

Why Polevanov was fired

A behind-the-scenes report about the fight over privatization in Russia, by Roman Bessonov, who writes from St. Petersburg.

Vladimir Polevanov, formerly head of the Amur regional administration, had been Russian Minister of State Property for only two months. During this period he gave only two press conferences, and only in one of them did he use the word "nationalization," but the attack on him from the liberal mass media was furious.

He was suspected of "placing a bomb under privatization," as well as of being incompetent and ignorant. That was despite the fact that he emphasized that he was not going to stop the privatization process, and also despite the fact that he was not the first to speak of nationalization, either. Aleksandr Livshits, the President's economic adviser, had pronounced this "terrible" word even before him, but was never attacked by the liberals.

So, what was Polevanov's fault? The answer became more or less clear only when his letter to Prime Minister Viktor Chernomyrdin, dated Jan. 18, was published in several media outlets. The text of the letter made clear that Polevanov had managed to collect a great deal of information on the numerous privatization affairs, and these facts mostly characterized the state bureaucracy involved in sharing property.

In his letter to the prime minister, Polevanov named all the tasks and functions of privatization, as they were formulated in the 1992 Privatization Law: 1) generation of a wide class of private proprietors, capable of establishing a socially oriented market economy; 2) increasing efficiency of production; 3) development of social care and social infrastructure on the basis of benefit gained from privatization; 4) stabilization of the financial system; 5) promotion of de-monopolization; 6) attraction of foreign investments; 7) creation of conditions and institutions for further development of privatization at a new stage.

A list of failures

Analyzing each of these points, Polevanov comes to the sad conclusion that only the last of the mentioned tasks was fulfilled, while all the others failed. The number of private proprietors is very small, and enterprises are managed by a limited cast of administrators. No real dividends can be paid: Only 136 of 646 check investment funds (CIFs) managed to

return the nominal price of the checks which were given to citizens as their share in the state enterprises that were sold to private investors. The transformation of property relations has not influenced the efficiency of production.

Hopes and calculations concerning benefit for the federal and municipal budgets proved inconsistent. Only 2.8 trillion rubles were realized from privatization for budgets at all levels (1.8 trillion rubles of this sum came from Moscow, where its own, much more beneficial variant of privatization is being conducted, and only 52 billion rubles in St. Petersburg), the total being equal to the benefits from privatization in the relatively small economy of Hungary. This sum could not support the financial system or prevent the collapse of economy. De-monopolization "by all means" led to the disruption of economic connections. The amount of foreign investments decreased from \$2.921 billion in 1993 to \$768 million for the first nine months of 1994.

Crime flourishes

The most prominent results of the Chubais privatization was the total criminalization of property relations, flourishing of bribery, and easy criminal purchasing of the controlling shares of stock of not just enterprises but entire branches of industry by various foreign companies.

In cases of the purchase of gigantic shares, the source of income was never declared. It is hard to explain how a single Vassily Timofeyev from Tyumen region managed to buy 210 million shares of stocks of Gazprom Co., paying 2.1 billion rubles, and what enabled Kaha Bendukidze, president of the NIPEK Co., to purchase alone 51% of the stock of the huge Uralmash factory.

The nominal value of the check (voucher) funds was equal to the balance value of the stock of state enterprises in 1991, but a year later, in the process of Gaidar's price liberalization, the stocks' value exceeded that by 20 times. So, as the market value of the checks remained about 12,500 rubles, the CIFs actually promoted transition of the state property into private property free of charge. Mr. Polevanov quotes the British "Independent Strategy" agency that advises businessmen not to miss their chance, stating that the whole stock of Russia's state enterprises was sold for \$5

billion, while its real worth is not less than \$300-400 billion.

The 500 biggest enterprises, actually worth about \$200 billion, were sold for \$7.2 billion. For example, the Moscow auto plant ZIL, worth \$1 billion, was sold for \$4 million. The buildings of the State Institute of Education for Managers and Specialists in Chemical industry, worth \$100 million, were sold for 8 million rubles. The North Shipping Company was evaluated at \$3 million, the Novorossiysk port at \$22.5 million. And there are thousands of such examples.

