

Sovereignty is the crux of Russia's political crisis

by Rachel Douglas

When the leadership crisis in Russia flared June 21 with a no-confidence vote by the State Duma (Parliament) in Prime Minister Viktor Chernomyrdin's government, one could not help but recall that the last great clash between the Executive and Legislative branches in Russia ended in tank and heavy artillery fire. That was on Oct. 4, 1993; thirteen days after President Boris Yeltsin abolished the elected Parliament of that era, the Supreme Soviet, Yeltsin-allied military units shelled its headquarters to break the body's resistance.

This time, there is something even deeper at issue than the 1993 furor over the separation of powers and Yeltsin's lack of Constitutional authority to act as he did. The Duma's actions are not parliamentary politicking or merely a conflict between the branches of power. Rather, within many institutions of the Russian state and society as well as the Duma, there is a growing conviction that a point of no return for Russia's future existence as a sovereign nation will be reached—or may already have been passed, some believe—during 1995.

Among the decisive criteria for Russia to remain sovereign are its food security (see *EIR*, June 30, and *Documentation*, below) and domestic control of the huge fossil fuels sector of the Russian economy, especially the gigantic natural gas firm known as Gazprom, with which Chernomyrdin is personally associated. The organizers of the no-confidence motion explicitly addressed these matters. They also cited the government's prioritization of promises to the International Monetary Fund (IMF) over the national interest.

Under the rules of Yeltsin's December 1993 Constitution, a second no-confidence vote in the government, taken within the next three months (at this writing, it is scheduled for July 1, amid furious government lobbying for a compromise), will be binding if it passes. The President then would have to either appoint a new government, or dissolve the Duma and set new parliamentary elections for October.

In either event, Russia would have the occasion for a big shift in policy, away from the destructive course embarked upon in 1991 under IMF tutelage. Western governments, by

seizing this moment to stop backing up the IMF's demands for accelerated privatization and austerity in Russia, would have an opportunity to change their reputation as predators and restore good will.

DPR cites economic disaster

The small but influential parliamentary faction of the Democratic Party of Russia initiated the no-confidence vote. Founded in 1990, the DPR today is led by Sergei Glazyev, chairman of its National Committee, and Yuri Malkin, chairman of the Political Council. In September 1993, then-Minister of Foreign Economic Relations Glazyev was the only member of the government to quit in protest against Yeltsin's abolition of the Constitution and the Parliament. Now he chairs the Duma's Committee on Economic Policy. Other prominent figures in the DPR parliamentary faction are Konstantin Zatulin and the filmmaker Stanislav Govorukhin, whose film and book *The Great Criminal Revolution* documented the looting of Russia under cover of "reform" during 1992 and 1993 (see *EIR*, March 25 and July 15, 1994).

The June 21 vote was on the second no-confidence motion launched by the DPR against the Chernomyrdin cabinet, the first having failed to muster enough support several months ago. In a May 11 article in *Nezavisimaya Gazeta*, Glazyev took his fellow deputies to task for making the Duma a "government appendage." In that published criticism, Glazyev previewed the arguments he would make on the floor of the Duma in June (see *Documentation*). The government's recent proclamation of economic stabilization, he predicted in the *Nezavisimaya* article, would soon be followed by "the latest, this time probably really final, ratchet in the collapse of production—now not only industrial, but also of agriculture."

Glazyev challenged both the Duma and Yeltsin to change, implying that this was possible. "In 1994," he wrote, "the President and the parliamentary opposition sat by while our science-intensive industry was liquidated, and would not force this bungling government to resign. Will they be as

sanguine, while our domestic agriculture is bankrupted once and for all?"

When members of the Communist Party of the Russian Federation group in the Duma attempted to piggyback a petition to impeach Yeltsin, onto the no-confidence vote against the government, it failed to gather the signatures of the 150 deputies required to put that question on the agenda.

Privatization or pillaging?

During the debate on the no-confidence vote, Glazyev objected to "foreign advisers with their backers from the Russian government, [who] have put together multimillion fortunes over the past two years by reselling shares in Russia's formerly state-owned enterprises." It is this activity, according to Moscow sources, which many Duma deputies and other Russian leaders cannot forgive Chernomyrdin or former privatization chief Anatoli Chubais.

