Russia’s most recent political-economic crisis (following the ruble’s collapse on August 17, 1998) is not the first to befall the relatively new Russian state. In fact, some analysts validly contend that ever since its establishment, the Russian Federation (RF) has been under the shadow of ongoing political and economic crises. Nevertheless, the effect of fluctuations within the overall crisis on relations between the center (the federal administration in Moscow) and the periphery (the administrative units subordinate to the federal government) merit special attention. The aggravation of the economic crisis is manifested in federal budget cuts, resulting in a decline in services provided to the general population. This, in turn, weakens the center and strengthens the local leadership, either intentionally or by force of circumstances. Under these conditions, the latter is required to provide immediate solutions to the regional populations. First and foremost, they must ensure the uninterrupted flow of supplies to their regions, including food and sources of energy. When faced with special situations, the local governors and administrations are forced to adopt non-conventional measures, sometimes in violation of the Russian Constitution.

The August 1998 economic crisis was particularly severe and left its mark on all walks of life. Its effects were felt from rising prices to severe shortages and the desertion of foreign investors, big and small alike. Most importantly, it caused upheavals in the economic and political systems.

The characteristics of this crisis were similar to those of previous ones (such as the crisis in the Soviet Union’s final year and that in Russia in 1992-93), but it was unique in that it followed a period of gradual economic recovery. At least, this was the situation according to the statistics. The data showed that the inflation rate (which had reached 2500 percent in 1992) was being controlled and looked promising, having dropped to 15 percent in 1997 and going even lower as the trend continued through the first half of 1998. However, the crisis set in at the end of that year and the national inflation rate rose to 84 percent. It is noteworthy that in the month of September, the inflation rate rose by 38.4 percent, which would be the equivalent of 484 percent on an annual basis. An additional cause for concern was the decline in foreign investments (by approximately 17 percent) in comparison with 1997.1

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The crisis also took its toll on economic growth. After many disastrous years, 1997 ended with a positive growth rate of 0.4 percent. However, the negative trend, which gained momentum in the final months of 1998, ultimately led to a decline in 1998 of approximately 4.8 percent (negative growth). Individual buying power was reduced sharply; in the summer alone, it declined by more than one-third. Russian stock rates, such as the RTS-1 rate, continued to drop. Shares in major companies such as Musenergo, Rostelkom, Tatneft, and Severbank continued to decline into January 1999.2

Hundreds of thousands lost their jobs. Private employment agencies fired between 30 percent to 70 percent of their employees in the last quarter of 1998 as many businesses folded. For example, the number of restaurants in Moscow had doubled annually in the last few years, but in the last quarter of 1998, it dropped from 1,400 to 700.2 Many workers lost up to 90 percent of their salaries. All of this was a severe blow to the middle class, which had gradually increased over the previous six years. The hope that this middle class would become the pillar of the new society, as in the liberal Western democracies, collapsed together with the institutions and organizations and, particularly, with the acute banking crisis.4 The middle class had actually formed predominantly in Moscow and St. Petersburg and in a number of other large urban centers such as Nizhnii-Novgorod and Samara. In the majority of the regions, the development of the middle class was less noticeable (see the article by Theodore Friedgut, "The Rise and Fall of Russia's Bourgeoisie," in this collection).

The crisis, which began with the dramatic drop of the ruble,5 continued with the general collapse of the banking system, accompanied by a deepening political crisis. When President Boris Yeltsin ousted the recently appointed young prime minister, Sergei Kirienko, an unsuccessful attempt was made to reinstate his predecessor, Viktor Chernomyrdin. However, it was the more generally accepted compromise candidate, Evgenii Primakov, who received the task of forming the government.6 A number of regional leaders and governors, who by virtue of their position are members of the Federation Council, the upper chamber of parliament, meddled in the appointment by expressing their support for, or opposition to, the prospective candidates.7

While Viktor Chernomyrdin’s re-appointment was still under discussion, governors started to organize lobbies for and against his appointment. Prominent among Chernomyrdin’s supporters were the governors (or presidents of) Tatarstan, Bashkortostan, Dagestan, Ingushetia, Komi, Perm, Leningrad, and the Moscow and St. Petersburg regions and Sakhalin. Prominent in their opposition were the mayor of the city of Moscow, Yuriy Luzhkov, and the governor of Saratov, Dmitrii

2. S. N. Volovik and N. Leonova, "Foreign Trade," ibid., p. 34.
4. Ibid.
5. From 6 to 28 rubles to the dollar within a week.
7. Regarding Chernomyrdin’s attempt to gain support, see, for example, Floriana Fossato, "Russia: Chernomyrdin Looks for Senators' Support," RFE RL Newsline, Sept. 3, 1998.