

# Russia: A Year into Yeltsin's Second Term

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**A**ccording to official Washington, with President Yeltsin reelected in July 1996 for a second term, Russia finally has been set steady on the path of democracy. The elections have been officially accepted as free and fair. Scandals and cabinet reshuffles have been dismissed as routine changes in government, and a slow pace of reform has been explained away as specifically Russian difficulties. What has been the course of Russian government one year into Yeltsin's second term? Can trends be identified that would give us a clue to the possible course in the future?

It should be recalled that in spring 1996 it was far from certain that Yeltsin would be elected for a second term. His popularity rating was low, social tensions were high, and the unpaid wages crisis was getting worse. Faced with a Communist danger, a group of influential bankers, through Anatolii Chubais, offered help to the beleaguered and ailing president. Yeltsin campaigned vigorously as a reborn democrat and a reformer. The key figure in that transformation was Chubais, appointed election campaign chief in March 1996, whose strategy was to polarize the electorate, create a red scare, and resurrect the image of Yeltsin of 1991, as a populist, a democrat, and a reformer.

By far the most important element in this strategy was to help a candidate who would split the Communist constituency in the first round and let Yeltsin win the second. Retired General Aleksandr Lebed, lacking a national organization to run a successful campaign on his own, fit this role perfectly. A deal was struck between the Yeltsin campaign and General Lebed before the first round, whereby Lebed would join Yeltsin's team as a reward for not backing Zyuganov. In July 1996, it appeared that Chubais's strategy had worked: Yeltsin won in the role of a democrat, the Communists lost, and Lebed co-opted.

As a new Security Council secretary, Lebed tackled the two pressing problems, the war in Chechnya and corruption. Because security could be defined broadly, this pitted him against the prerogatives of the prime minister and against the new chief of staff, the grand intriguer Chubais. As in the past, Yeltsin relied

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on the ill-defined authority of his appointed subordinates. One day he would back Lebed's peace policy in Chechnya and another day distance himself from it. In this manner, a Defense Council was created in July as a counterweight to Lebed's Security Council. With the firing of General Lebed, the combination of bureaucrats plus democrats plus Lebed's nationalists split up in October. Lebed was ostracized again, deprived of access to mass media or financial resources. Yet he has remained a rallying point for all the discontented, and he cannot be cast as a Communist.

The long weeks and months of Yeltsin's illness have been marked by rumors of conspiracies, accusations of preparing a coup d'état, ferment in the armed forces, shaky peace in Chechnya, wage arrears, tax evasion, and uncertainty over the president's health. The first six months after the elections could not possibly be called a period of reform or stability by any measure. The government was losing credibility as the economic situation deteriorated further during the winter.

In January 1997, President Yeltsin recovered enough to return to the business of government. The signals emanating from the Kremlin were positive. The image that the president wanted to project was that of a dynamic reformer. A new cabinet was formed. These were well-known people: Prime Minister Chernomyrdin, who has been at the helm since 1992; Anatolii Chubais, the former privatization tsar, campaign manager, and presidential adviser, was now a vice prime minister and a de facto maker or breaker of policy. The addition of Nizhnii Novgorod's governor Nemtsov to Yeltsin's government was supposed to be yet another demonstration that a cabinet of reformers was in place. This government of democrats and reformers was supposed to accomplish three major tasks: In the short term, to pay the unpaid pensions and wages, collect uncollectible taxes, fight crime and corruption, and, above all, get the economy growing again after a six-year recession.

Let us pose three simple questions. Is the current government in Russia a government of democrats? Has it been successful in what it has been trying to accomplish? And what are the prospects for the future?

The first question may seem absurd. After the presidential elections when Yeltsin was elected by a free and fair vote, according to Western observers, Russia most definitely has had a government of democrats, in the sense that they were assumed to be reformers. To be fair to this government, it can show some measure of success. By June, most of the unpaid pensions were paid and some back wages were paid as well. Taxes were beginning to be collected. After months of inactivity with Yeltsin sick, it appeared that finally something was being done and some progress was being made.

