

# **CENTER FOR INSTITUTIONAL REFORM AND THE INFORMAL SECTOR**

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## **A CRITICAL PERSPECTIVE ON THE YELTSIN ECONOMIC REFORM PROGRAM**

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**Lynn D. Nelson  
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The Yeltsin-Gaidar economic program of 1992 and the Yeltsin government's continuation of most of the same policies this year was based on inadequate attention to reform solutions which could have helped to creatively transform Russia's production system on the way to a market economy. A number of reform alternatives have been worked out by Russian economists, some of which take into account unique features of the Russian political and economic landscape more comprehensively than the program initiated under Gaidar's direction. The reentry of Gaidar into the Yeltsin government, while probably a positive sign to some democrats in Russia and many Western leaders, suggests that many mistakes of the past two years may be repeated. The radical reformers have been too eager to see the old system quickly wrecked, rather than being transformed in ways which would more effectively utilize the production system's resources and potential. In pursuit of their objectives of achieving momentous change as rapidly as possible, the reformers have largely ignored the negative social consequences that were certain to follow. Western-backed economic policy initiatives in smaller East European countries were themselves based on questionable logic which is vigorously debated in the economics literature. Attempts to shape Russia to the East European mold introduced additional distortions. It is true that the Yeltsin-Gaidar plans were never fully implemented in the way that foreign advisors and officials of Western financial institutions wanted them to be; but I find little empirical basis for the contention that their proposals could have been efficacious under other circumstances, either. The Eastern European examples which are often offered in evidence do not provide an affirmative answer to this now-theoretical question.

The political crisis Yeltsin helped create in late 1992, with his aggressive stance towards the legislature, restored much of his symbolic capital both in Russia and in the West. By increasing his political leverage through confrontation, however, he not only increased the risk of political fragmentation but also diverted emphasis away from pressing economic problems. This was not the first time Yeltsin had played this card to buy more time; but in the past, between periods of confrontation, his performance had left large numbers of people dissatisfied, if not disillusioned. If Yeltsin had chosen a more gradual economic reform approach in late 1991, as many reform-minded Russian economists had urged without success, some of the costly developments of 1992 and 1993 might well have been avoided. And in trying to eliminate the threat of Communist resurgence through rapid economic reorganization, I suspect that the reformers in Yeltsin's government inadvertently heightened the risk that authoritarian forces in Russia might enjoy increasing momentum. In this case, the authoritarian strain may have been nurtured on several fronts, both outside and within the government. I fear that the support

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Yeltsin has received for his calculated moves to discredit and ultimately dissolve Russia's legislature and, in the wake of that triumph, to move quickly against other institutional sources of opposition in Russia as well, may soon offer unblinking testimony to the error of encouraging economic and political transformation through manifestly undemocratic means.

## **A Critical Perspective on the Yeltsin Economic Reform Program**

### *Introduction*

Four days after his impressive referendum victory in April, Boris Yeltsin brought together regional leaders and presented them with a new draft constitution, which would diminish the legislative branch's power while enhancing the authority of the president. "It must be brought home to everyone that the president and the policy of reform are all under the protection of the people from now on," Yeltsin declared. "Decisions that run counter to the popular will, whoever makes them, will not be implemented and are to be abolished."<sup>1</sup> Yeltsin continued the same theme in an April 29 meeting with his cabinet, emphasizing, "We cannot tolerate resistance from inside. We need to get rid of those who are not on the same path as us."<sup>2</sup> Five months later, having failed to win the level of support he had wanted for his new constitution, and facing a growing tide of public dissatisfaction about the persisting paralysis in Russia's highest corridors of power, he decided to do just that. On September 21 Yeltsin issued a decree which declared that the "legislative, instructive and control functions of the Congress of People's Deputies...and the Supreme Soviet of the Russian Federation" were to be discontinued.<sup>3</sup> The legislature had been dissolved.

I need not recount the events that followed. Russia's September and October crisis is integrally related to today's theme, obviously. Economic reform was the chief issue that divided Yeltsin and many members of the Congress and Supreme Soviet; and Yeltsin's record of dealing with the Russian legislature on

the subject of economic reform may eventually be seen, I think, as the most critical failure of his administration.

*The Problem of Power*

There is persuasive evidence that, toward the end of 1992, Yeltsin began trying to circumvent and discredit the legislature rather than earnestly attempting to work with Russia's lawmakers in the propose-and-compromise fashion that is integral to political life in democratically organized nations. I will suggest below that Yeltsin's economic policies were a principal reason for the growing fissure between Russia's legislature and its president, from early 1992 onward, and that his unrelenting drive for more presidential power further exacerbated these tensions. This is not to deflect blame away from the lawmakers and their supporters who pushed the confrontation into an arena for deadly violence, but it is to suggest that the sphere of responsibility for the heightening of animosities in Russia during the past several months also extends to the country's president.

