

Yeltsin seeks to buy time, with bid for 'national unity' government

by Konstantin George

In Russia, a tendency toward some form of national unity government, or ruling arrangement, with the Communist-centered opposition in the State Duma (parliament), emerged in the closing week of 1997. This new political direction can be viewed as the regime's groping attempt to fend off a financial-economic breakdown. The impetus was provided by the early-December crisis of Russian state finances, where state bankruptcy was only barely avoided. Massive purchases of Russian Treasury bills (GKO) by the Russian Central Bank, utilizing in part, foreign loans, and a Central Bank policy of drastically raising interest rates to draw in more money to buy up GKOs, prevented the blowout of the state Treasury—for the time being.

That operation did not resolve the crisis of state finances, but only postponed it, setting the stage for a new peak, later this year. First of all, interest rates upwards of 30%—GKO yields rose to as high as 45% in early December—mean much higher 1998 budget spending for debt service. The Duma's budget committee has already approved a government-sought increase of 7 billion new rubles (currently valued at \$1.1 billion) in 1998 funding for such interest payments, but the daily *Nezavisimaya Gazeta* of Dec. 30 cited Ministry of Finance sources, that the interest payments will really increase by at least 25 billion rubles, or over \$4 billion. Second, should another flight out of GKOs by foreign and/or Russian holders occur, as it did during November and early December 1997, the Russian Central Bank now lacks the capacity to intervene and purchase GKOs on the scale it did then. The interventions in November cost somewhere between \$2.8 billion and \$4 billion of the Central Bank's reserves, which are now stated as \$18 billion—less than \$14 billion in currency, the rest in gold.

The effort toward national unity was evident in the Dec. 26 "round-table" meeting of President Boris Yeltsin, Prime Minister Viktor Chernomyrdin, and the opposition led by the Communists (CPRF), and in Yeltsin's radio address to the nation later that day. The meeting, on the explosive question of land reform, was agreed to by Yeltsin and the government last fall, to avert a no-confidence vote by the Duma, but had been postponed due to the President's illness. He prioritized convening it, upon his return to work.

The Dec. 26 radio address was a clear national unity offer to the CPRF. Without naming him, Yeltsin attacked First

Deputy Prime Minister Anatoli Chubais, the cabinet's top advocate of International Monetary Fund (IMF) shock therapy. The ouster of Chubais has been the prime political condition put forward by the CPRF, in return for aligning itself with the government. Yeltsin attacked the "ideological dogmas" of those who "make the market our new idol," and who "replaced party slogans with macroeconomic ones," such as "Privatization at any cost!"

To maintain some modicum of political and social stability, through a deal with the opposition, Yeltsin is prepared to throw Chubais and other radical reformers to the wolves. In the days before this speech, Yeltsin's aides signalled likewise, by joining in an uproar over IMF Managing Director Michel Camdessus's imperious treatment of the Russian government.

On Dec. 18, *Nezavisimaya Gazeta* leaked Camdessus's latest letter to Chernomyrdin, in which demands for specific performance by Russia were set down in great detail. Camdessus insisted that the decision of the tax-collecting Temporary Emergency Commission (VChK) to bankrupt the Omsk Refinery and Angarsk Petrochemical Plant, taken on Dec. 8 at a meeting chaired by Chubais, be implemented without delay. On Dec. 17, Chernomyrdin reversed that ruling, giving the two firms a week's extension to pay their tax arrears. The next day, Aleksandr Livshits, a top economics aide to Yeltsin as deputy head of the Presidential Administration, publicly denounced such pressures from international financial institutions. Media linked with Chubais's allies at Oneksimbank furiously tried to blame this affair on machinations by Boris Berezovsky, owner of both *Nezavisimaya Gazeta* and the Omsk Refinery, to enter an alliance with Chernomyrdin against the "young reformers," but when Livshits weighed in, the case was marked as something more than a scuffle among business clans.

