

Financial Collapse and Another Change of Government

The Kiriyenko government, which had been formed only with great difficulty in May, soon discovered that the chief problem facing the Russian economy was financial. The country in fact did not have a budget and was unable to pay wages and pensions because all the financial reserves of the Central Bank and all taxes then being collected went to pay for foreign and domestic debt. As we have seen, the export of oil, gas, and metals, far from bringing in a profit, was actually increasing the size of the debt. In June 1998 spending on imports began to exceed income from exports, so that for the first time since 1992 Russia faced a negative balance of trade. The volume of industrial production in June 1998 was 9.4 percent lower than in June 1997. The real income of the population declined by almost 10 percent. Under these conditions devaluation of the ruble and postponement of debt repayment were inevitable. This was temporarily avoided only thanks to a credit of \$4 billion granted by the International Monetary Fund.

Yeltsin appointed Chubais as his personal representative to talks with the IMF, hoping to demonstrate to these Western creditors that

the “chief reformer” of the Russian economy, in whom the Western economists seemed to have virtually unlimited confidence, was still directing the work of the Russian government. Chubais’s trip to IMF headquarters in Washington, it seemed, had been successful, and dollars began to flow into the Russian Central Bank to be used immediately for budget expenses. Optimists began to talk about a six or seven month breathing spell during which measures could be taken to save the country from the oncoming crisis. Pessimists thought the new credits would be exhausted within three or four months. Yeltsin flew off to Karelia for a vacation after declaring that “there was no crisis in the country.”

That was in June 1998. Actually, the IMF credits made it possible to stabilize the situation only for five or six weeks. By the middle of July substantial sums of foreign currency and gold reserves were once again being spent to maintain the exchange rate at six rubles to the dollar. By the beginning of August these reserves were nearly exhausted. This caused a panic primarily among the hundreds of Russian commercial banks, most of them headquartered in Moscow.

On August 10, the banks began feverishly selling off the government securities they owned, above all the short-term government bonds which were the main form of domestic debt. These bonds, which ordinarily had a two-year maturity date, paid a guaranteed 60 percent interest rate annually. But with a crisis obviously coming on, the banks converted their securities to rubles and hastily began buying up foreign currency at the most advantageous rate, doing so not only on the foreign currency market in Russia but in neighboring former Soviet countries as well. In a single day these banks bought \$100 million worth of foreign currency.

That was on August 11. By August 13 the demand for dollars had increased twenty times over. On August 14 the Central Bank sold \$500 million to support the ruble, but it could not continue selling foreign currency at that rate. At the same time the Finance Ministry had exhausted its ruble reserves in paying for short-term government bonds and other securities that were being returned to it. A budget disaster was in the making.

Yeltsin cut short his vacation and returned to Moscow, but he announced there would be “no devaluation of the ruble.” On August 15 and 16, Kiriyenko held continuous talks with Chubais, Dubinin, director of the Central Bank, and Zadornov, minister of finance, in an

attempt to find a solution. But there was no way out of the impasse. Devaluation of the ruble had become unavoidable. That was not the worst thing, though. The government's inability to pay its debts, not only for short-term bonds but also the interest on so-called sovereign credits, the main form of foreign debt, meant bankruptcy.

On August 17 the Kiriyenko government made an announcement that caused shock and panic not only in Russia but also in Western and Asian financial markets. As it turned out, many banks and financial institutions in the United States, Britain, Switzerland, Germany, Japan, and even South Korea had been buying Russian short-term government bonds and other securities as a source of "super profits." George Soros's Quantum Investment Fund in 1997 had acquired \$2 billion worth of these bonds.

Devaluation

A statement by the government of the Russian Federation and the Central Bank announced that on August 17, 1998, a new "floating exchange rate" would be introduced, with the ruble ranging from 6 to 9.5 to the dollar. The previous foreign exchange "corridor"—a range of 5.25 to 7.15 rubles to the dollar—was being eliminated. For the first few days the government refused to call this action a devaluation, speaking instead of a "new" foreign exchange policy and defense of the ruble. The government employed various professional and terminological subtleties, and declared that "primitive assessments" of the move were unacceptable.

For several months of course President Yeltsin, Prime Minister Kiriyenko, and Chairman Dubinin of the Central Bank had all vowed that they would not permit devaluation. They now felt it was necessary to try to save face.

What happened in fact was not just a devaluation, but the worst possible kind—an uncontrolled free fall of the ruble. The government and the Central Bank had no reserves left with which to defend the ruble, to maintain its value within the previous "corridor," or to uphold the new "floating rate." In the first half of August the Central Bank had spent \$3.8 billion trying to maintain the value of the ruble and could do so no longer. It did not want to end up with no foreign currency at all.

As many specialists had predicted, the exchange rate of the ruble

could not be held within the limits announced by the government. As early as August 19 the official rate had fallen below 7 rubles to the dollar. Within a few weeks it was down to 9.5 rubles to the dollar. For several weeks the Central Bank failed to establish any official exchange rate and stopped all trading in the ruble on currency markets. Dollars continued to be bought through other channels and on the black market, and the value of the dollar relative to the ruble rose precipitously. During the first week of September the rate rose to 20 rubles to the dollar, even 25 rubles to the dollar in unofficial dealings, and the value of the ruble continued to plummet.

The Short-Term Bond Pyramid

The Russian government and Central Bank made another decision, one perhaps even more important than devaluation—refusal to honor short-term bond obligations. The official statement on this matter said: “Government securities maturing up to December 31, 1999, inclusively, will be recertified as new securities. . . . Until the recertification of government securities is completed trade in short-term government bonds will be stopped.” This resulted in at least the partial ruin of many holders of government bonds (aside from the Central Bank and the Savings Bank, the Sberbank). This was a *de facto* declaration of bankruptcy by the government. The resulting loss of confidence in government securities brought the activity of many other government and commercial financial institutions to a halt.

During August and September, when explaining the reasons for the financial collapse—an incomprehensible event to most people—responsible officials tried to avoid the question of whether there had been a short-term bond pyramid. The mechanism by which financial pyramids operate is fairly well known, however, and such pyramids usually all end up the same way. There is really only one incomprehensible aspect to the whole affair—why the government itself decided to organize a pyramid scheme and why this operation was not stopped sooner.

The formula “short-term government bond” is rather a cloudy one. Short-term obligations are a normal feature of the financial market, but they should not be the main source for borrowing capital on the internal market. In addition, any loan should be backed by a specific system of guarantees and insurance, nor should any system of domes-

tic borrowing be constructed on the basis of a pyramid in which the first wave of loans is paid for by money borrowed from a second round of creditors. After all, a loan does not represent real income. Finally, the terms under which money is borrowed should correspond to the real possibilities for repayment of those loans. All of these conditions for an intelligent borrowing policy were violated in regard to short-term government bonds.

The collapse of this pyramid scheme was unavoidable. It was sure to collapse sooner or later. Kiriyenko's part of the blame is relatively small, but there is no question that Chernomyrdin and those responsible for financial policy in earlier years were mainly to blame.

The short-term government bond system arose in 1993. The government established this system in order to attract savings from Russian commercial banks and profitable enterprises in order to finance urgent budgetary needs. In 1993 Russia was in the midst of a constant political crisis. Government spending was many times greater than government income. People were thinking in terms of months or at best a year or a year and a half. Their expectation was that things would straighten out, that the situation would become stabilized, and then the debts could be repaid.

In 1993 operations involving the purchase and sale of foreign currency were highly profitable for the banks. In order to put the short-term government bond system into operation, it was necessary to make these government securities more profitable—that is, to pay higher rates of interest. Government income from short-term bonds in 1993 and 1994 was fairly substantial, but the earnings made by holders of those bonds were even greater. The government paid the holders of bonds not out of its own income or from any kind of profitable operations but by borrowing from a new set of investors, lured by the high interest rates. It was not difficult to calculate when this pyramid scheme would cease to be a source of income and would instead become a headache for the government budget.

At first only Russian citizens were allowed to hold government short-term bonds. Those who were serious about the banking business could not have failed to understand that this short-term bond system was a pyramid scheme. But the Russian banks themselves were constantly encountering urgent problems. Their plan apparently was to get rid of these bonds at the right moment by selling them to others. Those involved in this risky game were obviously speculating.

Information now appearing in the Russian press indicates that 40, 50, even 70 percent of the assets of many banks were invested in these short-term government bonds. A huge portion of the assets of the Central Russian Savings Bank, the Sberbank, consisted of these bonds. Investments in actual production earned very little income, if any.

