

Russia: The end of a world power

What lies behind the domestic crisis?

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The arrogant attitude of Washington towards the Russian government during the bombardment of Serbia marks a turn in relations with Russia and gives cause to assess the real character of the liberal reforms which have been carried out there since 1991.

These policies were aimed at completely destroying the Russian economy as a potential competitor and turning the country into a market and source for cheap raw materials. With the many big collective corporations bought by Western businesses--above all in the food, chemical and pharmaceutical industries--productive plants were closed while the retail networks were retained as an outlet for Western products.

Following the financial crisis last summer, apart from the chocolate factory "Red October", no larger profit-making "Russian" factories have survived. Coal and steel companies are subsidised by the government and the contracts for the arms industry have dropped dramatically. Only the raw materials industry is able to yield a profit.

The type of future perspectives regarding foreign investment, in which so much hope is still invested by the Central European countries, has been summed up by the American banker and industrialist Thomas Wainwright: "Where should they [the foreign investors] go with their money? Who would they produce for? The international market is in a depression and foreign competitors would reject products manufactured in Russia with all sorts of protectionist measures." Steel and aluminium are already now being threatened by such anti-dumping measures.

Last August's financial crisis burst the bubble of the overblown Russian credit market, which on the one hand expressed the boundless and naive illusions in a capitalist upturn but which was also consciously inflated in order to increase Russia's dependence on the West.

The credit policies of the IMF since 1991 served the purpose of strengthening particular layers in Russia whose job was to carry out such a policy. Its chief supporters were chosen amongst the most corrupt and ruthless economic and political climbers who, under the leadership of President Boris Yeltsin, could bring the most profitable parts of the economy under their control--the finance and oil sector--and then build up very influential media empires.

At the height of their power these men were reputed to control over 90 percent of the economy and were known as the so-called oligarchs: Boris Berezovsky (who built his empire with LogoWAS, the Lada distribution network; owns newspapers, television stations and shares in oil companies and the Russian airline Aeroflot), Vladimir Potanin (of Oneximbank; one of the richest men in Russia, according to Forbes, with \$1.6 billion), Alexander Smolensky (SBS-Agrobank), Vladimir Gussinsky (Mostbank group), Vladimir Vinogradov (Inkombank), Vagit Alekperov (Lukoil) and Michael Chodorovsky

(Yukos-Oil), to name just a few of the most important ones.

Their elevation came relatively easily. During perestroika the mathematics graduates and young members of the Communist Party's youth organisation founded private banks with party money, or just took over privatised parts of the national banking system. In the unstable situation in the first years after 1991 they were given cheap state credits which they could use to speculate during a period of hyperinflation. On this basis they were able to rack up their first millions of dollars. In the following period, the oligarchs gradually acquired shares in industry through their banks--nearly always at underrated market value--above all in the raw materials sector.

In 1995 the head of privatisation at the time, Anatoli Chubais, enabled them to carry out their biggest coup with the help of the so-called "shares against credit" privatisation program, which privatised the most profitable key industries. In the name of a few of the oligarchs, Oneximbank head Potanin organised a loan of \$2 billion in exchange for shares of the Berezovsky company due to be privatised. This is how Berezovsky and Smolensky gained the majority of shares of Russia's seventh biggest oil company, Sibneft. After the privatisation program had been carried out, this handful of super-rich controlled the lion's share in the companies.

They continued to receive help from the state right up to the financial crisis. The short-term government loans with which the state financially met the demands of its private national and foreign creditors came onto the market through the above mentioned banks. Up until the crisis, state provision and free loans constituted the bank's main source of income and strengthened the position of the oligarchs.

In a study dealing with the lives and intentions of this layer, Maxim Boyko, Andrei Shleifer and Robert Vishny established that they "have absolutely no entrepreneurial abilities, are unusually keen on wealth and are absolutely not interested in becoming rich through hard work" (*Privatising Russia*, MIT Press, 1995: Cambridge).

The fine sounding words of IMF economists like Jeffrey Sachs, or politicians like Clinton and Kohl--who declared that doing away with the sprawling corruption had to be seen as the most pressing task in order to overcome the economic problems--stood in sharp contradiction to the fact that these politicians and bankers worked hand in hand with the oligarchs. This was particularly clear at the time of the presidential elections in 1996.

At that time the oligarchs and the IMF, and the American and German governments jointly supported Yeltsin's election campaign. It was only thanks to their concerted help that he was narrowly re-elected. In his book *So long, Russia* (*Pros'hai, Rossiya*, Moscow: 1997) the Italian journalist Giulietto Chiesa describes how the American government not only supported Yeltsin's election campaign

but also directly organised it.

For this purpose four American election campaign experts were brought over to Moscow four months before the election campaign. One of them, Richard Dresner, basing himself on the work that he had done with opinion polls, explained that: (a) Yeltsin would be beaten by five candidates in all ranking lists, (b) the current president could only count on 6 percent of Russians supporting him, and (c) he (Yeltsin) is considered by even fewer Russians to be a "competent leader". "If we were in the USA, I would advise a guy under such conditions to change his job" (ibid, page 18).

