
# The IMF Connection with the Ukraine Crisis

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**Lynn Fries (LF):** Hello and welcome, I'm Lynn Fries, producer of Global Political Economy or GPEnewsdocs. "The conflict the world is currently facing in Ukraine cannot be understood by ignoring the way in which "the West", after the fall of the Berlin Wall, conquered Eastern Europe, including Russia, with an economic doctrine that was not only inappropriate but brought massive damage to the country and a sense of being second class people. The result is a large number of states that are not counted as failed states today only because they were able to squander their raw materials in the wake of the opening of all markets. This and absurd privatisation attempts orchestrated by the West paved the way for an oligarchy that was initially hailed by the West as a "private solution" to the structural problem, but which proved fatal for the country's development chances. In addition, it was precisely these oligarchic structures that blocked any path to a functioning democracy from the outset because only regimes that came to terms with the oligarchs were allowed by them. However, to this day, people in the West do not want to take note of this". So that was a quote taken from "Eastern Europe and Russia- The economic disaster we created is forgotten", an article authored by Heiner Flassbeck. Heiner Flassbeck served as chief macroeconomist at the German Institute for Economic Research in Berlin, the DIW from 1988 to 1998. Flassbeck became State Secretary, so the Vice Minister in the Federal German Ministry of Finance from 1998 to 1999. With this kind of firsthand experience, Flassbeck goes on to explain how in the 1990s, he and some of his DIW colleagues tried to contribute to the rebuilding of the economic structures and economic decision-making in one of the former Soviet republics, Kazakhstan, and that other colleagues from the German Institute of Economic Research travelled just as extensively in Russia, Ukraine and other countries. The point FLassbeck makes is that everywhere they went, the IMF was there. In his article, "The IMF connection with the Ukraine crisis" in commenting on the IMF, Prabhat Patnaik writes it - so the IMF - has become an instrument in the hands of international finance capital, enabling its penetration into every corner of the globe. But it's not just an instrument of international

finance capital, it also serves as an instrument of Western metropolitan powers that stand behind this capital. While defending the interests of international finance capital, it gets dovetailed into the entire coercive apparatus of Western metropolitan powers. Patnaik goes on to argue that Putin's regime is by no means detached from the power of finance capital. Joining us from New Delhi, India, Prabhat Patnaik is here to talk to us about all this. Prabhat Patnaik is Professor Emeritus at the Centre for Economic Studies and Planning at Jawaharlal Nehru University in New Delhi. He's the author of "Capital and Imperialism", amongst numerous other books. Welcome, Professor Patnaik.

**Prabhat Patnaik (PP):** Thank you very much.

**LF:** Prabhat, in your article about the IMF connection with the Ukraine crisis, economic policy is a big issue. So start with some of your thoughts about Russian President Putin's stance on this versus that of the IMF.

**PP:** Well, you know there was a time when the Soviet Union existed, when there was an ideological confrontation between communism let us say and capitalism, in which it was generally believe that the hegemony of international finance capital is something which is thwarted by the communist countries. Because they have countries which were centrally planned, countries in which the state played a very important role in generally directing the way in which the economy is to develop. Therefore, that was a regime in which the Soviet Union was actually opposed to the free operation of the market, the free operation of international finance capital. Now, many people tend to see Putin's actions as in some sense a continuation or a legacy of the actions of the CPSU [Communist Party of the Soviet Union], that I believe would not be correct. Which is why I believe that this is something which is, of course, much more narrowly focussed as far as Putin is concerned on the security threat to Russia. But what is more in this security threat? His opposition to the IMF arises not because the IMF is basically a promoter of international finance capital as such, but because the IMF is promoting US foreign policy in any confrontation with Russia. Putin is concerned with the role of the IMF in facilitating the US hegemony over Ukraine. Whatever you may say about the old Soviet Union, what Putin has presided over is the growth of tremendous inequality and I'm not only saying Putin. It began with the collapse of the Soviet Union. Boris Yeltsin was there before him and so on. But what has happened in Russia is the growth of tremendous inequalities. And so it is not as if Putin, as I mentioned in the beginning, is really fighting an ideological struggle against the IMF because one of the implications of IMF conditionalities is to create these enormous cleavages inside the society through its so called investor friendly kind of policies.