By 1995 the short-term bond system was beginning to flounder. Government income from the sale of these bonds declined, and the hour was approaching when spending to repay holders of these bonds would exceed income from those who were buying new bonds. The social and political situation in the country remained difficult. Elections to the State Duma were about to be held, with presidential elections soon to follow in 1996. The solution was to allow foreigners to buy the short-term government bonds. The enormously high interest rates paid for them did not attract only financial speculators. By early 1998 no less than one-quarter of the total number of Russian short-term government bonds were in the hands of foreign investors. Tens of billions of dollars were involved.

By the end of 1997 it no longer made any sense for the government to issue these types of bonds. Whereas during the first half of 1996 income from the sale of these bonds brought the Ministry of Finance 25 billion new rubles, in the second half of 1997 only 12 billion rubles came in from this source, and taking into account various other expenditures for the repayment of short-term obligations, the income was even less. During the first several months of 1998 a negative balance developed between earnings from the sale of short-term government bonds and expenditures to repay holders of those bonds. The losses suffered by the government on this score rapidly increased.

According to some estimates, if the entire system had remained unchanged, the government would have had to repay the enormous sum of 126 billion rubles in 1998 (*Vlast*, 1998, no. 33, p. 21). There was no provision in the government budget for such an enormous sum.

The enthusiastic promoters of short-term bonds began to make plans for extending the system to all citizens of Russia, not just to corporations or banks. But rapidly developing events intervened. In July payments from the budget to meet the short-term obligations amounted to 7 billion rubles per week, or 35 billion rubles per month. Yet for May and June the total budgetary income was only 20–25 billion rubles per month. (*Itogi*, August 25, 1998, p. 13.) Even if the govern-

ment stopped all other payments from the budget, it could not settle its accounts with holders of short-term bonds. The pyramid was bound to collapse, and it did.

Moratorium on Foreign Currency Credits

A third major decision of the government was the 90-day moratorium in regard to foreign currency credits previously obtained by Russian banks on Western foreign currency markets. The government decree stated: "In accordance with the bylaws of the International Monetary Fund, a temporary restriction is being imposed for residents of the Russian Federation in the conduct of foreign currency operations." Thus, banks and corporations could not take on new credits or pay on old ones until November 17, 1998. This decision was highly injurious to Western creditors.

In May 1998, shortly after becoming prime minister, Sergei Kiriyenko expressed alarm about Russia's growing indebtedness to foreign creditors. Russia was obliged during 1998 to spend as much as 30 percent of its budget on the repayment of foreign loans. This did not prevent Kiriyenko and Chubais from taking on new loans. The Russian government insistently requested and received from the International Monetary Fund a large new loan, with the first payment being delivered in June and July. As a result the gold and foreign currency reserves of the Central Bank increased to nearly \$20 billion.

During August, however, the Central Bank had to spend \$3.8 billion to support the ruble, money which in fact was simply poured down the drain. Another \$2 billion went to repay foreign holders of short-term bonds. By mid-August the Central Bank's reserves had fallen to between \$12 and \$13 billion. This obliged the bank to stop foreign currency operations and allow the short-term bond pyramid to collapse. Almost all Russian commercial banks and large businesses, such as Gazprom, had borrowed foreign currency during their last several years on relatively unfavorable terms. In July 1998 the total amount of these debts approached \$35-40 billion and continued to grow. Many of these obligations were short-term.

However, almost all of Russia's commercial banks lost a substantial portion of their assets when the short-term bond pyramid collapsed. They had no means of repaying the credits they had borrowed

earlier. It became known that several banks had asked their creditors to reschedule payments that were coming due. In almost all cases these requests were refused. The Russian banks for various reasons could not reschedule these payments on their own authority. The credits they had obtained were in the form of fairly solid securities, unlike the Russian short-term government bonds—securities such as Eurobonds. Also, many Russian banks had their own foreign currency reserves in foreign banks. The largest Russian commercial banks had branches in the West. The bankers themselves had individual foreign currency accounts in the West. If bankruptcy were declared, these assets might be confiscated. Thus the Russian government was coming to the aid of the Russian banks by prohibiting them from repaying foreign investors for a period of three months. What would happen after those three months, no one knew: no new money was coming into the banks; to the contrary, they continued to lose clients, and within Russia deposits were being withdrawn from the banks.

OUSTER OF THE KIRIYENKO GOVERNMENT

The government statement of August 17 contained several other points indicating that the authorities did not clearly understand the situation in the country or the reaction that would result from the first three points. The statement spoke, for example, of the formation of a pool of the twelve largest banks in Russian in order to “ensure uninterrupted dealings with clients and with one another.” It was not possible to put this decision into effect under the conditions of a collapsing financial system. Some banks did try to pool their resources, but they did not succeed in establishing stable mergers.

Another government decision was completely utopian—“in the immediate future to issue short-term government securities maturing in one or two weeks, and to expand the range of securities issued to the population.” Banks and the public would only buy securities that they had confidence in. Under the conditions of complete loss of confidence in the government and the financial institutions of Russia it was impossible to issue any more government securities. In early September the Central Bank did in fact issue a new series of short-term securities, none of which sold on the market.

We need not review in detail the chaotic activity of the Kiriyenko

government from August 18 to 23. If the Chernomyrdin government had not been retired in March 1998, there is no question that it would have faced the same financial problems that arose to confront Kiriyenko. Chernomyrdin, however, would undoubtedly have acted more cautiously, keeping both the president and the citizenry in the dark. Chernomyrdin and Chubais together might have been able to issue one more round of short-term bonds and bring in another round of foreign loans in order to stretch things out until the elections to the Duma and, if they were lucky, even until the presidential elections. The collapse might have come later, but it would have been even more disastrous.

Actual production had not grown in the previous few years, but that kind of growth was the only key to solving the problems. During the financial disaster of late August 1998 Chernomyrdin was not at the wheel. But it was Chernomyrdin who had driven the country into this blind alley.

For several days Kiriyenko, along with Chubais and Nemtsov, tried to explain their decisions to the public. They expressed no sympathy for the holders of short-term bonds, who, they pointed out, had been earning no less than 30–35 percent profit for the last several years. Kiriyenko said it wouldn't be a bad thing for them to count up the colossal earnings they had made on the Russian securities market. An earnings rate of 5–7 percent is normal in the world economy. Investments that earn 25 percent annually face a risk up to 50 percent. Those who invest in such a way as to earn 50–60 percent annually increase their risk up to 80–90 percent. These observations were no consolation to those who had just suffered huge losses. Moreover, tens of millions of Russian citizens who had not made any investments also suffered.

On August 22, Yeltsin decided to retire the Kiriyenko government. In his search for a new prime minister he was very reluctant to bring back Chernomyrdin. In the spring Yeltsin had spent an entire month pushing Kiriyenko's candidacy through the Duma. Now he faced the same kind of difficult task in relation to Chernomyrdin. It is hard to imagine a situation more painful to Yeltsin's pride and prestige. Other alternatives existed, and they would have been preferable for Russia, but not for Yeltsin and his "family." On Monday, August 24, Russia learned that Kiriyenko had been retired and Chernomyrdin had been appointed acting prime minister.

RUSSIA'S POLITICIANS: TESTED BY THE CRISIS

The Collapse of Political Careers

The economic crash brought down not only the exchange rate of the ruble but also the careers of many political figures and prominent government officials. Among the 100 leading politicians of Russia in August, in a list published by *Nesavisimaya Gazeta* on September 9, 1998, we see at the top of the list not only Anatoly Chubais and Sergei Kiriyenko but also Boris Nemtsov and Viktor Khristenko, as well as Sergei Dubinin and Aleksandr Livshits. All of these figures have now lost their government posts and virtually all of their influence. Yevgeny Yasin and Oleg Sysuyev are two other figures whose political careers have reached their end. In late September experts would no longer have numbered certain bankers—such as Vladimir Potanin, Aleksandr Smolensky, and Mikhail Khodorkovsky—among the “leading politicians.”

There is no point discussing Kiriyenko's fate in detail. As we have said, he was virtually unknown before March 1998. After being appointed acting prime minister by Yeltsin, Kiriyenko said many times that he did not consider himself a politician and would form a government of managers and professionals. When social protests broke out in the mining regions in May, followed by panic on the stock exchange at the end of that month, Kiriyenko was forced to act as a politician but did not do so very successfully. While he did not provoke the same kind of indignation as Burbulis or Gaidar, he was unable to win respect or sympathy from ordinary citizens or from government officials.

Some publications began referring to Kiriyenko in a derogatory way. One described him as “the ever so correct, clean, clever little politician whom Yeltsin adores.” In September the newspaper *Tribuna* called Kiriyenko “a little boy whom the grown-ups for some reason gave permission to play with matches.” One magazine called the former prime minister a Don Quixote. The day after his ouster Kiriyenko himself commented on his retirement: “I understood that I would not be allowed to stay in this post for long. Still, I didn't think the end would come so quickly” (*Itogi*, September 1, 1998, p. 19).

