

A comment on Yeltsin's sacking of cabinet

2 April 1998

To the editor:

I read with surprise your analysis of Yeltsin's Monday purge of the cabinet ministers. While I agree with the story of Yeltsin's actions and the relationships of the major players, I think that you failed to take account of the context in which this latest political zigzag took place.

The crisis of the "Asian tigers" had a profound influence on the situation faced by all the so-called "developing" countries, including Russia. There are two main forces at work: 1) Their costs of attracting capital and of rolling over existing debts have been going up ever since last fall; 2) The market for oil and gas, which constitute the bulk of Russian exports, has been hit by the collapse of markets and production cutbacks both in Asia and around the world. The prices for these raw materials have gone down considerably in the past year.

These two factors underlay the desperate actions of Yeltsin and his closest advisors. Last Friday the *Financial Times* ran an article describing the precarious situation facing the Russian budgetary authorities. Low prices for oil mean that the government will be unable to collect export taxes. In fact, some of the higher cost producers in Russia will close their production facilities altogether.

Late last year the Russian government was able to pay off some of the overdue wage and pension bills by using various financial gimmicks, borrowing money, etc. But now the jig is up. Yesterday's announcement of drastic layoffs of government employed teachers and health workers is very significant. The IMF is demanding blood, and Yeltsin's advisors are hoping that by firing his ministers Yeltsin has gained some political cover and that he can now cynically proclaim that he is promoting "equality of sacrifice" of his ministers with the teachers and doctors.

FK

26 March 1998

Note from the Editorial Board

It is certainly valid to examine the wider context of the breakup of the Yeltsin regime, as FK suggests. This is not in conflict with the article Yeltsin's sacking of cabinet jolts Washington posted March 25, whose purpose was to provide a preliminary analysis, not serve as a comprehensive statement. We welcome further comments from readers on the political events in Russia.



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