Many large Russian firms, formerly the state-owned giants of Soviet industry, have been privatized as joint-stock companies during the past three years. Vladimir Polevanov, who served a short term in charge of Russia's Committee for State Property before his open clash with Chernomyrdin led to his dismissal in January, has reported that already, industrial plant and equipment worth \$300-400 billion was sold for only \$5 billion.

Most sensitive is the privatization of Gazprom, the Russian natural gas company. Fully privatized, Gazprom would be one of the largest, if not the single largest firm in the world. Estimates of the market value of its assets range from the \$100 billion stated by some western petroleum experts up to the figure of half a trillion dollars, including proven reserves, cited by Moscow sources.

The mammoth scale of Gazprom dates from the early 1970s, when Soviet officials opted to invest the lion's share of available funds and foreign credits into building up the world's largest petroleum and natural gas industry and infrastructure. With the proceeds, the Soviet regime could finance its military budget and buy grain abroad. By 1988, oil and gas sales accounted for some 80% of Soviet hard-currency revenues.

The great projects to exploit the natural gas of west and northwest Siberia, such as the pipeline from Yamal peninsula negotiated with Germany, were plagued with problems within a decade of their commissioning, due to cost-cutting along the way. Several large explosions drew attention to these difficulties in 1989. At that time, the boss of Gazprom was Viktor Chernomyrdin, appointed in 1985 during Mikhail Gorbachov's tenure as Soviet Communist Party chief.

The natural gas industry remains one of Russia's prime assets, and the suspicion of intent to enrich themselves and their associates from the resale of its shares (a portion of which are still state-owned; other packets, as Polevanov reported in a televised interview in May, have been scooped up by individual purchasers) is one from which members of

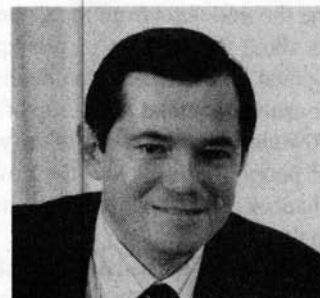
the Chernomyrdin government have not been able to free themselves.

At a recent press conference, according to a leading American specialist on Russian petroleum policy, Chernomyrdin denied that he personally held shares of Gazprom. Nevertheless, the belief is making the rounds in Moscow that the name of the prime minister's political bloc, announced with fanfare in April, should be not *Rossiya—Nash Dom*, which means "Russia Is Our Home," but *Rossiya—Gazprom*.

Documentation

The following are excerpts of State Duma Deputy Sergei Glazyev's speech during the parliamentary debate before the vote of no confidence in the Government of the Russian Federation, June 21, 1995. Glazyev chairs the Duma's Committee on Economic Policy and is Chairman of the National Committee of the Democratic Party of Russia. Transcription and translation are by Federal News Service. Subheads have been added.

Esteemed representatives of the people, I am speaking on behalf of those deputies who share a common concern for the fate of our great and long-suffering Homeland, the fate of Russian culture and science, industry and agriculture, the physical and spiritual health of our people.



Sergei Glazyev

In what vital area of life has the present government achieved positive results? In economics and finance? In social policy? In nationalities policy? In crime control? In culture and science? In defense policy? In foreign policy? In all of these areas the results put us on the brink of a national disaster or disgrace. Among those who signed a call for no confidence in the government are nine chairs of the Duma committees. I hope that each of them will be given the floor so that we can discuss the current state of affairs in our country in a many-sided and competent manner. My task is to assess the results of the social and economic policy of the government.

Irresponsibility, incompetence, and lies are the main features of the policy of the present Cabinet of Ministers. From the beginning of last year we have been hearing endless statements of good resolutions, of imaginary successes in economic stabilization and other empty talk on the part of the authorities. However, the projects of the Cabinet of Ministers

are infinitely removed from reality. None of the government's pledges in the past two years has been fulfilled.

Take the 1994 budget. It was a dismal failure and it was almost one-third in the red. Take the presidential address of 1994 which was supported by the State Duma as far as objectives of social and economic policy were concerned. None of its provisions have been fulfilled.