Kiriyenko did have some admirers. Tatyana Kamazova wrote in the magazine *Novoye Vremya* [*New Times*]: “The execution of Kiriyenko

was organized quickly and carried through with swift and severe methods like those of the Cheka. There was no procurator in the case, let alone lawyers. . . . But there should have been. Because Kiriyenko—without exaggeration—was the salvation of Russia, and now we have lost him” (*Novoye Vremya*, 1998, no. 34, p. 5). There were many who tended to regard Kiriyenko as a scapegoat, but after all he did make the disastrous decisions of August 17 with the complete agreement of vice premiers left over from the Chernomyrdin era and with Vice Premier Sergei Dubinin. Kiriyenko’s decisions were also approved by President Yeltsin.

Kiriyenko’s main fault was excessive self-confidence. He was a weak person, and not only physically. Unable to lift the designated weight, he dropped the bar and it crashed to the ground. But who was it that sent this lightweight politician out onto the playing field, where the going was rough and wrong decisions had disastrous consequences?

Among Russia’s politicians of recent times Boris Nemtsov most closely resembled Khlestakov, that outstanding charlatan portrayed in Gogol’s novel *Dead Souls*. From a modest career as a research assistant at a scientific institution, he rose on a wave of protests against the construction of nuclear power plants to become the governor of Nizhny Novgorod and a favorite of Yeltsin’s. A playboy who scorned convention and protocol, Nemtsov was able to win the sympathy of many Russian citizens for a short time. For about half a year he ranked second in the public opinion ratings as a potential candidate for president of the Russian Federation. He also spoke out against the “oligarchs” and their “robber baron form of capitalism” in favor of so-called people’s capitalism. But even his first initiative—an attempt to have all public officials in Moscow drive cars of domestic manufacture instead of foreign automobiles—ended in complete failure. He undertook many new projects, but he never brought a single serious matter to completion. The sympathy many felt for him has long since disappeared, and I neither heard nor read any regrets about his retirement.

Not long ago, Nemtsov spoke at a meeting of Japanese businessmen in Tokyo, urging them to invest their capital in Russia. He promised any Japanese businessman who would put at least \$100 million into the Russian economy a great reward—receipt of Boris Nemtsov’s own calling card. The card had his personal telephone number, which

he revealed only to his most trusted friends. Nemtsov will probably now have more than one telephone: he was offered the presidency of the Svyazinvest Corporation, the value of whose shares have fallen just as low as Nemtsov's political stock.

Anatoly Chubais lost his government position in March 1998, but was restored to it in June. In August he was relieved of the post of vice premier for the third time. I will not repeat here what I have said about him earlier in this book. At the beginning of 1998 he spoke at a congress of the party Russia's Democratic Choice, urging his co-thinkers to be not only more insistent but also more *insolent* in their actions and demands. These words were quoted by all the newspapers of Russia on the next day. In his insolence and shamelessness, in his ability to bluff, or simply his card sharp's skill at changing the cards he was holding, no other Russian politician in recent years can compare with Chubais. And we have seen quite a few insolent and cynical political figures on our political Mount Olympus in the last seven or eight years. Chubais's career both as a politician and as an economic manager seemed at an end. Many suggested that Chubais would probably feel obliged to leave the country if he didn't want things to go worse for him.

End of the Yeltsin Era

Quite a few books have been written about Boris Yeltsin and the Yeltsin phenomenon and there will surely be more to come. Within the framework of this analysis we can only say that although Yeltsin in 1998 retained his post as president, his era had come to an end. Not all the newspapers in Russia described this as his political downfall. At the height of the political and social crisis in the spring of 1998, in fact, a special newspaper began publication in Moscow. It was entitled *Our Beloved President*, and all the materials published in it were devoted to this man "chosen by God," a man about whom "the stars sing," "the source of all our victories," "a man of honor and a man of his word," "Russia's chief genius," "the most progressive man on earth."

But in fact, Yeltsin had exhausted all his resources. He no longer had a large team of people to work with, and signs of lack of confidence in him on the part of the power structure kept multiplying. He did not respond adequately to the critical developments in Russia and

was unable to alter the negative course of events. When he removed Chernomyrdin, Kulikov, and Chubais in the spring of 1998, he wished to show that he was the boss. He obviously intended to run for a third term in 2000. In the fall of 1998, when he proposed to return Chernomyrdin to the White House, investing him with powers comparable to those of the president himself, this was an act of total capitulation by Yeltsin. He was simply unable to understand what was going on in Russia and was thinking not so much about holding onto power as guaranteeing his own personal security.

Arguments to the effect that Yeltsin was no longer capable of carrying out the duties of president in August and September 1998 were quite well grounded, and facts documenting these arguments were published by the dozens in the Russian press. Yeltsin's representative Yastrzhembsky (and according to some reports, his daughter Tatyana Dyachenko as well) held talks with Zyuganov for the provision of guarantees to the family of the president if he were to resign. This fact needs no commentary.

The disastrous political and financial crisis in Russia coincided with an obvious turn for the worse in Yeltsin's health. But who would take power if Yeltsin's health rendered him unable to rule any longer? It was obvious that Kiriyenko could not manage the situation. Under these conditions, both for the oligarchs and for the Yeltsin circle, Viktor Chernomyrdin began to look like the only hope of salvation. It seemed that he was the only one who could reach an agreement between Yeltsin's circle and the Duma. One magazine wrote: "Boris Yelsin is no longer able to control the situation in the country. Many guessed at this before, but only a hundred or two hundred people knew for sure. Now it has ceased to be a secret. The financial crisis that has broken out in our country has proved to be a litmus test answering the question of whether the president is really capable of acting and influencing the course of events. The removal of Kiriyenko and the return of Chernomyrdin to the White House have shown that Yeltsin is no longer capable of taking really strong and decisive action at this time of crisis for our country" (*Vlast*, 1998, no. 33, p. 9).

An analytical research center in Moscow drew up a chronology of all Yeltsin's official meetings and evident political activity from August 23 to September 7. This information showed that Yeltsin was working only about three or four hours a day, and that during a period of

15 days he made six brief visits to his office. For example, on August 25 his only activity was to receive the president of Vietnam at the Kremlin. After that he simply disappeared for two days. No one knew at which of his many suburban residences he was staying. Yet the financial and currency crisis was unfolding at full speed with only an acting cabinet, which had not been approved by the Duma. Yeltsin was obviously demoralized and could no longer function as a guarantor of stability in Russia.

"In Russia there is not only no government; there is not even a president," wrote one newspaper. "The president's weeklong silence at the height of the crisis has shown that he is unable to assume the responsibilities necessary for bringing our country out of the crisis. . . . Yeltsin has become president in name only—he signs documents and reads statements to the public, but has no control over the situation" (*Kommersant*, August 25, 1998).

On August 28, after three days of silence, Russians saw Yeltsin on television, speaking not about the situation in the country but only about himself: "I wish to say I am not going anywhere. I am not going to retire. I am going to work as provided for by my constitutional term in office. In the year 2000 there will be elections for a new president, and I will not participate."

Yeltsin's decision not to propose Chernomyrdin for a third time as a candidate for premier was a surprise to many. It amounted to a capitulation to Russian society. In Russia today, as in the past several years, there has been no official party of power. There has been a disjointed or loosely united coalition of social and political forces which in fact has functioned as a party of power, but in 1998 it was seriously weakened and virtually destroyed by the collapse of the Russian economy and financial system. A general realignment of social and political forces in the country took place.

Chernomyrdin and His Path to Nowhere

On August 24 Yeltsin announced that he had made a "difficult decision." He was nominating Chernomyrdin once again to head the government. Yeltsin said that Chernomyrdin was a political heavyweight and in Russia's critical circumstances it needed not only experience but also the kind of weight Chernomyrdin could provide. Yeltsin

added that there was “another important consideration—to ensure continuity of power in the year 2000.” In other words, Yeltsin was not only appointing Chernomyrdin as acting prime minister but also proposing him as the sole candidate for the party of power in the presidential elections. Yeltsin explained that Chernomyrdin’s personal qualities—thoroughness, honesty, decency, and respectability “would be a decisive argument in the presidential elections; neither power nor retirement has corrupted him.” Chernomyrdin confidently returned to his office in the White House and held the first meeting of his cabinet, all the ministers in which were acting ministers only.

