

# Ruble pandemonium in Russia, CIS signals end of 'shock therapy' is near

by Konstantin George

On the morning of Saturday, July 24, the Russian Central Bank made a bombshell announcement that all old rubles in circulation printed from 1961 through 1992, were no longer legal tender, and that citizens of Russia and other former Soviet republics had until Aug. 7 to exchange them one-to-one for newly issued Bank of Russia ruble notes. The Central Bank decree had been worked out with the anti-shock therapy wing of the Russian government, including Prime Minister Viktor Chernomyrdin and First Deputy Prime Minister Oleg Lobov, and the go-ahead was finalized on July 23 at a meeting of the "inner cabinet," held without the knowledge of the cabinet's shock therapy faction, led by Deputy Prime Ministers Vladimir Shumeiko and Anatoli Chubais, and Finance Minister Boris Fyodorov. In the case of Fyodorov, insult was added to injury, because he was just then in the United States holding discussions on his and the International Monetary Fund's "vision" for future Russian financial and economic policy.

The Anglo-American establishment was livid, understanding what the deliberate humiliation of their man Fyodorov meant. This was best expressed in an article in the July 28 London *Financial Times* asserting, "Fyodorov Will Attempt to Overturn Ruble Reform." It stated, "Foreign governments and international financial institutions administering a \$44 billion foreign aid package view the currency debacle as a crucial test for Mr. Fyodorov. Mr. Fyodorov is aware of the profound unease in U.S. financial institutions and the U.S. government . . . over the sidelining of the finance minister in the decision. At stake is the second \$1.5 billion tranche of a \$3 billion systemic transformation facility, to be considered by the IMF in September."

## Choreographed flaws and corrections

The chaos that the currency reform caused was pre-discounted by the Central Bank and government. Most of the chaos stemmed from deliberate flaws in the details of the decree. These included the cash limit of 35,000 rubles on exchanges, the lack of new ruble notes in denominations under 100, and the short, two-week time frame. The flaws were built in because the "backroom junta" which engineered the decree wanted a means for blunting the mass outrage directed against President Boris Yeltsin, whom the new policymakers wish to continue to use.

Thus, on July 26, Yeltsin, acting on briefings by the same Central Bank staff which had designed the flaws, issued a decree modifying the Central Bank decree. Yeltsin nominally raised the cash exchange limit to 100,000 rubles, although actually far higher by allowing the unlimited exchange of the 10,000-ruble notes from 1992, thus in effect bribing most of the *nomenklatura*, and extended the deadline to Aug. 31. Yeltsin also exempted the old ruble notes under 100-ruble denominations from the decree, thus ending the situation where shops could not give change for, say, a 34-ruble loaf of bread.

The other major objective of the currency reform is to strengthen the "Great Russian" restoration drive, which was to heavily increase the hold of Russia over the other republics, either by forcing them to stay in the ruble zone or increasing the discrepancy between the new ruble and the provisional currencies of the other republics to Russia's advantage. Armenia, Belarus, Kazakhstan, Uzbekistan, and Tajikistan all announced that despite their outrage over the measures, they would stay in the ruble zone. To prevent a flood of old rubles into Russia from other republics, Russia decreed that in these republics only 15,000 rubles in cash per person could be exchanged for new rubles. This has forced the other republics to announce that their citizens can exchange old rubles for local provisional currencies, at varying cash ceilings at a one-to-one rate. In Belarus, for example, the ceiling is set at 50,000 rubles, and in Georgia, 100,000.

The effect of this currency reform on the other republics is devastating. The one-to-one exchange rate of rubles for local currency amounts to outright confiscation. In every case, the local currency is worth less than the ruble. In Ukraine, for example, the local karbovanets stands at four to one ruble, while the coupon in Georgia goes for six to one ruble. The Russian Central Bank has expressed willingness to "modify" its posture toward some of the republics, though at what political price is left unstated.

## The 'red herring' versus the real coup

The actions taken by the Central Bank in accordance with the Chernomyrdin-Lobov team initiated a process to bring the Russian economic-political crisis to a head, forcing an abrupt break with past ruinous policies. The announcement was designed to end the shock therapy policies, as well as

the political paralysis where Russia has had one cabinet containing two diametrically opposed governments. The weekend events amounted to a political coup, where a military-backed "backroom junta" is forcing the Russian crisis to a point that the strategic policy turn will be executed.