Take the government's commitments under the Agreement on Social Accord. No positive results can be reported on any of its provisions. The present situation is very much like that in the summer of last year when an enlarged meeting of the government was told that economic stabilization had been achieved. This statement was made against the background of a record slump in industrial output and shortly afterwards there was "Black Tuesday"¹ and the new upsurge of inflation.

Now once again we hear from the government leaders claims of success. And this at a time when real wages in the first five months of this year dropped by 29%, and official unemployment almost doubled compared with the same period last year.

No growth without investment

Every school student knows that there can be no economic growth without investment and increased demand. Only the theoreticians from the Council of Ministers keep telling us about the creation of prerequisites for economic growth against an unprecedented decline in capital investment and consumer demand. The drop of capital investment by almost 30% since the beginning of the year and the growing numbers of people living below the poverty line (to 45%) leave no chances for the creation of prerequisites of economic growth in the near future.

Contrary to the persistent statements of the government last fall about imminent stabilization of the economic situation this year, that situation is fast deteriorating. Inflation continues at an intolerably high level. Although the rate of industrial output decline has gone down to 5%, there is a clear trend for deindustrialization of the economy. Consumer goods production has dropped by 14%, and the output of many consumer durables has dropped by 30-40%. In light industry, the slump was by 40%. Output has been growing only in the extractive industries oriented toward exports.

The hardest hit this year is agriculture. Already, from the results of the first quarter, the purchases of agricultural produce have dropped by 30%. The populations of cattle and areas under cultivation are dramatically shrinking. After de facto liquidation of the production of agricultural machinery and a dramatic worsening in the provision of chemicals for agriculture, crop yields and agricultural efficiency are falling. While last year saw the demise of a lot of enterprises

producing agricultural machinery, this year may see the death of many agricultural enterprises.

What we witness is not a transition to economic stabilization, but a new phase in the structural crisis which is marked by a still deeper depression than before. Its key elements are the shedding of production capacity, growing unemployment, and plummeting real wages. . . .

Instead of a socially oriented market, the government's economic policy has given us a colonial type economy which produces almost exclusively raw materials taken out of the country in exchange for consumer goods. Socially speaking, such a policy and economic structure spell a stratification of society into socially hostile groups, and a dramatic growth of social tensions. Society is falling into those who were quick off the mark, have latched on to the sources of national rent and are making multi-million fortunes, those who cater to the interests of foreign capital, and all the rest—the majority of whom are doomed to unemployment and loss of a livelihood. . . . The huge gap in incomes between a handful of the very rich and the overwhelming majority of the population creates an insoluble social problem.

A direct result of the economic policy is not only the impoverishment, but the degeneration of the majority of society. Last year population shrank, through natural reasons, by about 1 million people. Life expectancy is growing dramatically shorter. Socially caused diseases have increased by several times by the past two years.

The lack of a program

We judge the record of the government not only on the strength of the last two years. The tragedy is not just that in the last two years we lost one-quarter of the economic and one-third of the industrial potential and have practically ruined science-intensive industries, undermined the defense capability and the possibilities of a future economic growth. Far worse is the fact that the government's new program does not offer a complex of measures to take the country's economy out of its present crisis. Moreover, the implementation of the government's guidelines of social and economic policy provokes further declining output, deindustrialization, and degradation of the economic structure. The expected fall in production and capital investments which will increase by almost 5% compared with last year will go beyond the level that makes it possible to maintain reproduction, the defense capability, and acceptable living standards for the population.

Our analysis shows that none of the declared goals of economic policy of the government will be implemented. This holds for the goals declared in the address of the President at the beginning of this year. Instead of carrying out a structural maneuver to modernize industry on the basis of modern technologies, we see its further degradation and practical destruction of the science-intensive industry. Instead of a rise in investment activity we see a decline by almost one-

1. Tuesday, Oct. 11, 1994, when the Russian ruble lost one-quarter of its value in one day.

third. Instead of the growth of the scientific and industrial potential we see the potential disappearing. Instead of a tax reform we see a renunciation of tax reform. Instead of protecting the internal market the government is undertaking a commitment to the International Monetary Fund not to take measures, well-tried measures to protect domestic producers.