Returning Chernomyrdin to the premiership was not in keeping with Yeltsin’s own character or desires. Chernomyrdin had never been part of Yeltsin’s inner circle, and although he was loyal to Yeltsin, he was not “part of the team.” They were allies, even partners, but their interests and aims were far from the same. After Chernomyrdin’s sudden removal from the White House in March 1998 a crack appeared in the relationship between the president and the ex-premier and it deepened substantially. Chernomyrdin began in an indirect way to oppose the policies of Kiriyenko and Yeltsin. This was the result not so much of Chernomyrdin’s personal bitterness as a product of the interests of a certain financial-economic grouping which in fact had pushed Chernomyrdin forward in 1992 and had supported him as prime minister.

Interest groups emerged in the Soviet period, and they became a stable feature of life as early as the 1970s. In the Brezhnev era the interest group connected with the military-industrial complex dominated. But another group connected with the oil and energy complex was given due consideration as well, because it brought in a large share of the foreign currency needed for the development of the military-industrial complex.

The destruction of the Soviet Union changed this situation abruptly. A new group, the financial oligarchy, rose to the number one position in the country. All the raw material sectors of the economy, including the fuel and energy sector, retained and even increased their influence. Chernomyrdin became the representative and protector of those sectors. Unfortunately, as prime minister he did not expand his horizons, but continued to serve that relatively narrow interest group. Not a particularly well-educated man, he was inflexible and rather halting in his speech.

From 1993 to 1997 Chernomyrdin continued to serve the interests primarily of the gas industry, leaving it to his deputies or to the assistant prime ministers to manage other branches of industry and the financial system. Those officials consulted directly with Yeltsin in their decisionmaking. Although Chernomyrdin often claimed that no questions were decided by the government without his participation, in fact that was not so. From 1994 to 1996 all fundamental questions in regard to the military-industrial complex and metallurgical industry were decided by Oleg Soskovets. In 1997 Chubais and Nemtsov had the final word on all sectors of the economy except the oil and gas industry.

The replacement of Chernomyrdin by Kiriyenko changed things. Despite all his shortcomings the “lightweight” Kiriyenko was not the tool of any clearly defined interest group. Nor was he part of the oligarchy. The vice premiers, such as Nemtsov and Khristenko, were not the servants of any of the oligarchical groups, and neither was the new director of taxes, Boris Fyodorov. The actions taken by these “technocrats” during the spring and summer of 1998 alarmed and angered the oligarchs, and after August 17, when the financial system began to collapse, the oligarchical groups forgot about their former differences and categorically demanded that Yeltsin put Chernomyrdin back in office. Yeltsin’s entourage was frightened by the fast-breaking crisis, and Yeltsin felt obliged to give in.

Chernomyrdin took his place at the wheel with confidence, but the storm raging in the Russian economy and financial system was so powerful that he was unable to deal with it. There is no point going into all of his contradictory actions and statements at the end of August. We will just take one or two examples. In his first statement to the press after his renewed appointment Chernomyrdin said: “I know how to work. . . . This has not been an easy decision for me. . . . I will devote all my energy. . . . We need a stable banking system, and if someone wants to retire I will not stand in the way.” His speech before the State Duma when his candidacy was voted on consisted of an equally empty conglomeration of phrases. That speech was also shown on television. It is not surprising that when viewers were polled, only 7 percent expressed support for Chernomyrdin and 90 percent distinctly expressed lack of confidence in this proposed prime minister.

The magazine *Itogi*, in commenting on Chernomyrdin’s statements

and actions at the end of August, featured the following headline on its front page for September 1: "Filled with Unbelievable Self-Confidence, Chernomyrdin Is Bravely Heading . . . No One Knows Where." In the Duma debates on Chernomyrdin's candidacy, Yavlinsky declared, not without sarcasm: "Everyone today is talking about a new Chernomyrdin. But as we see it, this new Chernomyrdin is worse than the old one."

Only a small number of newspapers and magazines supported Chernomyrdin. For example, *Segodnya* wrote the following: "Chernomyrdin has returned to power not only because he is a tested fighter but more importantly because his months in retirement have shown that he is the only really solid political figure in the country. . . . He has agreed to become prime minister at the height of the crisis only because he now expects to be given full power and to in fact become the ruler of the country and potentially to be chosen as president in the near future" (*Segodnya*, August 25, 1998).

Most of Russia's newspapers and weekly magazines expressed lack of confidence in Chernomyrdin. *Moskovsky Komsomolets* wrote, for example: "It is precisely Chernomyrdin who is responsible for the financial crisis. It was with his blessing that the short-term bond pyramid was created" (August 25, 1998). This kind of statement of course reflected the political orientation of the publication and of the financial interests behind it. *Segodnya* is owned by the MOST-Media holding company belonging to Vladimir Gusinsky. *Moskovsky Komsomolets*, as well as *Moscow News*, are part of the sphere of influence of the Moscow mayor's office. The Communist and nationalist patriotic newspapers were simply furious. *Sovetskaya Rossiya* wrote: "It was Chernomyrdin who brought our country's economy to ruin and our people to a state of impoverishment."

In the first vote taken on Chernomyrdin's candidacy in the Duma only 94 out of 450 voted for him. There were 251 opposed and the rest either abstained or were not voting. This session of the Duma was broadcast live. Many of the speeches made during this session were clumsy or cynical, but as many newspapers commented, Chernomyrdin's was the clumsiest speech of all. It lacked any specific facts or proposals. After Chernomyrdin's candidacy was rejected Yeltsin sent a letter proposing that Chernomyrdin be considered a second time. If the Duma refused his candidacy three times in a row, Yeltsin would then have had to dissolve the Duma and call for a new elections.

During the eight days between the first and second votes on Chernomyrdin's candidacy the acting prime minister engaged in a great flurry of activity. The main television channel, ORT, and a section of the Russian press openly and self-interestedly promoted his candidacy. Enormous pressure was placed on a group of governors from the provinces, who were invited to meet with Chernomyrdin ten or twenty at a time at his office in the White House. Chernomyrdin spoke at a session of the Council of the Federation, whose decisions on questions of personnel served as recommendations for the Duma as a whole. He made public the main points in his program. This was a hastily thrown together fusion of the worst aspects of extreme monetarism on the South American model and the worst aspects of the administrative-command system based on the inflationary printing of paper money as practiced in the final years of the Soviet Union.

Even the newspaper *Segodnya*, which supported Chernomyrdin, called his program "a second edition of shock therapy," which could never be put into effect. Almost all publications condemned Chernomyrdin's proposal for "economic dictatorship." The magazine *Dengi* [Money] wrote that "Chernomyrdin had the audacity to proclaim himself dictator while the president was still alive. Zero hour is set for January 1, 1999. From that day forth Chernomyrdin promises to make the dollar the national currency of Russia, to increase our country's gold and foreign currency reserves, and to eliminate the non-payment of wages. Any companies that disagree will be nationalized" (*Dengi*, 1998, no. 34, p. 17).

The main argument of those favoring Chernomyrdin's candidacy was that there was no time to lose. That was true. It was also obvious, however, that his appointment as prime minister, especially with increased powers, would be an entirely unforgivable waste of time, and worse, a journey to nowhere.

The Council of the Federation was unable to withstand the powerful pressure from the interest groups backing Chernomyrdin. They brought all kinds of threats and promises to bear. But the Duma stood firm and rejected Chernomyrdin's candidacy for a second time, even though three out of seven factions in the Duma supported him. That evening, contrary to expectations, no new envelope was submitted to the Duma proposing Chernomyrdin for the third time. President Yeltsin had decided to take a break to think things over.

Chernomyrdin's actions on September 8 and 9 were chaotic; he

had clearly lost his self-assurance. Pressure was being applied to Yeltsin through various channels. He had an agreement with Chernomyrdin to go all the way even if the Duma had to be dissolved. But social discontent had risen to such proportions that for Yeltsin Chernomyrdin was transformed into a stumbling block. If the Duma was dissolved, that could result in a deepening of the political and economic crisis and also to paralysis of the government, which was hardly doing anything as things were. Under the Russian constitution all major financial questions, including changes in the tax system and adoption of a budget, came under the exclusive jurisdiction of the Duma. Without its support any changes in the financial sector would be illegal, which would not contribute to restoring confidence in Russia among Western financial institutions. With considerable difficulty Yeltsin managed to arrange for Chernomyrdin himself to withdraw his candidacy from consideration by the Duma. At this point a new name appeared on the list of possible candidates for the premiership—that of Yevgeny Maksimovich Primakov.

SOME OTHER POLITICIANS WHO PLAYED A ROLE

Yavlinsky

During 1998 an obvious change in political mood took place among broad sections of the population in Russia. The disposition of forces on the political arena changed accordingly. But the political prospects for Grigory Yavlinsky did not change. The groups supporting him and his movement, the Yabloko party, and the kind of support he enjoyed saw little alteration. In the big cities Yavlinsky, as a candidate for president, maintained a fairly stable level of support at between 10 and 12 percent of the electorate.

