Russian power struggle now turns on economic crisis

by Rachel Douglas

Eager to provide sophisticated, Western-style analysis of the first-ever "Westernized" election of the head of state of Russia, the Moscow weekly *Obshchaya Gazeta* stumbled upon a diagnosis. It was "virtual reality," the paper said in its July 4-10 issue, that gave Boris Yeltsin 53.8% in the July 3 second round, to 40.3% for Popular-Patriotic Bloc candidate Gennadi Zyuganov, leader of the Communist Party of the Russian Federation. (Nearly 5% cast their votes against both.)

In "virtual reality," the ailing Yeltsin (he vanished from the public eye, six days before the election) appeared to TV viewers in Russia as an energetic modernizer, a nation-builder on a par, as sycophantish ex-Deputy Premier Anatoli Chubais put it, with Czar Peter the Great; and Zyuganov, as a monster who would restore the full brutality of the Soviet system. In "virtual reality," Yeltsin's win, secured by means of a budget-busting mobilization of state funds, promises of non-existent cash payouts, monopolization of the media, and dirty tricks such as the one that kept Zyuganov's final TV ad off the air, was hailed by President Clinton, among many others, as "a triumph for democracy." In "virtual reality," Prime Minister Viktor Chernomyrdin could say, at the Lyons summit meeting on July 1, "a few words about the state of our economy: . . . Nothing unexpected or extraordinary is happening."

Behind such Potyomkin villages, a different reality looms. It is Russia's slide from deep economic depression, into a physical economic demolition so severe, as to threaten its existence as a sovereign nation. It is a financial crisis—inside Russia, simultaneous with the international one. It is a power struggle that is far from over. It hinges on the still open question, of whether there could be, as Lyndon LaRouche expressed the hope in a July 3 interview with "EIR Talks" radio broadcast, "a coalition of all the responsible patriotic factions of Russia, who can come to an agreement, and solidarity, on eliminating the control over Russia's life by the conditionalities of the International Monetary Fund," and find international support for such actions.

The defeated candidate, Zyuganov, offered a certain insight during his post-election press conference: "In a bankrupted country, there are no victors."

Food import-dependency, financial crisis

In *EIR* of May 31, economist Sergei Glazyev summarized what happened in Russia's physical economy early this year: "Official data show that in the first quarter of 1996, the collapse continued to deepen, and the nation's economic structure to degenerate. In February 1996, GDP was 3% below the February 1995 level, while industrial production dropped 4%; consumer goods production, 6%; and production in the machine building and chemicals industries, 17%. In consumer machine-building and high-technology industries, the collapse was above 30% for many products. After the manyfold collapse of production in previous years, this means the virtual disappearance of the sectors of industry that are most important for modern economic growth. The volume of capital investments was down 10%, while the number of officially registered unemployed was up by 40%."

After the first quarter, the State Committee for Statistics stopped issuing figures for almost all economic parameters—"out of good pre-election motives," as Chernomyrdin told a July 1 session of the Consultative Committee on Foreign Investments, according to *Nezavisimaya Gazeta!* But the dire situation with food production came out in a Russian Ministry of Agriculture report, summarized in the July 3 German daily *Frankfurter Allgemeine Zeitung.* It forecast that Russia would be only 40% self-sufficient in food this year, able to cover domestic consumption needs only for potatoes and cabbage.

The new element is a financial crisis for the state and for Russia's young private banks.

On July 8, Tveruniversalbank, the 25th largest with assets of $523 million, was put into receivership, after ceasing to redeem some securities backed by its deposits. Speaking at a World Economic Forum session in Salzburg, Austria, Central Bank chief Sergei Dubinin also confirmed special measures respecting Inkombank, the fourth largest in Russia, which is supposed to agree, in writing, to "certain operational changes." Dubinin played down the crisis, telling Reuters, "We have 2,100 banks and some are having problems, but you can't call the situation a general banking crisis." Nonetheless, "We shall establish special supervision of the largest banks and appoint our best personnel." Since Jan. 1, the Central Bank has revoked 350 lending licenses.

Government economist Mikhail Delyagin wrote in *Izvestia,* that a financial crisis, "a major shock," was inevitable, because two months ago the federal budget deficit reached 7.1% of GDP, double the limit set in Russia's agreement with the International Monetary Fund (IMF). Finance Ministry figures, cited in a different *Izvestia* article, put that April budget deficit even higher: 11.8% of GDP.

