

The Last Days of Boris Yeltsin

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Eighty-one years ago this autumn, the October Revolution swept from power a weak and ineffectual democratic government in Russia and replaced it with totalitarian rule. As it turned out, this was a dark day in world history.

Today Russia is ripe for another revolution. Weak and utterly rotten, the current government came to power by democratic means but is anything but democratic. It is little more than a cover under which a gang of opportunists impoverish the country. Under communism, people had rubles but nothing to buy. Things are reversed now, with shops full but most people's wallets empty. If this be capitalism most Russians aren't sure they want it. The situation validates for them the old communist joke: Capitalism is man's exploitation of man, and communism is the other way around.

If that weren't bad enough, tens of millions of Russians are not being paid even their miserable wages. In protest, unpaid coal miners block the Trans-Siberian railroad for weeks at a time. Unpaid soldiers sell weapons, uniforms, even tanks and aircraft to any willing buyer: a pretty frightening situation in a country that still possesses thousands of missiles and a large nuclear stockpile.

You can't judge Russian prosperity by what you see in Moscow. One hundred miles outside the capital, a mere 20 miles from regional centers, there is hunger and people are wearing rags. Tattered clothes and bread-and-potato diets are more representative of Russia today than the relative prosperity of a few big cities.

In Siberia's frigid Krasnoyarsk region (pop. 3 million) the average wage is less than \$300 a

month, and Krasnoyarsk is a hostile place to staying alive.

Not insignificantly, the elected governor of Krasnoyarsk is General Alexander Lebed, the tough and disciplined military man who became a popular hero for ending the war in Chechnya. Whether the Yeltsin government lasts a few more months or somehow staggers into 1999, Alexander Lebed is Yeltsin's probable successor.

Tossed out by the Yeltsin government because he was too popular, Lebed was elected governor of the Krasnoyarsk region, which covers 14% of the Russian territory, by a landslide. He is relatively untouched by corruption and has to his credit brought an end to the fighting in Chechnya. He has been brutally critical of the Yeltsin government and of the opportunists. He is not himself an extreme nationalist but could come to power with their support and in alliance with Viktor Chernomyrdin, Yeltsin's former prime minister, who is close to Russia's communist-era leaders.

What would it take to trigger a coup d'état? Asked that late last year, Gen. Lebed told FORBES: "Maybe it will be a woman whose child dies from hunger or cold, who will carry him out on the street, and the crowd will explode. It's an unpredictable situation" (FORBES, Jan. 12).

In that sense the situation resembles that of October and November 1917. The democratic Kerensky government was not so much overthrown; it simply crumbled. Describing the Kerensky regime, the writer Alan Moorehead declared: "It was like a body with no bones in it, like a mind with no will." You could say

much the same about the Yeltsin government.

“Bolshevism,” Moorehead writes, “succeeded to an empty throne.”

Whoever seizes the vacant throne, it will not be the Bolsheviks this time because communism is discredited here as nowhere else in the world.

It is conceivable that Yeltsin will resign and Lebed will be brought to power via elections. But however the government changes, it will try to force through the social and economic reforms that Yeltsin is unable or not prepared to carry out.

Unwilling to face these facts, the International Monetary Fund, under strong pressure from the U.S. government, is providing new multibillion dollar loans to the Yeltsin government, presumably to save Russian democracy and to keep its nuclear arms in relatively safe hands. They will do neither.

It is not even clear that IMF money can postpone the day of reckoning. Where did the \$50 billion that Russia already borrowed go? (There is another \$17 billion in IMF commitments plus \$100 billion in now-frozen Soviet-era debt.) Will the new IMF money simply end up in the Swiss bank accounts of the tycoons and their friends? These people have already grabbed many of the best assets that belonged to the old Soviet state and diverted to their overseas bank accounts a large share of the foreign exchange Russia has earned from exports. One of the first priorities of any post-Yeltsin government would be to bring that money back home and undo the phony privatization that was tantamount to grand larceny.

Less than two years ago (Dec. 30, 1996) FORBES explained how a few Russian bureaucrats-turned-businessmen were able to

grab control of Russia's prime assets at a small fraction of their true values. (See also the boxes on pages 60 and 63.) By my calculations, they and their hangers-on have taken over assets worth as much as \$150 billion since Yeltsin's corrupt privatization program started in 1992.

