

# Russia descends into economic and political chaos

Vladimir Volkov  
4 September 1998

*Vladimir Volkov is the Russian correspondent of the World Socialist Web Site.*

Events in Russia are now moving at an extraordinary pace. Hardly had the Kiriyenko government announced what amounted to a devaluation of the rouble and the freezing of state debt repayment, than it was dissolved and Viktor Chernomyrdin was named as the new prime minister.

The reason for this change in government was the continual worsening of the economic situation in Russia and the spread of the finance and banking crisis. All the previous minor 'successes' in creating economic and financial stability which can in any way be ascribed to the present government have come to nothing. Although the Russian economy is really just a part of the developing world crisis, it provides one of the most striking examples of the catastrophic consequences to which modern capitalism is exposed.

After the shock that hit Western investors following the announcement of the Russian banks' debt repayment moratorium and the freezing of state debt, Russia is faced with new isolation from the world market for the first time since 1991.

Confidence in the Russian financial system has been deeply undermined. The newspaper *Sevodnia* (Today) wrote on August 15, 'If one says there is a devastating conflagration raging here, that is putting a rosy tint on things.' The situation has further worsened in the last days. Visa International has now stopped its Russian credit cardholders from withdrawing cash whilst abroad. The company said this would continue until there is more clarity regarding the situation of the Russian banks which issue these cards.

Another symptom of the growing lack of confidence in the Russian economy is the decision of the South Korean government to halt exports to Russia. This decision even affects companies who have already signed contracts.

The development of the financial crisis has already had a whole series of effects. One of these is the merger of several commercial banks which count among the 20 largest Russian banks. At the start of last week, the merger of Inkombank and the National Reserve Bank was announced. According to newspaper reports, both banks are more or less dependent on Gasprom, the oil and gas giant. There was also a merger between the ONEXIM Bank, the Menatp Bank and the Mostbank, which are all known for their proximity to the highest political circles and are controlled by the infamous 'oligarchs'.

The spread of the financial crisis has meant that the international credit rating of the Russian banks and of Russia itself has been further lowered. Against the background of a continuing fall in the value of Russian stocks, a question mark now hangs over several large-scale privatisations planned for this year in connection with the sale of the telecommunications company Sviasinvest and the oil company Rosneft.

The mass purchase of dollars, which has also gripped wide layers of the population, led to the trade in foreign currency being halted on August 26 on the Moscow inter-bank market. For the first time in years, the Central Bank set no official dollar rate for the rouble. This led to the exchange rate for the deutschmark against the rouble rising by 40 percent.

Some liberal Russian commentators have analysed the significance and consequence of this crisis very soberly. With apocalyptic warnings, several write that the growing crisis expresses the failure of the entire policy of 'reforms' conducted by Yeltsin since 1991/92. They clearly admit that the events place a question mark over the future of capitalism in Russia.

Even before the moratorium was announced on August 17, the *Kommersant-Vlast* newspaper came to the conclusion that the behaviour of the Russian finance markets over the last days was 'more reminiscent of death throes'. The paper wrote that the markets were 'making a step back to the 1980s'.

The editorial in *Sevodnia* spoke of an element of 'historic irony'. 'Right on the eve of the seventh anniversary of the 'August Revolution' the president himself has drawn up a balance sheet. The reforms have failed because they were robbed. They were robbed by those who actually brought them about--from the ministers, governors, the red directors and the white bankers.'

It was always previously argued that the collapse of the USSR meant socialism had suffered a defeat. The argument usually ran: Any attempt to direct the economy in a planned and democratic fashion in accordance with the interests of society as a whole is doomed to failure. The collapse of the Soviet Union was cited as proof that capitalist economic methods, based on private property and the accumulation of profit, had demonstrated their historical superiority. The rapid integration of the former Soviet Union into the capitalist world market was regarded as the only way to ensure the quick and least painful recovery of the economy.

However, the capitalist reforms carried through in the republics of the former Soviet Union in the last seven years have had exactly the opposite result. The introduction of capitalist economic

methods not only failed to bring about a radical revival of the economy, they drove it to the edge of physical destruction and even de-industrialisation. The consequences throughout Eastern Europe have hardly been any better.

Capitalist Russia today resembles the Titanic, which received a deadly blow and inevitably and rapidly approached the ocean floor. None of the more optimistic commentators foresee any immediate economic improvement for Russia.

