

## **About the Package of Anti-Crisis Measures**

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The crisis of the global financial system has affected the Russian economy, which has faced an outflow of foreign loans and speculative capital, a drop in exports, a deterioration of the balance of trade, a growth of inflation, and a threat of macroeconomic destabilization. The earnings of many export-oriented companies have plummeted and output has fallen off in a number of industries including construction and services.

A major reason why our economy has proved vulnerable to world financial market volatility is that it is over dependent on exports of raw materials; domestic cooperative ties have weakened or broken off; the domestic market has contracted; and there are gaps in the value chains of sophisticated products divided as they are by the customs borders in the post-Soviet space. The sizable domestic market needs to be restored and the economy profoundly modernized and rendered more competitive on a new technological basis, if sustainable development is to be ensured.

### **Root causes of the crisis of the global monetary and financial system**

The current crisis of the global financial system has three elements to it. First, the financial pyramid of US debt obligations has collapsed of its own accord. Second, the virtualization of financial transactions has resulted in underestimated financial risks and in the financial market divorced from the real sector of the economy. And third, financial capital has lost value as the economic growth opportunities based on current technology have been exhausted resulting in a structural crisis of the leading economies.

Additional sources of funds far greater than the fiscal potentials of the leading economies are needed to take the edge off the problem of such magnitude. Support measures for the US economy, both current and planned, mean that the budget deficit will increase and that the government's debt will top USD 13 trillion. If this kind of "crisis response" is expanded, the global economy will be hit by an avalanche of new cash, which is backed by nothing at

all, leading to global hyperinflation and the collapse of the world's monetary and financial system.

The crisis is bound to result in:

- devaluation of much of the financial capital;
- depreciation of the US dollar, which will lose its status as the world's singular reserve currency, and regional fragmentation of the global monetary and financial system; and,

- capital rebalancing to support production based on new technology.

The crisis, which will last another three to five years, will cause the global economy to restructure on a new technological basis with attending changes in the lineup of leading companies, countries and management practices.

### **Crisis response policies**

If it implements economically sound policies, post-crisis Russia could substantially improve its position in the world economy by achieving:

- 1) recognition of the ruble as a global currency;
- 2) multiple increase in the capacity of the local banking and investment system; and,
- 3) faster-than-average implementation of new technology and an economic upturn riding the crest of long-term growth.

For this to happen, the response to the financial crisis should be aimed at building a local investment system and aligning long-term development policies as outlined in the Concept for the Social and Economic Development of Russia until 2020.

The current response actions address the short-term need of restoring stability to the financial market; they are not effective enough and provoke corruption. Unless they are duly adjusted, much of the cheap loans provided by the government will go through corrupt schemes and will only speed up inflation without producing the desired result.

The supply of rubles tied to the buildup of foreign currency reserves makes the Russian economy dependent on external demand for its goods and on external supply of capital, leaving no place for independent financial policies.

The domestic market needs to be restored to its former appreciable size and money supply policies need to be changed based on the demand for cash among producers of goods and services and the need to provide long-term

loans to profoundly modernize the economy and make it more competitive on a new technological basis, if sustainable development is to become a reality.

In order to create a growth-focussed financial system, it would be wise to leverage the Western European recovery experience following World War II (loans backed by bills of industrial enterprises through refinancing of commercial banks) or the experience of contemporary China (loans to support industry modernization plans through government-owned banks). India, too, can be a source of learning in the area of financial planning (credit resources provided for development priorities) just as Japan in the area of credit flow management (people's savings centralized as liabilities of development institutes).

Our own and global experience suggest that there has to be a clear strategy and an indicative economic development plan with clearly identified priorities and implementation programs, if any system for targeted credit management is to be effective.

### **Development policies at a time of crisis**

As the financial crisis evolves into an economic downturn, crisis response measures as such will not produce the desired result. There has to be a system of measures to support growth and shore up the economy against the backdrop of a deepening crisis of the global monetary and financial system. These measures are listed below by economic policy domain.

#### *Monetary policy:*

1) Change the technology of money supply by making it more flexible and focused on the credit needs of the economy. The national currency should be issued to support the demand from business and the development needs of the economy, not to purchase foreign exchange; there has to be targeted and systemic policies to manage cash supply for economic development needs.