Yavlinsky had been a determined opponent of Chernomyrdin since long before the crisis of 1998. Speaking live over television at the end of August, Yavlinsky declared that his party was entirely ready to take on responsibility for the situation in the country. This suggestion was generally viewed as merely a propaganda stunt. But it was Yavlinsky who in early September first proposed the candidacy of Yevgeny Primakov.

Zyuganov

Another presidential candidate, Gennady Zyuganov, head of the Communist Party of the Russian Federation (CPRF), continued to enjoy the support mainly of rural residents and retired people. During the last three or four years not a single new figure has appeared in this party's leadership, and there are hardly any young people in the CPRF. Zyuganov took an active part in the Duma debates. In April 1998 the parliamentary group of the CPRF had surrendered and voted for Kiriyenko on the third round, but in August and September that kind of behavior would have meant political death for Zyuganov and a split in the CPRF.

Lebed and Luzhkov

A large number of potential voters supported either the mayor of Moscow, Yuri Luzhkov, or the governor of Krasnoyarsk, General Aleksandr Lebed. Luzhkov's support came from Moscow and a number of other large cities. Lebed's support lay mainly in the provinces, in the medium-sized and small cities, and in the industrial regions of the Urals and eastern Siberia. Luzhkov was considered a good economic manager and a patriot who would be capable of ensuring the economic prosperity of the country, especially the capital city. Lebed was considered capable of keeping "order" in the country and reining in not only the gangsters and thieves, but also the bribetakers, whose numbers in Moscow were rather large. If these two figures were able to unite it would have been a great benefit to Russia, comparable to the alliance between the merchant Minin and the military leader Pozharsky, who saved the country during the "Time of Troubles" at the beginning of the seventeenth century.

However, the rivalry between the two was rather obvious. The candidacies of both men were proposed at the beginning of the crisis and again in its final stages, during August and September. Chernomyrdin also met with both of them, because they did support him although not very actively. Neither Luzhkov nor Lebed would speak openly about his aspirations or ambitions. When the parliamentary group of the CPRF presented Yeltsin with a list of possible candidates for prime minister, Luzhkov was on that list, too.

Luzhkov would not have had any serious problems obtaining support within the Duma. He was not the head of any party, but maintained contact with many different parties, movements, and political groups of left-center orientation. He had good relations with Generals A. Nikolaev and B. Gromov, as well as with General Lev Rokhlin, before the latter was killed in July 1998.

In contrast, Lebed's relations with almost all the groups in the Duma were poor. He had often referred to them contemptuously. The Duma as then constituted would never have approved him as a candidate for prime minister, a post in which Lebed himself would have felt rather uncomfortable. Lebed obviously aspired to the presidency. As a leader he is considered "not part of the system." And he could only come to power as a result of a national election, not a vote in parliament. His aim was to make visible progress in Krasnoyarsk, whose problems were the same as those of Russia as a whole, though on a smaller scale. Both Luzhkov and Lebed, like Yavlinsky and Zyuganov, would be key figures in Russia's political life during the next year or two.

The "Yeltsin era" was coming to an end, but no one could say with certainty what kind of era would follow it.

THREE WEEKS WITHOUT A GOVERNMENT

In March-April 1998 Russia went without a government for a whole month. It was undergoing a political and governmental crisis that did considerable harm to the country without seriously altering the general course of events.

From August 23 and lasting through the first two weeks of September, Russia was again without a government, but this time it experienced not only a political but also a very harsh financial and economic crisis. Powerful financial-political groups and the various political movements and parties ended up in a harsh confrontation with one another: none of them could overcome their opponents, but neither would they retreat. Under these conditions Chernomyrdin could not and would never have been able to form an effective government. The greater part of his time and effort was spent negotiating with various groups in the Duma and individual politicians, as well as defending his own position.

Meanwhile, the economic and financial crisis developed according to its own logic.

The Duma had rejected the proposed candidacy of Chernomyrdin as prime minister for the second time. Rather than propose him for a third time, Yeltsin took a break. The pressure on Yeltsin and on all the officials in his administration greatly increased. According to press reports, two officials of Yeltsin's administration proposed their own candidate instead of Chernomyrdin. The secretary of Yeltsin's security council, Andrei Kokoshin, and Yeltsin's press secretary, Sergei Yastrzhembsky, were running ahead of events a little. They proposed the mayor of Moscow, Yuri Luzhkov, as premier. The result was a split in Yeltsin's administration and the firing of Kokoshin and Yastrzhembsky.

At that point a new name was loudly pronounced in the Duma—that of Foreign Minister Yevgeny Primakov. The most persuasive speech along these lines was that of Grigory Yavlinsky. But the list of candidates proposed by the Communist Party of the Russian Federation included Primakov's name along with those of Maslyukov, Luzhkov, and Stroyev. Primakov was invited to the Kremlin to see Yeltsin twice. At first he refused, but at the end of the day on Wednesday, September 9, he gave his consent to be nominated and almost immediately was proposed in the name of President Yeltsin for approval by the Duma. Yeltsin accepted all the conditions that Primakov insisted on. These included first of all the candidacy of Viktor Gerashchenko as chairman of the Central Bank and of Yuri Maslyukov as first deputy prime minister in charge of economic affairs.

Discussion of the new candidate was scheduled for 3:00 p.m. on September 11, and by about 7:00 p.m. a constitutional majority of 315 votes approved Primakov as prime minister. The governmental crisis had ended.

YEVGENY PRIMAKOV—POLITICIAN AND DIPLOMAT

On September 12 all the Russian newspapers commented on Primakov's success. In an article entitled "Primakov's Triumph in the Duma" one newspaper wrote: "Yevgeny Primakov's speech in the Duma yesterday was brilliant. He is truly the most skilled diplomat of post-Soviet Russia. In just a few minutes he contrived to say every-

thing that the different factions wanted to hear—both the left and the right, the patriots and the pro-Western elements. Primakov satisfied everyone except Zhirinovskiy. . . . Even the prolonged applause was insufficient to convey a full impression of the brilliance of his speech.”

The newspaper in which this was written, *Nezavisimaya Gazeta*, was not happy about Primakov’s success. In the opinion of many people, this newspaper expresses the views of the “oligarch” Boris Berezovsky, who acquired ownership of the paper in 1996. “The conclusion to be drawn from what happened is a sad one,” the authors of the article continued.

The threat of a Communist comeback once again hangs over a Russia which has been lacerated by the economic crisis. Once again, as in 1917, intelligent, well-spoken, and educated parliamentary representatives are leading the country toward a dictatorship. Once again the people are taking no part in deciding their own destiny. . . . Soon it may happen that the demand for democracy will be silenced by hunger and traded off for sausage at the price of 2 rubles, 20 kopeks. This is something that Russia obviously does not deserve.

(*Nezavisimaya Gazeta*, September 12, 1998)

Another newspaper wrote:

Yevgeny Primakov, whose candidacy the president has proposed to the Duma, is a smokescreen. The main question is who is standing behind him? Primakov does not have his own program for solving the crisis, but to make up for it he has the support of the Kremlin and almost the entire Duma. What can be expected from his cabinet remains unknown.

(*Kommersant-Daily*, September 11, 1998)

Under a headline “Reds in the White House” a third newspaper wrote: “The Communists are riding into the government on the shoulders of the non-party member Primakov” (*Segodnya*, September 11, 1998). According to a fourth newspaper,

It is hard to imagine more of a compromise figure suitable to all factions than Primakov. . . . Of all the possible solutions today to the problem of choosing top government personnel this is the most

sensible and pertinent. . . . There's a great temptation to imagine that the political corpse which everyone considers the president to be as a result of the vain efforts of the head of his own administration, that this corpse suddenly pronounced the words "raise my eyelids!"—and then with trembling forefinger pointed out the true direction that the country must take. However, the near future will depend on the answer to the question whether this gesture was a sign of revival or, to the contrary, the last glimmer of consciousness of an aging president.

(*Russkii Telegraf*, September 12, 1998)

The last-named newspaper was by no means a voice of the left opposition, and the way it was writing about Yeltsin was a symptom of the definitely negative attitude toward him held by a substantial number of people in highly influential circles. Many newspapers observed that a member of the Academy of Sciences for the first time in Russian history had now become head of government. Primakov had indeed been elected a member of the Soviet Academy of Sciences in 1979. As a member of the Academy he served in its division on problems of the world economy and international relations.

Yevgeny Primakov took the post of prime minister at an extremely difficult time for Russia. He assumed responsibility for solving problems of such great difficulty, and the powers entrusted to him were so great that the interest shown in him as an individual was entirely justified. As I survey all the political leaders of today's Russia, and not just the leaders, but all the noteworthy individuals both in the camp of the government and in the opposition, there is not a single person I could name who would be more suitable for the job of prime minister than Primakov. This is true despite the fact that all political observers, including myself, until quite recently didn't even consider Primakov as a possible candidate for this post. In all the years of his presidency Yeltsin did not make a single appointment to a high position that was so exactly appropriate—aside from the appointment of Primakov himself as foreign minister of the Russian Federation in 1996.

