Party mafia to create a market economy in Russia, and he is decreasing the risk of nuclear conflict. To help this democrat, President Bush has urged giving Russia \$24 billion as soon as possible.

The flaw in this humanitarian logic is this: The money would take the form of sovereign loans and be handed over to politicians and bureaucrats who haven't a clue as to how the money should be put to work. In this the Russian aid proposals remind one of the more than \$100 billion in sovereign loans that were extended to Latin America in the Seventies and early Eighties.

Seventy years of Soviet history show that government in Russia can't manage money. During Gorbachev's six years in power, the Soviet government received \$93 billion in Western loans and aid. Where is this money? Did it help the Russian economy? In June of this year production of meat and food products fell to 65% of the level of 1988's output and is now at a critically low level.

The \$6 billion in funds for the stabilization of the Russian ruble will soon evaporate. How is it possible to hope that \$6 billion will help a country where every month the government is printing 275 billion worthless rubles? The IMF experts urge the Russians to stop printing money. Unfortunately, this is impossible.

Hyperinflation has set in. Inflation jumped from an annual rate of 150% in 1991 to almost 1,400% during the first half of this year. In April the average salary was 1,000 rubles; in June, 2,500 rubles. In August it will be 3,500. If the government tries to stabilize the currency by not printing new rubles for two months, the effect will be like slamming on the brakes of a speeding freight train. Deflation will be so strong that almost 70% of Russian industrial companies will not be able to pay salaries. Civil disobedience will soon follow.

But there is a way in which the IMF's money could help develop the competitive market economy Russia needs if democracy is to take root. Rather than send this money to the Russian government, the IMF and developed countries should make it available as non sovereign loans for Russian entrepreneurs, private companies and the first capitalist institutions that are more or less working in Russia—the 500 commercial and private banks, trading houses, 450 commodity exchanges and brokerage houses and 2 stock exchanges. (Foreign stocks are now being traded in Moscow and St. Petersburg; the shares of American and German companies will be traded in seven other cities by next year.)

Money should also be sent to Russia through the Western companies that want to invest there. Far better than bureaucrats, these companies will produce the equipment, technology and management systems Russia needs. This money is also necessary to hire foreign managers who will help to install and use this equipment in Russia; otherwise, much of the equipment will never be installed. In all former Soviet republics, approximately \$10 billion worth of brand-new foreign equipment sits quietly in storage.

Like the IMF, the U.S. Export-Import Bank is trying to help Russia. But the people at Ex-Im are going about it the right way, by providing loans directly to Russian buyers of American exports. The IMF should follow the Ex-Im Bank's line, which will create U.S. jobs as well as help Russia.

An outstanding politician who has made a lot of economic mistakes, Yeltsin is now doing a good job of improving the business climate in Russia. In June Yeltsin appointed Vladimir Shumeiko as executive deputy prime minister

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and Georgy Hija and Victor Chernomerdin as deputy prime ministers; all three had previously occupied positions as chairmen of big industrial companies.

Under new business regulations passed earlier this year, foreign insurance companies, including American International Group and others, were finally allowed to enter the Russian market. Privatization is now on the fast track. Foreigners can now not only become partners in joint ventures in Russia but also own companies outright.

Another key reform enacted June 14: Foreigners can now purchase land, but only if they agree to buy and improve the structures that are on the land. And in July Russian and American officials eliminated the double taxation of profits earned in Russia. I believe that by the end of the year five free economic zones will be operational, including Nakhodka (on the Russian Pacific Coast), Kaliningrad

(formerly Königsberg), St. Petersburg, Novgorod and Kemerovo (a coal region in eastern Siberia), with perhaps free circulation of hard currency in each one.

Western business people are responding to the new business climate. Each month nearly 100 new joint ventures and enterprises are created by foreign investors. Since January of this year 75 Russian-American joint ventures have appeared.

To help Yeltsin & Co. keep things moving in the right direction, some Western aid is necessary. But the U.S., the IMF and others waiting to help should remember that the purpose of aid is not to give handouts and create dependency, but to support the foreign and native entrepreneurs who will cultivate real long-term economic growth. Anything else is money down a rathole.