For finances, Chiesa then writes, the IMF temporarily "passed over to the Soviet system of 'unlimited budgets for particular projects' and announced the allocation of over \$10.3 billion on the eve of the elections" (ibid, page 17). Helmut Kohl awarded 3 billion DMs so that Yeltsin had enough means to quieten the opposition in the press.

The oligarchs gained direct entrance into politics due to their massive financial support and their collaboration with the West. Vladimir Potanin was temporarily named vice-prime minister and Berezovsky vice-security advisor.

Boris Berezovsky--who supported the election of General Lebed as governor of the Krasnoyarsk region in 1998, and is described as the modern Rasputin because of his direct influence upon Yeltsin's policies--already held several posts, serving until March as general secretary of the Community of Independent States (CIS).

President Yeltsin's declarations of his resolve to clip the wings of the oligarchs with the help of the liberals remained empty words as the latter revealed themselves meanwhile to be hungry for power and intent on carrying out "real reforms at long last". The growing protest movement of the working class prevented Yeltsin from implementing additional social cutbacks, whilst the oligarchs asserted their influence through their media empire. Boris Nemtsov and Anatoli Chubais, who had been appointed to the government, did not last longer than 15 months. And the Kiriyenko government, appointed a year later in March, did not even survive until the end of August.

The breakdown of the status quo of the past years, due to the lack of further foreign financial help, fundamentally changed the relations of power in domestic policy. The communists and nationalists, with a majority of representatives in the national Duma, have up to now expressed their opposition to the government in radical words only, but have consistently supported Yeltsin's policies and in turn have benefited from generous privileges. Since August they have increasingly attempted to push through the interests of their clientele.

Those behind these parties are the directors and owners of the industrial sector who came off short during the enrichment orgy of the "reform period", and had to just stand and watch while foreign producers disputed their right to a share of the market. Amongst them are, above all, the arms and steel industry. The defence industry was particularly badly hit because its main customer, the state, had to drastically reduce its budget for armaments. In addition, Russia's traditional markets in Eastern Europe have nearly all completely collapsed as a result of NATO's East European expansion.

After Kiriyenko's dismissal in August, Yeltsin initially proposed Victor Chernomyrdin as new prime minister for a "stabilisation period" for the Russian economy--someone regarded as the main enemy by the nationalists and communists. A compromise was reached and the Primakov government was founded. Yuri Masliukov, who led the national planning body Gosplan in the 80s and is a member of the CP of the Russian Federation, was named vice-prime minister. This government clearly is clearly of a transitional character

and has the task of manoeuvring between the interests of foreign capital and the oligarchs on the one hand and the interests of the nationalists on the other.

The impeachment proceedings against Yeltsin and the recent incident concerning Boris Berezovsky and the chief public prosecutor Yuri Skuratov have to be viewed against this backdrop, which has been further fuelled by the outbreak of the war in Kosovo.

In typical manner, police chief Skuratov was sacked by Yeltsin at the beginning of February following revelations of various corruption scandals. These involved Yeltsin's daughter Tatiana Diachenko, ex-premier Victor Chernomyrdin and Boris Berezovsky embezzling an IMF credit instalment amounting to \$4.8 billion last August. However Skuratov pursued his work, with the support of the national Duma, until a video was made public at the beginning of March showing Skuratov in bed with two prostitutes.

The outbreak of war seemed to further strengthen the nationalists. Accompanied by the media, they demanded direct military support for Milosevic, and some even demanded the use of atomic weapons against NATO. An arrest warrant was issued against Berezovsky and Smolensky on April 7, and impeachment proceedings against Yeltsin took an increasingly concrete shape.

But then came a rapid about-turn. "More objective" reports about the war began to appear in the media, the arrest warrant against Berezovsky and Smolensky was dropped and the impeachment procedure was adjourned until mid-May.

Commentaries spoke of a renewed strengthening of Yeltsin, to whom the World Bank held out the prospect of a credit of \$3 billion, while Victor Chernomyrdin was appointed delegate for Yugoslavia to lead peace talks.

The background to the turnaround is above all Europe's and particularly Germany's efforts to make sure that Russia can save face regarding the war in Kosovo. The United States is openly trampling on Russia's interests in foreign policy, and the spreading of the conflict to Russia is rapidly becoming a tangible possibility. In this vein Israeli Defence Minister Moshe Arens declared recently, with respect to the alleged Russian transfer of nuclear technology to Iran, "The USA are the only ones who can stop Russia."

The European governments are very well aware that Russia's weaknesses will become an increasing problem for all of Europe. The European standpoint was summed up in a comment by the prominent German journalist and expert on Russia, Gerd Ruge: "Russia is not the *Titanic*, Russia is the iceberg."



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