Yet appearances may be misleading. Skeptics maintain that the government's successes are stop-gap measures, that the lion's share of taxes is still uncollectible, that production continues to fall, that new wage and pension arrears are inevitable, and that economy has not been pulled out of the recession. One does not have to be an economist to realize the simple fact that the great decline in Russian economy continues. The only sectors where some profitability is noticeable are in banking, imports, and raw material exports. Some observers have made an argument that a great shift has occurred in the composition of the ruling eco-

nomic elite in Russia—from the military-industrial complex of the Soviet era, to the export-oriented raw materials and banks group. The oil and gas interest clearly has a powerful voice in the government. To put it in simple terms, oil and banks are in, and steel and tanks are out.

The privatization auctions of the last two years have been called by Western observers insider capitalism, or more plainly, a mafia redivision of property. Chubais and Chernomyrdin have presided over a multi-billion-dollar redivision of property on a scale similar only to the one during the Bolshevik revolution. Closed auctions, rock-bottom prices for special clients, exclusion of foreign competitors, favoritism in tax collection—all were practices widely covered in the Western press over the last year.

By Western standards, a conflict of interest was present between government office and private gain. By more strict judgment, Russian government was in the hands of unscrupulous manipulators and corrupt politicians using state offices to build up power networks among favored companies and banks. Curiously, American observers who have reported these practices inevitably added that, crude and unfair as these practices were, the United States had passed through a similar stage in the nineteenth century. Therefore, they reasoned, eventually Russian practitioners of capitalism would learn to be more civilized. Wishful thinking? one can ask. In any case, the critics suggest that the Chubais-Chernomyrdin government was busy not with economic reform and tax collection as a first priority but with dividing up the spoils of the former state sector, trying to get as much as possible under their control or under the control of friendly banks and companies. Clearly, with those priorities, one hardly can expect speedy recovery of the Russian manufacturing sector or the flow of tax revenue into pension funds.

Has the president been aware of all this? Has he been a part of these schemes? Or has he lost control to the powerful banks and oil companies and their friends in government? Whatever the answer to these questions, the fact remains that today's Russian presidency is like an imperial court ridden with corruption, intrigue, plots, and fear. Real power is in the hands of advisors with ill-defined powers, ministerial appointments are the product not of parliamentary supervision but of behind-the-scenes deals. The president has been deliberately relying not on clearly defined authority but on constant reshuffling of his key lieutenants acting on the principle of divide and rule. In May 1996, Yeltsin seriously considered canceling elections altogether if he knew for sure he would lose. In the last two years, Yeltsin has appeared to be a better Communist than Zyuganov and a reborn democrat. Politicians, institutions, committees, laws, and even constitutional provisions may be discarded under certain circumstances. This system disconnects political parties from responsibility. Yeltsin let his public officials use office for personal gain, and corruption in high places reached unheard-of proportions. An entire class of people has arisen who fear for their careers and fortunes when Yeltsin's presidency ends.

The second reason for the continued economic slump is that the methods the government has been relying on were the same as old Soviet methods of com-

mand and coercion. The president ordered that the pensions be paid, and his men did all they could to respond to this crisis and pay the pensions. Yet nothing has changed structurally to make the economy move and to generate revenue for the pensions. Reliance on forced collection of taxes reminds one of the Soviet attempts to stamp out private enterprise. It could not be done because it simply went "underground." There is no apparatus of coercion big enough to force compliance with tax laws. Revenue could be hidden; companies may rely on barter, falsify records, ship revenue abroad, and employ many other strategies to avoid paying—in some cases prohibitively high—taxes.

The government of reformers went about the problem in a Soviet manner, that is, to enforce compliance with the leadership's directive. The alternative policy would have been to create a climate favorable for foreign and domestic investment that would generate revenue to such an extent that manufacturers would find it more advantageous to produce, make a profit, and pay taxes, rather than rely on barter, hide capital, not produce, and avoid paying taxes. In other words, a cabinet of democrats has been acting not as reformers fostering private enterprise, but as Soviet bureaucrats dividing up the pie for themselves and forcing others to comply with their demands. Push, force, collect—these were the methods used, instead of produce, invest, profit, and pay. After six years of supposed reforms, a self-regulating market economy has not been created.

