



RESEARCH PAPER 99/87
8 NOVEMBER 1999

The prospects for Russia

This paper looks at the current economic and political situation in the Russian Federation. It examines how the economy has fared since the financial crash of August 1998 and looks at the implications of the parliamentary elections due in December 1999. It does not deal in detail with the renewed war in Chechnya, but it is intended that this should be the subject of a separate Library Research Paper shortly.

Richard Ware

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Summary of main points

- Russia is still struggling to recover from the upheavals of its economic and political transition.
- Income disparity has widened sharply and almost one fifth of the population are now living in extreme poverty.
- A burgeoning black economy compensates to a degree for the decline in officially measured output, but leaves the state starved of funds for pensions, health, welfare and education.
- The financial crash of 1998 severely undermined the credibility of political and financial institutions and discouraged foreign investment.
- The presidential term of Boris Yeltsin is due to expire in the summer of 2000. Illness, economic failure and allegations of financial impropriety against his family and entourage have left his reputation in tatters. There are many possible contenders for his post, but none has a firm political base.
- Since March 1998 President Yeltsin has changed his prime minister at frequent intervals. Chernomyrdin gave way to Kirienko, who was replaced by Primakov, then Stepashin and now Putin.
- Elections to the Duma (lower chamber of parliament) are due on 19 December and have already prompted a shake-up among the main political parties.
- No single party is likely to dominate the next Duma, but a new regionally-based centrist alliance may rival the communists as the biggest coherent group.
- The election campaign is being overshadowed by a renewed war by federal Russian forces against Chechen nationalists and Islamists. This is bound to influence the Duma and presidential elections, whether or not it was deliberately engineered for this purpose.
- The next president of Russia may try to mobilise the power of the state and the appeal of Russian nationalism to resolve the problems he will inherit, but he will be severely constrained by economic realities and by the need to retain the sympathy of international financial institutions.

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I The state of the Russian economy

Russia suffered a devastating financial crash in August 1998 and with it entered a new phase of political turbulence.¹ Until late 1997 Russia had seemed to most observers to be making slow but tangible progress in stabilising and reforming its economy and in halting the decline in economic output. This decline had begun in the mid-1980s and accelerated upon the collapse of the Soviet political order and disintegration of the communist bloc during 1989-91. Western economists such as Anders Aslund and Richard Layard, who had been close to Russia's reformist ministers in the early 1990s, tended to remain guardedly optimistic about the longer term, despite short-term political setbacks. The IMF held a similar view.

Since the events of 1998 the general western view has become much more pessimistic about short-term Russian prospects and this tendency has been exacerbated by the recent publicity given to allegations of financial impropriety against members of the Yeltsin administration. The assumption that, because of its raw materials and energy sources, industrial muscle and intellectual capital, Russia must have underlying strengths which would sooner or later lead to economic recovery has been badly damaged.

Anatol Lieven has commented:

“The default mode in today's world is not a market economy. It is stagnation, corruption and great inequalities of income.”
 (...) The point is that, given the country's communist legacy, there may in fact be no "solutions" to Russia's problems; none, at least, that in any foreseeable future will allow Russia to achieve the kind of society, democracy and standard of life which approximates to that of western Europe and North America in the 1990s.²

Some western observers and most Russian politicians would disagree with this assessment, pointing to signs of recovery both in the official Russian economic statistics, and, more significantly, in the largely unregulated and untaxed black economy. There is also undoubtedly a great variation in the relative prosperity of the Russian regions. However, the general perception inside Russia seems to be that ordinary people are poor and getting poorer and that the “powers that be”, rather than steering the country to a brighter future, have colluded with corrupt elites at home and abroad to deprive Russia of its natural wealth.

The IMF provided the following assessment in the *World Economic Outlook* dated October 1999:

¹ The immediate causes and consequences of this were summarised in Research Paper 98/89, *Democracy in Russia*, 7 October 1998.

² Anatol Lieven, “Russia and history”, *Prospect*, October 1998. The first sentence is quoted from US economist Jim Millar.

Both macroeconomic stability and prospects for sustained recovery remain at risk unless further progress is made in addressing the fiscal and structural problems that were the root causes of the August 1998 crisis. (...) Without a reinvigorated effort to move ahead with banking sector rehabilitation, fiscal, and other structural reforms, the recent macroeconomic stabilization and turnaround in industrial output are unlikely to last.³

A. The domestic economy

The 1998 crisis had some international causes, in that the severe problems in other “emerging” market economies undermined confidence and prompted financiers such as George Soros to predict Russian devaluation. It also had some international effects, in that it became impossible either to pay external debts denominated in dollars or to sustain the previous rouble-dollar exchange rate. However, the prime causes were internal: despite efforts to increase tax collection and reduce public expenditure, the government was quite unable to operate a balanced budget without printing money. The Russian Central Bank could only support the exchange rate by disposing of its foreign currency reserves, which were already inadequate to meet debt servicing and were further depleted by the fall in the price of oil during 1998, oil being one of Russia’s few remaining dollar-earning exports. It has been argued that the underlying cause was that success in lowering inflation had not been matched by a growth in confidence. Lower inflation should have led to lower interest rates, but the political weakness of the government meant instead that it could only borrow money at cripplingly high interest rates.⁴

Once the exchange rate came under pressure, Russian savers lost confidence both in the Russian stock market and in the ability of the Russian banks to protect their money in rouble accounts, even with raised interest rates. The stock market fell rapidly and numerous private banks crashed, wiping out the savings of businesses and private individuals alike.

The short-term political fall-out was dramatic: the five-month-old government of Sergei Kirienko was sacked. By trying to reinstate Viktor Chernomyrdin, the prime minister whom he himself had sacked only in March 1998 (ostensibly for his lack of dynamism and initiative), President Yeltsin confirmed that he had no new solutions to offer. It became clear that the Duma would not support Chernomyrdin and the president was forced to back down. Eventually he accepted instead the nomination as prime minister of Yevgeny Primakov, the foreign minister in the outgoing government, who had no experience of economics, but was trusted by almost all the parties represented in the Duma.

Primakov was successful in stabilising the political situation and restoring a modicum of public trust in the government, if not in the presidency, but on 12 May 1999, with little

³ *World Economic Outlook*, IMF, October 1999, pp 67, 70, <http://www.imf.org/external/pubs/ft/weo/1999/02/index.htm>

⁴ See John Chown, “The Russian currency crisis”, *Central Banking*, November 1998, 47.

progress made in dealing with the economic situation, he in turn was sacked by the president, as was his successor, Sergei Stepashin, on 9 August 1999 after only 12 weeks in office.

