

# The odious debt of Russia, the new oligarchs and the Bretton Woods institutions

by **Éric Toussaint**

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While Anne Krueger (IMF) was giving her talk, *The White Knight of Globalisation*, the new Russian capitalists, or oligarchs as they are known, and their shady dealings had come up against the law, shaking Russia to its very foundations. The Russian judicial system was prosecuting them for murder, theft of public property, conspiracy, corruption, etc. The oligarchs accumulated a colossal fortune in just a few years with the direct support of the IMF, the World Bank, the governments of the Triad (especially the US, British and German governments), major private banks and clearing-houses like Clearstream.

These oligarchs emerged as a result of the implosion of the bureaucratic system of the East and capitalist restoration in the late 1980s and the 1990s. The US government, the IMF and the World Bank gave their active support to the Russian president, Boris Yeltsin (and partly guided his footsteps) in the rapid and gigantic wave of privatisations that he imposed on Russia. Those privatisations constitute the systematic pillage of Russia's public goods in favour of the oligarchs and a few MNCs of the Triad.

The Russian oligarchs used brutal and criminal methods like those used by the "robber barons" in the United States at the end of the late 19th and early 20th centuries. History repeated itself, as once again primitive capitalist accumulation took place in violence and chaos. But history does not repeat itself - this time, the pillage was carried out under the high protection of international multilateral bodies with multiple missions by economics experts and multilateral loans to facilitate "*the transition from a planified economy to a market economy*", to use the expression favoured by the Bretton Woods institutions.

In chapters five and six of his *Globalisation and its Discontents* we read Joseph Stiglitz's sharp analysis of the transition in Russia. He denounces the responsibility of the IMF and the US Treasury, which supported, counselled and guided the Russian bureaucrats converted to capitalism, especially the president, Boris Yeltsin. There was nothing democratic about the methods used.

*"It is not surprising that many of the market reformers showed a remarkable affinity to the old ways of doing business: in Russia, President Yeltsin, with enormously greater powers than his counterparts in any Western democracy, was encouraged to circumvent the democratically elected Duma (parliament) and to enact market reforms by decree"* (J. Stiglitz, 2002, p. 136). Public companies went for a song. *"(...) the government, pressured by the United States, the World Bank and the IMF to privatise rapidly, had turned over its State assets for a pittance (...)"* (ibid., p. 145).

Privatisation was a vast act of pillage that benefited the oligarchs who invested part of their booty in the West, so that it was laundered and out of reach of the law. *"Privatization, accompanied by the opening of the capital markets, led not to wealth creation but to asset-stripping. It was perfectly logical. An oligarch who has just been able to use political influence to garner assets worth billions, after paying only a pittance, would naturally want to get his money out of the country. Keeping money in Russia meant investing it in a country in*

*deep depression, and risking not only low returns but having the assets seized by the next government, which would inevitably complain, quite rightly, about the "illegitimacy" of the privatization process. Anyone smart enough to be a winner in the privatization sweepstakes would be smart enough to put their money in the booming US stock market, or into the safe haven of secretive offshore bank accounts. It was not even a close call; and not surprisingly, billions poured out of the country.* "(ibid. p. 144).

The IMF and the World Bank got Russia into debt. A large part of the money lent has been embezzled and is back in the West. Western bankers, Russian oligarchs and government officials got rich while the impoverished Russian citizens have to foot the bill. *"When the crisis hit, the IMF led the rescue efforts, but it wanted the World Bank to provide \$6 billion of the rescue package. The total rescue package was for \$22.6 billion. The IMF would provide 11.2; the World Bank would lend \$6 billion; the rest would be provided by the Japanese government. This was hotly debated inside the World Bank. There were many of us who had been questioning lending to Russia all along. (...) In spite of strong opposition from its own staff, the Bank was under enormous political pressure from the Clinton administration to lend money to Russia. (...) Remarkably, the IMF seemed able to overlook the corruption, and the attendant risks with what would happen with the money. (...) When the IMF was confronted with the facts - the billions of dollars that it had given (loaned) Russia was showing up in Swiss and Cypriot bank accounts just days after the loan was made - it claimed that these weren't their dollars. (...) By lending Russia money for a doomed cause, IMF policies led Russia into deeper debt, with nothing to show for it. The cost of the mistake was not borne by the IMF officials who gave the loan, or America who had pushed for it, or the Western bankers and the oligarchs who benefited from the loan, but by the Russian tax-payer"* (ibid. pp. 148, 149, 150, 151).

*"The US Treasury and the IMF entered into the political life of Russia. By siding so firmly for so long with those at the helm when the huge inequality was created through this corrupt privatisation process, the USA, the IMF and the international community have indelibly associated themselves with policies that, at best, promoted the interests of the wealthy at the expense of the average Russian"*(ibid., p. 170). Joseph Stiglitz adds that the directors of the World Bank forbade him to meet the Inspector General of the Duma when the latter made the trip to Washington to denounce the extent of the corruption. *"Within the World Bank, I was urged not to meet with him, lest we give credence to his charges"*(ibid. p. 170).