The new 'old' premier

The most important political event in Russia recently was the removal of prime minister Kiriyenko and the naming of Chernomyrdin as his replacement. The fact that the last government was only in office five months is damning proof of the depth of the decay in politics in this 'new' Russia. With his return into office, the new prime minister brings all the old contradictions with him which remain just as unresolved as months ago.

The main reason why Chernomyrdin had to leave the premiership in March this year was the need to push through a new round of the 'shock therapy'. These actions were not just to be directed against the rights and living conditions of the working class but were also to ensure that international corporations could freely conduct their affairs inside Russia. These measures had long been blocked by the most influential layers of new Russian capitalists. They recognised them as an inevitable threat to the position that these financial and industrial clans had built up for themselves. Chernomyrdin often appeared as the representative of these layers.

Another, not inconsiderable, factor involved in the change of government in March this year was the personal survival of President Yeltsin as an authoritarian figure. Up to then, Chernomyrdin's stature as an alternative figure of power had grown. He had become a dangerous competitor for the presidency. As long as Yeltsin was sure that Chernomyrdin harboured no political ambitions of his own regarding the presidency, he could be relied on, but at the first such sign he was dismissed.

By appointing the young technocrat Kiriyenko as prime minister, Yeltsin sought to create an obedient government under his control, which could carry out a series of 'unpopular' measures and find a common language with the IMF. He also thought he could rest on this new layer of state officials and careerists, and the second and third generation of businessmen, who had few other chances of success.

From the very start, the Kiriyenko government understood what it had to do. They faced the mass protests of miners who had blockaded the rail tracks in various parts of the country, teachers and academics. They also had to deal with the deep dissatisfaction of the so-called 'oligarchs.' From the moment the Duma (parliament) had to confirm him, Kiriyenko faced strong opposition directed from behind the scenes by the 'oligarchs'.

During its entire period in office the attacks on the Kiriyenko government did not stop for a moment. The irritability of the Russian business clans increased considerably when decisions were taken as a result of pressure from the IMF which went counter to the interests of this section of the Russian ruling class,

which are closely bound up with the production and sale of oil and had come into difficulties with the drop in the price of oil on the world markets.

In August, the intensification of the financial crisis forced the Kiriyenko government to adopt the extra-ordinary measures which led to a break with the programme of developing a 'free market', formerly the official doctrine of the new Russian state. The practical devaluation of the rouble and freezing of debt repayments led to a fundamentally new situation. On the one hand, these decisions dealt a serious blow to the reputations and interests of the big capitalists, leading to a tremendous devaluation of Russia's standing on the world markets. These steps did, however, enable the postponement of an even more serious economic collapse and offered the prospect of temporarily calming the mass protests which had continually grown over the last months, threatening the complete disobedience of the population.

The removal of Kiriyenko was at the behest of the big Russian business clans, who hoped to gain a figure who would better protect them against their foreign competitors. They regarded Chernomyrdin as their natural ally and as someone who is able to carry out a new 'shock therapy' because he enjoys a much broader base of support in the various factions of the ruling class represented in the Duma and amongst the regional barons.

Another reason why Yeltsin decided to get rid of Kiriyenko can be found in the personal interests of the president. Regardless of all denials to the contrary on the part of Yeltsin, the rouble was devaluated. However, by removing Kiriyenko the next day, Yeltsin avoided the responsibility for breaking the promises he himself made.

That Chernomyrdin has been recalled as prime minister is undoubtedly risky for Yeltsin and the result of the hopelessness of his situation. One of the conditions which Chernomyrdin gave for accepting the premiership, according to newspaper reports, was that he be granted powers to appoint some of the most important ministers. In granting him these powers, Yeltsin was giving up important levers for maintaining his political control. The reappointment of Chernomyrdin opens up many of the problems looming behind the scenes when he was last in office.

The new cabinet which emerges will be anything but stable. The idea has been floated that there should be a grand coalition comprising the various political forces represented in the different factions in the Duma. There can be no doubt that under conditions of an expected worsening of the economy the contradictions and conflicts between them will grow.

*The Russian version of this article was completed August 27.*

See Also:

*Salesman for a failed system*

*Clinton preaches for capitalism in Moscow visit*

[3 September 1998]



To contact the WSW and the Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**