

## Russian military is latest target of IMF austerity

by Rachel Douglas

The public humiliation and firing of Russian Defense Minister Igor Rodionov, and of Gen. Viktor Samsonov as Chief of the General Staff, taken in the setting of the Russian government's furious pace of economic liberalization, bears an uncanny resemblance to the assault on the armed forces as an institution of the nation-state, experienced by one developing sector country after another in recent years. In *EIR's* book *The Plot to Annihilate the Armed Forces and the Nations of Ibero-America*, we warned, "Too many argue that all that is under discussion is that the military should be 'restructured,' like every other institution of the state, because of an economic crisis for which it is claimed there is no remedy. But far more than this is actually at issue. . . . At stake in this battle is nothing less than the continued existence of the nation-state itself."

The principle of dismantling the institutions of sovereignty, promoted for the nations of Ibero-America by organizations such as the Inter-American Dialogue, was stated in a more general form at the October 1991 British Commonwealth summit in Harare, Zimbabwe, where London attempted to enforce an agenda of "good governance," rather than "the basic needs of food, shelter, and health care," as then-Prime Minister of India P.V. Narasimha Rao countered that the priorities should be. "Good governance" had been the theme of Queen Elizabeth II's speech on the eve of that meeting, when she welcomed Namibia into the Commonwealth. "Good governance" meant that national figures, such as African "big men" Kenneth Kaunda of Zambia, Kenya's Daniel arap Moi, or Mobutu Sese Seko of Zaire, had better not stand in the way of easing access for Commonwealth cartels to raw materials or scrapping food price subsidies, which the British news agency Reuters politely called "a vital measure in the reform program backed by the World Bank

and the International Monetary Fund."

In 1992, the World Bank published its first handbook on "governance," which it defined as "the manner in which power is exercised in the management of a country's economic and social resources for development." The Bank's many publications on the topic harp on the necessity of decentralizing government, changing "attitudes toward corruption," and cutting defense spending. "Because . . . providing for security needs is intrinsic to political sovereignty, the level of military expenditure has been seen as a governance issue rather than a straightforward matter of public expenditure priority," explains one World Bank tract, in which it is also acknowledged that "because of the sensitivity of the topic," interventions on this matter have been done "at the level of Bank senior management and country leaders."

When dealing with Third World countries, the World Bank, the Commonwealth, et al., invoke the end of the Soviet empire as one justification for eliminating the military. Now, the same principles are applied to Russia itself.

### Cash and metals mobilization

Since First Deputy Prime Ministers Anatoli Chubais and Boris Nemtsov came to power in March, the Russian government's every move has been taken with an eye toward what will suit the International Monetary Fund, the World Bank, and the London bond markets. On May 22, the day of the Defense Ministry purge, the head of the IMF's Moscow office, Martin Gilman, expressed satisfaction that the government now has "realistic" and "achievable" goals. He referred, above all, to the so-called "sequestration" of the 1997 budget.

On May 6, the government presented its package of "sequestration," 108 trillion rubles (\$19 billion) in spending cuts from the original budget law, or about 20% of the total. Cuts



*Russian Defense Minister Igor Rodionov was dumped in a humiliating manner, under pressure from the IMF and a British oligarchy determined to get their hands on Russia's wealth. Here, Rodionov (right) is escorted by U.S. Secretary of Defense William Cohen (left) and Army Col. David Huntoon, as he inspects a Pentagon honor guard on May 13, just days before his ouster.*

are mandatory if revenues are below 90% of the anticipated level, and they have been at 64.4% this year. They are supposed to apply to all "unprotected" spending areas in the same degree, but the government's bill contains great differentiation:

*"Unprotected" spending to be cut by 30%:* funding of goods deliveries to the Far North, military hardware purchases, funding for the coal industry, defense R&D, and subsidies to certain regions;

*Unprotected spending to be cut by 55%:* agriculture, the national investment program, culture, public health, the social development program, and regional programs;

*Unprotected spending that the government wants to exempt from cuts:* funding for natural disasters relief, funding for Russia's commitments under agreements with CIS countries, and—because it's a convertible currency earner—the fund for the replenishment of national reserves of precious metals and stones;

*Protected spending, which the government would unprotect and cut by 50%:* spending on science and education, and financing for the development budget.

Speaking to the State Duma (parliament) on May 21, Premier Viktor Chernomyrdin tried to argue that these "cuts do not actually have any negative socio-economic consequences because they already exist." The austerity will occur, with or without the sequestration law.

Above and beyond the budget constriction, the Chubais-Nemtsov team has adopted a breakneck pace of economic liberalization, producing major decrees for President Yeltsin to sign virtually every other day.

- On April 28, Yeltsin decreed the sweeping reform of the "natural monopolies," Russia's national fuel, energy, and transportation companies (see *EIR*, April 16).

- On May 7, Chubais convened a closed meeting on liberalization of the gold and precious metals market, resulting in a government decree. Yegor Gaidar, the original Mont Pelerin Society agent in the 1992 Russian "reform" government, intervened in the discussion, proposing to let gold producers sell directly to commercial banks, any time the State Fund for Precious Metals and Gemstones were 30 days late in making payments. The Fund is currently more than a year in arrears.

The conference took place just weeks after three large British investment funds, Mercury Asset Management, M&G, and Robert Fleming, threatened to pull out of Russia, unless Moscow reversed a Russian court's overturning of the 1992 privatization of the Lenzoloto (Lena Gold) Share Co. The three companies own blocks of shares in Australia-based Star Mining Corp. (controlled by Johannesburg Consolidated Investment Co.), which had acquired 31% of the shares in Lenzoloto and its premier deposit at Sukhoy Log, the largest gold find in Russia.