In these circumstances, it has been difficult to carry forward structural reform of the Russian economy. However, a massive devaluation of the rouble against foreign currencies was bound to have some beneficial short-term effects. The average exchange rate during 1997 had been 5.8 dollars to the rouble and it was held near to this level until 17 August 1998. By September 1999 it had fallen to 25.4 dollars to the rouble. The fall in the value of the rouble made imports much more expensive and gave an impetus to those domestic industries, such as food-processing, brewing, textiles and footwear, which could raise production without heavy investment in new plant.⁵

Automobile manufacturing also benefited from the devaluation and was 9.7% higher in the first half of 1999 than in the first half of 1998. However, by September 1999 there were some signs of the devaluation boost wearing off and of manufacturers having to raise prices and cut production due to the rising costs of components.⁶

Industrial production rose overall by 12.8% in the year to July 1999,⁷ but most of this was for domestic consumption and did not help the trade balance. Russian products had also become cheaper to buy in neighbouring former Soviet republics, but some of these, including Belarus, which aspires to economic union with Russia, had been badly hit by the Russian collapse and imposed additional tariffs and embargoes to protect their own producers. Higher prices in oil (especially) and gas markets boosted the value of Russian exports and helped to support the value of the rouble, but, according to the IMF, there was little sign of devaluation having boosted Russian exports in general. Moreover, the benefit from higher export prices for oil and gas was limited by production and transportation bottlenecks. Nor did it help with the agricultural or construction sectors.⁸

It is difficult to measure with any precision where the Russian economy currently stands in relation to previous levels of activity. In 1998 real terms GDP was only 60% of the level reached in 1991, and fell still further from 1998 to 1999, despite the limited recovery in some areas of production.⁹ However, all observers are agreed that there is a

⁵ Michael Kaser, "Escape routes from Post-Soviet inflation and recession", *Finance & Development*, June 1999, p 6

⁶ *Kommersant*, 10 September 1999, p 7

⁷ *The Economist*, 21 August 1999, p 94

⁸ In September and October a series of more optimistic economic statistics were published, suggesting a strong recovery. For example, industrial production in September 1999 was 20% up on September 1998. However, it should be remembered that the financial crisis of summer 1998 had severe short-term effects on the whole of the Russian economy (Michael Lelyveld, "Some in West doubt Russian economic rebound", RFERL commentaries at <http://www.rferl.org/> 25 October 1999).

⁹ The GDP index (1989=100) for the Russian Federation was 92.2 in 1991 and 55.9 in 1998. Source: United Nations Economic Commission for Europe, *Economic Survey*, <http://www.unece.org/ead/pub/survey.htm>

very high level of informal economic activity missed by the official statistics. The main reason for this activity remaining informal is tax evasion. A huge amount of unregulated or partially regulated trading of goods and services is taking place. For example, trading in clothes, white goods and consumer electronics appears to have virtually ceased in the shops (other than at the luxury end of the market), but is taking place on a very large scale in the open air, literally off the backs of lorries or from market stalls. A recent international comparative study of black economies puts the Russian shadow economy at around 40% of the total (cf 20-30% range in EU countries).¹⁰

According to Michael Kaser:

One can therefore say that more “welfare” is now being generated per rouble produced than under the communist economy. But even if informal output has made up the deficiency resulting from the fall in measured GDP, notional welfare may still be lower in aggregate because income and wealth disparities have increased, while the provision of social services has diminished.¹¹

In other words, more is being spent on the consumption of luxury items by the wealthy elite and less on the basic needs of the majority of the population. Kaser quotes World Bank figures showing the proportion of Russians living in “extreme poverty” projected to reach 18.5% in 2000. Investment has also fallen dramatically (to around 20% of 1990 levels), limiting the prospects for future growth.

Even according to the official figures, the proportion of public expenditure in GDP is very low by international standards. Federal state expenditure is put at only 14.3% in 1998, total public expenditure (including the regions and local government) at only 28.9% (1996). This compares to 38% for the USA and higher figures in Europe. However, if the black economy is taken into account, then the proportion of national wealth used by public bodies would be even lower, since most informal activity is not of a public nature. This helps to explain why, despite a good deal of conspicuous private consumption by Russians at home and abroad, the government has the greatest difficulty in paying salaries and pensions, in maintaining public health and education services and in providing essential fuel and transportation services in those far-flung inhospitable regions which in the past were heavily subsidised from the centre.

The Minister of Finance Mikhail Kasyanov released figures on 17 September 1999 showing that the average standard of living had declined by 30% during the past year due to inflation higher than the growth of incomes.¹²

¹⁰ *The Economist*, 28 August 1999, p 67.

¹¹ Michael Kaser, “Escape routes from Post-Soviet inflation and recession”, *Finance & Development*, June 1999

¹² <http://gazeta.ru/news> 17 September 1999

The black economy may yield little or no revenue to the government, but it is not completely without regulation. In practice it is usually taxed by criminal organisations which extend “protection” (a *roof* in Russian) over markets and pavements. Much has been written recently about both the more traditional Russian criminal gangs and the newer specialists in drugs, fraud and extortion.¹³ Many Russian and foreign observers would include in this category the so-called “oligarchs” who, in the latter half of the Yeltsin presidency, seem to have captured the media, the banks and large segments of the privatised economy.

On domestic economic reform, the IMF concludes:

The authorities have furthermore been unsuccessful in moving beyond the post-crisis standstill in other areas of structural reform. There has been little or no further progress in the liberalization of the economy or in enterprise restructuring, and there have been reversals in some areas, including in the enforcement of bankruptcy procedures, the regulation of infrastructure monopolies, and trade policy. The privatization effort has also slowed considerably, with no major sales thus far in 1999.¹⁴

Most observers agree that the government has to find ways of bringing the informal economy back under public control. This would require reinforcement of the tax inspection and collection agencies and effective police action against the “protection” industry, both expensive measures for the state to undertake. Some, including the communists, also argue that the rates of taxation of business need to be reduced in order to stimulate activity and provide incentives for it to be carried out legally. Unfortunately, Russia has already gone a long way down a vicious spiral in these matters and will find it difficult to find a way back.

