

HEALTH OF A NATION

Boris Yeltsin And Russia's Crisis

By HARI VASUDEVAN

THE current crisis in the Russian Federation was anticipated in March this year when the Kiryenko government was sworn in by President Yeltsin. The state of the economy was uncertain, even if there was public euphoria concerning general goods' availability and recovery of production. Commentators reckoned a forthcoming collapse following a Presidential illness which would spark off a succession problem with an incompetent Prime Minister at the helm. The dismissal of Viktor Chernomyrdin was considered bad politics: the removal of an individual capable of maintaining a balance in troubled times. What has occurred is worse than anticipated. It is not solely a financial crisis. It is a crisis which threatens the entire edifice of Russian government and the fragile economic structures of the country. The international repercussions are already self-evident: exacerbation of the confusion generated by South East Asian problems and the consequences of U S anti-terrorist measures undertaken by a tottering American President.

A sobering thought is that if President Yeltsin was to become fatally ill in current circumstances, he will leave no successor to take on the enormous powers of the Russian Presidency. Protem Prime Minister Viktor Chernomyrdin will be without his required Parliamentary confirmation at a time when most of the chief executives of the provinces and republics are hostile to him and wield considerable authority in their own regions.

AMBITIONS

Here, powerful satraps such as Lebed (in Krasnoirsk) and Rossell (in the Urals) are known for their political ambitions, and it is unlikely that they will give Chernomyrdin an easy time in his path to the Prime Ministership, let alone the Presidency. The protege Prime Minister's own path (the remnants of the NDR or Russia-Our Home which fought the last election) has few supporters either in the Federation Council (the Upper House) and the Duma. Meanwhile, the unholy combine of nationalists and Communists in the Patriotic Front will certainly move to prevent Chernomyrdin's quick assumption of high office. This is unfortunate, since Chernomyrdin is undoubtedly the steady influence that the Russian Federation needs. His poor public persona should not be permitted to shadow his administrative and political skills. His ultimate chances with the Presidency, if pitted against a figure like Lebed, are uncertain: but that is neither here nor there in current conditions.

To tide over today's crisis, what is required above all is that the President should remain sufficiently healthy to help Chernomyrdin broker an agreement with the Duma as quickly as possible and assume charge of the Prime Minister's office. Boris Yeltsin will certainly not resign, and given the

authority of the Presidency in Russia's government, and Yeltsin's international standing, it is almost certain that he will be able to politically negotiate his way out of the current imbroglio. This may need Communists in the government for the first time: but Yeltsin is likely to concede even this to ensure that he can set the terms for a future reckoning with the Patriotic Front.

This, though, will not be good enough. For there has to be some



engineering to keep the tottering "reform" economy from complete "meltdown". Means must be found to deal with the consequences of the fall-off of investment which has accompanied the depreciation of the rouble. The latter is clearly the result of poor reserves (\$17 billion) and government issue of credit paper (GKO) to the tune of some \$70 billion to keep a number of sectoral and public banks in work, even while revenue levels are poor and Moscow is playing with high levels of debt to the West (primarily Germany). Return to "Soviet era controls" has been suggested. But this, in a narrow sense, is meaningless, since the government already has controls on the banking sector at its disposal in the form of credit paper. Restrictions on dollar dealings at an everyday level is likely to be pointless (since it cannot be done), worthless (given the sums involved), and counterproductive (since it will encourage black market pressure on the rouble).

SAVINGS

True, most Russians hold their savings in dollars, rather than in deposits and shares. The habit has been encouraged by official permission to convert internally, provided that foreign currency is not taken out of the country. But all in all, this does not amount to much, given the limited volume of Russian savings. It is also impossible to control everyday dollar transactions of such a scale. Rather, restrictions imposed on convertibility will only fuel inflation and rouble depreciation. The recent run on branches of the National Savings Bank (Sberbank) is adequate warning of popular response: it was clearly the consequence of attempts to withdraw limited personal rouble holdings in order to buy dollars and, hence guard against the inflation which would follow from further rouble devaluation. A blackmarket in dollars (which had almost wholly vanished in recent years) promises to be resuscitated.

Serious "Soviet controls", there-

fore, can only mean major restrictions on international dealings by private banks, and renegeing on debt payments. It is also likely to mean stepping up security operations for forceful regulation of the informal (black) currency market. This would be the "Soviet look" of the late 90s. It would mean an indefinite moratorium on Russian economic restructuring based on a mixture of foreign investment and home investment (direct and indirect) from the now "leading" oil and natural gas sector. It would involve a step down from "restructuring" of home industry on the basis of arrangements with foreign companies. Spot requirements would be paid for by spot earnings.

Ziuganov's Communists and Zhirinovskii's Liberal Democrats are thinking in these terms. Viktor Chernomyrdin might also think in these terms, since he views most matters from the optimistic standpoint of the state's gas giant (Gazprom), which he used to head, and which has trump cards, whatever the scenario, as Russia's biggest export earner. Chernomyrdin is also a "nationalist" when it comes to the promotion of home industry; and he is the most eminent of the country's "red managers", i.e., the old technocratic elite which still has a weakness for state patronage and official controls on the economy.

SOLUTION

Boris Yeltsin himself is threatening to turn to this solution. Hence his dismissal of Anatoli Chubais, his former envoy to international credit institutions and Russia's lead westerniser.

The other option in this situation is a Western bailout with no strings attached. This would involve a financial package for buoying up the rouble, with arrangements for debt payments. It would be tantamount to allowing the Russian government to do what it likes for fear that otherwise the West would have no hand in the economic course the country takes.

On past record, Boris Yeltsin will play for a little of both these solutions, and the West will come around a little on the "bailout". The latter will be the only means whereby the joint operations that many Western firms have launched in Russia would be guaranteed. Profits could be in depreciated non-convertible roubles in the short term, so that Euro-American lobbies would have stake in a recovery in the long-term. The extent of "give" on each side will have to be established by bargaining; and even though the political play in Moscow might involve a Communist presence in government, this would probably be balanced by an appointment for Anatoli Chubais at some other level.

Almost all this, though, will depend on political will in Moscow. And that in turn is tied so intimately with President Yeltsin's health that there is little surety of what will happen.