2) The Central Bank should become a veritable creditor of last resort with its functions expanded, including support for economic growth and employment, and a role of a leading crisis management institute.

3) Standards and other regulatory measures need to be employed to create the best possible structure of balances and to put into place stimuli for channeling funds to priority industries.

4) The banking sector needs to be strengthened as the basis of the national financial system; the role of refinancing mechanisms needs to be enhanced so that they are able to ensure instant and systemic liquidity and expand the internal base of money supply; in order to support the stability of the financial market, it would be well-advised to ease access to refinancing and

extend the list of instruments used as collateral with bills of system-forming enterprises.

5) Move to ruble-based settlements for hydrocarbons, metals, chemical fertilizer, timber and other raw materials exported from Russia to lay the groundwork to turn the ruble into an international settlement and pricing currency. Ruble-denominated stabilization loans should be provided to countries importing Russian products to support both the growing trade and exchange rate stability.

6) Create a settlement and payment system and a single payment space (SPS) across the EURAZEC countries involving the Inter-state Bank of the CIS to enable national lending organizations to expand their operations and turnovers; enable customers to ease, simplify and make more cost effective the settlement process; enable businesses to simplify their cooperation in settlements and increase turnovers and customer bases; and enable the central banks to enforce effective supervision over the payment systems.

*Foreign exchange control:*

7) Thoroughly monitor the movement of capital out of the country and, not less importantly, into the country. At a time of crisis special attention should be paid to capital quality, maturity, nature and uses so that these fit with the economic priorities.

8) Enforce standards and regulate more stringently corporate external borrowings while creating conditions and mechanisms to supply adequate financial resources to the domestic market.

9) Should foreign currency reserves drop to levels that jeopardize the financial sustainability of the national economy or should speculative pressure on the national currency persist, it would be important to revert to mandatory surrender of foreign exchange earnings and employ foreign currency position standards, limits and other measures dampening speculative demand in the foreign exchange market.

*Financial market:*

10) Diversify stock market instruments and turn the stock market into a real and functioning mechanism channeling funds where required. Encourage the growth of the national component of the stock market and control its speculative dealings.

11) Supervise asset and liability transactions by financial institutes, the adequate quality of assets and liabilities, and the use of balance-sheet and off-balance-sheet instruments. As part of actions pursuant to the G20 Washington

Declaration to improve accounting practices, it would be well-advised to consider the possibility of banning transactions involving off-balance-sheet instruments.

*Investment policy:*

12) Energize government development institutes to implement economy modernization programs, including energy-efficient and energy-saving technologies, and new and renewable sources of energy.

13) Enhance the role of development institutes by using them as channels to refinance the economy.

14) Develop and implement projects to upgrade transport and energy infrastructure.

15) Target credit resources provided for commercial bank refinancing to issue long-term loans for system-forming enterprises in promising economic sectors, including a core of backbone industries based on new technologies. Include bills of such enterprises in the Central Bank's lombard list.

*Create a single economic space throughout the CIS as of the beginning of next year:*

16) Eliminate all remaining barriers to mutual trade and cancel free-trade exclusions in bilateral agreements between CIS nations; create a single transport and energy space; prevent the use of protectionistic measures in internal CIS trade.

17) Eliminate barriers to the transportation of freight and passengers by implementing a single railway tariff and allowing road transportation by notice, not by permission; allow access to national pipelines for residents EUR-AZEC companies.

18) Secure mutual recognition of national product quality certificates, technical protocols, and sanitary and phyto-sanitary standards.

19) Complete the formation of the EURAZEC Customs Union during next year and ensure full-scale functioning of a single custom territory as of the beginning of 2010.

20) Apply a wide range of measures to encourage demand and channel resources to priority areas; among other things, it will be advisable to revisit the issue of reducing or rescinding VAT to improve the growth quality. Such matters can substantially reduce the corruptive pressure on business, encourage the production of value-added goods, and help diversify the economy and

improve trust between the government and business community, and promote the establishment of the Customs Union.

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