Primakov: A Brief Biographical Sketch

Primakov was born in Kiev on October 29, 1929. His mother was a pediatrician. He spent his childhood and school years in the city of

Tbilisi in the Soviet republic of Georgia in the Caucasus. In the 1930s Tbilisi was a multinational city of great diversity with its own special atmosphere, and everyone who spent even a few years of their youth in this city felt the influence of this atmosphere. In this respect Tbilisi was similar to Odessa, the cosmopolitan port city on the Black Sea, and to Baku, the oil industry port on the Caspian, although of course the spirit and tradition of those cities differ from one another.

In Tbilisi there was a warm and friendly atmosphere. The city did not produce extreme individualists, but the influence of the Soviet central government was not so great there. Primakov fully experienced and imbibed the city's special atmosphere. His school friends and neighborhood friends remain part of his circle to this very day, and they often gather to commemorate his major birthdays. Among them is the heart surgeon Burakovsky, also a member of the Academy of Sciences; the film director and artist Lev Kulidzhanov; and Lev Onikov, a former Central Committee official of the Soviet Communist Party. Primakov and his friends often gather around a table with the distinct foods of the Caucasus, with Primakov himself often playing the role of witty master of ceremonies.

The young Primakov, after graduating from school, went to Moscow where he entered the Arab studies division of the Institute of Oriental Studies. During his student years he married. His wife Laura also came from Tbilisi. After graduating from this institute, Primakov attended Moscow State University as a graduate student for three years, then worked for the government agency in charge of television and radio. Primakov's position in that agency was a fairly high one—editor-in-chief of the main administration for radio broadcasts to foreign countries. To hold such a post one had to be a member of the *nomenklatura*, a list of party officials enjoying a high degree of confidence from the top party authorities, including the state security agency (the KGB). It was from this post that he later transferred to work on the party press, joining the staff of *Pravda*, the Communist Party's main newspaper.

At the Moscow editorial offices of *Pravda* Primakov soon took the post of assistant editor for the department dealing with Asia and Africa. In 1966 he was sent to the Middle East to serve as *Pravda*'s special correspondent for that region. The newspaper's Egyptian bureau was located in Cairo, from where its reporters traveled to other countries of the region. This was a time when the Middle East

was considered a highly important focal point for Soviet interests. It is enough to say that 1967 was the year of the “Six Day War,” which changed the balance of forces in the region. In view of the Soviet Union’s great involvement in Middle Eastern affairs, it is not surprising that the role of *Pravda*’s correspondents there rose accordingly. Primakov developed virtually into a representative of the Soviet Communist Party’s Central Committee in the Middle East. Through his newspaper reports he was able to act as an intermediary in resolving a great many important problems, and many missions of various kinds were entrusted to him.

A major feature of Soviet foreign policy at that time was support for the Arab countries, and Primakov was obliged to develop very extensive connections. An intelligent, calm, and good-natured person, who knew Arabic very well, Primakov operated with the highest degree of effectiveness, and this was noticed. I know of no other case in which a *Pravda* correspondent after four years of work outside the Soviet Union returned to Moscow to assume the very high post of deputy director of the Institute of the World Economy and International Relations, part of the Soviet Academy of Sciences system. This was one of five research institutes that directly served the party Central Committee and was also considered part of the system of scientific and scholarly research institutions under that Central Committee.

While director of the institute in the early 1970s Primakov defended his doctoral dissertation, and in 1974 at the age of 45 he was elected a corresponding member of the Academy of Sciences. The chief director of the institute was Academician Nikolai Inozemtsev, with whom Primakov had collaborated for many years. In the 1970s Inozemtsev was not only the director of the Institute of the World Economy and International Relations (Russian initials, IMEMO) and a member of the Academy of Sciences; he was also, in effect, an official adviser to Brezhnev on international affairs. This gave Inozemtsev and his institute a great deal of influence both in determining Soviet foreign policy and in Soviet academic affairs.

It was in this period, with Primakov’s active participation, that the IMEMO built a large new building, very attractively designed for that time, on a street in Moscow called Profsoyuznaya Ulitsa (Trade Union Street). To this day the IMEMO occupies the same location, but only memories remain of its former influence in government. The institute

now rents some of its facilities to various other organizations in order to earn the means to pay for continuing research as well as the salaries of its research staff.

In 1977 Primakov became head of the Institute of Oriental Studies (from which he had graduated). This was also a very influential scientific and academic institution, which helped work out Soviet foreign policy in Asia, and in particular in the Far East. There was a whole system or chain of such institutes in the Soviet Union—the U.S.-Canada Institute, the Latin America Institute, the Africa Institute. Other institutes of a closed, or confidential, top-security type also existed, for example, one on problems having to do with China.

Primakov was a rather strict director, according to his former colleagues. He insisted that they come to work four times a week, instead of the two times a week required by his predecessor. In his dealings with staff members he insisted that meetings begin and end at strictly scheduled times.

In 1979 Primakov, at age 50, was elected a full member of the Academy of Sciences. It was quite an accomplishment. Most academicians were in their 60s or 70s. Younger ones were usually found only among mathematicians and physicists, hardly ever among historians or economists.

In 1985 Primakov returned to the IMEMO, but this time as director. Within the system of academic institutes this was quite a significant advancement, and it is no accident that in 1988 Primakov was elected a member of the Presidium of the Academy of Sciences while remaining director of the institute and became the secretary in charge of the Academy's division dealing with the world economy and international relations. All institutes dealing with area studies and international relations came under his jurisdiction. When Primakov was appointed prime minister in September 1998 many people wrote that he didn't know much about economics. This is not true. He holds a doctoral degree in economic sciences, and because of his past work in the Academy of Sciences, he has a close acquaintance with and a solid understanding of problems of the world economy and the specific economic characteristics of various countries and regions of the world.

In the 1980s Primakov served as a consultant to politicians but was not a politician himself. He wrote a great deal and spoke at many academic conferences but apparently gave no thought to any political career for himself. It was Gorbachev who began to involve him in pol-

itics. He met Primakov during the summit with Ronald Reagan in Reykjavik, Iceland in 1986. Primakov was not a member of the official Soviet delegation. He had traveled to the Icelandic capital as an adviser to the Soviet delegation and participated in conferences involving its leaders. At one of these discussions Primakov rather emphatically disputed a proposal made by Foreign Minister Eduard Shevardnadze and Marshall Sergei Akhromeyev, head of the Soviet General Staff. Gorbachev did not support Primakov in that disagreement, but he noticed him and soon established a close working relationship with him.

There is no question that Primakov supported Gorbachev, but he was never a “professional promoter of perestroika.” Nor did he ever claim, like Aleksandr Yakovlev, to have helped elaborate the fundamental ideas of the so-called new thinking. From 1986 to 1988 Primakov occupied a rather modest place in the hierarchy of power. At the Twenty-Seventh Congress of the CPSU Primakov was elected to the Central Committee, but only as a candidate member, and not until 1989 did he become a full member of the Central Committee.

In February 1989 Primakov was elected to the newly established Congress of People’s Deputies as one of the 100 representatives from the Communist Party. At that First Congress of People’s Deputies he was elected a member of the Presidium of the Supreme Soviet of the USSR, and later was elected chairman of one of the chambers of the Supreme Soviet—the Union Council. At that time I, too, was a People’s Deputy and a member of the Union Council and in that capacity made my first acquaintance with Primakov. I participated several times in discussions with him while I was chairing a commission of the Congress (on problems of corruption), and I worked with him at several meetings or sessions of a more restricted nature.

I must say that Primakov rarely spoke at sessions of the Union Council and almost never at the Congress of People’s Deputies. He chaired sessions of the Union Council in a very calm way. (When the two chambers of the Supreme Soviet met jointly it was under the chairmanship of Gorbachev and later of Lukyanov.) As a chairman Gorbachev was very active, often interrupting other speakers, commenting on their remarks or correcting them. His own speeches were quite lengthy and not always as logical as they might have been. Lukyanov chaired sessions skillfully, but often in a rather rigid way, seeking to direct the discussion along a desired channel. The chairman

of the Council of Nationalities, Rafik Nishanov, directed the sessions of his chamber in a very emotional way and sometimes chaired the sessions of the Supreme Soviet as a whole in the same way. Primakov showed virtually no emotion as a chairperson. I cannot recall a single case in which Primakov lost his self-control or spoke rudely or harshly. He managed to maintain his calm and even an appearance of indifference in very complicated circumstances. He was chairman of the commission of the Supreme Soviet on the question of privileges. The excessive privileges of the party and government bureaucracy were one of the questions that troubled public opinion the most in 1989–1990.