Attack on the 'New Russians'

For the first time, Yeltsin denounced the "New Russians," meaning the super-wealthy business caste. He warned them that their "ultimate goal . . . is not only their personal success, but the common benefit. . . . Our successful businessmen continue to bathe egotistically in their personal good luck, mocking the majority of their countrymen." Yeltsin then praised the opposition by name, for their change from a policy of



Russian President Boris Yeltsin lashes out at the “ideological dogmas” of the free-market crowd, in hopes of making a deal with the opposition. But it will take more than back-room Kremlin politics, to solve the crisis.

confrontation, to a willingness to cooperate with the government.

The speech and the round-table meeting had their intended effect. CPRF Chairman Gennadi Zyuganov praised Yeltsin and the government, for having come closer to the CPRF's position.

Earlier in December, Yeltsin had appeared before the Duma, for the first time, and after praising the Duma for a “constructive” approach, urged its members to vote up the 1998 budget in its first reading, which they did. Then, on Dec. 23, the Duma voted up the 1998 budget, on its second reading.

A solid indication that Yeltsin's Dec. 26 address marked a shift, was provided from an unexpected quarter during Russian Orthodox Christmas (Jan. 6-7). Russian Orthodox Patriarch Aleksii II went on TV with his annual Christmas message to the people of Russia: Echoing Yeltsin, he denounced the “cult of money,” ruling among the wealthy in the “New Russia.” He called on people to show more “brotherly love,” to “respect moral values,” and to live their lives based on the Ten Commandments. Aleksii II then, speaking on the subject of degenerate Western “educational” imports into Russia, such as “sex education,” declared that above all, Russia's younger generation must be “protected from immoral experiments” conducted in “the name of programs from abroad.” The terms “immoral experiments” and “programs from abroad” connote in many Russian minds the image of the IMF and its conditionalities.

Fire brigade in action

Yeltsin's December “budget successes” unlocked the door to over \$2 billion in combined IMF and World Bank credits, which are supposed to enter Russia by the end of January. It was on the basis of this incoming money, plus a vast increase in fourth-quarter state tax collections, through draconian enforcement of the tax laws, and through large Russian corporations issuing foreign bonds, the proceeds of which went in part into state tax coffers, that the next political condition for the prospective national unity configuration was met: the announcement by Prime Minister Chernomyrdin that all outstanding wages owed by the federal government to workers, bureaucrats, and members of the Armed Forces had been paid off at year's end.

This did not solve the perennial crisis of unpaid wages. Still outstanding were the wages of those on regional administration payrolls, though in this case, Chernomyrdin announced that a supplemental 3.3 trillion rubles had been earmarked for this purpose. In effect, a regional “fire brigade” fund had been set up, to provide wage payments to deal with the most serious social flashpoints of worker unrest in the regions.

However, as in any monetarist “solutions,” these always beget new and even worse problems. The very ruthless tax collection means by which the Russian Federal government temporarily “solved” its outstanding wage crisis, has aggravated the financial situation in Russia's privatized corporations and firms to such a degree, that in the past few months, a serious backlog of unpaid wages has appeared in the privatized sector.

In short, the next breaking point on the outstanding wages is only a matter of time, and it will be the biggest yet, covering federal employees, regional employees, and those working for private firms. This will tend to push forward even faster the national unity dynamic.

This prospect was confirmed to *EIR* by Pavel Felgenhauer, military-strategic correspondent for the daily *Segodnya*. Felgenhauer said, “The government is trying to distance itself from the IMF. . . . This is coming from Chernomyrdin and Livshits.” Felgenhauer added that the round-table process will move toward “a semi-coalition with the opposition.”

The Russian leadership views the coming period with alarm—all public disclaimers to the contrary. The explosions could start very early in the new year. The biggest threat is the reappearance of a renewed crisis of state finances, which could be triggered at any point by global financial turmoil. The grace of the extended holiday hiatus on the Russian state bond market ended on Jan. 14, once the Russian New Year festivities were over. After that, the regime, with or without “national unity,” will have to make critical decisions. The potential is there for real policy changes, for the first time since the disastrous IMF “reform” policies were launched in 1992. However, the potential also exists, under the “national unity” framework, for complete discrediting of all political forces, opening the way for dictatorship, or chaos.