B. Russia in the world economy

As Russia headed towards devaluation and default, a massive IMF loan package in July 1998 failed to prevent the calamity and almost half of it was immediately used up on a failed attempt to support the rouble exchange rate.¹⁵

Russia owes \$40bn to Paris Club (governmental) creditors, of which half is owed to Germany, but has been in “technical” default since the financial crisis of 1998. It was agreed in early August 1999 that the \$8bn which was needed to service this debt during 1998-2000, hardly any of which has been paid, will instead be spread over the next 20

¹³ See, for example, *The Economist* special feature of 28 August 1999

¹⁴ *World Economic Outlook*, IMF, October 1999, p 70, <http://www.imf.org/external/pubs/ft/weo/1999/02/index.htm>

¹⁵ Nigel Gould-Davies & Ngaire Woods, “Russia and the IMF”, *International Affairs* (RIIA – London), January 1999, p 17.

years. It was also agreed that a decision will be made about the outstanding debt late in 2000, that is after the next presidential elections.¹⁶

Russia has also defaulted technically on the “London Club” commercial debts which it inherited from the Soviet Union. These are normally valued at \$32bn and traded as bonds. The most likely solution is that a proportion will be written off in return for the remainder being accepted as official government-backed debt by Russia. At present the debts are held against the state-owned Vneshekonombank which could be declared bankrupt at any time.¹⁷

While these negotiations continue, the IMF agreed in August 1999 to a \$4.5 bn loan renewal, that is an option to borrow the sum over 18 months, solely in order to pay money due on previous IMF loans. This was to take the form of seven tranches of \$640m each, the first to become available immediately. The IMF agreement was expected to pave the way for a new World Bank loan to Russia for restructuring of the economy.

The hard currency reserves of the Russian Central Bank have been declining steadily as the Bank has tried both to support the exchange rate of the rouble and find funds for international loan repayments. President Yeltsin’s special representative to the international financial organisations, Mikhail Zadornov,¹⁸ claimed that the IMF deal would allow the Bank to concentrate on monitoring the rouble exchange rate, which the Russian government expected to track Russian inflation.¹⁹ Independent sources estimate annual inflation during 1999 at between 30 and 60%.²⁰ Russian financiers hoped that the IMF agreement would also help to stabilise the exchange rate and reduce the risk of another major devaluation. There are some doubts as to whether this will prove possible. Since the Russian authorities have made it more difficult to convert rouble surpluses into foreign currency for safe keeping abroad, a large rouble “overhang” has built up inside Russia and this threatens to undermine the stability of the exchange rate in the longer term. Neither the Russian stock market nor occasional issues of government-backed bonds are sufficient to absorb this reservoir of roubles.

At the same time, concern has been growing about the ease with which some Russian companies and individuals have been able to transfer hard currency holdings to foreign bank accounts, often in weakly regulated off-shore jurisdictions. There have been suggestions that money lent to Russia by the IMF in recent years may have ended up in such accounts, but the IMF states that it has, as yet, no direct evidence of this.²¹ An

¹⁶ *The Economist*, 7 August 1999, p 78

¹⁷ *The Economist*, 7 August 1999, p 78

¹⁸ resigned on 2 September 1999 to concentrate on elections

¹⁹ *Virtualnyi Peterburg – Business City*, <http://www.vp.ru> on 6 August 1999.

²⁰ Michael Kaser, “Escape routes from Post-Soviet inflation and recession”, *Finance & Development*, June 1999, p 6

²¹ The official IMF view is given on its web-site at <http://www.imf.org/external/np/vc/1999/091399.htm> as of 29 October 1999).

Economist leader of 28 August argued that any further loans to Russia should come directly from governments, for explicitly political reasons, and be entirely transparent as to their motives and conditionality: “western governments should be prepared to take responsibility for whatever emergency aid they give to Russia, rather than force the IMF to engage in games of make-believe”.

On 30 September 1999 the Managing Director of the IMF, Michel Camdessus, commented:

...our work in Russia is extremely difficult. We know pretty well that we are working in a universe where there is flight of capital, corruption, instances of bad governance, and in a country where it is absolutely essential, as the Governors have reminded us, to make a major effort, together with the Russian authorities, to make totally unquestionable the financial integrity of the financial institutions of Russia. We are doing this work. But I believe that if this is a priority for us, it is also a priority for the Russian authorities, and we give them credit for working in that direction.²²

One side effect of the latest allegations concerning IMF loans, Russian politicians and foreign banks has been to make foreign businessmen more aware of the differences between the Russian regions and their riskiness for foreign investment. According to a Russian businessman trying to raise investment capital in the USA: “They no longer trust us. The only positive sign which I have noticed is that many American businessmen have stopped treating Russia as a single country and have begun to see it instead as a collection of sharply differing regions.”²³

C. The example of Gazprom

Gazprom (the Russian acronym from “Gas Industry”) is the privatised company which is responsible for one quarter of world gas production.²⁴ It is Russia’s biggest private company, because the old Soviet gas industry was privatised as a single entity, and is also Russia’s biggest earner of foreign currency. The Russian state retains 38.37% of the shares and the right to nominate 5 of the 11 directors. The government representatives are currently Viktor Chernomyrdin, still leader of the “Our Home is Russia” political bloc, and 4 nominees of the relevant ministries. Chernomyrdin became chairman of the board at an extraordinary meeting on 26 August 1999. He had been the minister for the gas industry before privatisation and served as prime minister from 1993 to 1998. There have been suggestions that he retained a close interest in the fortunes of Gazprom throughout this period. For example, Anders Aslund commented on the favourable treatment of Gazprom for tax purposes:

²² <http://www.imf.org/external/np/tr/1999/TR990729.htm> (as of 29 October 1999)

²³ *Vremya*, 13 September 1999, p 5

²⁴ “Gazprom at centre of power struggle”, *Financial Times*, 7 August 1999.

The only plausible explanation for the truly exceptional treatment Gazprom received is that prime minister Chernomyrdin rewarded his old colleagues at the expense of the state.²⁵

In 1998 Chernomyrdin's successor, Sergey Kirienko, and his tax minister Boris Fedorov made an ill-fated and ultimately unsuccessful attempt to "raid" the company and extract what they considered a reasonable tax on its revenues for the government. Since then the government has been making sporadic attempts to expose the true financial position of Gazprom from its obscure accounts, but has had to settle for a pragmatic concordat on the subject of tax. The Russian government has also come under pressure from abroad to break up Gazprom and destroy its monopolistic position, but here again the company is powerful enough to resist.

The chief executive of the company, Rem Vyakhirev, is courted by many politicians (and also by the presidents of the former Soviet republics which are heavily in debt to Gazprom), but has had a turbulent relationship with President Yeltsin and his entourage, including the media tycoon Boris Berezovsky.

An immediate issue is how much money Gazprom will spend on the forthcoming elections and which candidates it will support. Vyakhirev is close politically to Yury Luzhkov²⁶ and is expected to support the "Fatherland-All Russia" alliance. Gazprom owns a 30% stake in the NTV television company which is also supporting Luzhkov's campaign. However, Gazprom may decide to hedge its bets by supporting other parties too.²⁷

One reason for Gazprom to be generous in its support of the more moderate parties is that an incoming administration could come to the conclusion that the renationalisation of companies such as Gazprom is the only way for the state to regain control of valuable flows of revenue. Neither Primakov nor Luzhkov is likely to announce such a policy in advance, but they could be tempted once in power. Although the government stake in Gazprom has recently been confirmed as federal property by presidential decree, the Yeltsin-Putin administration is reported to be considering selling a portion of its shares to raise revenue.²⁸

Gazprom and its leading figures have also been mentioned in the context of international investigations into flows of money out of Russia to off-shore tax havens.²⁹

²⁵ Anders Aslund, *How Russia became a market economy*, 1995, p 159.