Primakov was entirely loyal to Gorbachev, but he did not rush to express his support everywhere and on all occasions, as many people did—nor did he speak out against Gorbachev, which many people also did in the period leading up to the Twenty-Eighth CPSU Congress (in 1990) and during that Congress. Primakov was not asked to give a report at that Congress, although he had become a candidate member of the Politburo in 1989. After Gorbachev was elected as the first president of the Soviet Union, Primakov became a member of the President's Council. It was at that time that Primakov made several trips outside the country as a chairperson of the Soviet parliamentary group. He also became a member of the Security Council of the USSR, which was founded in early 1991.

Primakov played no noticeable role in the events of August 1991 (the attempted coup) either on the side of the coup makers or on the side of Yeltsin and the Russian government. After the failure of the August coup he did not speak out either for or against Gorbachev, nor did he rush to swear allegiance to anyone else. When Vadim Bakatin was appointed as the new chairperson of the KGB, Primakov agreed to take the post of first deputy chair, also taking charge of the so-called First Main Administration of the KGB—that is, foreign intelligence. In the fall of 1991 Yeltsin and Bakatin, with Gorbachev's tacit consent or connivance, began to break up the KGB as a unitary organization. The foreign intelligence service was set apart as a distinct agency directly subordinate to the president. A decree signed by Gorbachev made Primakov director of this agency, the so-called Central Foreign Intelligence Service of the USSR. In December 1991, when the USSR was dissolved, Yeltsin appointed Primakov director of the Foreign Intelligence Service of Russia. Primakov spent four years in this post (1992–1996).

The Soviet Foreign Intelligence Service was considered justifiably to be virtually the best special service in the world. In the scale of its activities and the number of employees it apparently exceeded even the United States. For the Russian Federation an intelligence service on such a scale was insupportable. Of all the former departments of the KGB, however, the Foreign Intelligence Service held together better than the others. It retained most of its former personnel.

The interests of the Russian Federation are of course not as global as those of the former USSR. Therefore many departments of the Intelligence Service were reduced in size. Staff cuts occurred at the main administration at Yasenevo. The lack of resources tangibly affected the special services of Russia, but in spite of everything salaries were paid regularly. Various fringe benefits for intelligence personnel were maintained, because it was difficult for such people to earn money on the side. According to some employees of the Intelligence Service, many people working there had serious doubts about the appointment of Primakov in 1991. They called him “the academician.” But skepticism was soon replaced by sincere respect. Wherever Primakov worked, sooner or later he was always able to win the support and confidence of his subordinates and colleagues. The Intelligence Service was no exception. They soon began to call him endearingly by his Russian middle name, Maksimych. [Russian middle names are based on the father’s name; Primakov’s father was Maksim; “Maksimych” of course means “son of Maksim.”] They referred to Primakov as “our protector.” At any rate he was able to keep many professionals on the staff and prevented the so-called democrats from tearing down the foreign intelligence agency completely.

In the mid-1990s hardly anyone spoke or wrote about Primakov. His appointment was viewed with a certain irony. Several newspapers wrote that he always had been a KGB agent. There is no question that any leading Soviet journalist in the Middle East or any director of a major institute concerned with international relations could not do his job in the Soviet Union without collaborating with or maintaining contacts with the KGB. But this does not mean that he worked as an intelligence agent. Primakov was directly subordinate to the Central Committee of the Soviet Communist Party, but that was true for any and all officials, journalists, diplomats, or directors of institutes of the Soviet Academy of Sciences.

In late 1995 Boris Yeltsin came to the conclusion that he simply

could not win the presidential elections in 1996 if he kept Andrei Kozyrev as foreign minister. Kozyrev had conducted a foreign policy that was obviously pro-American; he was simply incapable of behaving in a dignified way on the international arena. Kozyrev's policies had humiliated Russia as a great power, and he had forced many outstanding diplomats to leave the Foreign Ministry.

Kozyrev possessed neither the knowledge nor the experience for work in such a high post. From 1974 to 1989 he had been simply one of many bureaucrats in the Soviet Foreign Ministry. He had never distinguished himself aside from his firm adherence to Yeltsin and the so-called democrats, which he began to display only in early 1991—not so much as a result of inner conviction, in my opinion, but to make up for his own inadequacy.

Yeltsin appointed Kozyrev foreign minister of Russia in 1990, when the Soviet Union still existed. The Russian Foreign Ministry did not have its own apparatus; it had no agencies or staff; it was a ministry with symbolic importance only. After the dissolution of the USSR the enormous apparatus of the Soviet Foreign Ministry came under the jurisdiction of this tiny Russian Foreign Ministry, in which there was not a single person worthy of the role which fell to their lot as the result of the destruction of the Soviet Union.

As Russia's foreign minister, Primakov immediately changed both the style and the character of Russia's foreign policy. He was many times more competent than Kozyrev. Primakov had decades of experience working on and resolving highly complex problems in foreign affairs. In 1990 not long before the conflict between the United Nations and Iraq, Primakov was sent to Baghdad as an intermediary. He was personally acquainted with Saddam Hussein, having known him since the mid-1960s, when Primakov had acted as an intermediary between the rebel Kurds in northern Iraq and the Iraqi government. Saddam Hussein singled Primakov out from among all the diplomats he had known and commented on Primakov's new assignment: "He can be received as a friend even when he is sent by the enemy." Hussein refused to make concessions in 1990 and 1991, and as a consequence suffered a stinging defeat during the "Desert Storm" Gulf War, although he managed to hold on to power.

Primakov for his part, while remaining almost a friend of Hussein also became a friend of Madeleine Albright. He won the respect of all Western leaders and foreign ministers. Many observers number

him among the most influential foreign ministers in the world. He is known and respected in China, in Japan, and in Western Europe. What is important in this respect is that he is highly regarded not only as a representative of Russia but as an individual. He is calm, but he is tirelessly persistent. I would estimate that during his lifetime he has visited more than 100 different countries. The Western press has long since acknowledged Primakov's success, never ceasing to express amazement that this "experienced Cold Warrior" could so effortlessly and with such dignity direct the new foreign policy of the new Russia.

Some politicians and political observers as early as 1997 began to say that Primakov had managed to carry out his own kind of diplomatic revolution. One newspaper wrote: "He presents Russia's position on all questions in quite a definite way. Often it turns out that he's holding very poor cards, but he always plays them very well." Primakov changed the priorities of Russia's foreign policy, to focus first of all on the former Soviet countries and Russia's other close neighbors. He was an intermediary in talks between Armenia and Azerbaijan, between Georgia and Abkhazia, in talks between factions in Tajikistan, in the Middle East, and in Yugoslavia. Western newspapers have commented that under Primakov relations between Moscow and Beijing seem to have become warmer than at any time in the entire history of their relationship. Primakov has put forward and defends the idea of a multipolar world in which no one country ought to dominate.

Primakov never sought the position of prime minister. He declined it several times when it was offered to him. Once he had accepted the position, however, he showed very definitely that he would defend his own conception of the tasks and policies that the government of Russia ought to pursue. When Primakov speaks he likes to quote a saying by the Roman philosopher and poet Seneca: "When a man doesn't know in which direction to set his course, no wind will ever be favorable for him." He cited these words in describing Russia's policy in the economic sphere. Primakov knows which way to turn the rudder in order to have favorable winds both within the country and in foreign affairs. He is fully determined to steer in the necessary direction. Primakov's views on the tasks and direction Russia must take on domestic policy have not been formed just in the last few weeks. He has expressed his views for a long time and in many public settings

both as foreign minister and as a patriotic statesman. In the spring and summer of 1998 he spoke several times in front of Russian and foreign audiences on problems of both foreign and domestic policy. The main points he made in these speeches were as follows:

- Russia must make its way smoothly into the world economy, to become a part of it, not just as a supplier of raw materials but as an equal partner. The Foreign Ministry must support Russian business, using the resources of foreign policy.
- Russia has become excessively dependent on imports from foreign countries, both capital and goods.
- The government has proved incapable of accumulating internally in order to strengthen the budget and to ensure ongoing spending to move the country forward in a more serious way along the path of industrial reconstruction. Excessive emphasis has been placed in Russia on macroeconomic stabilization without the necessary attention to increased production, especially the creation of an industry that would be competitive on the world market.
- The taxation policies practiced in Russia have proved to be ineffective.
- As a result of mistaken financial and industrial policy no less than \$20 billion are leaving Russia every year. In this way Russia has been providing credits for the whole world.
- Loans and credits are necessary, but this is not the chief path.
- The role of government in the economy must be significantly increased, and it must pay more attention to the sphere of production and not just fiscal questions.
- The Asian crisis is not the main reason for the crisis in Russia; it has simply been superimposed on Russia's domestic mistakes and difficulties. The government's main mistake was to focus its attention primarily on financial stabilization on the macroeconomic level in line with the recommendations of the International Monetary Fund rather than the development and growth of our own industrial capacity. As a result foreign capital has invested not in Russian industry, from which it would find withdrawal much more complicated than from the financial sphere and from portfolio investments and investments in government securities.