In fact, the coup has already begun. It is ironic that on the very days (July 22-23) when the Russian news media, led by *Izvestia*, were filled with talk of the danger of a military coup, the silent coup of the backroom junta was taking place. Had the Army wished to mount a coup, it could have acted during the week of July 19-23 when Yeltsin interrupted his vacation to meet with leaders of every northwest Russian region in the city of Pskov. That meeting, where Yeltsin's sole "armed support" was a handful of bodyguards, took place just a few miles away from a Russian Airborne Division garrison.

### **Order needed urgently**

Yeltsin also returned from his vacation to Moscow on July 25 for urgent talks on the war in the Central Asian republic of Tajikistan, where Russian troops are pitted against an Anglo-American-steered operation involving thousands of Tajik rebels backed by Afghan mujaheddin. This conflict involves Russian troops in combat on a large scale, and is threatening to expand to the scope of another Afghanistan war.

On July 26, the Russian Security Council, chaired by Yeltsin, and including Defense Minister Pavel Grachev, Interior Minister Viktor Yerin, Foreign Minister Andrei Kozyrev, and then-Security Minister Viktor Barannikov, met in emergency session on the war in Tajikistan and on the currency reform. The two are not separate issues. Since July 13, when Yeltsin rubberstamped the decision taken by Grachev and the military to pour Russian troops and combat aircraft into Tajikistan to attempt to cut short the destabilization by overwhelming military force, Russia for the first time since the end of the U.S.S.R. has been at war. As in Afghanistan, Russian aircraft and attack helicopters are involved in daily bombing, rocketing, and strafing of rebel positions and, although officially denied, Russian artillery has been systematically shelling suspected rebel positions across the border in Afghanistan. When war comes, economic and political chaos can no longer be tolerated, and thus the war in Tajikistan was a decisive contributing factor in the backroom junta's decision to act without.

Yeltsin agreed to use all-out military force in Tajikistan, and issued a statement in effect declaring the borders of the Community of Independent States and Russia to be one and the same. Yeltsin said that the "border between Tajikistan and Afghanistan" is de facto "a Russian border and not the border of Tajikistan." He gave the military *carte blanche*, appointing Defense Minister Grachev to head a super-ministerial task force to oversee military operations, including those of the Border Troops which had formerly been under

the Security Ministry.

On July 28, Yeltsin extended the state of emergency in the North Ossetia and Ingushetia regions of the Russian North Caucasus for two months until Sept. 30, and authorized the dispatch of a further 5,000 Interior Ministry troops plus additional attack helicopter squadrons for Army paratroop units in the region.

### **The Barannikov affair**

At the Security Council meeting on July 26, Yeltsin severely reprimanded Security Minister Viktor Barannikov, accusing him of having failed to adequately protect the Tajikistan border with Afghanistan. On the next day, Barannikov was sacked by Yeltsin, with this bogus issue cited as the reason. The real reason was quite different. Barannikov had shown Yeltsin hard evidence that key members of the Yeltsin entourage, including media "czar" Mikhail Poltoranin, head of the Russian Information Agency, and Deputy Prime Minister Vladimir Shumeiko, had acquired personal fortunes running into the millions of dollars through the illegal sale of state property abroad, and the disappearance of state funds in Switzerland that had been earmarked to buy baby food. Barannikov's effort failed, because the Army and a consensus of the "backroom junta" prefer to continue to use Yeltsin.

Yeltsin's only defense against the dossiers has been to accuse Barannikov of corruption, and charge that his ministry is covering up what it has accumulated through illegal capital flight. The Yeltsin camp has leaked to the press that a certain Boris Bierstein, identified as a joint agent of the KGB and Mossad in Switzerland, had paid Barannikov's wife to take trips Switzerland, as well as the wife of Yuri Skokov, who was the secretary of the Russian Security Council till his ouster by Yeltsin in May. Yeltsin accused Barannikov of "infringement of ethical standards" in employing "commercial structures" to send relatives abroad.

Yeltsin also charged that Barannikov had failed to use the technical and legal powers of his ministry to stop illegal business transactions by Russian enterprises with the West, specifically the massive capital flight into foreign bank accounts. The charges coincided with the anti-shock therapy wing of the government making a public issue of capital flight. On July 26, First Deputy Prime Minister Oleg Lobov, brought into the government as a counter to Finance Minister Fyodorov in April, said that the minimum estimate for the past year was a rate of \$10-12 billion illegally sent out of Russia into western bank accounts by Russian enterprises.

Lobov's anti-shock therapy credentials are public record, and include his tough denunciations of the late 1991 decision to bring in Yegor Gaidar as prime minister. Lobov announced on July 28 that Russia will begin a huge housing construction and road building infrastructure program with a budget of 1.2 trillion rubles, billing it as the largest construction program undertaken in two years.