

No end in sight to war or economic collapse in Russia

by Rachel Douglas and Konstantin George

After nearly a month and a half of heavy losses in its winter war against the Chechen Republic, the Yeltsin regime in Moscow proclaimed on Jan. 19 that the military phase of the operation was over, with the seizure by Russian forces of the Presidential Palace in downtown Grozny. A spokesman for Chechen leader Gen. Dzhokhar Dudayev, however, warned the next day that "the war has only just begun," that Russia should expect a protracted and bloody struggle in the mountainous North Caucasus republic.

If President Boris Yeltsin finds it difficult to extricate Russian forces from the Chechen adventure, which he was falsely confident could be a short, successful campaign, it is even less possible for him to escape the underlying disaster in Russia: the consequences of his economic policies. Starting in the Bush-Thatcher era under then-Prime Minister Yegor Gaidar in January 1992 and continuing with various permutations since then, Russia has followed "free market" formulas prescribed by professors from the London School of Economics, Harvard Business School ideologue Jeffrey Sachs, and the International Monetary Fund. The result is destructive turmoil in the Russian economy and society, of which kaleidoscopic shifts in the upper political echelons since the beginning of this year are just one symptom.

The most basic report from Russia is the most eloquent: In 1994, more than 1 million more people died in the Russian Federation than were born. It was the fourth consecutive year of population shrinkage, at a rising rate. The life expectancy for males fell to under 59 years, from 64 years just five years ago.

Budget stalls out

As of Jan. 20, an International Monetary Fund delegation was in Moscow to dangle the latest promise of funds, a \$6.25 billion standby loan that might be offered in reward for more stringent austerity, especially against Russia's industry. They were left cooling their heels as the State Duma, the lower house of Parliament, refused to hear a second reading of the draft state budget for 1995, submitted by the government of Prime Minister Viktor Chernomyrdin. (The vote was 195-142 in favor of a second reading, but an absolute majority of 226 deputies was required.)

The government and Duma debated spending in the range of 240.5 trillion rubles during 1995, somewhere between 70 and 76 trillion rubles (\$18-19 billion) in excess of government-projected revenues. On Jan. 12, Yeltsin adviser Aleksandr Livshits conceded that in one month, the war in Chechnya had cost 800 billion rubles.

It didn't take the Chechen adventure to blow out the budget plan. Sergei Glazyev, chairman of the Duma's Economic Policy Committee and head of the Democratic Party of Russia, explained why in a Jan. 18 press conference, where he said that a second parliamentary reading of the draft budget was "absolutely pointless."

"It is now absolutely clear," said Glazyev, "that many budget estimates have been a bluff, and we warned about it. . . . The results of 1994 have fully confirmed all fears we expressed at the beginning of 1994 in connection with the adoption of the previous governmental budget, namely, production decline exceeded 20%, which we predicted last March. Against the backdrop of that decline of up to 20%, it has been impossible to attain macroeconomic stabilization."

Inflation in Russia was 16% in December 1994 alone, the highest monthly rate of the year, Glazyev pointed out, but "the government stubbornly continues to repeat the same mistakes. They have again proposed that we focus on attaining ephemeral goals, that is, on attaining the goal of a 2% inflation rate, which should not exceed 2.5-3% a month on average. . . ."

"Even if all measures are taken aimed at limiting the money supply, the average monthly inflation rate cannot be, according to our estimates, lower than 4.5%. This is determined by many factors, including growing inflationary expectations in connection with the events in Chechnya, apparent growth of inflation of costs provoked by the liberalization of foreign trade in energy resources, the revocation of export quotas for oil, the expected lowering of export tariffs below the planned level. The growth of inflation of costs is inevitable under such conditions."

Because of these miscalculations, the budget's estimated expenditures were 30 to 40% short of what they would actually have to be, said Glazyev.

On Jan. 12, the Russian ruble crossed the mark of 4,000

rubles to one U.S. dollar, the previous record low it had reached on "Black Tuesday," last Oct. 11. Meanwhile, leading Russian production facilities are among the casualties of the collapse.

On Jan. 17, Moscow's famous ZiL auto firm announced the closing of all 12 of its plants. In debt 420 billion rubles (\$110 million) to the state and to suppliers, ZiL lacked funds to buy components. After privatization in 1992, ZiL slashed its workforce from 120,000 to 85,000. Now, plant director Valeri Saikin told a press conference, if new credits are not found, "we will have to discuss nationalization of the plant."