**LF:** So the way you see it, Putin is not really opposed to inequality. And so Putin is not really fighting against the IMF or its role in creating, as you say, enormous cleavages inside society. Focus for a moment on this role of the IMF when it intervenes in an economy. So explain

how IMF conditionalities work and what these investor friendly policies mean for people not only as in this case, the Russian and Ukrainian people, but for working people in general.

**PP:** It typically means, firstly, that the government's role in the economy on behalf of the people, that means the government's role in providing subsidies of essential goods whose prices remain low, the government's role in providing education, in providing healthcare, in providing employment, all this must actually be wound up. That does not mean that the government's role in the economy is something which is rolled back. No, the government is supposed to act in the interests of Big Capital, Big Finance, you know, which is aligned to international finance capital. So the government completely changes the role that it was playing earlier, and the government uses its new role of being a promoter of the interests of Big Capital to attack the living standards of the people. So you act against the working class, you reduce the bargaining strength of the working classes, and that's called introducing labour market flexibility, which means the trade unions have to be weakened or smashed so that it becomes investor friendly. You reduce the social wage, which the government was providing through its healthcare and other expenses. You will wind up the public sector and that public sector is wound up for a song. Public sector unions are sold for a song to the various Big Capital, domestic as well as foreign. So altogether, it amounts to an attack on the working people who make the economy investor friendly.

**LF:** Although it's not so hard to figure out what they mean given their context there are some expressions in this article like dirigiste, for example, that many of us are not so familiar with. So explain what you mean in saying from being a facilitator of a dirigiste regime the IMF has become a destroyer of the dirigiste regime and an instrument for ushering in a neoliberal regime.

**PP:** You see, when the IMF was started, it was started as an aid to, you know, let's say a development strategy in which the state played a major role. The government played a major role in providing relief to the people in generating directly through these expenditures, larger amounts of employment in the economy. So the IMF was an aid to that. In fact, the IMF was started, as you know, at Bretton Woods between institutions, IMF and the World Bank. The Bretton Woods Agreement, the proposal that was agreed upon was basically pioneered by John Maynard Keynes on the one hand and Harry Dexter White of the United States on the other hand. Harry Dexter White was associated with the Roosevelt Administration, was associated with the New Deal, while Keynes had been writing about the need for what he called socialisation of investment. That the state must always ensure that the economy is close to full employment. The international regime in which they would operate allowed trade controls, tariffs, quantitative restrictions on imports and so on, on exports. It allowed capital controls. And at the same time, it actually said that, OK, you may have balance of payments problems, a country can get into balance payments problems, and some of these problems may not be easily solved. In such a case, you'd have to borrow from an organisation, and the IMF was meant to be such an organisation. Now, the IMF then would

also impose certain targets in terms of how government expenditure has to be cut and so on. That itself is something which many progressive economists had opposed at that time because it actually generated unemployment within the deficit country as a means of overcoming the deficits. But those targets were within the regime, within the same economic regime, the government if it's spending, let's say $100, should actually cut back its expenditure by $20. So that demand goes down, import demand goes down and therefore the deficit goes down. Surplus countries were under no compulsion to make any adjustments. Under the IMF arrangement it is only deficit countries who are coerced into making adjustments to overcome the crisis, to overcome their balance of payments problems. Imagine, suppose the surplus countries had been forced to make adjustments, ultimately, all countries' deficits and surpluses balance out to zero. But that was not agreed because basically even under the old IMF, many of us were critical of the role that the IMF was playing. But all that was still within the regime. Then the IMF changed, and then it became not only an entity for giving loans to reach deficits, but an entity that started suggesting that no this regime is no good, have a new liberal regime. So that entity then started saying that the public sector should be privatised, that there should be no healthcare, that where the government cut its expenditures is not left to the government. It is now the IMF that decides on it and so on. That the role of the government should be changed. That it should not either directly bring larger employment to the people or increase the real wages of the people through larger social wage, but it should actually make the country investor friendly, which basically means attack the working class. So it actually started suggesting an alternative economic regime quite different from the economic regime that either Keynes or Harry Dexter White would have approved of. That's when the IMF has changed. It actually became if you like a kind of entity looking after, globally, the interests of international finance capital. But even that, as I tried to suggest in this article, is, of course a general role that the IMF plays all over the world now. But in addition, it has a particular closeness to the foreign policy of the US, to the administration of the US because of which it actually penalises countries that defy it. And what is more, defying it then becomes an occasion for the US to intervene in the politics of the country to change the government. So this is really a very different role from the role that was originally envisaged for it under the Bretton Woods Agreement.

