Even as dramatic economic reforms go forward, Russia's monetary problems remain unresolved: The risks of hyperinflation remain high; the foreign debt is still not restructured; and only two of the 14 non-Russian states have introduced their own currencies. The management of the ruble - selling, at week's end, at 241 to the dollar - remains a messy tangle among many new nations that share the currency.

That wasn't supposed to happen. Under the original script, Western governments were to send in the International Monetary Fund (IMF) to help Russia carry out its most urgent economic tasks. Yet something has gone wrong, seriously wrong, with the IMF's role in Russia. And something needs to be done to reform the IMF's effort, or the difficult transition to democracy and a market economy will be jeopardized.

Congress, which is about to vote on a $12 billion quota increase for the IMF (a line of credit it can draw on to lend to other countries), has a unique opportunity to take action now. The IMF should get the money - because its mission is unique and crucial - but it should be made conditional on fundamental management changes.

After all, such conditions are exactly what the IMF would want before lending money to a poorly performing country.

Congress should push the IMF because no one else is about to. Despite the dedication of officials in the U.S. Agency for International Development, the Treasury and elsewhere - and despite Robert Strauss's heroic efforts as ambassador to Russia - the president's attention span on the question is tiny. Senior administration officials have only the slightest idea of what the IMF is actually doing, or more importantly, failing to do in Russia.

Of course, Russia's reforms depend mainly on Russia's own actions. Russia's reformers - people like acting Prime Minister Yegor Gaidar - must overcome the well-organized opposition of the ex-communist state managers of the military-industrial complex, who are besieging the government for credits and subsidies to keep alive
enterprises that don’t meet the market test. All too often, these managers have well-placed allies at the Central Bank.

These pressures are what have led to the recent collapse of the ruble exchange rate and threatened the reform government in the session of Russia’s Parliament that opened last week. Opinion surveys show that the broad range of the Russian people support the reforms, but their voice is often drowned out by the lobbying pressures of the managers.

The controversies swirling around the IMF tend to focus on whether the institution is too tough in its advice to Russia, but these controversies miss the point. The problem is not toughness, but superficiality. Contrary to widespread perception, the IMF is barely present in Russia.

Remarkably, the IMF does not have a single monetary expert permanently in residence in all of Russia, much less the teams of resident advisors imagined in the public mind. Yes, the staff at headquarters working on Russia has grown significantly through personal shifts and new recruitment, but the end result where it counts - on the ground in Russia - has been negligible. Only two staff members are based there, but their job is mainly to gather and transmit information to and from the Washington staffers who fly in periodically for a couple of weeks at a time.

The visitors may leave a written document behind, but without anybody in residence to discuss their reports or, more importantly, to help with implementation, the IMF simply has not done the things it can do to make a difference. It could, for example, show in far more detail how continued heavy subsidization of the military-industrial sector risks hyperinflation and the destruction of the overall reform process.

The absence of a permanent, high-quality IMF staff in Moscow has contributed to one debacle after another throughout this year. Tellingly, the day before the collapse of the ruble in August, the IMF expressed confidence in the Central Bank rather than sounding the alarm that its policies were sending the country back toward high inflation. No wonder: The IMF had not had a team in Russia for over a month.

The first IMF debacle this year was failing to recognize the urgency of Russia's needs. In February, the IMF senior staff actually told officials of the seven major industrial nations (G-7) that Russia's financial needs for 1992 would be modest, around $6 billion. Oddly lackadaisical about Russia's balance-of-payments situation, the IMF greatly overstated Russia's likely exports for 1992, and therefore understated Russia's need for foreign grants and loans. As the facts came in, and new assessments were made, the G-7 announced a $24 billion support package in April.

