SHOCK THERAPY: The Rise of Russian Oligarchs (and why Kenya could end up like the former Soviet Union)

By Darius Okolla

When the Aramaic philosopher Jesus Christ declared that the poor will always be with us, I doubt that his Hebrew listeners had a word for austerity. But today Jeffrey Sachs and his friends at the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO) and all the other organisations that make up the Washington Consensus do, and they are committed to implementing it through Structural Adjustment Programmes (SAPs).

On March 7 this year, Kenya’s Cabinet Secretary for Finance, Henry Rotich, announced that the government was broke. He withdrew that statement a day later after a meeting with IMF officials. Rotich, who was running a broke government that could no longer service its debt, was inevitably forced to sign off to stringent terms, key among them freezing all megaprojects and introducing an amendment to the Division of Revenue Act 2017 that will reduce the amount of cash made available to county governments.

Still addicted to debt pegged on key infrastructure projects, Rotich would hit the road again for a round of begging bowl diplomacy, heading straight to the IMF and World Bank offices. This time, well aware of the potential backlash at home, he assented to IMF demands to levy 16% VAT on fuel
that would kick in in September, while rejecting other undisclosed terms for the Sh150 billion forex insurance programme. One wonders why we’d go seeking a forex boost just after the Central Bank of Kenya had announced that it had nearly six months’ worth of foreign exchange reserves – enough to cushion shilling trading till February next year.

Before all this was set rolling, a small clause in the Statute Law Miscellaneous Amendment Bill 2018 removed the provision by which privatisation of state assets and parastatals would need National Assembly approval, leaving the privatisation function purely in the hands of the parastatal bureaucrats higher up. Twenty-three key state assets, including a critical port, may be up for sale to the highest bidder. These kinds of moves (mass retrenchment, increased taxes and massive privatisation) all have the hallmarks of the dreaded SAPs.

Sachs and SAPs

SAPs are the ultimate devil’s piss: heavily criticised policy recommendations by the Washington Consensus to debt-laden states that are meant to help the latter raise revenue and repay loans. SAPs’ raft of policy recommendations to fix national debt include liberalisation of the economy, minimising the role of the state, massive privatisation, currency devaluation, lax market regulation and elimination of subsidies.

However, to understand SAPs, one needs to take a look at its father, Jeffrey Sachs, the economics celebrity who graduated from Harvard with a PhD at the age of 26 and became a global icon on international finance and inflation by age 28.

Sachs hit stratospheric fame when he walked into the economic blizzard that was then Bolivia, whose peso had been wrecked by a 24,000% inflation, in the 1980s. Within seven weeks, he’d reined in the hyperinflation, with the resultant fame turning him into an economic Jesus Christ.

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However, that would pretty much be the end of his miracle-working as his recommendations in Poland – his next stop – would prove tenuous and tough on the citizens, wiping out personal savings and spiking both commodity prices and unemployment. Since then, SAPs have failed so miserably across Latin America, Africa and South East Asia that the IMF and the World Bank abandoned them in the mid-1990s – at least in theory – with Mexico being the last victim.

The net effect across a dozen or so countries was the thinning of the middle class, the ripping apart of communities and the unleashing of economic chaos that is yet to be fully fixed. In fact, China and India – two of the top 10 fastest growing nations of the 1990s and 2000s – had flatly rejected SAPs.
SAPs and poverty

A generally accepted fact now, which would have been debatable three decades ago, is that SAPs cause poverty and suffering and sometimes create chaos that descends into violence in the countries where they are implemented. For example, Mexico saw the rise of the Zapatista Army of the National Liberation that protested SAP-style policies in 1994. Since the mid-1980s, when SAPs were first introduced, several other countries nearly went up in flames. Following is a list of a few.

January 1985, JAMAICA - Jamaicans hit the streets in protest after the government’s decision to raise fuel prices as part of SAPs linked to a 1982 World Bank loan that was later renegotiated in November 1984.

January-February 1987, ZAMBIA - Riots hit the northern copper mining districts in response to a rise in food prices linked to a SAP announced in December 1986. The programme was eventually suspended.

October-November 1987, SUDAN - Crazy currency devaluation and price hikes resulting from IMF/World Bank demands lead to a 15,000-strong crowd demonstration in Khartoum.

April 1988, NIGERIA - Students in 33 universities hit the streets to protest against a fuel price increase demanded by an IMF-inspired SAP.

1989, BENIN - University of Cotonou students strike to protest suspension of student grants, paralysing the institution for 6 straight months. The government intended to stop paying them altogether in 1989 as part of SAP reforms.

April 1989, JORDAN - Riots over increase in food prices affects southern Jordan shortly after IMF-linked SAPs.

June-August 1999, ECUADOR - A broad coalition of local groups, political parties and civil society organisations, led by indigenous peasants, demand an end to austerity measures imposed by the IMF.