In the coal sector, Interfax reported on Jan. 17, the Russian government is preparing to shut down 80 unprofitable coal mines over five years. This would eliminate 450,000 of the approximately 800,000 jobs in coal mining. The daily *Sevodnya* reported that the World Bank demanded the closing of 15-25 coal mines per year as a condition for a loan of \$500 million, in order to "restructure" the coal industry.

Political turmoil

Glazyev, whose Democratic Party posed a no-confidence vote on the Chernomyrdin government in October of last year, urged once again at his news conference that the government be replaced, since it "is pursuing a course that is baleful for the country's economy, for our citizens, for our future, for Russia as a state. . . . It suits, I believe, only the raw materials lobby, which is dominant in government decision-making, and foreign investors . . . those who make money on imports and on foreign currency speculation." The Democratic Party of Russia would not formally raise a no-confidence motion again right away, he said.

Yeltsin's own political authority has eroded in connection with the Chechnya actions, which the Army high command almost unanimously opposed. The opposition has not moved to dump Yeltsin himself, however, apparently in hope of saving the Russian center from chaos during the present turbulent period. When the Duma convened on Jan. 11, for instance, the majority of centrist, nationalist, communist, and agrarian deputies did not vote for resolutions against the Chechnya invasion which many of them had condemned.

Erstwhile opponents of Yeltsin have been brought into either the government or the de facto politburo, the Russian Security Council. The first move in this direction was back in November, when an Agrarian Party member was made minister of agriculture. In January, the deputy head of the Communist Party fraction in the Duma (though not a member of the Communist Party as such), Valentin Kovalyov, was named justice minister. Then came a Yeltsin decree naming Duma Speaker Ivan Rybkin and Federation Council (upper house) Chairman Vladimir Shumeiko—a Yeltsin opponent and an associate who has had his quarrels with the President—as "permanent members" of the Russian Security Council.

There was an open battle, however, around the actions of a government official who impinged too far on Yeltsin and Chernomyrdin's attempt to curry favor with the International Monetary Fund. Vladimir Polevanev was fired on Jan. 20 as minister of state property, in charge of the privatization of industry. In a letter to Chernomyrdin, Polevanev had accused his predecessor, Anatoli Chubais, of "selling off major enterprises for nothing" and permitting "a covert intervention by foreign capital, aimed at subverting the country's economy and defenses." Polevanev banned the visiting IMF officials from his ministry. Even after his dismissal, Moscow sources reported that Polevanev would serve on the Control Commission, supervising the ministries.

Meeting on Jan. 11, an inner core of the expanded Security Council announced agreement on what would amount to step-by-step extension of a state of emergency nationwide. This was a decision to disarm "illegal armed formations" throughout Russia; it was taken by Yeltsin, Chernomyrdin, and the two new Security Council members—Rybkin and Shumeiko. Speaking after the meeting, Shumeiko invoked the same formulation as used to justify the Chechnya operation: "We have taken a decision to start immediately disarming illegal armed formations in the whole of Russia because guard units of commercial structures have grown immensely, not only in the Chechen Republic but also in Moscow, St. Petersburg, and other regions."

Inside Moscow, citizens have witnessed stepped up patrolling of the streets by militarized units of the Ministry of Internal Affairs, since the beginning of the operation in Chechnya.

The Jan. 11 Security Council meeting also considered denying Defense Minister Pavel Grachev any authority over the Armed Forces General Staff, placing that body directly under Yeltsin. After this was misinterpreted by the media as a firm decision, Yeltsin spokesman Kostikov denied it and Chief of Staff General Kolesnikov, speaking on radio, expressed astonishment at the report. The very occurrence of such a discussion attests to the wild power struggle among political forces, trying to gain favor with the military and General Staff.

Writing on Jan. 17 in the daily *Nezavisimaya Gazeta*, member of Yeltsin's presidential council Andranik Migranyan characterized the present phase of Russian politics as a war of "all against all" among financial and political groups, against the backdrop of deep political and economic crisis. No institution can guarantee stability for Russia, Migranyan wrote, unless it can overcome certain political taboos—which the action in Chechnya should make possible! Then, the Army could be used to save the unity of the state and the feeling of guilt about the imperial past may be overcome so that the basis for a restoration of the empire is created.

If Yeltsin himself does not overcome these taboos dating from the "liberal reform era" of the past decade, concluded Migranyan, then somebody else will have to do it.