**LF:** This changed IMF that you're describing then is the IMF that in the 1990s, Heiner Flassbeck and his colleagues found advising governments everywhere in the former Soviet republics, even Russia. And this economic policy of the West that Flassbeck calls out, as cited in the intro, for having brought massive damage to the countries and proved fatal for their development chances.

**PP:** Yes. After the collapse of the Soviet Union and Eastern European socialist countries, there was a huge drop in their GDP, a huge drop in their gross domestic product in their national income. And you had a massive increase in unemployment. You had really an economic distress, which was unparalleled in peace times. And as far as Russia is concerned,

it was for a very long time during the Yeltsin period, virtually run by a group of persons from the United States. In fact, they surrounded Yeltsin. They were the main economic architects of that kind of collapse of the Soviet Union and of Russia. And that is something where, again, you had the emergence of these oligarchs who simply appropriated state property as their own. Now to some extent, in Russia itself there was some check on it that was introduced after Boris Yeltsin left the scene. But in the rest of the Eastern European countries, you actually have now a situation where in a sense, they have lost their productive systems. The productive apparatus, which had been built up, is now not in place. Instead, people are simply migrating as cheap labour to Western Europe and to Britain, and so on.

**LF:** Talk now more specifically about the IMF and the Ukraine.

**PP:** Ukraine has been having a relationship with the IMF for quite some time, from the late 1990s. This connection is not a temporary one. In other words, it's not as if you have a balance of payments problem and you go to the IMF for a temporary loan and then you put your economy in order and you pay back the loan. It was not that kind of an arrangement. The loan that Ukraine and many other Eastern European countries took from the IMF was really quite unpayable. And even now, the debt they have to the IMF and to others together is something which I was saying earlier is really quite unpayable. They cannot really pay back that kind of debt, particularly when their productive apparatus is not really generating much. So that was going on. So the IMF at one point insisted that in order to continue with the debt Ukraine has to meet certain conditionalities. And in these conditionalities, it wanted a reduction in the real wage. It wanted a curtailment in the government's welfare expenditures, particularly on education and healthcare. It also wanted a cutback in subsidies. You see, in Ukraine, the government has been providing substantial subsidies on gas, which is made available to all domestic consumers. In the absence of government subsidies, there would be very high gas prices and people would really suffer a great deal. And that is when Yanukovych, who was the president of Ukraine at that time, said that, No, this is something which is not possible. So at that point, therefore, the IMF decided that if the conditions are not being met in that case, it's not going to provide any more loans to Ukraine. That's when Yanukovych decided that he would try and get some loans from Russians. Yanukovych started negotiating with Russia.

**LF:** And how did the Maidan square demonstrations fit into all this?

**PP:** The moment it became clear that Yanukovych was not going to be accepting the loan from the IMF, demonstrations began. But you know this loan was also linked to the trade negotiations with the European Union. So when the IMF loan fell through, trade negotiations with the European Union also fell through. And that is when demonstrations started occurring in Maidan Square against Yanukovych.

**LF:** So then, after the Yanukovych government was toppled and the government changed hands in 2014, comment on what happened to stumbling blocks the Yanukovych administration had put up against the IMF. I'm thinking here of the unwillingness to accept loan conditionalities that you mentioned earlier, prominently the unwillingness of Yanukovych to cut government subsidies on Ukrainian gas, provided to domestic consumers, for the Ukrainian people. So in other words, cut public spending that served a broad public interest by keeping the cost of living down. So comment on what the new government did when it came in.