Aggravating the crisis is the wild run-up of the market for Russian short-term state bonds (GKOs). As Yeltsin toured the country, promising monies for everything from back wages to construction projects, the Finance Ministry sold three- and six-month GKOs with annual yield rates in excess of 120% and 200%, respectively. Now, Dubinin said, 25% of Russian spending goes for debt service, as against the 15% level set in the 1996 state budget; the budget ceiling will have to be renegotiated with the IMF.

As one measure, Dubinin confirmed that the Central Bank would open the state bond market to foreigners, even more than it has. In early 1996, non-Russians were allowed to purchase 10% of each bond issue. *Nezavisimaya Gazeta* reported on July 2 that the Central Bank, "in order to save the GKO market from collapse," additionally gave foreigners permission to convert earnings from GKO operations into foreign currency and to take them abroad. To bring GKO yields down from their post-election 65% level, Dubinin said that more foreign investors would be courted, but that foreign access to the Russian state bond market must still be limited somewhat, because "we do not want a repeat in Russia of the Mexican example"—the super-looting of Mexico, before and after that country's financial collapse in December 1994.

As for Yeltsin's campaign promises, former privatization chief Chubais told the press on July 5, "Promises made in an election campaign [are] an inevitable political evil. . . . I don't rule out that these promises may be fulfilled at a different time than originally intended." Chubais prediscounted the banking crisis, as lawful and predictable: "Economic realities tell us, that in almost every country that has solved the task of reducing inflation and achieving financial stabilization, a banking crisis occurs in some form."

Zyuganov, who voiced concern that "the present authorities, in their post-election euphoria, not leave people without bread, fuel, and wages," forecast that such delays would lead to unrest. "I am against street actions," he was quoted in *Pravda* of July 6, "But I don't exclude spontaneous outbursts, including mass ones. The authorities have made promises they can't fulfill, on wages, pensions, and stipends."

National economic security

In the team that rode with Yeltsin to his reelection, there are potentially incompatible elements. His new Security Council secretary, Gen. Aleksandr Lebed, spoke out for a broad coalition government, but Yeltsin promptly announced he would retain Chernomyrdin as prime minister—the figure most identified (since Chubais left government) with the looting of Russia's basic economy, especially by the export of raw materials on terms disadvantageous to the state, though highly profitable for firms like Chernomyrdin's former bailiwick, Gazprom. Lebed, meanwhile, kept up a high level of publicity about the need for a complete overhaul of Russian economic policy, from the standpoint of "national economic security."

Lebed has been heavily targetted by foreign circles, including the British economic school and U.S. Republican Party operatives, for recruitment to the radical free-market doctrines of the Mont Pelerin Society. These influences were reflected in his program for the first round, co-authored by Vitali Naishul, an advocate of the "Chilean model" of a deregulated economy under authoritarian rule. Before his pre-election deal with Yeltsin, however, Lebed had worked closely with Glazyev, who—as leader of the Democratic Party of Russia, former Minister of Foreign Economic Relations, ex-head of the Duma's Committee on Economic Policy, and collaborator of the Central Mathematical Economics Institute—is a leading advocate of interventionist policies to rescue and promote science-intensive manufacturing and infrastructure as the core of the Russia economy. There is evident nervousness in London circles, anxious to head off a renewal of such influences on Russian policy.

On July 4, the *Times* of London warned against any coalition government, whatsoever: "Too much significance should not be attached to Mr. Zyuganov's renewed promise to form a broad coalition government, if elected. . . . It is more sinister that Mr. Chernomyrdin . . . should have begun to hum similar tunes—and more sinister still that General Lebed, who only ten days ago was advertising his hatred of communism, suddenly called . . . for a grand coalition that included them." Ever less subtle, the *Wall Street Journal* editorialized that "the wisest thing Mr. Yeltsin could do would be to shove [Lebed] aside after some decent interval." Having finished third with nearly 15% in the first round, Lebed received his Security Council post on June 18, as Yeltsin courted his voters.

