***ESSAY.***



**FINAL DRAFT.**

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## It is obvious almost to everyone, that 1/6 of the land is now in deep economical and political crisis and the whole world is waiting to see how the country will emerge from it. Russia’s chaos was caused by economic turmoil and political upheaval. Economic slump on the stock market, devaluation of the ruble, a default on foreign debt by banks and government are parts of a climax and the general instability of Russia is worsen by them. These things sometimes happen in the process of transforming a country from a command into a market economy.[[1]](#footnote-1)

## There was a sharp increase in the inflation level after it has been brought down to as little as 5.6% a year in July. The prices began to rise fast and a lot of people were thrown far beyond the poverty level.

The anatomy of the financial crisis consists of several causes. The first cause is the so-called “Asian factor”. There was economic turmoil in Thailand first and then it spread all over Asia: South Korea, Hong Kong, Singapore and Malaysia in 1996- 1997. "All these countries and more have seen their economies wrecked over the last couple of years. Now Russia has its currency heading for the basement and is basically defaulting on its national debt". [[2]](#footnote-2)It has scared foreign investors. “This cooled their enthusiasm for investment in riskier economies” (Russia today) and they start taking their money out of its stocks and converting their rubles into dollars. It will take a lot of time for them to gain confidence in Russian “emerging” market again­­.[[3]](#footnote-3)

## Although the Russian government was insisting it would not devalue the currency, it had to float the ruble three days later. For propping it up the Central Bank drained its reserves- $1 billion a week for ruble’s defense. This also increased the devaluation.

## Poor tax collections forced Russian authorities to raise funds to cover its expenses. It has been floating GKOs (short-term treasury bonds) which provided as high as 240 percent interest. Although the state attracted billions of dollars, it needed to borrow more to pay off the short-term bonds. But without tax revenue, the government would not be able either to pay the international bills or maintain essential services. It cannot afford to pay state workers and without their wages, they cannot pump money back into the economy. Large fiscal deficit makes Russia highly unprotected from swings in market sentiment.

## Another thing, which sank the crisis, was a drop in world oil prices. Russia is the world’s third-largest oil producing country and oil is the great hope of its economy, because unfortunately its production level is not good enough not to let Russian huge natural resources to be sold out.

All these above-mentioned problems seem to be very complicated and, of course, there are no quick fixes available. But, from my point of view, the solution key word is not “help” but “self- help”. "Currently institutions such as the world bank and the IMF have been formed to be the lenders of last resort to governments who themselves control the various central banks which are the lenders of last resort for people within their countries."[[4]](#footnote-4) However, these institutions are no longer really in effective control. There are people at the top of this pyramid, those who are really making money from it, who are more concerned about their **relative** power and wealth than with the overall damage that is being caused by this current chain reaction of a collapse. A fundamental reform of the world financial system needs to happen to clear up this mess.[[5]](#footnote-5)

The World Bank should not help the countries with “emerging” markets only with money and then make itself richer from loans, but it must be restructured into the knowledge bank. It must provide these countries with specialists, teaching how to act themselves in critical situations. World Bank must also exchange its experience with them to prevent them from “inventing the bicycle” once more. It must teach these states how to help themselves.

I do not know, whether it is possible, but it would be good if the IMF and the World Bank cancel all loans given to developing countries with “emerging” economies for the sake of the world’s safety. Otherwise their economies would be doomed to be destroyed because of the short-term debts, which these countries need to pay back. But on the other hand, if it have had cancelled, no organisation including the IMF would have been looking forward to further negotiations with such countries and provided them with credits.

But the worst thing is that the economic crisis entailed the political crisis. Because, as one of the most famous writers, philosophers and politicians of the Renaissance Niccolò Machiavelli said, "the only way to reach prosperity of the country is to have a firm, determined and intelligent leader, who will be an avatar of the majority's interests, and who will have a great estimation among the people". And the Russian president Boris Yeltsin has already lost all the consideration, and the things were getting worse and worse after the beginning of the crisis. The recent ordered murder of the famous deputy and democrat Galina Starovoytova was a signal that lawlessness in Russia has reached its apogee. She was among those few people, who performed real action. As a peacemaker she went to many "hot spots" and tried to stop the bloodshed. But she was a real obstacle for people who did not want human rights and laws to be the most precious thing. After this incident, all democratic parties have realised the necessity of joining their forces against their common enemies- communists and fascists. It may seem unbelievable, but at the end of XX-th century there is a serious threat of turning Russia into a nationalistic and fascist country, because the number of people (especially young) joining different nationalistic organisations. The opposition, which is always very active, would not hesitate a second if there would be a little chance to overtake the power.

I think that in the case with Russia, despite the IMF wants our authorities to provide it with their economic program first and then they will be able to give Russia credit, giving a loan now will prevent the country from a possible revolution. And this is the urgent measure to be taken. For a great amount of people the crisis was a proof of an insolvency of market economy, at least they think it was. This caused the act of protest on the 7-th of October. Fortunately it has not such scale as it was expected to. But, in my opinion, it was not a failure of market economy itself but of a present inefficient and weak government. The important thing is that the politicians stop playing politics and dividing the power and entrust together to the serious and urgent measures that Russia needs. Although I do not like the new government and the Prime Minister very much, I hope they will be firm enough and well disciplined to continue working on restructuring country’s economy.

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## Sources:

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1. Anatomy of a Financial Crisis. Russia Today; www.russiatoday.com; Fr. Aug. 21 1998. [↑](#footnote-ref-1)
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4. Global Capitalism. The Economist. Sept. 12 1998. [↑](#footnote-ref-4)
5. Russian Financial Crisis. http://www.islamic.org.uk Aug. 39 1998. [↑](#footnote-ref-5)