The tycoons and their friends and retainers flaunt their new wealth in such places as Cannes and Nice on the French Riviera. Last year, as poverty spread through much of Russia, those two Mediterranean resort cities were host to 100,000 Russian tourists, three times as many as in 1994. They come loaded with so much cash that almost every expensive shop posts the franc/ruble conversion rate and signs in Russian as well in French.

As a Russian it hurts me to say this, but I think the new government, authoritarian though it will be, will govern better and prove a better partner for Western nations than the present so-called democracy. I once admired Yeltsin (see “Who's in charge around here?” FORBES, Sept. 3, 1990) and put great faith in him. Unfortunately, Gorbachev was right when he predicted that Yeltsin would create widespread corruption.

In Soviet times the state exploited the workers by paying barely subsistence wages and using the rest of the national product for its own purposes. But the profits from industry, which once helped fund the government, now go into private pockets and are neither reinvested nor paid out in taxes, leaving the government seriously short. In past times a government faced with spending in excess of revenues would rev up the printing presses and use inflation as a hidden tax on the economy. But the Yeltsin government cannot use the printing press. Its sole financial accomplishment has been a stable ruble that stopped hyperinflation -- and with

the Aug. 17 devaluation, even that achievement is history. Thus the Yeltsin government has had to finance the deficit in the most primitive of ways: by not paying its bills. According to Washington, D.C.'s PlanEcon, a research outfit specializing in former Eastern bloc economies, the Russian state owes its workers 77 billion rubles, equal to one-third of all rubles now in circulation. Private-sector industries owe their workers another 70 billion.

How do people live without paychecks? They subsist on dwindling savings and the food they and their relatives raise on tiny plots outside of town.

Most experts and, of course, the government, claimed positive GDP growth for the economy in 1997. These claims were based more on wish than on reality. Had the growth occurred, living conditions for ordinary people might have gotten slightly better and they would have regained some hope. But it didn't happen. By my estimate, there was no growth in 1997, and 1998 will be even worse. I believe Russia will suffer a 2% fall in both industrial output and GDP, thus continuing the downward trajectory of recent years.

Agriculture is a disaster: During the last five years, livestock production declined, in absolute terms, to the level of 1953, the year of Stalin's death. Why? Because the cost of inputs has risen much faster than the price of food.

Russia has a trade deficit this year for the first time since the breakup of the U.S.S.R. Yeltsin apologists like to blame this shortfall on low world prices for oil and other raw materials, but this is only part of the picture.

In a situation like this, the IMF loan is useless. It may enable Russia to roll over its foreign currency obligations but will not do anything

for the country's underlying economic problems. It will not close the gap between what the government takes in and what it pays out.

Almost alone among nations that privatized, Russia got close to zero for the assets it divested, thanks to the privatization program carried out by Yeltsin and his two main aides -- Anatoly Chubais and Yegor Gaidar -- between 1992 and 1995. Instead of selling businesses in open bidding, they basically gave state-owned monopolies to a small group of buccaneers, without competitive bidding and usually without first breaking up the monopolies.

Once basic industries like fuel, fertilizer and machinery were in private hands, the new owners were permitted to push prices as high as they wanted. It was shock therapy, but the shock didn't accomplish what it was intended to do: Scarcely a ruble of the monopoly profits were reinvested in the economy. Much more went to places like the French Riviera, Swiss banks and expensive jewelry shops.

In early privatizations there was a legal fiction that the buyers were paying book value. This was a joke. It was book value unadjusted for the inflation that at one point in the early postcommunist days reached almost 2,200% annually. So-called book value often amounted to mere pennies on the dollar.

Abetting the opportunists were the bureaucrats. A few months ago I was in Toronto with a midlevel Russian government official. He wanted to buy a briefcase. I took him to a leather goods shop where he examined bags priced between \$300 and \$700. He turned up his nose. Then he saw one with a price tag of \$3,500. He bought it -- with cash. That would have been ten months of his official salary.