A Security Council document, leaked through Interfax on June 26, showed what worries these mouthpieces for the financial oligarchy. Titled "A New Approach to National Security Problems," it was attributed by Interfax to Lebed. Itar-Tass reported that it was prepared earlier, under Oleg Lobov, but on June 29, *Nezavisimaya Gazeta* published a version under Lebed's byline. The text exhibited, *Nezavisimaya* observed, "indications of economic dirigism (the legislative limitation of profitability, tightened control over foreign trade, intensified fiscal pressure on a number of sectors, and the role of 'rent for resources'), [behind which] it is impossible not to recognize the pen of Sergei Glazyev."

Most striking, the new "security concept" warned against too-close cooperation with the IMF, which might decide "one fine day" to cut Russia off and freeze its accounts abroad. Unlike most "anti-crisis" programs circulated in Russia, this one acknowledged the *international* financial crisis: "This is particularly dangerous, under circumstances in which the world financial system, based on the dollar as the world reserve currency, is becoming more and more unstable." The document urged that Russia seek "strategic partners" in Eurasia, so as to consolidate enough power to act independently of other power centers: "Russia should study carefully the various options for cooperation with the countries of the Pacific Ocean region, including China. The result of such an alliance could be a unique, self-sufficient system, with enormous potential for development and cooperation, and a huge internal market, capable of conducting an independent and effective foreign policy, respecting any other geopolitical systems."

The document called to slow and modify privatization, and for export and price controls, among other measures, to end the ability of foreign interests to plunder Russia.

Then, at a July 2 press conference, Lebed blasted the Chernomyrdin-linked energy and raw materials sector, and said he would use his position to prioritize rebuilding the military-industrial complex. "The main threat to national security remains an absence of economic strategy and a rational system of government regulation of the economy," Lebed said. "I want to talk about the negative role played by raw materials capital. Excesses are obvious here. Having received freedom, money, power, international recognition and overwhelming influence in practically all regions, the government, the Presidential structures, and the former parliament, raw materials capital has become so independent from the state that it has begun to conduct its own budget, credit, monetary and regional policy." Lebed also announced a tightening of visa rules for foreigners, a policy already applied to investment banker Boris Jordan of CS First Boston, a "privatization" pioneer who raked in big bucks during the 1992-93 wave of reforms, but now has been awaiting a visa since May.

Such a concept of national security collides with Chernomyrdin's blandishments in Lyons, according to which Yeltsin's reelection would remove "the last obstacle in the way of investment flows into Russia." Chubais remarked acidly, "As it was said in Soviet times, there are some shortcomings regarding the balance and profundity of [Lebed's] statements. . . . [His] demand for broader powers is a serious mistake for a state leader who is just starting out."

There is still no minister of defense in Russia at present, among the many other matters concerning who holds the reins of power that remain unsettled.

GOP 'secret team' in Yeltsin campaign

Speaking July 2, Gen. Aleksandr Lebed struck a new theme, "psychological security": "Today we are facing absolutely new threats . . . brought about by psycho-semantic behavior-modelling technologies. These technologies have been lately used not only by secret services, but also by leading advertising agencies which have been developing and introducing increasingly effective methods of influencing the minds of people. These technologies are used to introduce ideas which are absolutely unacceptable to Russia. . . . This is a very serious aspect of national security."

What are Russian patriots, including many who voted for Lebed in the first round, to make of the post-election revelation that three former aides to Bush Republican Gov. Pete Wilson of California, worked secretly on the scene in Moscow, to get Lebed's boss, Boris Yeltin, reelected? At a Washington press conference on July 9, George Gorton and Joseph Shumate told how they prevailed on Yeltsin's daughter, to implement "Western-style campaigning." This evidently included plastering food shops throughout Russia, with posters saying that a vote for Zyuganov was a vote for famine. Gorton said that one theme "we came up with that was persuasive . . . evolved around the concern that many Russians had about civil unrest and even civil war that might ensue if the Communists took over."

The slick advertisers were mum, as to how much they were paid for their "consulting" and by whom.

The third member of the trio, Dick Dresner, marks it as a double-whammy international scandal. New York-based pollster Dresner is a close chum of "Dirty Dick" Morris, cousin of the dead McCarthyite and purveyor of sleaze Roy Cohn, and an inside operative in setting up Bill Clinton for one fall after another (see p. 79). Dresner told *EIR*, "I talk to Dick Morris a lot because he's a friend and a former partner, but I'm not prepared to make any comment on anything we might have discussed with regard to this particular campaign." Was Cohn's boy manipulating both superpowers at once?