robbing Russia blind

The U.S.-backed author of economic reform in Russia, Anatoly Chubais, was always just another dirty politician

By Fred Weir

The myth of Russia's successful transition from communism to free-market democracy is solid coin in most places that matter, from annual summits of the Group of Seven leading industrial nations and the editorial nerve-centers of top media organizations, to the electronic hives where the world's key financial decisions are made. In all those places, it is firmly understood that the primary author of Russia's historic shift has not been the aging and frequently doddering symbol of reform, President Boris Yeltsin, but an unelected and immensely powerful bureaucrat named Anatoly Chubais.

Backed by millions of dollars in Western aid, this 42-year-old, English-speaking economist conceived and wrote the main—and much celebrated—chapters of Russia's great transformation. Working closely with U.S. government-funded economists at the Harvard Institute for International Development, Chubais fashioned a neoliberal economic program founded mainly on faith in the spontaneous, self-organizing power of the market. The key policy elements were a swift transfer of state property to private hands, dismantling of the social safety net and withdrawal of government from economic planning and regulation. In the turbulent post-Soviet era, democratic process was sacrificed in favor of rapid change decreed from above. A clique of insiders, many of them Chubais cronies, was the main beneficiary of the redistribution of Russia's national wealth.

From 1992 to 1994, Chubais designed and supervised the mass privatization drive that, on paper, passed 70 percent of the country's industry into private hands and created 40 million individual shareholders. In practice, a handful of new financiers gained control of the best assets while millions of workers were left holding title to bankrupt industrial dinosaurs. In 1995, Chubais abandoned populist pretenses and launched "loans for shares," a series of rigged auctions that gave most remaining crown jewels of Soviet industry and natural resources to about a dozen tycoons. This scheme consolidated overnight a dominant, if bandit-like, capitalist class in Russia. The next year, he mobilized the new plutocrats and their vast resources to muscle out Gennady Zyuganov, the Communist electoral challenger to Yeltsin's throne. Handed near-total control over economic policy by a grateful Yeltsin last March, Chubais pledged to reverse the seemingly endless post-Soviet slump, tame the excesses of "oligarchic capitalism," restore the bankrupt Russian state to solvency and make good its obligations to a shattered and impoverished society.

But within the space of a few weeks this autumn, Chubais' momentum disintegrated as a thunderstorm of scandal burst around him.

In November, one of Russia's leading investigative journalists, Alexander Minkin, exposed a secret book deal in which Chubais and four highly placed co-authors received a whopping $450,000 advance for an as-yet unfinished 250-page book, *The History of Privatization in Russia*, from a publishing house owned by Uneximbank, a financial empire that has been one of the biggest winners in the privatization sell-offs run by Chubais. Minkin printed his findings in the weekly *Novaya Gazeta*, one of the few Russian newspapers not yet controlled by a major financier. "A fee of half a million dollars for a book on a technical subject, albeit such a curious one as privatization in Russia, is unimaginable," Minkin said in a radio interview. "It is a veiled bribe."

With the opposition-led parliament demanding a criminal investigation, Yeltsin hastily fired three of the would-be authors from their official posts (a fourth had been sacked earlier). He stripped Chubais of his job as finance minister but kept him on as first deputy prime minister in charge of economic policy. Firing Chubais, Yeltsin said, might "destabilize the government and damage the economy" by panicking foreign investors.

But as Russia's stock market collapses, the rouble tumbles and tens of millions of workers in the provinces clamor for months of unpaid wages, Chubais' record has lost its luster.

The centrality of Chubais as both symbol and guarantor of continuing market reforms was a universal theme in reporting on the scandal in the U.S. media. Chubais is considered the West's point man in a Kremlin often seen as unpredictable and lacking in ideological stamina. His U.S. supporters professed shock that the chief guru of Russian market reforms could turn out to be just another dirty politician.

"Anatoly Chubais is both the agent and enemy of Russian reform," editorialized the *New York Times*, one of his biggest fans. "Without Mr. Chubais's wily advice and determination to shed Communist economics, Boris Yeltsin might not have brought Russia so far along the road to democracy and free markets. But Mr. Chubais, Mr. Yeltsin's top economic and political adviser, has also condoned unseemly dealings between the Kremlin and Russian businessmen. Even by the raw standards of Russian politics, he has now disgraced himself and ought to vacate his post as First Deputy Prime Minister."

That judgment sounds righteous—and the *Times* was virtually alone among Western media in demanding Chubais' scalp—but it actually evades the hardest truths. The current scandal should have come as no surprise given Chubais' known links to criminal conspiracies and corruption in the past.

For example, during the 1996 presidential elections, two of his close aides were caught leaving a government building with $500,000 in cash. Chubais was later caught on a taped transcript, published in the independent daily *Moskovsky Komsomolets*, ordering that a criminal investigation into the matter be halted. The money, it later came to light, was part of a vast illicit slush fund that Chubais supervised as head of Yeltsin's re-election campaign (see *In These Times*, July 8, 1996). Yelena Dikkun, a Russian investigative journalist, has estimated that the Yeltsin team doled out more than $100 million to get their man re-elected, though the legal spending limit for a presidential candidate was $3 million.