December 1993, RUSSIA - A coalition of parties and interest groups opposed to the neoliberal reform (SAP) measures of the Yeltsin government wins majority parliamentary seats as a result of a backlash against these measures. Calamitous SAP recommendations have included privatisation of water systems in Tanzania, elimination of food subsidies in post-invasion Iraq, forced student fees in Ghana, lobbying for labour flexibility in Sri Lanka and denying Ecuadorians a much-needed $100-million loan facility on flimsy grounds. The legacy of coercive, painful and often disastrous recommendations in exchange for loan facilities is what’s earned SAPs the telling moniker “shock therapy”.

Gorbachev and Glasnost

Partly due to its size and complexity, the former Soviet Union still remains the ultimate specimen for the grandiose social engineering delusions that informed the mindset of SAPs’ ambassadors around the globe. In the mid-1980s Mikhail Gorbachev set out to create a mixed socialist economy - an imitation of China’s “socialism with market characteristics” that was set up by Deng Xiaoping a decade earlier.
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At that point, the Soviet Union was reeling from falling oil prices beginning in 1986 and an external debt crisis. Through a raft of policy decisions, Gorbachev effectively transferred the control of many Soviet enterprises from the government to the *nomenklatura* (employees and management in the provinces) and entrenched those moves into the constitution through the *Law on State Enterprise*. He followed that up with the *Law of Cooperatives* that created socialist cooperatives that ran as private entities and later on allowed farmers to farm and trade as individuals – a break from the collective farming model of yesteryears. Once the SAPs reforms were unleashed, there was no going back. In September 1990, the Soviet parliament granted Gorbachev emergency privatisation powers similar to Kenya’s Miscellaneous Amendment Bill 2018.

Jeffrey Sachs would show up in Moscow from late December 1991 till his resignation in January 1994. Sachs, who was by then working hand-in-hand with the economic radical faction of Gorbachev’s regime, would **describe the situation** in 1991 thus:

> “Russia and the other republics bear the deep economic cancer of seven decades of communism: over-extended heavy industry; bloated, bureaucratic enterprises; a starved service sector; and the absence of market institutions, in law, finance, and administration. Now, on top of systemic disease, the republics face a financial crisis…Inflation has become hyperinflation. The foreign-exchange coffers are empty. The old administrative structures have collapsed…A deeper need for industrial retrenchment and restructuring will last for years, even decades, as the former Soviet Union scale back its old heavy industry…”

**Yeltsin and the rise of Russian oligarchs**

Gorbachev would soon pave the way for Boris Yeltsin’s presidency. In December 1991, in the months leading up to the dissolution of the USSR, Yeltsin put together an economic reform team led by Yegor Gaidar and Anatoly Chubais. By the time of the **August Coup** a few months later, SAPs, including drastic reforms to social safety nets, were steaming full-speed ahead. On January 2, 1992 Yeltsin, through his economic adviser Gaidar, was forced to declare an **end to price controls** amidst worsening food shortages tied to the mishandled reforms.

Between 1992 and 1994, market liberalisation, legal reforms, a push for Western aid and privatisation took on a much wider scale. These were engineered by the State Committee for State Property Management of the Russian Federation (SCSPMRF) under Chubais, a firm hand in the entire affair. The Committee adopted a new vehicle for turning over state assets into private hands (known as the voucher privatisation programme) as a means of quickly offloading the fast-crumbling state enterprises, a move that laid the groundwork for the rise of the Russian mafia and the wealthy and corrupt *nomenklatura*. In that three-year period, more than 15,000 Russian government firms were transferred to private hands even though they would, ironically, continue receiving government financial support for years.

The reforms to the decaying Soviet economy couldn’t stem the regime’s fiscal deficit, and as the 1996 election neared, the cash-strapped Yeltsin regime implemented the **loan-for-shares scheme**. The scheme, a brainchild of the elite banker Vladimir Potanin, involved leasing state enterprises through auctions for money lent by commercial banks to the government. The rigged system marred
by factionalism, nepotism and shady deals raised a whole new pool of oligarchs.

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The problems facing the Soviet economy cannot be entirely blamed on Boris Yeltsin though. By the time the Soviet Union started crumbling in 1991, Jeffrey Sachs’s recommendations were running into headwinds and some of the assumptions, including securing large-scale Western assistance, were being downplayed by IMF’s point man, John Odling Smee. Sachs’s call for fiscal and monetary reforms failed to take into account the complexity of the Soviet bureaucracy and his call for reforms in social services failed to anticipate the rapid collapse of the healthcare sector. In the end, four classes of elites were created: the Communist Party patriarchs; the sleazy oligarchs trading in the smuggled goods; the nomenklatura (administrative) barons in the provinces as more enterprises got localised; and the younger relatives of these elites and a few educated and well-connected citizens.