Primakov said all of these things long before the beginning of the August–September crisis, and as prime minister he acted in the spirit of these policy pronouncements.

The problems facing Primakov and his government were immeasurably more complex and difficult than those he had faced in the past. One of the most difficult was to create a team, to establish a competent and businesslike government that could work as a single unit. In reviewing the Russian governments of the 1990s—from Gorbachev's last government to the recent ones of Chernomyrdin and Kiriyenko—one can only be amazed by how insignificant and even uneducated and intellectually weak the people who constituted those governments were. Yeltsin bears a large part of the blame for this, but not only he. It was Einstein who said that a totalitarian dictatorship leaves a moral vacuum behind it. We might add that the decades of totalitarian dictatorship and authoritarianism created not only a moral but also an intellectual vacuum in the upper echelons of the Soviet Union. The exceptions were very few: Aleksei Kosygin and Yuri Andropov. But even they had to function within the framework of a rigid party discipline, ideology, and hierarchy. Primakov came to power under exceptional circumstances. He did not have to submit his actions for approval to a Central Committee or Politburo members. He could steer the Russian ship of state, which had suffered a great deal of damage, in the proper direction and begin to fix it up and put it in order. Along with many others, I wished Yevgeny Primakov favorable winds.

VIKTOR GERASHCHENKO AND YURI MASLYUKOV

The appointment of these two men, Gerashchenko to head the Central Bank of Russia and Maslyukov to be the first deputy prime minister in charge of economic affairs and industry, was the chief condition Primakov set for becoming prime minister. These terms were accepted by Yeltsin and by the Duma. Thus the main parameters for government policy in the economic and financial field were established. Neither Gerashchenko nor Maslyukov was a newcomer to the government or economic affairs, and their views were well known. Primakov himself knew these two men quite well.

Viktor Gerashchenko was born in 1937 and graduated from the

Moscow Financial Institute in 1960. He immediately began work as an accountant at the State Bank of the USSR, and five years later took charge of a department at the USSR Bank of Foreign Trade. In 1965 the 28-year-old Gerashchenko was sent to London as the director of the Moscow People's Bank in that city. The Soviet Union had several banks in foreign countries which operated under market economy conditions, and therefore their experience was unique. Western financial and business publications as early as the 1960s wrote about Gerashchenko as a banker and financier worth paying attention to, a figure who was unusual for that time.

After London, Gerashchenko worked for five years as assistant manager of the Moscow People's Bank in Lebanon, and during those years, Primakov, then special correspondent for *Pravda* in the Middle East, made Gerashchenko's acquaintance. In 1972 Primakov was back in Moscow, and Gerashchenko after a brief stint at the Soviet Bank of Foreign Trade took charge of the Soviet Bank in West Germany and then another Soviet Bank in Singapore. After returning to Moscow, Gerashchenko became deputy chair of the Soviet Bank of Foreign Trade, which changed its name and some of its functions several times. There was probably no more experienced banker in the Soviet Union, and in 1989 Gerashchenko was appointed to head the State Bank of the USSR. At that time the bank was not an independent financial institution but was subordinated to the Ministry of Finance of the USSR, which in turn followed the orders of the Central Committee of the CPSU. The main decisions on financial questions were taken not by Gerashchenko but by Mikhail Gorbachev.

After the collapse of the Soviet Union Gerashchenko worked for several months at one of the numerous foundations that arose at that time, the so-called Reform Foundation. But the liberalization of prices carried out by the Yeltsin-Burbulis-Gaidar government caused such a painful collapse of Russia's financial system that Yeltsin had no alternative but to call on Gerashchenko for help. In late 1992 Gerashchenko became chairman of the Central Bank of Russia and headed that bank until the end of 1994.

Gerashchenko was an obstacle for many people. He was too independent a figure, and his primary concern was for the good of Russia and the good of Russia's financial system. Moreover, under the new Russian constitution of 1993 the Central Bank was granted extensive powers. Article 75 of that constitution states the following:

“Defending the ruble and ensuring its stability are the main functions of the Central Bank of the Russian Federation, functions which it carries out independently of other government bodies. . . . The issuing of new currency is done only and exclusively by the Central Bank.” The Duma can appoint or remove the chairman of the Central Bank, but only when this is proposed in writing by the president of the country.

After the financial crisis in October 1994 referred to as Black Tuesday, Gerashchenko was obliged to leave his position as head of the Central Bank. After that he changed jobs several times but ended up in 1996 as chairman of the board of the Moscow International Bank. This bank did not get swept up in the craze to buy short-term government bonds, and consequently suffered to a lesser degree than others from the financial disaster of August 1998.

Gerashchenko returned to the Central Bank in September 1998 with his own team for the third time. He made no secret of his views or of what he proposes to do. In his opinion, the reason for the financial crash lay in the defective economic policy which failed to support real production in the Russian economy. He believed that what was needed was a carefully weighed and intelligent industrial policy. While taking a very cautious attitude toward the printing of more money, he felt that Russia could not get by without issuing new currency on a controlled basis. He favored a more flexible approach to the problem of the government's indebtedness in relation to short-term bonds. He believes that a new series of negotiations should be held with foreign and domestic investors in this regard. But he warned that there was simply no easy or quick solution to this problem, because the government had become indebted to private creditors to the tune of \$125 billion. Moreover, foreign financial institutions were holding a total of \$14 billion in Russian short-term government bonds. These debts were too large for a nearly impoverished Russia.

In the new Russian government the responsibility for implementing an intelligent industrial policy, as advocated by both Primakov and Gerashchenko, fell to Yuri Maslyukov. He was less well known in Russia and abroad than Primakov or Gerashchenko, but as we have said, he was no newcomer to economic and industrial management. He had an enormous amount of experience, and had drafted programs for extricating Russia from various crisis situations several times in the past—programs drafted both for the government and for

the opposition Communist Party of the Russian Federation. He was even invited to join Kiriyenko's government and in fact took charge of the Ministry of Industry and Trade in July 1998, but had no time to even draw up a plan for work before the August crisis. Maslyukov had taken charge of that ministry in spite of the objections of his party comrades, who were getting ready to expel him from the CPRF. These disagreements later faded away.

Yuri Maslyukov was born in 1937. By profession he was a mechanical engineer. He first worked as an engineer in 1962, and later took various management positions in defense industry operations in the city of Izhevsk. In 1974 the 37-year-old Maslyukov transferred to the USSR Ministry of the Defense Industry and after several years was appointed deputy minister. In the 1980s he served as deputy chairman of the State Planning Commission of the USSR and later was deputy chairman of the Council of Ministers of the USSR. From 1988 to 1991 he headed the State Planning Commission. Maslyukov became a member of the Central Committee of the CPSU in 1986 and a member of the Politburo in 1989. From 1992 to 1998 despite his unique experience Maslyukov remained in effect without a job.

In September 1998 he returned to a position of leadership in the economy. His priorities were not difficult to specify. Here is what he said in one of his first interviews:

The government invested more than 30 years in making me a specialist in heavy engineering. I know our military and defense industry as perhaps few others do in Russia today. I know heavy engineering and I'm familiar with the fundamentals of foreign trade. . . . A Russia that does not have a powerful industry is not a great power. Raw materials alone, the prices for which are constantly falling, cannot serve as the backbone for our economy. There needs to be a very strong balancing factor. This factor is industry. . . . No matter what the government places its bets on, investment is the fundamental basis for developing Russia. Without investments there will be no Russia. And if the investment component of our budget remains as miserly as it has been in the past and is now, very little time will be left before the ultimate degradation of Russia. . . . The Bacchanalia must be stopped. The situation on the financial markets must become

stable. Everything that can constitute income in spite of inflation must be spent in a sensible and intelligent way, above all by compensating the most needy families and investing in the most ailing sectors of our economy. . . . The government must remember that it functions as a serious, significant, and rational economic directing agency in the market which Russia today constitutes. The government is a full equal partner [in the economy]; the government has a managerial role in the situation; it manages state-owned property and does not abandon this property to the whims of fate.

(*Tribuna*, September 15, 1998)

Maslyukov was an excellent partner for Gerashchenko. Together with Primakov they constituted the core of a government which had great potential.