Last summer, the daily *Izvestia* published documents showing that in early 1996 Chubais received a $2.5 million interest-free loan from a leading Moscow investment house—and big winner in the privatization lottery—Stolichny Bank. The money was paid to the Center for the Defense of Private Property, a nonprofit organization founded by Chubais. The center invested the cash in Russian state treasury bills, and then deposited the roughly $300,000 in profits straight into Chubais' personal bank account (see *ITT*, August 11, 1997). Later that year, as head of Yeltsin's administration, Chubais was instrumental in handing over a huge state-owned financial institution, Agroprombank, to Stolichny Bank at far below market prices.

After the recent revelations about his giant book advance, Chubais told journalists that he and his co-authors planned to give 95 percent of the proceeds to "charity." Pressed on the point, he named the beneficiary agency as the Center for the Defense of Private Property.

Revelations of corruption, while important, are only part of the crisis. With Russia's economy taking a turn for the worse in recent months, Yeltsin has distanced himself from Chubais and clearly set him up for sacrifice.

"Russian politicians are all venal, and Chubais as much as the others, but Yeltsin has moved against him now because his program just isn't working," says Igor Bunin, an analyst with the Center for Political Trends, a liberal think tank. "Society is near the breaking point and can't stomach it anymore."

After six years of wrenching change, Chubais' much-vaunted achievements appear—like his literary endeavors—to have been little more than a high-priced scam.

"There has been great emphasis on doing the things international financial institutions call for, such as getting privatization done, setting up securities markets, stabilizing the currency, slashing the state budget," says Robert McIntyre, a Fulbright economist who has lectured and researched in Russia for the past year. "These things appear to have been done by Chubais, but on closer examination they have no depth. The economic and social disaster underneath has been studiously ignored."

Russia's economy has been in free fall for years and is now roughly half its 1991 size. Mass privatization engineered by Chubais may have changed the nameplate on many bankrupt industries, but it only worsened their economic plight. Though Communist planners created the mess, Yeltsin's government completed the ruin by handing whole economic sectors over to new private owners without any incentive to invest, modernize or even maintain the existing infrastructure.

Boris Berezovsky, head of one of Russia's biggest financial-industrial empires, bragged to the *Financial Times* that just seven tycoons control half of Russia's gross domestic product. Russia's new capitalists have chosen to milk their inheritance rather than rebuild it. Russia's government currency commission conservatively estimates that $150 billion has left the country over the past six years—$2 billion per month—or nearly three times the total of incoming foreign loans, aid and investment.

"This is all very much the consequence of the Chubais model of reform," says McIntyre. "The tragedy is that there are plenty of perfectly respectable economic alternatives to neoliberal slash-and-burn reforms, but none were ever considered here."

The oft-repeated goal of creating Western-style, middle-class prosperity has evaporated. According to Harvard University's Davis Center for Russian Studies, the number of small businesses in Russia plunged by 50,000, or about 7 percent, between 1995 and 1997.

"Big Russian financial empires, with strong political connections, mostly don't pay taxes," says Tatiana Maleva, an analyst with the Carnegie Endowment in Moscow. "Bankrupt factories can't pay. The government's tax revenues keep falling, and so the squeeze on small businesses gets tighter and tighter every day. No wonder they're disappearing."

The oligarchs are now squabbling over the division of the few remaining juicy state assets. Chubais owes much of his current political discomfort to the mud-slinging war—revelations of conspiracy, corruption and dirty deeds—being waged by the rival tycoons through their private media megaphones.

Moscow sources whisper that professional spies hired by Berezovsky, one of the disgruntled financiers, provided Minkin with documents and details of Chubais' lucrative book deal. Minkin refuses to say, but insists that "if a fact convinces me of its truth, I'll print it."

For the vast majority of Russians, all these Kremlin shenanigans pale beside the daily struggle to survive. As the Russian government scrambles to maintain payments to creditors at home and abroad—often by recycling International Monetary Fund loans—it chronically defaults on wages for millions of public sector workers, pensioners and the military. The International Confederation of Free Trade Unions (ICFTU) estimates that 40 percent of Russian workers did not receive their salaries in October, and only one quarter are paid regularly and in full.

This autumn's global financial turmoil deeply aggravated Russia's woes. Dubbed "the world's best performing stock market" before October's crash, Russia's stock exchange has halved in size. Foreign capital has stampeded out of the country, forcing the government to almost double the cost of its own borrowing and pushing the battered rouble toward collapse.

Even the IMF is furious and threatening to withhold scheduled loans because of the Russian government's chronic inability to collect taxes. This year, tax revenues fell to barely 50 percent of government projections. Ironically, that failure has its roots in IMF-recommended policies implemented by Chubais: The Russian government has systematically cut off assistance to its struggling industries while refusing to burden the big-business oligarchs with serious tax obligations.