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Yeltsin ruled Russia through his close allies known as the Semibankirschina (or seven bankers), a team of powerful, visible and influential oligarchs who controlled roughly 71% of all Russian finances by the year 2000. The seven bankers – Vladimir Vinogradov Boris Berezovsky, Mikhail Fridman, Pyotr Aven, Mikhail Khodorkovsky, Vladimir Potanin, and Vitaly Malkin Alexander Smolensky, and Vladimir Gusinsky – shaped Yeltsin’s regime.

Anatoly Chubais (aided by the Russian-American Prof. Andrei Shleifer) is known as the father of the neoliberal SAP reforms, having been the patriarch in charge during the era of Soviet reform efforts. Chubais and Gaidar led a process that was similar to former President Moi’s “Dream Team” in the 1990s. What started out as a simple process of reforming the rapidly decaying Soviet economy descended into kleptocratic and opaque processes driven by mafia bosses, rising well-connected kids, Soviet political patriarchs, relatives of senior administrators and Western apparatchiks.

Enter Putin

Enter the oligarch purge by Vladimir Putin. Just like Yeltsin, Putin had his gang of seven, dubbed Ozero, with whom he had built dachas on Lake Ladoga’s shoreline. In 1996, while Yeltsin met with his oligarchs, Putin took his Ozero gang (all natives of St. Petersburg) on a road trip to the Karelian Isthmus, a wealthy coastal suburb from where they reminisced the changing political fortunes of the country.

Vladimir Vladimirovich Putin was a consummate spy. He joined the Soviet government under Yuri Andropov in 1975, who during his tenure as the head of KGB, devised the plan to inject the espionage juggernaut with fresh blood. Putin has always had the uncanny fate of playing the outsider in just about anything he gets into. He was an outsider among the business elite in Ozero, a geographical
outsider among the Moscow elites, an outsider even in the KGB where he was posted to Dresden, Germany’s third largest city, as opposed to Moscow, which was the heart of communist idiosyncrasies. He was even an outsider to Michael Gorbachev’s reformist programmes (Perestroika, Glasnost and uskoreniye), having received his letter to relocate to Dresden in mid-1985 just as Gorbachev was ascending to power in Moscow.

Putin showed up in the Soviet Union in early 1990 having watched communism convulse in Eastern Europe and having first-hand experience of how “the Soviet was silent at home”, a reference to the moment he called for back-up during an attack at the local communist offices in Dresden and received none. When he was back in the Soviet Union, he headed back to St Petersburg (then known as Leningrad) where he becomes the deputy mayor. It was only at the end of his tenure in 1996 that he was brought to Moscow to keep an eye and prepare dossiers on rogue oligarchs. Three years later, he becomes the Prime Minister after the sudden resignation of Boris Yeltsin.

Putin’s “outsiderism” shielded him from building personal ties with the oligarchs, a position that gave him a dispassionate capacity to rein them in with the dossier he, by a twist of fate, had prepared. Unlike the insiders who’d experienced all the glories and pains of Soviet culture and life, Putin, based in Dresden, saw in the Soviet Union’s fall a humiliating indictment of his predecessor’s incompetence and the myopia of the Moscow elite.

Of the gang of seven under Yeltsin, only four would survive under Putin and, surprisingly, Putin would build his own team of oligarchs, including members of the Ozero, the most famous among them being Usmanov, Abramovich, Alekpetrov, Yeltsin-era Potanin, and Vitaly Malkin. (The US Treasury lists at least 96 oligarchs in Russia.)

Kenya and its oligarchs

Nothing generates oligarchs better than corruption and privatisation, and Kenya, just like the Soviet Union in the 1990s, is no stranger to this phenomenon. In August this year, Kenyan detectives announced that they were pursuing officials at the Kenya Revenue Authority (KRA), the Kenya Ports Authority (KPA), the Inland Container Depot (ICD) and the Kenya Bureau of Standards (KEBS) over a 100-billion-shillings tax evasion scam. Such multi-billion scams signal state capture by oligarchs, which tends to open up the economy to counterfeit and contraband goods imported through collusion with state officials.

The riskier dynamic in the privatisation process and the mega-corruption scandals reminiscent of the Soviet-era fire-sale and smuggling, is that they only benefit a few highly liquid and well-connected native elite, marauding White Capital, corrupt government officials and wealthy families. Keep in mind that Kenya has been ranked eighth globally and sixth in Africa among countries with the largest number of people living in extreme poverty, based on the World Poverty Clock report. The report indicates that 29 per cent (14.7 million) of Kenya’s 49,684,300 people are extremely poor as they consume less than $1.90 (Sh195) per day or Sh5,920 monthly.
A combination of mass privatisation of key state assets and austerity measures are known to destroy the social tunnels needed to usher people into a middle-class existence; they effectively create a country with unassailable oligarchs and a massive underclass.

All this isn’t new though; as a colonial state, Kenya is already defined by a plantation economy, primitive elites, layered overlapping traumas, high poverty levels, and broken systems. It is likely to get worse.

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