Is it in the interest of Chernomyrdin, Chubais, and Nemtsov to move toward creating a self-regulating market economy? Clearly not. In practice that would mean their loss and somebody's gain. The prime minister sees his task as regulating the country's economy. All major strategic policy decisions are not in his competence. So giving up control over the economy to some self-regulating mechanisms and to truly independent companies, including foreign ones, is clearly not in his interest. So the talk of market reforms has continued, and so do the Soviet-era command and control methods.

The rosy picture one gets from some naive observers of the Russian political scene may make them want to forget their own reports sometime in the future. Russia is not run by reformers and democrats, but by loyal servants of the imperial president who have been busy enriching themselves at the expense of the state and building corrupt networks. Outwardly Russia is calm, and there does not seem to be any major threat to stability. Zyuganov and his Communists have been rendered harmless, or so it appears for the time being. Lebed has been marginalized, or so it seems. The true democrats also have been silenced, co-opted or marginalized. The press and television have been taken under control. Owners of major banks friendly to the government are, as it happens, owners of newspapers and television networks. How convenient!

An index is published regularly of the most influential politicians in Russia, and these are, of course, the two, three, or four already mentioned. Yet this index measures only the influence of these people within the existing imperial court. It is an index of who has the ear of the powerful and can force this or that sale through. The index does not measure the extent of discontent in the armed forces, or among the hungry miners, or the starving students or pensioners.

Despite outward calm, there are some clouds on the Russian political horizon. The Far East has been in turmoil for several months. Presidential envoys have been dispatched there, laws have been broken, attempts have been made to remove elected officials, all without apparent success. Kuzbas was on strike, too, with angry speeches against the government. Unpaid wages, broken promises, dictates of Moscow, ferment over allegedly manipulated elections, and endless corruption scandals dominated the political scene in some other parts of the country. The armed services committee chairman has warned the president that the situation in the armed forces was at the breaking point. Underpaid officers' wrath may explode some day.

Despite all this, the Russian scene is regarded as normal. All this has happened before, and so far nothing catastrophic has happened. The latest government initiative, however, may tip the scales. Supposedly in order to move along the path of market reform, the government intends to phase out housing subsidies. If this is done, hundreds of thousands of Russians will not be able to pay for their housing.

So far, Russian consumers have put up with reduced consumption of food because most basic items have stayed relatively affordable. After all, most Russians can live without imported fancy foods as long as potatoes and meat are available. If, however, housing subsidies are phased out, a major wave of protest is likely.

The problem is not in the fact that subsidies are to be phased out; the problem is that this measure is not supplemented with any relief. For example, if housing subsidies were phased out in the context of rising production and wages, it would go through painlessly, but in the condition of sharp polarization of society between rich and poor, continued decline of production, and the low reputation of the government, this measure is likely to generate the question, "Why us? Why do we have to pay for this, and not those driving Mercedes?"

The patience of average Russian people may run out. Ironically, the current regime has itself created conditions where few outlets for popular discontent exist other than public protest. The press has been controlled for at least a year. Local elections results have been reversed by Moscow interference. With the perception that only one group of moneymakers, who call themselves democrats and reformers, is represented in the Kremlin, the skeptics and critics have no way out except loud and clear protests that the situation is untenable and unacceptable.

To be sure, these gloomy scenarios may not materialize, and Russia may continue to stumble forward for a long time. Yet the facts are that political stability has not been achieved in Russia, and a climate favorable for business and investment has not been established. Some parts of the country are on the verge of explosion, as social tensions are running high. Crime, corruption, and unpaid

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wages are as bad as they were a year ago. These are the realities of the trends over the last year. Unless these trends are reversed one can see only trouble ahead.