### **The odious debt of Russia and other countries of the former Soviet Bloc**

The case of the Russian debt, like those of other States arising from the implosion of the former Soviet Bloc, is hardly debated on the international scene, even within the progressive movements of the countries concerned; and yet, the debt contracted by Russia in the circumstances just described quite obviously fits the category of odious debt. The debt was not contracted to conduct policies in the citizens' interests, quite the contrary. Furthermore, a large part of the loans were embezzled in full view of the creditors. The creditors - the IMF, the World Bank, members of the Paris Club, private lenders) knew of the criminal practices of the borrowers. If the citizens of Russia were to get themselves a new regime, they would be entitled to refuse to pay the debt incurred by the transition to the market economy. They would also be entitled to refuse to pay the debt inherited from the old bureaucratic dictatorial regime. That probably goes for the other States of the former Soviet Bloc.

### **Russian oligarchs get good write-ups in the Western press**

When the Russian legal system held the oligarchs to account in 2003, the big titles of the Western press (and the Western governments too, but more discreetly) responded by asking for clemency on their behalf - not that the media considered that the oligarchs were at all innocent. The question hinged on the future of privatisations. The media concerned thought it would be very dangerous to go back on them, even if *Le Monde* recognised that "*According to a poll by the Romir institute, 77% of Russians are in favour of revising the privatisations*" (*Le Monde*, 23/07/2003). Marie-Pierre Subtil, *Le Monde*'s Moscow correspondent, wrote several articles criticising the actions of the Russian courts ("*which open the door to revision of the privatisations*", *Le Monde*, 27-28 July 2003) against the oligarchs, even though she did admit that they had made their money by fraud on a grand scale. Of the main oligarch under investigation, Mikhail Khodorkovski (born 1963), CEO of Ioukos [1], she wrote that he "*is certainly no angel. His fortune - the largest in Russia, estimated at 7.2 billion dollars by the magazine Fortune - was made in the 1990s, when the most ambitious and least scrupulous of Russians bought up State assets for next to nothing at the time of privatisation*" (ibid.). Yet at the same time, the same journalist gives a list of this new robber baron's good deeds, including the creation of an international philanthropic foundation that counts Henry Kissinger among its administrators.

Another oligarch deserves mention. Roman Abramovich (born 1966). In 2003, he also fell foul of the Russian courts. He is at the head of an empire which includes, amongst others, the oil company Sibneft; the aluminium producing RusAl; and the pharmaceutical company ICN Russia. In 2003, he bought the prestigious British football club, Chelsea. The holding company that enables him to own this empire is based in the City of London. According to the *Financial Times*, in 2003, he was trying to sell off most of his Russian assets so that he could place the capital somewhere safe.

In an editorial of the *Financial Times*, we read that Russia is once again at a crossroads. It has to choose between consolidating capitalism by granting amnesty to the oligarchs who are guilty of economic crimes, which implies accepting profound inequalities, or having a revolution. The editorialist, tongue in cheek, proposes opting for the first solution.

*"At the root of the problem is Russia's flawed privatisation process. Because the division of the spoils was so chaotic - and so profoundly unjust - Russia's rulers will always have a powerful weapon to use against its capitalists. Ultimately, there are only two ways to end this standoff: grant an official amnesty, at least for the oligarchs' economic crimes, or take their property away. It is a choice between accepting gross inequality and imposing yet another revolution. Neither option is appealing. But having tried the latter in 1917, Russia might find it safer this time to find a way to live with its unsavoury oligarchs"* (FT 21 July 2003).

The IMF, the World Bank, the US Treasury and the private creditors are all absolutely in favour of the solution proposed by the *Financial Times* and other international newspapers: they would also be affected by an amnesty, as they are directly involved in the economic crimes as accomplices and as beneficiaries. As for the MNCs of the Triad, especially of the United States, they are ready and waiting to acquire large chunks of Ioukos, Sibneft and the rest. Specific offers were publicised in the course of 2003. The oligarchs who own Ioukos and Sibneft responded very positively: they want *cash* that they can deposit outside Russia. Lastly, the US Treasury [2], the IMF and the World Bank in concertation with the directors of the WTO are preparing Russia's membership of the institution. It is in this light that we should understand the tone and content of Anne Krueger's address on 18 June in Saint Petersburg.

## Notes:

[1] Ioukos, the main Russian oil company, has announced its merger with Sibneft, another Russian oil company. The entity resulting from the merger could be the world's fourth largest oil company. Le Monde journalist, Sophie Shihab, gave the following sub-heading to her article of 6 August 2003: *"The Ioukos group, one of the most influential and least opaque (sic) in Russian-style capitalism, has been officially targetted with accusations of theft, murder and tax evasion. Populist Vladimir Putin is playing to public demands for revision of the privatisations."*

[2] Concerning the attitude of the US Treasury toward international trade, Joseph Stiglitz mentions a striking episode from the days when he was one of President W. Clinton's counsellors. He denounces Paul O'Neil who has been the Secretary of State to the Treasury under the G. W. Bush presidency (P. O'Neil was replaced by J. Snow in December 2002). In 1994, while he was director of the aluminium-producing MNC, ALCOA, he set up with Russia a cartel of aluminium producers, so as to limit the fall in aluminium prices on the global market (ibid., p. 173-175).

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