Colonialism and greed

The higher officials of Chubais's ministry used to say that rumors of "Russia being sold," widespread by the opposition, just reflected that they were unaware of the real situation. But when huge pieces of industries are easily bought by foreign companies, and the enterprises lose the ability to produce competitive machinery, losing their access to the world market, it's nothing but pure colonization. And this has already happened in the whole aluminum industry, its enterprises bought, 30% stock or more, by U.S., Irish, and Israeli companies. This has happened to the Mil Helicopter Plant, 28% of its stock bought by Boeing. And to "Electrosila," one of the most equipped and technologically developed St. Petersburg machine-building enterprises, 19% of its stock bought by the British "Madima."

The officials of the ministry might feel just a little bit anxious for the fate of the economy, directly influencing the standard of living. But they are more interested in their own standard of living than that of their fellow citizens. That's why they get so furious when Polevanov honestly describes the real situation. Because if the privatization policy really changes, and its second stage is started only after the grossest violations are possibly corrected, as Polevanov suggests should be done, the most influential liberals may lose much too much. For instance, Deputy Minister Pyotr Mostovoi may lose his "Lenzoloto" (Lena Gold) company together with his U.S. partner from "Star." And former Prime Minister Yegor Gaidar himself, the perfervid apostle of privatization and shock therapy, may lose his share in the newly made gigantic joint stock corporation, together with D. Cohan from the U.S. Pioneer Group, Inc.

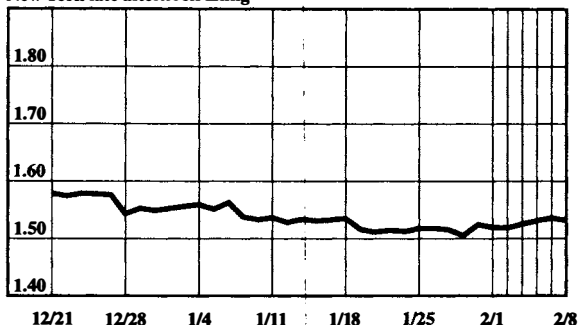
That is the real reason why the liberals used everything possible to compromise Polevanov, threatening him and insulting him. Not only him, but also Oleg Soskovets, who is making some real attempts to stop the looting of the economy, and was recommended by Polevanov to take charge of the ministry after he left.

But anyhow, Polevanov's letter was read in hundreds of analytical centers and millions of homes, and the state leadership, sooner or later, will have to do something about these problems. The country is terribly devastated, but not everything is lost yet. And the fact that Polevanov now works as a deputy chief of the Control Department proves that Mr. Chubais has not yet won the struggle.

Currency Rates

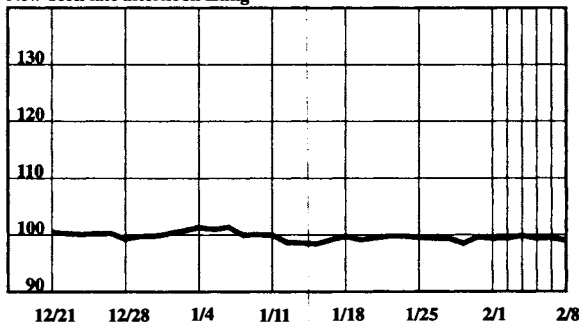
The dollar in deutschemarks

New York late afternoon fixing



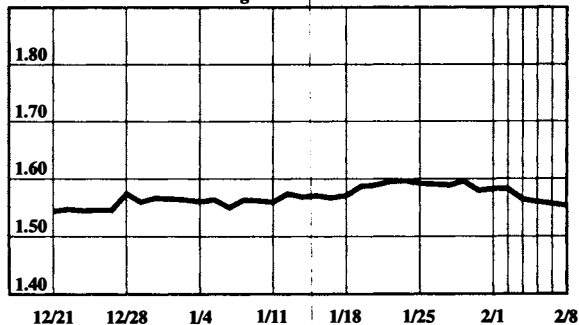
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