Even after that, the IMF remained largely passive in one of its main tasks: rounding up the promised funds in a manner most useful to the reforms. Not only has much of the money, including the crucial $6 billion stabilization fund, not yet materialized, but the IMF has not once given the Russian government a detailed assessment of what is in the $24 billion package - and what will arrive when. The IMF’s defense, that it simply doesn't know what the G-7 wants to do, merely shows that the IMF itself has spent little effort in assessing Russia's real needs and educating the G-7.
Another blunder was the IMF's remarkably bad advice on the question of new currencies. The natural solution was a quick introduction of separate currencies in each of the newly independent states, which would be linked with each other through floating exchange rates. Instead, the IMF sent a go-slow signal on monetary independence. In effect, this meant that each state continued to issue ruble credits, feeding the inflation in the whole region and, in particular, undermining Russia's stabilization effort.

In April, we helped an inflation-weary Estonia launch a new currency to protect itself from the ruble inflation. Once again, the IMF tried to slow the effort. The Estonians pushed ahead, contrary to IMF advice, and introduced a stable, convertible currency in June.

But even after Estonia's success, the IMF has done virtually nothing in the other states to speed the process. Ukraine set Oct. 1 as a date to introduce its own currency. One might have expected the mobilization of bankers, lawyers and economists to help Russians and Ukrainians draft the requisite foreign exchange legislation and set up a new market to exchange Ukrainian and Russian money. Alas, this has not happened.

Elsewhere, the story is the same: The uncertainties caused by the delay in rescheduling the old Soviet debt stifle trade and undermine confidence in Russia. It doesn't take a Ph.D. in finance to know that in the middle of hyperinflation and a collapse of imports (from around $81 billion in 1990 to a projected $37 billion in 1992), Russia must husband its foreign exchange for basic imports rather than debt service.

What's really going on here, and what should be done? The IMF's mistakes on currency management, debt and financial assistance have been clear: They were the mistakes of policies formulated in Washington without the benefit of an intensive and on-going working relationship in Moscow.

Like the Russian bureaucracy it is trying to help reform, the IMF is a closed institution that has relied entirely on its inside staff. When the IMF was assigned the former Soviet Union, it shifted internal staff resources towards the task and stepped up recruitment. But it elected not to draw upon outside resources, including dozens of Western law firms, banks, research institutions and accounting firms that have a Moscow presence.

Why, Congress should ask, do such private Western organizations have more resident staff in Russia than the IMF? (With support from the Ford Foundation and the government of Sweden, we ourselves have been able to place a dozen staffers in residence in Moscow this year.) And why should Congress vote $12 billion for the IMF in the face of this dreary record? The answer is the same as Winston Churchill's defense of democracy: It is the worst system, except for all the others. The IMF is the only real hope of getting effective Western help to Russia linked to the implementation of economic reforms.

Once upon a time, the Bush administration endorsed a new Eurasia Foundation, patterned on the successful British Know-How Fund, to make technical assistance funds directly available to Russia. But like much else in the White House, this initiative stalled.
Not everything has gone awry. To its credit, the IMF is the only institution that stresses the importance of monetary discipline, the dangers of high inflation and the mechanisms for monetary control (even if it has missed the boat on redesigning the ruble area).

In addition, IMF conditionality (the requirement that policy actions accompany an IMF loan) is valuable when the IMF is otherwise on the right course. It has been critical in helping Poland overcome populist temptations that almost overwhelmed the Parliament after the initial phase of stabilization. Poland today is on the path to recovery, with low inflation, rising industrial production and a broadening social consensus about the direction of reforms started three years ago.

The key, then, is not to give up on the IMF, but to make it work. To do that, the IMF should present a technical assistance plan worked out in conjunction with the Russian government. Teams of resident financial experts should be placed at the disposal of the Russian Central Bank, the Finance Ministry and other institutions, to quickly resolve pressing problems, including new currencies, debt rescheduling and improvement of the banking system.

Second, the IMF should take the lead in formulating a realistic package of financial assistance, spelling out in detail to Russia and the West the necessary components. Debt rescheduling should be agenda item No. 1, and the IMF should have the guts to press the G-7 to get on with it. There is no use giving the IMF new money if it eventually is to be recycled to pay off old Soviet debts.

These are admittedly hard things for the U.S. Congress to impose; it would become easier if the administration paid real attention to Russia's reforms. Absent leadership in the White House, though, Congress will have to begin its own IMF housecleaning.

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