Russian gold producers warned that, soon, there would be "nothing to sell." They sell gold to the state at the London Metals Exchange price, but payment is over a year late; under Gaidar's plan, they would be selling to the commercial banks at less than the cost of production. *Kommersant-daily* reported leaks from the May 7 session, that Nemtsov had demanded, "Why do we have to limit the export of precious metals? Liberalization is liberalization. Let the commercial banks export as much gold as they can," and Chubais sup-

ported him.

- On May 11, Chubais travelled to Irkutsk Province, where Sukhoy Log and many other precious metals deposits are located, to meet governors of the 17 provinces in the Siberian Accord association. Yuri Nozhikov, the Irkutsk governor who in April proposed to renationalize industries, where the removal of state control has led to wholesale shutdowns, suddenly resigned. Chubais told Interfax he had arranged for the Almaz Rossii Sakha Russian diamond company to sign a long-delayed new contract with the De Beers cartel by June 4.

- On May 12, Yeltsin chaired a special government session to adopt the housing and utilities reform, demanded by the IMF and pushed by Nemtsov. A political hot potato in poverty-stricken Russia, the adopted plan will phase out housing subsidies over six years.

- On May 16, Yeltsin signed a decree, allowing owners of real estate (buildings) to purchase the land on which their property stands. The ownership (for resale) of land, beyond the vegetable patches granted to individuals in the Soviet period, is one of the remaining most politically sensitive economic issues in Russia.

- On May 21, Yeltsin took three Russian oil companies off the list of firms protected for national security reasons, so that the sale of the state's share in them, along with three other oil firms, could be authorized.

## Humiliation

For a regime so preoccupied with money, it was no surprise that the Defense Ministry firings came with repeated citation of financial pressures. They occurred at a session of the Defense Council where, ORT television announced beforehand, the General Staff and Yuri Baturin's Defense Council were each to present a military reform program; the latter version would outline a sharp and immediate reduction in military forces to conform to the government's "financial capabilities."

Defense Minister Rodionov never got to give his report. Yeltsin blasted him and Samsonov, in a short tirade, given with the TV cameras running: "I am not simply dissatisfied, I am outraged with how the military reform is going. . . . You have done a bad job in this direction. I am not satisfied and must draw conclusions." He complained that none of his decrees on the military have been carried out, especially the order to cut 200,000 positions. Rodionov had warned that insufficient funds were received, to carry out the down-sizing of the military in an orderly fashion, but Yeltsin attacked him for "whining" for money when there isn't any.

Leading up to this public humiliation of the military, the major Russian TV channels (one of them owned by Security Council Deputy Chairman Boris Berezovsky, another by associates of Chubais) beat a drumroll about corruption in the upper echelons of the military. In mid-May, Yeltsin named former KGB lawyer Gen. Lt. Yuri Dyomin as Chief Military Prosecutor, the "Mr. Clean Hands" for corruption scandals

aimed at the top brass. "I hate corrupt officials, especially in uniform," Dyomin was quoted in *Izvestia* on May 16. "Those who discredit the authority of a Russian officer, will be ruthlessly prosecuted." His office announced it was investigating the cases of 20 generals and over 100 colonels.

The day of Rodionov's ouster, one of them, Gen. Konstantin Kobets, was arrested at a Moscow clinic, where he was recovering from a heart attack, and taken to Lefortovo Prison for interrogation on corruption charges. The day before, he was fired as deputy defense minister and chief of the Military Inspectorate. Kobets is charged with accepting gifts from a construction firm that employed his son and was paid by the state, which he denies.

The young deputy premiers, who provide Yeltsin with his agenda step by step, are proceeding with zeal, but their assault on the military is not without risk for the regime. Some of the officers getting the axe are men who made it possible for Yeltsin to come to power and stay there. Kobets was the commander who brought some hundreds of troops, including units of the elite Taman division in Moscow, to defend Yeltsin at the White House (then the parliament building) in August 1991, when he defied the State Committee for the Emergency (GKChP) that had kidnapped Soviet President Mikhail Gorbachov and declared itself in charge. Samsonov, then Commander of the Leningrad Military District, also acted for Yeltsin during that crisis.

Trouble arose, immediately after the May 22 dismissals, when Yeltsin's first choice to replace Samsonov as chief of staff, Far East Military District commander Gen. Lt. Viktor Chechevatov, refused the job. Another warning signal came from Yeltsin himself, who, two days before firing Rodionov, ordered a halt to reorganization of the Airborne Troops. Gen. Aleksandr Lebed, an Airborne Troops veteran fired by Yeltsin as Security Council secretary last October, after his appointment was exploited for electoral campaign purposes in the spring, offered an explanation at his May 22 press conference: "They got scared. According to preliminary information, 80% of the [Airborne] officers refused to prolong their contracts. . . . They would have left the Army with anger in their hearts."

The IMF's Gilman is "satisfied." Under its new policy of paying out tranches of its credit line to Russia on a quarterly, rather than monthly, schedule, the IMF released \$700 million to Russia the week before the military purge. In April, the World Bank granted \$6 billion in "soft" credits for 1997-98 Russian budgets. Nemtsov has castigated the Italian foreign minister, visiting Moscow, for Italy's making "too little" investments in Russia, and glowed about "the huge investment potential of Saudi companies," after meeting First Deputy Oil Minister Prince Abdul-Aziz bin Salman. First Deputy Finance Minister Aleksei Kudrin announced on May 23, that the several hundred million dollars expected from Russia's third Eurobond issue will be used to cover the budget deficit.

All this cash won't buy Russia survival as a nation, or maybe not even many months of political stability.