²⁶ See pp 21-22.

²⁷ Based on article by Boris Grozovsky, <http://www.polit.ru> 27/8/99

²⁸ Interfax news agency, Moscow, in English 0837 gmt 11 October 1999

²⁹ Paul Farrell, "The rape of Russia...", *The Observer*, 5 September 1999.

II The state of the Russian political system

A. Pressures on the constitution

The 1993 constitution continues to provide the basic framework for the Russian political system, but it has come under severe strain. It provides for the separation of powers, but leaves the president as distinctly the strongest element in the balance. In the light of Boris Yeltsin's frequent and prolonged illnesses since the 1996 presidential election and his damaged political reputation, the strongly presidential constitution has come to be seen by many as a liability. The constitution makes no provision for a vice-president and gives the only unavoidable vice-presidential role (that is interim succession in the event of the president's incapacity or death in office) to the prime minister. This role was actually played very briefly by Viktor Chernomyrdin in late 1996, whilst Yeltsin was undergoing heart surgery, but the latter was determined to prevent his prime minister becoming the *de facto* president. This may have been the main reason for Yeltsin's dismissal of Chernomyrdin in 1998 and for the rapid turnover in prime ministers ever since. Vladimir Putin was appointed to the premiership in August 1999 and described as Boris Yeltsin's personal choice to succeed him as president, but by October there were already rumours that Putin, although apparently popular with the public, was falling out of favour with President Yeltsin and might soon be replaced.³⁰

Features of the 1993 Constitution

- "Russia is a democratic federative law-governed state with a republican form of government." (Article 1)
- The federation is composed of 89 regions and republics.
- A directly elected president controls foreign and defence policy.
- The president appoints head of government (prime minister), but consent of the Duma (lower chamber) is needed.
- The president can dissolve the Duma if it rejects his choice 3 times.
- Laws adopted by the Duma can be vetoed by either the president or the Federation Council (upper chamber with equal representation of the federal components).
- The president can rule by decree in areas not covered by laws.
- The president can declare martial law or state of emergency, but may not dissolve the Duma during such a period.

There have been numerous proposals to amend the constitution. Some would tilt the balance of power back towards a parliamentary republic; others would deal with some of the numerous "gaps" which have been identified in the 1993 text; others would reintroduce the vice-presidency. There has been speculation at various times that

³⁰ *Segodnya*, 13 Oct 1999, via BBC Monitoring Online

President Yeltsin might try to strike a deal with the Duma and the Federation Council over a package of constitutional amendments which would give him legal immunity in retirement. There is a possibility that if the Duma emerges from the elections with a fairly coherent majority and if the presidency remains weak and compromised, then the Duma might be in a position to push through constitutional changes.³¹

Another scenario which has led to speculation about the constitution concerns the possible re-unification of Belarus with the Russian Federation. Negotiations about this have been under way since 1995. The Russian side continues to envisage a “commonwealth” or “confederation” of two states, each of which would retain its sovereignty and institutions, with joint actions being determined within a hierarchy of joint institutions, somewhat on the model of the European Union. This would differ little from the largely symbolic agreements already in place and would probably not require amendments to the Russian constitution. By contrast, President Lukashenka of Belarus favours a single state with a single joint president and vice-president. Genuine unification would be disadvantageous to Russia at present because the Belarus economy is in an even worse state than the Russian economy and Belarus is heavily in debt to Russia in respect of past energy supplies. However, there has been speculation that President Yeltsin might be tempted by the creation of an overarching presidency, to which he might accede, with continuing legal immunity, at the end of his term as Russian president. Alternatively, the prospect of unification with Belarus might be used as a pretext to postpone the Russian presidential election. The scenario seems improbable because it is unlikely that the stronger form of union treaty could be made compatible with the existing Russian constitution. While visiting Minsk to discuss the union proposals on 8 September, the Russian prime minister stressed that he did not envisage any development which would require a referendum in Russia in the near future.³² The Russian government has now initiated a period of “public consultation” on the draft proposals.³³

In practice, it will be difficult to amend the constitution in any respect without overturning it completely, because of the hurdles erected in the constitution itself. Most of the operational provisions of the constitution (chapters 3-8) can only be amended with the approval of three quarters of the members of the Federation Council (upper chamber), two thirds of the members of the State Duma *and* two thirds of the constituent entities of the Russian Federation.³⁴ Changes to chapters 1, 3 and 9 require the convocation of a Constitutional Assembly by a three fifths majority of the combined membership of the two chambers.³⁵ If a duly convoked Constitutional Assembly could muster majority

³¹ as argued by Konstantin Sergeyev, *Argumenty i fakty*, 36, 1999, p 4.

³² *St Petersburg Times*, 10 September 1999

³³ *Nezavisimaya gazeta*, 26 October 1999, <http://www.ng.ru/1999-10-26>

³⁴ Articles 136 and 108.

³⁵ V V Lazarev et al (eds), *Konstitutsiya rossiiskoi federatsii: kommentarii* [Commentaries on the Russian Constitution], 1997, p 572. The authors assume that the “three fifths” required by the constitution at this point was an error – the writers of the constitution probably intended a fraction greater, not lesser than two thirds.

support, but not to the extent of a two thirds majority, for a constitutional amendment, then it could call a referendum. A law regulating this process was passed in 1998, paving the way for the consideration of actual proposals for amendments, but none has so far reached a vote.

B. The last months of the Yeltsin presidency

During his second term of office as Russian president, Boris Yeltsin's overt political interventions have mainly taken the form of unexpected sackings of prominent ministers and prime ministers. Under the 1993 constitution a prime minister who commanded a majority in the Duma could easily become a powerful rival to the president, particularly if the latter were ill and/or unpopular. President Yeltsin has sought to avoid this by appointing prime ministers who could win only grudging acceptance by the Duma and had no hope of mobilising majorities on a regular basis subsequently.³⁶

Under the constitution the president has strong powers to veto legislation and to take the initiative in wide areas of foreign and defence policy. These prerogatives provide the justification for the creation of a powerful bureaucracy answering directly to the president and his personal staff, separate from the government. The presidential administration has been likened to that of the old Communist Party central committee, which similarly tried to shadow and control the activities of the various branches of the Soviet government. In some areas of policy, for example the handling of the Chechen conflict during 1994-6, policy seems to have been steered more by the presidential apparatus (including the security council) than by the government as such.