Instead of putting in order the use of government property and finances we see a decision to disperse the government's share of stock in such property in order to speed up its sale through the same procedures and by the same methods which have already resulted in the sellout of government wealth at zero prices.

That the record of the government is unsatisfactory is not only our opinion. This is the conclusion of the parliamentary hearings we held in April immediately after the government's new program was adopted. This opinion is shared by the leading economic institutions and analytical centers in the country. We also speak for the domestic goods providers, the trade unions, and the employees who have long been calling on the government to resign. I think all our desks are piled high with such demands which we receive from every region in the country.

IMF promises kept

Dear colleagues, let me remind you that last fall when we put forward the demand for a change in the economic policy of the government in the interests of the domestic producers, our call was rejected, and concurrently, the government was negotiating with international organizations and adopted their requirements which are the exact opposite of what was put forward by the domestic business community and producers. The statement of the government and the Central Bank addressed to the [International] Monetary Fund which, unlike the budget, was strictly adhered to and is still adhered to, was clearly at odds with the interests of the domestic producers, and our business community, because it envisaged a unilateral commitment on the part of Russia not to apply universally accepted measures to protect domestic markets, a renunciation of an active economic policy and a curtailment of investment programs. . . .

Having decided against an independent monetary policy, the government has actually become a hostage to those restrictions which it assumed with regard to international institutions. The government does not know what to do about the ruble exchange rate today. Having violated the agreements that were concluded between the government and the Duma at the time the budget was reviewed and having decided against reducing the ruble exchange rate in proportion to the inflation rate, which is about 8% a month today, the government did colossal damage to domestic economic agents, which we estimate at over 50 trillion rubles. The exporters are suffering, the competitiveness of the domestic industries has been hurt, commodity producers are suffering,

and the population, too, because they have kept their savings in dollars.

There is another threat of the replay of "Black Tuesday" on the horizon. We do not see any plan that would avert the threat of destabilization on the monetary market. We do not see any plan for preventing another tide of foreign-exchange speculation. We do not see any plan for attracting additional free ruble funds into the development of production.

45 million paupers

The pauperization of 45 million people and the prospect of one-third of our population going hungry by the end of the year, in terms of per-capita protein consumption², is an immediate result of the government's policy. . . .

By having underestimated the expected inflation rate by 50% and thus having secured a covert source of revenue, the government is in no hurry to use that money to meet socially meaningful needs. Although the budget revenue targets were overfulfilled in the first quarter, the expenditures were almost 20% underfinanced. In particular, the expenditures on government-supported investment projects and defense contracts amounted to less than 50% of the target; the expenditures on social measures to less than 70%.

Meanwhile, the government was trying hard to build up and service their financial commitments, thus creating their own financial pyramid in the interests of privileged commercial structures. As a result, the share of the servicing of the government debt in budgetary expenditures is growing very fast, thus creating an unbearable burden for those who will come to power and will have to deal with those commitments next year.

They are trying to prove to us that the ruin of industry and agriculture and the pauperization of the population are the inevitable costs of economic reform. This is a lie. The main reason behind the high inflation rate this year is not the issue of new money, but the pricing policies of the natural monopolies. I can tell those who do not know it that in April alone the natural gas prices went up by 36%. Now it is clear where the high inflation rates come from, why energy prices are growing dramatically, and why no monetary policy measures can help check price rises.

While 10% of the population are already starving and while one out of three is impoverished, there is no money in the budget to meet essential social needs, but foreign advisers with their backers from the Russian government have put together multi-million fortunes over the past two years by reselling shares in Russia's formerly state-owned enterprises. Under the wing of [former privatization chief] Mr.

2. In a May 11, 1995 article in *Nezavisimaya gazeta*, Glazyev reported that 10% of Russians now, and an anticipated 30% by year's end, consume only 26 grams (0.4 ounces) of animal protein each day, while a minimum 30 grams is required for a person to function. The average per diem per capita animal protein consumption in Russia is 37 grams (0.6 ounces).