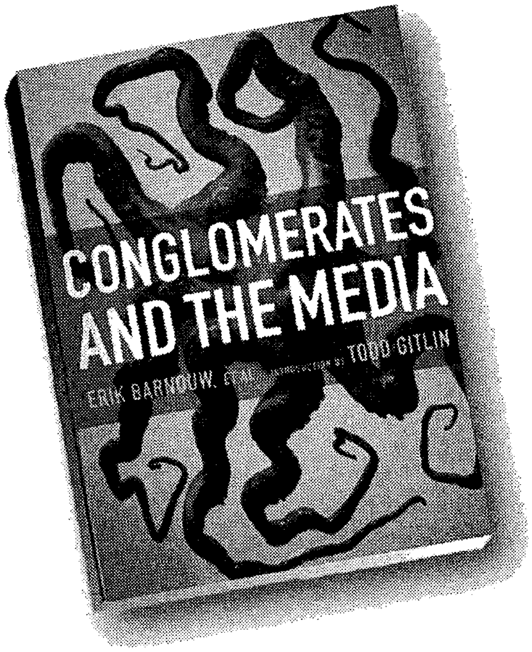
Another scandal is brewing, thanks to yet another scheme devised by Chubais and exposed by Minkin. According to government and banking documents that Minkin published in *Novaya Gazeta*, Chubais sent $7 billion of the state's money on a long and seemingly futile odyssey through the Russian banking system. First the cash was placed in the accounts of local authorities, then transferred to accounts set up for major industrial tax defaulters, then returned—labeled as tax receipts—to the federal treasury.

The point? "The reason for this massive movement of money was to convince IMF inspectors that Chubais is getting Russia's revenue problems in hand, that tax collection is starting to pick up, and that he should be rewarded with more IMF money," says Minkin. "The Russian government survives mainly on IMF money."

Given all this, it may seem incredible that Chubais still has a desk in the Kremlin. But the brand of market reforms for which he remains the prime symbol and key enforcer still has a powerful constituency in the West. For Yeltsin, the calculation may be somewhat simpler: According to the Russian analyst Bunin, "Yeltsin is saving Chubais for the dead of winter, when things are really bad, and firing him will bring maximum political returns." ■

books

Captains of Synergy



Conglomerates and the Media
Erik Barnouw, et. al.
Introduction by Todd Gitlin
The New Press
191 pages, $23

REVIEWED BY JOHN PALATTELLA

A sign of the times: Former Federal Communications Commission (FCC) chairman Reed Hundt recently praised ABC and the Sinclair Broadcast Group for reneging on their promise to Congress to broadcast high-definition signals on their new digitized television channels. Broadcasters had made the pledge—even though it isn't part of the 1996 Telecommunications Act—after Congress agreed to loan the new digitally expanded spectrum to them. Now ABC and Sinclair prefer a more lucrative arrangement. Rather than broadcast a single high-definition show, each wants to shoehorn low-resolution signals for five or 10 programs onto its digital channel. "Great. Let digital broadcasters experiment with the medium," Hundt decreed in a *New York Times* op-ed piece. "To focus on how sharp a picture should be instead of allowing the market to work and to serve the public interest takes the debate about digital television in the wrong direction."

Hundt, of course, is not the first FCC chairman to equate unregulated competition among media titans with the public interest. Who can forget Ronald Reagan's infamous FCC chairman, Mark Fowler? Besides downsizing the FCC, which he branded "a New Deal dinosaur," Fowler gutted broadcasting regulations and thereby set the stage for over a decade of headline-grabbing mergers: General Electric and NBC, Westinghouse and CBS, ABC and Capitol Cities Communications, Time Warner and Turner, and Disney and ABC.

These conglomerates are subjected to equal parts scorn and analysis in *Conglomerates and the Media*. The volume's nine essays, most of them expanded versions of lectures presented in the fall of 1996 at New York University, range over the newspaper, broadcast news, advertising, film and publishing industries with one question in mind: What is the effect of media conglomeration—the clustering of numerous media outlets under one corporate umbrella—on the dissemination of news and culture? The verdict is unanimous: It's disastrous.

Each essay arrives at this judgment by examining a set of issues outlined by NYU sociologist Todd Gitlin in the volume's introduction. Conglomerates, Gitlin writes, "permit and deny access just as they choose. Accountability is not their game. Giving preferences to their corporate partners is. Catering to high-spending demographics is." Most of the essays also echo Gitlin's style, which favors pithy apocalyptic pronouncements about the stranglehold of conglomerates on the future—"Big Brother isn't looming: Brave New World is"—over plans for battling conglomerates in the present. *Conglomerates and the Media* is a book meant to alarm, written for those already alarmed.

The book begins with essays penned by two newsroom veterans: Richard Cohen, a former senior producer of the CBS Evening News, and Gene Roberts, former managing editor of the *New York Times*. Each tells an impressionistic, cautionary tale of a calling degraded and betrayed by a conglomerate's demand for high profit margins. Cohen is no romantic. Though he believes journalists should hold the toes of the powerful to the fire, he doesn't hanker after some golden era of broadcast journalism when idealism wasn't hampered by ratings. But he does lament the recent passing of the era in which network news was the "loss