A third feature of the Yeltsin presidency has been the closeness of the president and his family to the world of private entrepreneurship and the notorious "oligarchs" who span public and private interests. This closeness has inevitably led to allegations of financial impropriety involving the president's family and close political associates. Such allegations have arisen throughout his second term, but became particularly threatening to his reputation and status in the summer of 1999 because they involved foreign bank accounts and accusations of money laundering. This has meant that the alleged scandals have become subject to judicial investigation abroad. One of those named in the latest scandal, the financier and one-time Yeltsin advisor/minister Boris Berezovsky, has claimed that the whole affair had been manufactured on the instructions of the would-be presidential candidate Yury Luzhkov.³⁷

To his credit, Boris Yeltsin has survived almost eight years as president of the independent Russian Federation without trampling on human rights and the freedom of

³⁶ The only exception to this was Yevgeny Primakov, who was appointed in the aftermath of the August 1998 crisis, contrary to President Yeltsin's initial intention.

³⁷ <http://gazeta.ru/daynews/27-08-1999>. See also *The Observer* of 17 October 1999 on the allegation that Berezovsky was responsible for siphoning off profits from the airline Aeroflot into Swiss bank accounts.

speech within Russia itself (Chechnya being another matter). He was in technical violation of the previous constitutional order when he suspended the Supreme Soviet in 1993. Moreover, the approval of the new constitution at the end of that year may have been based on an exaggerated referendum turnout, but he has otherwise operated within the norms set down by the constitution. To date, the regular rumours that he might suspend the constitution in order to stay in office beyond his legal term have not been borne out.

However, the final months of the Yeltsin presidency, like the middle period, seem destined to be dominated, and marred, by the conflict in and around Chechnya. The renewed outbreak of the conflict in August 1999 began with an attempt by Islamic radicals based in Chechnya to ignite an insurrection in neighbouring Dagestan. The move coincided with the unexpected appointment of Vladimir Putin, the head of the Federal Security Service,³⁸ as the latest of President Yeltsin's numerous prime ministers. There were widespread suspicions that the Chechen incursion into Dagestan had been allowed to happen, or even caused to happen, at the instigation of shadowy forces in the Kremlin. These forces, it was said, hoped that the resulting instability might provide the grounds for a national state of emergency and suspension of the constitution. The following month, when terrorist explosions began to take place in Moscow, some politicians and mainstream newspapers speculated that the bombs might have been connected with high politics in Moscow rather than with Chechen extremism, as most assumed.³⁹

In the event, the September explosions in Moscow and southern Russia, which claimed around 350 lives, were not used as a pretext for an immediate state of emergency, but they were used to justify a new large-scale attempt to reclaim Chechnya by military means. The repercussions of this will inevitably influence the elections and have already raised the popularity of the tough-talking Putin.

III Political parties and political conflict

Elections to the State Duma are due to be held on 19 December 1999. This will be the third time that Russians have gone to the polls to elect the Duma since its creation in 1993.⁴⁰

³⁸ One of the two successor organisations to the KGB – the other is the External Intelligence Service, which was headed by Yevgeny Primakov 1991-1996.

³⁹ Anton Stepanov, "Who is guilty? Two explanations for one act of terror", *Moskovskie vedomosti*, 13 September 1999, p 6. It later emerged that some "dummy bombs" had been planted by the Federal Security Service "to test responses", BBC Online 24 September 1999 and *The Economist*, 9 October 1999.

⁴⁰ The first elections, which were held at the same time as the referendum to endorse the new constitution, were for a two-year term only.

The 5% hurdle for the 225 proportional representation seats in the Duma has persuaded some of the smaller and newer political parties to form electoral alliances, but the political stage remains very crowded⁴¹ and by no means all of the parties and blocs in the current line up will succeed in gaining more than 5% of the vote. In 1995 only four did so (the Communists, the LDP, Our Home is Russia and Yabloko).

The Legislature and Election Law

- Under the constitution of 1993 the Federal Assembly consists of two chambers: the Federation Council and the State Duma.
- Under the constitution the Federation Council has two representatives from each component of the federation, i.e. 178 members. A separate law has established that these are to be the current local governor or president and the current chairman of the local legislature by virtue of their offices. Elections to these offices follow local time-tables, so there are no national elections to change the membership of the Federation Council.
- The constitution fixes the membership of the State Duma at 450 and the term at 4 years, but the method of election is left to a separate law.
- The 1999 law on elections to the Duma, like the previous one, allocates 225 seats to deputies elected in single member constituencies and 225 seats to deputies chosen by proportional representation from party lists.
- In order to qualify for list seats parties must obtain at least 5% of the vote.
- Parties may publish both national and regional lists of candidates.
- Parties may combine to form electoral alliances for the purposes of the 5% rule.

For the 1999 elections the spectrum of parties with realistic chances of achieving more than 5% consists of a communist alliance (“For victory!”), two competing centrist/regionalist alliances (the “Fatherland-All-Russia” electoral bloc and the “Inter-regional Unity Movement”), the quasi-fascist LDP and three rival reformist groups (Yabloko, Our Home is Russia, and the Union of Right Forces).

The Communists and allies

In 1995 the Communist Party won 22.3% of the vote and obtained 157 seats in the Duma (99 PR list seats and 58 in single-mandate constituencies). While this was well short of a majority, it was able to muster sufficient support from allies, such as the Agrarians, and nominal independents to win votes regularly on general and procedural issues, such as the election of the Speaker (the communist Seleznev).

⁴¹ 31 parties and alliances had declared at the close of registration on 24 October 1999

The general expectation seems to be that they will do less well in 1999 and will no be dominant in the new Duma. There are several reasons for this perception. One is that the communist presidential candidate Gennadi Zyuganov, who is still the party leader, failed to beat Boris Yeltsin in the second round of the 1996 presidential elections, despite Yeltsin being already deeply unpopular. The financial collapse of August 1998 marked a further watershed in making a return to the pre-Gorbachev world seem even less feasible. Paradoxically, the formation of an administration by Yevgeny Primakov in 1998 did bring some individual communists back to power (Maslyukov to the economic vice-premiership, Gerashchenko back to the Central Bank governorship), but no longer with any prospect of carrying out communist policies. Instead, both the government and the Central Bank had now to prepare programmes acceptable to the IMF or provoke open default. It was now clear to all that the state no longer had the resources to protect the vulnerable social groups to which the communists made their appeal.

Opinion surveys have also shown that communist supporters are an ageing group and that the party has not yet succeeded in reinventing itself as a party of protest for the younger generation.