[Anatoli] Chubais, foreign advisers took advantage of their privileged position as organizers of the privatization procedures and themselves engaged in speculation by organizing the sale abroad of shares of Russian enterprises, worth hundreds of millions of dollars. . . . Under the laws of any so-called civilized country this is a crime. For our government this is economic reform. . . .

On balance, we can say that on the one hand there are a few multi-millionaires who have within two years grabbed a sizable slice of former government property in the extractive industries, foreign speculators who have made huge fortunes thanks to the good connections they have in our bodies of power. And on the other hand, there are 45 million paupers and 15 million undernourished people, a massive growth of crime and total corruption of the state apparatus. . . .

The country's fate for years to come

Esteemed deputies to the State Duma. I think there is no doubt in anybody's mind as to the kind of persons the executives of our government are. They are not concerned about the impoverishment of the people, the devastation of industry. They are not concerned about the prospect of famine in the country as a result of the destruction of agriculture and the drop in the real incomes of the population. They look on calmly as the industrial and scientific potential is being ruined and the sources of future economic growth are disappearing. . . .

But they are all too willing to offer privileges to foreign companies, to redistribute government property and finances. I have no doubt that we are dealing with a puppet policy which is being shaped and controlled by international organizations, which is pursued in the interests of the speculative and foreign capital and selfish corporate gain.

To consolidate that policy and their influence the government leaders now are creating their own pro-establishment party. In this way they have openly challenged the law on the civil service and the corresponding decree of the President and the law on the government.

The question is this: Why are we tolerating all that? We are tolerating the humiliation of the country and common sense, the humiliation of the interests of the larger part of society. Don't we have any responsibility for everything that is happening in the country?

We see that a policy that is suicidal for the economy and for society is being conducted, but that policy is very beneficial to those who are pursuing it. . . .

But we also see a way out of the crisis. We know what needs to be done to overcome economic depression and to achieve real economic stabilization. We have a program that contains a full set of measures that are necessary for initiating economic recovery and growth.

The question is: What are we waiting for, and what are we afraid of? Are we afraid of the President refusing to sign the law on elections to the State Duma or of him dissolving

the Duma? . . .

We should be afraid not of the dissolution of the State Duma, but of the consequences of the economic policy that is being pursued by the government. . . .

Esteemed colleagues, as a matter of fact, the fate of our country for years to come depends on us today. Either the destruction of the economy and society will continue, or we will try to put an end to that mad self-destruction. Let us put our petty fears aside: Will they dissolve us or not, will they sign the law or not, or whom will we criticize at the time of the elections? Let us remember our responsibility to the people, who in the elections unequivocally voted for changing socio-economic policy in favor of the population.

At present everyone is getting ready for the elections, setting their sights on the year 1996. But we should realize that the current year of 1995 is decisive in many respects. It is this year that they are trying to finish the recarving of property; it is this year that the colossal threat of the irreparable destruction of the scientific and industrial potential is looming large; it is this year that a depressive economic structure may take shape and determine the course of depression over decades to come.

We still have a choice. We can wait for new victims, getting used to the impotence and irresponsibility of the authorities, as we have already got used to many things over the past few years. Or else, we should at long last learn the lesson and understand that the existing Executive branch, impotent and incompetent, has become dangerous to our country. Life will sooner or later compel us to shake off slumber and come to our senses. Better sooner, and then the costs of general sobering up will be lower. The present authorities are unable to do that, and that is why we are calling for stopping the agony and for passing a no-confidence vote on the government.

In conclusion, I will say that many well-wishers would like to present the Duma and our desire to see a responsible government as a source of destabilization of the socio-political situation in the country. I would like to answer those attacks by rephrasing the well-known words of Stolypin. With an irresponsible government, we will be doomed to great upheavals and the ruin of Russia. The no-confidence vote on the government is a courageous step, the only possible constitutional step of the State Duma toward overcoming the paralysis and lack of will power of the executive. We have nowhere to retreat. The State Duma alone can stop this madness in our country. If we do not send the present government packing and do not create opportunities for revising economic policy, no one will do that.

That is why, speaking on behalf of over 100 deputies who have signed a statement of no-confidence in the government, I urge you to display civic courage and responsibility, to perform your civic duty and to pass the no-confidence vote on the present cabinet.