When the October Revolution of 1917 snuffed out the weakling Kerensky government, it was a tragedy for Russia and for the world. The Communist government that followed was one of the cruelest regimes in human history. The fall of Yeltsin need not end so badly for the world, though it may cost many of today's new rich dearly. A tough new government must expropriate the tycoons' assets and then resell them in competitive bidding at prices reflecting true economic values. By my calculations, this would raise over \$30 billion, and create a tax-paying industrial base. It would be a first step toward creating a sound economy that might be able to support democracy.

Yeltsin? He is so badly tainted by association with the tycoons he has just about lost his legitimacy in Russian eyes. For instance, last year Yeltsin's son-in-law Valery Okulov was named chairman of Aeroflot -- a holding of one of Russia's richest new capitalists, Boris Berezovsky.

Okulov's qualifications for the job: He had been an Aeroflot navigator.

But few were surprised at the appointment: Berezovsky had financed Yeltsin's reelection bid.

Yeltsin may or may not himself have any hidden assets. But Anatoly Chubais has come under strong suspicion in the press for the sources of his considerable money. Meanwhile, former acting prime minister Yegor Gaidar was so thoroughly discredited by the privatization and price reform fiascos that he lost his low-level seat in the Duma in elections in 1995.

How will the end come? This is Russia and anything can happen. A military coup is possible, but the end could come in other ways. Yeltsin might strike a deal to step down (he is

not a well man) before the next elections, which are set for June 2000. In the event of his early retirement, power would go briefly to Sergei Kiriyenko, the 36-year-old prime minister, who has no political base. Within three months new elections would be called.

My understanding is that Boris Berezovsky, desperate to hold on to his newly gained millions, has tried to broker a deal between Yeltsin and Lebed. Such a deal would enable Lebed to come to power via the ballot box. For arranging such a deal Berezovsky apparently hopes to be allowed to keep most of his fortune. He may be kidding himself. Lebed is tough and cynical and at any rate knows he can succeed only if he can recapture the assets the government gave away.

So, forget those IMF loans; they are almost irrelevant. Equally futile is the suggestion made by speculator George Soros that the IMF and G-7 countries impose a currency board on Russia. Forget it. Unlike Argentina, say, Russia is not a country with capitalist institutions; a currency board will change nothing because it will not address Russia's basic economic problems.

The Aug. 17 devaluation will simply make matters worse. As London's Financial Times observes, devaluation will take another big chunk out of Russians' savings and make its foreign-debt burden even harder to service. And as FORBES GLOBAL publisher Domingo Cavallo observed (Apr.6), currency boards and other reforms succeed only when introduced by local leaders -- as in Argentina -- not when imposed from outside.

The new 90-day debt moratorium compounds the problems. Having stiffed the world's lenders, where does Yeltsin think he can turn for new money?

What about dollarizing the economy? This, too, would not help. Russia already has more than 40 billion U.S. dollars in circulation, more than any country save the U.S. But ownership of these dollars is concentrated in a relatively few number of hands. Dollarizing the economy would make life even harder for those without them.

Smelling the end, many lesser opportunists are scurrying for foreign passports -- hundreds of Russians have bought themselves residency status in the Bahamas and other Caribbean places. Canada also gets lots of votes.

In running away, the new rich may save their skins but not necessarily their fortunes. Any future government, whether it emerges from new elections or from a coup d'tat, will almost certainly press criminal charges against the big guns and demand repatriation of its capital. There's plenty of precedent -- Switzerland has handed back money Ferdinand Marcos stole in the Philippines, and has frozen the Salinas drug money from Mexico.

Look, therefore, for a renationalization of much Russian industry and a reimposition of many controls, at least for a while. The future of post-Yeltsin Russia will not be the American model of capitalism. Assets genuinely owned by foreigners will probably avoid expropriation, since any Russian government will need foreign capital and will go to great lengths not to offend its sources. Shares owned by small investors are also probably safe: The owners had no part in the phony privatizations and paid market prices for their holdings.

If things go well, Russia could go the way of Taiwan and Chile: a period of authoritarianism paving the way for the establishment of democracy. But don't grieve for the Yeltsin government when it falls: It is

neither democratic nor capitalistic; simply incompetent.