An additional problem for the communists is that they may have fewer allies in the next Duma. The Agrarian Party, which was originally based on the rural wing of the old CPSU, has now split into two factions, one of which is supporting the Fatherland-All-Russia movement (see below). It is also less likely that independents with strong local backing in the single mandate seats will turn out to be communist sympathisers, given that two regional-centrist alliances which did not exist in 1995 are mobilising to capture the same seats.

The communists are trying to rally support by emphasising patriotism and evoking the spirit of the war, for example in their appeal published in *Sovetskaya Rossiya* on 31 August:

We are prepared for this struggle, as we are following the guiding star of the Great Victory (defeat of Nazi Germany). Under the banner of this victory we are urging the entire nation to rise in resolute battle to save Russia. Join us - the worker and the peasant, the priest and the researcher, the writer and the doctor, the soldier and the sailor...

The Communist Party is the backbone of the union of patriotic forces... Today, the Communist Party bears a lion's share of organizational and political expenses, but it is doing so not as the absolute master, but as a wise and patient friend. It readily shares its experience with others and is eager to learn from others... Let all of us rise in the defence of Russia, the Motherland and the people! Rise, Great Country! Our Cause is Just! We shall win!⁴²

⁴² *Sovetskaya Rossiya*, via BBC Monitoring Online, 31 August 1999

Fatherland-All-Russia electoral bloc

This bloc is the result of a political marriage which took place in August 1999 and could turn out to have far-reaching consequences. “Fatherland” had existed for some time as the political vehicle of Yury Luzhkov, the pugnacious mayor of Moscow who has long been considered a potential presidential candidate, but whose prospects seemed to be constrained by his limited appeal outside the Moscow region. In August 1999 Luzhkov did a deal with the former prime minister and foreign minister Yevgeny Primakov, who accepted his invitation to head the candidates list for the Duma elections of what now became the “Fatherland-All-Russia” bloc. Luzhkov himself is second on the list, although as head of the Moscow administration he is already an active member of the Federation Council (upper chamber). The question of which, if either, of the two men would subsequently go on to contest the presidency on behalf of Fatherland-All-Russia is officially deferred. It is not impossible that the bloc could split after the Duma elections and both stand for the presidency. Alternatively Primakov, might content himself with the role of Duma chairman (“Speaker”), should the bloc emerge as a major force at the elections. Primakov enjoyed widespread support in the Duma when he was prime minister and it is possible that he would be supported for the chairmanship by the communists as well as by his own bloc. Primakov (b1929) is seven years older than Luzhkov (b1936).

The formation of the new alliance had an immediate political impact because it transformed Luzhkov’s movement into a national force, capitalising on the good will amassed by Primakov during his premiership. This had not been outstandingly successful, but it had restored some dignity and stability to the political scene after the turmoil of August 1998. The abrupt sacking of Primakov in May 1999, for no obvious reason, also made him into a natural focus of dissatisfaction with Boris Yeltsin. The new alliance enjoys the support of the governors of St Petersburg and also of the presidents of such non-Russian autonomous republics as Tartarstan, Bashkortostan, Chuvashia and Ingushetia. In the current Duma its supporters include leading figures from the Agrarian Party, the Women of Russia bloc and the “Russia’s regions” grouping.

The real question mark over the Fatherland-All-Russia bloc concerns its political colour and whether it represents a sufficiently coherent set of ideas. One of the strengths of the new grouping is that it cannot be dismissed as naïvely reformist, nor as communist or neo-fascist in tone. The word usually chosen to describe its economic policy is “pragmatic”. Luzhkov has been described as a “bureaucratic capitalist”.

Primakov told the alliance’s founding conference that Fatherland-All-Russia was both centrist and patriotic and that it would avoid extremes. He said that it was the party of “statesmen” (that is “believers in the state idea”):

A statesman today is he who seeks to use all of the attributes and possibilities of the state mechanism, in the first place to preserve the territorial integrity of Russia. (...) Our bloc, when it attains a good representation in the State Duma, will be able to marry democracy and order. I am sure we can achieve this.⁴³

He said that the bloc would seek state regulation within the framework of the market economy, adding that if appropriate regulation was in place, there would be no petrol crisis.⁴⁴ Primakov also reassured his audience that the state could put the economy straight without “property revision”. In other words, there would be no attempt to reverse privatisation.

As for international relations, Primakov said that the Fatherland-All Russia alliance “will not allow a slighting attitude towards Russia at the international level”. Russia would become again an equal partner of “the strong of this world”, but this would be achieved “without taking risks, without taking the matter to confrontation.”⁴⁵

Fatherland-All-Russia supported the first phase of the Russian operation to prevent Chechnya being used as a base for attacks on Russia itself and on Dagestan. Yury Luzhkov explicitly endorsed the occupation of the north bank of the Terek River. However, he expressed doubts about the wisdom of trying to capture and control the rest of Chechnya, including Grozny, insisting that prime minister Putin must take full responsibility for the consequences.⁴⁶

Assessments vary as to the electoral prospects of the new bloc. Some see its emergence as a milestone in the post-communist development of Russia because it breaks out of the deadlock between communist/nationalist and democratic reformist parties. On the most optimistic reading the bloc could provide a new consensus, combining national pride and regional roots with economic realism. A more cynical assessment⁴⁷ is that the new bloc is merely an instrument for the *nomenklatura* [Soviet and post-Soviet establishment class] to detach itself from the declining Boris Yeltsin and present a fresh face to the electorate. It remains to be seen whether the alliance can attract enough support to become a major political force in the Duma, or whether it will merely add to the existing plethora of small parties with ambitious leaders.

Unity

The successful launch of the Fatherland-All-Russia electoral bloc was followed by the creation of a rival movement, also with strong regional roots and a claim to energetic patriotism. This began life as the Inter-regional Unity Movement [Russian acronym:

⁴³ Centre TV, Moscow 28 Aug 99, via BBC Monitoring Online

⁴⁴ ITAR-TASS news agency, 28 Aug 1999, via BBC Monitoring Online

⁴⁵ ITAR-TASS news agency, 28 Aug 99

⁴⁶ Speech at Chita, 1 November 1999, Interfax report via BBC Monitoring Online

⁴⁷ eg by Vladimir Tretyakov in *Nezavisimaya gazeta, setovaya versiya*, www.ng.ru/ 2 September 1999

“Bear”], but is now known simply as “Unity”. At first it consisted of a group of regional governors who saw the value of a regional coalition, but, for one reason or another, did not wish to rally to the banner of Yury Luzhkov of Moscow. These included the well-known Eduard Rossel of Sverdlovsk region⁴⁸ and Aleksandr Rutskoi of Kursk, who was Boris Yeltsin’s rebellious vice-president in 1993. The founders of Unity seem to be divided in their current attitude towards Boris Yeltsin. Some hoped that it would provide continuity and a life-boat for those serving in the Yeltsin administration, proposing an eventual electoral link-up with the pro-Yeltsin “Our Home is Russia”, whereas others, like Rutskoi, had based their appeal to the electorate on opposition to Yeltsin and everything he stood for.⁴⁹