### **Future Continuous**

One may expect more of the same from President Yeltsin. He will delegate power to his trusted lieutenants and manipulate power struggles among them. He may fire one or the other of the discredited rulers, as he did in the past, blaming them for the wage arrears or other sins, and promote new and loyal servants. He may choose to play the nationalist card, trying to woo the nationalist constituency to undercut Lebed's appeal. He will be doing what he has been doing all along, playing the role of a nationalist, a Communist, or a democrat. The main problem with Yeltsin's leadership, however, is that he has not been able so far to tackle fundamental problems of the country: declining production, degeneration of science and technology, poverty, corruption, and crime. As the end of his second term approaches, questions about his capacity to rule will dominate.

### **Future Indefinite**

If the current situation persists, the ruling clan is likely to proceed in the same fashion as before: relying on cleverly orchestrated campaigns in the press, skillful propaganda, intrigues, provocations, and conspiracies, real and imaginary, to destroy those perceived as key rivals. A darling of the American administration, with extensive links to the gas and oil industry and its financial resources, Prime Minister Viktor Chernomyrdin sees himself as a future candidate for the presidency. He has served Yeltsin loyally and waited for his turn. His political party, Our Home is Russia, nicknamed Our Home is Gasprom, had been widely perceived as a party of managers and the newly rich. His reputation was tarnished by privatization scandals, shock therapy, and nonpayment of wages.

Anatolii Chubais's chances to be an independent player are even slimmer. His name is synonymous with nomenklatura privatization, the rise of the super-rich class, and financial improprieties. His political reputation is that of a master intriguer. In June, he forced Yeltsin's hand to fire security chiefs Korzhakov and Barsukov. In October, the same scenario was replayed with conspiracy allegations leveled against General Lebed. Now we are witnessing a rivalry with Chernomyrdin and possibly with Nemtsov.

Nemtsov is too young and inexperienced in the Kremlin to be a major player on his own yet. His meteoric rise to power will necessarily generate jealousy and intrigue. Without a national base of his own, he would have to join one or the other of the competing clans, be it Chernomyrdin's or Luzhkov's. It is far from certain that the current marriage of convenience would last. Powerful clans behind these politicians may turn on one another if a scapegoat is needed. The priority of Yeltsin's entourage, however, will be to marginalize any politician as soon as he acquires an autonomous base of his own. A Soviet-era style defamation campaign in the media could be started, as it had been against Lebed. They hope that, like Vice President Rutskoi or Zhirinovsky, an independent critic would be unable to sustain his popularity in the long run,

and without a national organization, money, and access to mass media, he would be marginalized.

### **Future Conditional**

Has the Communist-Nationalist danger passed in Russian politics? Hardly. The hysteria over NATO expansion, the noticeable discontent in the armed forces, the anger of miners, and local elections results all testify to the simple fact that the Communists are alive and well. Moreover, it is apparent that their "communism" is simply nostalgic Soviet nationalism. Zyuganov's voters long not for communism as much as for stability, predictability, and the social services associated with the Soviet days. These are people over fifty, backward looking, underpaid, unemployed, and suffering veterans and pensioners. The June 1996 elections have shown that Zyuganov was unable to unite the vote of all those who opposed Yeltsin's regime around the nationalist patriotic program, when even the rabidly nationalist supporters of Zhirinovsky stayed away. Zyuganov would fare badly in comparison with someone like Lebed, who could not be accused of planning to nationalize the banks and restore Soviet power. A powerful Nationalist-Communist coalition may emerge, this time led by the statists. If the current wage arrears crisis persists, and respect for the government falls, the already evident signs of mass discontent may erupt with renewed vigor.

The long-term solution to Russia's inherent instability lies in systematization of its political process, strict adherence to the law, and crystallization of genuine political parties. A profound change in the values and attitudes of the Russian ruling elite is necessary. When genuine entrepreneurship replaces theft of resources, when real political parties replace cliques and clans, when production and work return to idle factories, then a healthy democratic political process may follow.