**PP:** Firstly, it slashed the gas subsidy by half. Therefore gas prices went up for the consumers. Secondly, you know, there was a ban on the sale of land area in Ukraine to Big Capital, to foreigners and so on, under Yanukovych. And that had been one of the things demanded by the IMF that the ban should go. And immediately when the government came in that ban went. So you had the opening up of Ukraine, not just Ukrainian resources, but even land area to the penetration of foreign capital, foreign Big Capital.

**LF:** It was under these conditions then, where Ukraine's new government embraced investor friendly policies that the IMF loan went through. To cite your article, that loan had some notable features, in your words. One: The loan "was huge, much larger (in fact more than six times) than what the IMF normally would provide in a comparable situation". Two: "...it was given to a country in the midst of a civil war, which is against usual IMF practice". Three: "it was known from the very beginning that the loan could not possibly be paid back, so that the only means through which it would be sought to be recovered would be through metropolitan capital taking control of the country's land area and mineral resources (the most prominent of which is natural gas)." According to IMF Fast Facts, as of March 2021, Ukraine is one of the IMF's four largest borrowers. And fast forward to today, March 2022, and as we all know, Ukraine went back to the IMF for a further loan. So before that loan had been approved and the details were out, you had written that, in your words, the precise amount of support and the purpose for which it is being asked are still not clear. But one thing remains clear after the current crisis comes to an end in that region, no matter what form that resolution takes, Ukraine will become a second Greece in Europe. So Prabhat, tell us what you mean by that.

**PP:** Yes, I mean, in the following sense that the size of the loans are so large that I do not believe that Ukraine is going to come out of this state of indebtedness in any way through its own actions. This globalisation that we're talking about, for which the IMF has prepared the ground all over the world, this globalisation has taken two quite distinct forms. There are places like in Asia, let's say China, Vietnam, to some extent, India and Bangladesh you know, where globalisation takes the form of the location of manufacturing or service sector activities. In other words, these are the countries to which a lot of the activities are shifting from the metropolis. So their productive system survives and is promoted by globalisation, but not in the interests of the people. Well, I mean, obviously the people don't benefit from it because agriculture gets destroyed- but I'm not going into that. There are other places where

globalisation takes the form not of supporting and sustaining and promoting the productive apparatus, but rather the productive apparatus gets completely destroyed. And of course, people then start migrating. Now, Eastern Europe is a part of the latter. And that is why the idea of Eastern European countries generating enough production in their own countries and through exports getting enough foreign exchange to pay back this loan really does not arise. And of course, borrowing from international finance capital to pay the IMF is something which may happen, but that's not something which constitutes a solution to the problem of indebtedness. So I think these countries are going to remain highly indebted and in that sense they would be like Greece. And forever there would be these measures of austerity which would be imposed on the people. That means they will be excluded from the benefits of these loans or whatever.

**LF:** Very briefly, so in a nutshell, give us a recap on the argument you've been making today. First, on the role of the IMF, then the IMF connection with the Ukraine crisis.

**PP:** There is a general objective that all countries should be opened up to the free movements of capital and finance and even of commodities. In fact, that's the essence of the neoliberal economic policy, that fundamentally economies should be opened up. And when they're opened up, it is not just for capital to come in and set up industries or capital to come in and buy up industries, but capital must come in also to take control of resources of raw materials. And in the case of Ukraine, also take control over the land area. Capital would like to own the entire land of the planet. So, the point is that that is a general objective, which is promoted by the IMF on behalf of international finance capital all over the globe. That is what the IMF does everywhere these days. But in the case of the confrontation between Russia and Ukraine, the argument we can be putting forward is that it is not just that. It is something much more specific, and that specific feature lies in the fact that it actually is promoting American foreign policy interest. There is a close intermingling of US foreign policy interests with the IMF. And so it's not just the general role of the IMF, but the role of the IMF that is specific in this particular instance, which is superimposed if you like on the general role, and that consists in keeping Ukraine under the thumb of the IMF so that it actually follows the US foreign policy interests.

**LF:** Prabhat Patnaik, thank you.

**PP:** Thank you very much, Lynn.

**LF:** And from Geneva, Switzerland, thank you for joining us in this segment of GPEnewsdocs.

**END**