The regional governors who stand behind “Unity” have chosen the long-serving minister for emergencies Sergey Shoigu to lead their electoral list for the Duma. Shoigu has been mentioned in the past as a Yeltsin “favourite” and a possible candidate to succeed Vladimir Putin as prime minister, or even to replace Putin as Yeltsin’s favoured presidential candidate.⁵⁰

The extent to which Unity is entering the elections as the party of Yeltsin and Putin remains unclear. Putin attended the party’s launch on 3 October as a guest and there has been notably favourable coverage of Unity in media outlets controlled by Boris Berezovsky. However, the main purpose of Unity seems to be to prevent Fatherland-All-Russia from becoming too dominant in the next Duma. Beyond that objective, its backers seem to have little in common.

The Liberal Democratic Party

The so-called Liberal Democratic Party of Vladimir Zhirinovsky created shock waves around Europe in 1993 when it obtained 23% of the vote in the Duma elections on a quasi-fascist platform. However, by 1995 its support had fallen to 11% and opinion polls have been suggesting that it may struggle to reach 5% in 1999. There are several reasons for this. In the early 1990s the political conflict appeared to be mainly between nostalgic communism and liberal reform, neither of which appealed to the many voters who thought that Russia’s salvation lay in a form of patriotic authoritarianism. In 1993 Zhirinovsky made a powerful oratorical appeal to these voters. In 1999 the “patriotic” segment of the political spectrum is much more crowded. Yury Luzhkov, in particular, has been busy building churches and war memorials, while taking a tough stance on crime, terrorism and migrant workers. The communists are also keen to drop most of their Soviet-era baggage and are concentrating on reviving the patriotic spirit of the 1940s.

⁴⁸ *Vremya*, 13 September 1999, p 2

⁴⁹ NTV, Moscow, 1 October 1999, via BBC Monitoring Online

⁵⁰ ‘Segodnya’, Moscow, in Russian 13 Oct 1999, via BBC Monitoring Online

Another problem for the LDP is that it has targeted liberals and reformists as its principal enemies and has often voted in the Duma alongside the communists, or even with the supporters of the Yeltsin administration. While attempting to place himself and his party on a more respectable footing in the Duma, Zhirinovskiy has lost some of his ability to draw crowds on the streets and mobilise the protest vote.

There has been much comment on the inclusion of men with criminal records in the candidate lists of the LDP. The Central Electoral Commission found a number of irregularities in the lists and announced that the party could not be registered. However, some smaller right-wing political groups which are registered have now adopted the name "Zhirinovskiy's bloc" and will serve as a proxy for the LDP in the coming election.⁵¹

Yabloko

Yabloko (which means "apple", but is actually an acronym based on the names of its three founders) has built a relatively small, but loyal, electoral following, largely by preaching reform and staying outside government. Its principal leader, Grigory Yavlinsky, came to prominence as a proponent of market reform at the end of the Soviet era. By refusing invitations to add lustre to successive Yeltsin administrations, Yavlinsky has retained some integrity as a critic. While the party is generally categorised as "liberal" in western terms, it is not "western" in its foreign policy. Instead, the party's leading foreign policy specialist, Vladimir Lukin, was among the first to advocate a hard-headed "Russia-centred" stance.

In August 1999, amid frenzied attempts to consolidate the parties forming the reformist wing of Russian politics, Yabloko was unexpectedly joined by Sergey Stepashin, who had just become the latest prime minister to be sacked by Boris Yeltsin. Stepashin had not been a noted liberal (he had been security minister during the first Chechen war), but he had built up his reputation as an able politician and could add a new dimension to the appeal of Yabloko. He told the Yabloko congress on 27 August 1999 that he fully supported the Yabloko programme and would urge his own supporters to rally to the party.⁵² Stepashin sees this as the nucleus of a conservative party in a new two-party system, in which the Primakov-Luzhkov bloc would be "social-democratic". Another well-known name who has rejoined Yabloko for the election campaign is the former finance minister and presidential representative to the IMF, Mikhail Zadornov.

The Union of Right Forces

The Union of Right Forces is a coalition of smaller reformist parties which, for one reason or another, have not wanted to combine forces with the larger political alliances. The key figures include Sergey Kirienko (the youthful economist who briefly replaced

⁵¹ <http://www.ldpr.ru/info/> 1 November 1999

⁵² <http://www.polit.ru/> 27/8/99

Chernomyrdin as prime minister in the run up to the 1998 financial crisis), Boris Nemtsov (former reforming head of the Nizhny Novgorod region and, briefly, deputy prime minister responsible for economic reform) and Irina Khakamada, who is a campaigner for the interests of small private businesses and an enthusiastic admirer of Lady Thatcher's policies when prime minister in the UK. The respected human rights campaigner Sergey Kovalev is another URF "name", as is former prime minister Yegor Gaidar, who is heading its Moscow list.

Also in the URF bloc, but somewhat detached from the others, is the Right Cause (*Pravoe delo*) party of Anatoly Chubais, who has been a key figure in the Yeltsin administration and was the minister responsible for the main wave of privatisations in the mid 1990s. He is now chairman of United Energy Systems of Russia (the privatised electricity industry).⁵³ Chubais had been deeply involved in attempts to create a "pro-Yeltsin" bloc during the summer of 1999.

The URF could form the nucleus of a western European style conservative or liberal party and appeal to the new generation of educated urban Russians. Its problem will be how to surmount the 5% electoral hurdle in competition with the longer established Yabloko and the more populist tone of the Luzhkov-Primakov camp. Sergey Kirienko is also running a campaign to unseat Luzhkov as mayor of Moscow in June 2000, but this is a daunting task and could prove a distraction from the Duma contest.⁵⁴

Our Home is Russia

Our Home is Russia was created in 1995 as a political platform for the men who at that time formed the core of the government, in particular the then prime minister Viktor Chernomyrdin. It was therefore supportive of cautious reform, while the party name was intended to suggest patriotism and appeal to non-Russians as well as Russians. OHIR remains essentially a vehicle for Chernomyrdin, but now that he is out of government it is no longer simply "the party of power", as it used to be called, and has to compete with other parties for the support of the "ruling establishment" both in Moscow and the regions. An attempt to merge OHIR with Anatoly Chubais' party Right Cause recently failed, as did a possible deal with Unity (see above). Chernomyrdin has accused Primakov of stealing the clothes of OHIR.

The OHIR candidate list still has many familiar names of men who have served in successive governments under President Yeltsin, but most of the biggest names have found political homes elsewhere. One exception, a recent recruit, is Boris Fedorov, the former finance minister and tax supremo who, strangely enough, made his reputation

⁵³ <http://www.rao-ees.ru/ru/>

⁵⁴ Interfax news agency, 29 August 1999, via BBC Monitoring Online

during the short-lived Kirienko ministry, by trying to extract tax from his party leader's friends at Gazprom.⁵⁵ OHIR could fail to reach 5% in 1999.

IV Trends

As the first section of this paper indicated, the Russian economic transition is proving slow and painful. While a small proportion of the population is beginning to enjoy a material standard of living comparable to or higher than that of business people and professionals in OECD countries, the great majority have seen their standards of housing, nutrition, health and education decline sharply by comparison with the 1980s. This in itself does not augur well for the stability of the political system. Politicians are held in very low repute and there is widespread cynicism about elections and democratic institutions in general.⁵⁶

The economic difficulties are compounded by the continuing conflicts about the political and ethnic geography of post-Soviet Russia. The humiliations of the Chechen war of 1994-6 left deep scars. Many ordinary Russians concluded that there was no point in fighting to keep Chechnya in the Russian Federation against the will of its people. However, the brutality of the Russian attempts to suppress Chechnya had created a restless corps of anti-Russian zealots inside Chechnya who were determined to radicalise the whole of the Moslem North Caucasus. Moreover, the Russian policy pursued after the ceasefire of 1996, of keeping Chechnya poor and isolated undermined Chechen moderates such as President Maskhadov. The result is that in the autumn of 1999 the Russian armed forces have embarked on a second bloody attempt to quell Chechen nationalism and reassert Russian control. The cost to Russia and Chechnya is bound to be high.

The effect on the elections is difficult to predict. The new prime minister, Vladimir Putin (b1953), who is seen as the architect of the tough line against Chechnya, is, for the moment, enjoying a wave of popularity. Opinion polls suggest that he is currently the candidate most favoured by the public to succeed Boris Yeltsin as president in the summer of 2000. However, Putin has no political party of his own and the party most closely associated with him, Unity, has still to make a significant impact on voting intentions. In short, Putin is extremely dependent on the support of President Yeltsin and recent history suggests that this could be withdrawn at any moment, especially if things go badly wrong in Chechnya.

An opinion poll based on interviews with 3,000 people across Russia at the end of October indicated that support for the main parties and alliances was as follows:

⁵⁵ Fedorov also plans to run for the governorship of Moscow region

⁵⁶ In a telephone poll conducted on 7 November 1999 more than 90% of the respondents doubted the ability of the authorities to conduct honest elections – NTV International via BBC Monitoring Online, 7 November 1999

Communists	29%
Fatherland-All-Russia	26%
Yabloko	18%
Liberal Democrats	7%
Unity	7%
Union of Right Forces	5%
others	8%

The poll suggested that the communists were strongest in southern Russia and in small towns. Fatherland-All-Russia was stronger in central Russia and also among female voters.⁵⁷ The same poll indicated that the candidate most likely to win the Russian presidency would be the current prime minister Vladimir Putin (22%), followed by Yevgeny Primakov (18%), but 34% of the respondents declined to answer the question.

Only Fatherland-All-Russia, the Communists and Yabloko seem guaranteed to surmount the 5% hurdle for list seats, but other parties and independents could win individual mandate seats. In the present Duma many candidates were elected as nominal independents. Better organisation by Fatherland-All-Russia, Unity and the Communists at the local level may mean that the next Duma has more coherent party groupings.

This could prove to be a stepping stone towards a more stable democracy, but until there has also been a free and fair presidential election and a smooth transfer of power to President Yeltsin's successor, it will be too soon to speak of a stable political system. If Fatherland-All-Russia can secure 25-30% of the vote in the Duma elections, then either of its current leaders (Primakov or Luzhkov) could be strong presidential contenders. Either Zyuganov or Seleznev will most probably represent the communists. There is likely to be an inside "Kremlin" candidate as well, but whether or not it is Vladimir Putin will depend a good deal on the outcome of the Chechnya war and of his personal relations with the Yeltsin team. As long as President Yeltsin continues to have some lingering influence on affairs, there are also likely to be surprises and sudden upheavals.

As *The Economist* has commented:

Mr Yeltsin understands the importance of these polls. Unfortunately, he does not understand the importance of the continuity of government, of building parties, of fighting corruption, of enforcing the law and of generally establishing the institutional framework that democracy demands.⁵⁸

⁵⁷ Elections in Russia website: <http://www.rusline.ru> on 01 November 1999

⁵⁸ *The Economist*, leading article, 14 August 1999

Is it inevitable that the next president and administration will be more authoritarian and nationalist than that of Boris Yeltsin? There is a widespread assumption that this will be so,⁵⁹ but there are some indications to the contrary. The “red-brown” tide has actually been running strongly for several years, but has failed so far to win either the presidency or a clear majority in the Duma. Red/brown governors at regional level have not been conspicuously successful. On the positive side, some aspects of pluralism, including freedom of speech, have become well established and would be difficult to extinguish.

Moreover, Russian governments are likely to need the IMF, the EBRD and the World Bank for the foreseeable future and will need to retain some sympathy from the governments which control these institutions. Similarly, there is little money to be made for the new class of bankers and businessmen from Russian isolationism.

A return to the explicitly pro-Western co-operative language of the Yeltsinites in 1991-2 is unlikely because it was always regarded by the foreign policy professionals (such as Primakov) as giving the West something for nothing. The pattern of more recent years where Moscow constantly plays “hard to get” and can only be drawn into co-operative initiatives, such as the end-game in the Kosovo bombing operation, by dint of face-saving concessions, kind words, promises of new loans etc is likely to be that of the future. This means that Russian foreign policy rhetoric will continue to appear “hard-line” and “nationalistic” in the West, while the substance may be more pragmatic. There may be more agreements, like START II, which are carried out in practice, but not formally ratified.

Developments in Russia over the past five years have demonstrated that for sustained economic recovery to take place it is not enough to stabilise the financial system in terms of inflation and exchange rates. It is also necessary to create institutions (government, central bank, private banks, public companies) which individual people and other institutions can trust. Few would want to return to the highly centralised and inhumane bureaucracy of the Soviet period, but the chronic weakness of the state at the present time makes it impossible to enforce contracts, prosecute crime, maintain public health standards or protect consumers.

The next president of Russia faces the daunting challenge of trying to mobilise public opinion in order to repair the damaged infrastructure and create a law-based modern federal government for the next century.

⁵⁹ eg Geoffrey Hosking in the *TLS*, 20 August 1999, p 7