Yeltsin and the Congress had enjoyed generally amicable relations before April 1992. In 1990, when Yeltsin headed the Supreme Soviet of the RSFSR, they worked together to initiate economic reform that any analyst would have to term radical. They approved the Shatalin-Yavlinskii "500 Days" economic plan by a near-unanimous majority, and they created legislation which made private ownership the legal equivalent of state ownership. Growing even bolder in 1991, the RSFSR Supreme Soviet decided that any person could now open a private business--an unimaginable possibility just a short time earlier. In July they authorized selling enterprises at auction, and creating joint stock companies. They also suggested, for the first time in law, that privatization "investment accounts" could be established which would enable all citizens to acquire property that had been owned by the state. Yeltsin himself hesitated for nine months before implementing a variant of that legislation. The Russian Congress

of People's Deputies nominated Yeltsin to be Russia's first president, and during the election campaign the majority of deputies worked for his election in their home regions.

During the August coup, many deputies of the Supreme Soviet stood with Yeltsin in a White House threatened by tanks and soldiers. When, on October 30, 1991 he asked for unprecedented power to pursue his economic reform plans--a level of presidential authority and autonomy uncharacteristic in the West--the Congress granted it. At that time, Russia's lawmakers seemed as determined as Yeltsin to begin the process of radical economic transformation. They had approved all of the major themes of Yeltsin's reform program. On November 6, when he issued a decree banning the Communist Party of the Soviet Union in the Russian Republic, the Supreme Soviet applauded him, and when Yeltsin announced the demise of the Soviet Union the deputies supported his initiative. In November 1991, Yeltsin commanded the clear support of more than two-thirds of the deputies.

By the time the Sixth Congress convened in April 1992, however, Yeltsin's support in the Congress had dropped considerably; but more than half continued to back most of his economic initiatives. Yet many deputies were increasingly dubious of the government's economic reform program, and even more troubling to legislators was Yeltsin's drive for additional presidential power. At that session the Congress approved the idea of a new constitution with power shared between the legislature and the president. Yeltsin surprised the deputies, however, by proposing his own draft for a new constitution, which was based on the idea of a "strong presidential republic." According to Yeltsin's variant, presidential power would be enhanced. This action was a significant factor, I believe, in starting the spiral of suspicion, accusation and conflict that led to the April 1993 referendum<sup>4</sup> and the September-October confrontation and conflict.

During the spring 1992, the Congress, along with a substantial proportion of the population, was beginning to question the path they travelling at the behest of the republic's president. Their dissatisfaction was growing with increasing signs that his reforms were not proceeding as smoothly as he had said they would. Life for most citizens had worsened in nearly every way. Gaidar had warned that price liberalization would cause hardships, but he had seriously underestimated the scope and magnitude of negative effects that would be visited on Russia in the wake of this action.

A national survey at the end of March, just before the Congress began its April session, found that a minority (46 percent) were positive, even "to some extent," about the results of the reform program's first three months. Price liberalization, which had been initiated on January 2 as a critical first step toward economic reform, came under heavy fire among the public. Only 22 percent favored it, and nearly half (47 percent) said that they "strongly" opposed it.<sup>5</sup> Another study conducted about the same time reported nearly the same percentage opposing Yeltsin's overall activity (42 percent) as supporting it (43 percent); and the corresponding figures for Gaidar's team, which was directly in charge of economic reform, were markedly less favorable, with only 27 percent supporting Gaidar.<sup>6</sup>

Grigorii Yavlinskii's Center for Economic and Political Research (EPI Center) assembled a damning set of statistics to pinpoint some specific correlates of the January price liberalization. During the first quarter of 1992 according to Yavlinskii, earnings in Russia increased by an average of 590 percent in comparison with the first quarter of 1991; but prices for goods and services surged 1,020 percent. Most people now spent a larger proportion of their income for food than ever before, but average daily calorie intake had fallen to a level inadequate even for a pre-adolescent child (2,100 kilocalories per day). Not surprisingly, in light of the food situation, there was an

increase in malnutrition-related diseases among infants (children under one year of age). The first quarter also saw an alarming increase in crime. Compared to the corresponding months in 1991, crime in the first quarter of 1992 rose 24 percent in January, 36 percent in February and 43 percent in March. 7.7

At the April 8 meeting of the Sixth Congress of People's Deputies, the Rising Generation/New Policy faction distributed a statement judging the progress of economic reform to be unsatisfactory, proposing that Yeltsin be deprived of his special powers, and recommending that a new economic reform program be developed. The Congress rejected the 1992 privatization program that had been worked out under Chubais's direction, which followed, for the most part, the main points elaborated in Yeltsin's decree the preceding December. 8

The Congress approved a resolution on April 11 which followed the spirit of the Rising Generation/New Policy statement. It stated that the government's reform program was unacceptable and rescinded the earlier agreement to allow Yeltsin to head and form the government until December 1. (Yeltsin was his own prime minister at that time.) Because the resolution authorized the Supreme Soviet to replace cabinet members as early as July, the cabinet, justifiably viewing this development as a threat to the continuity of their work, announced that they would resign. Their statement included a charge that would be repeatedly leveled against the Congress in the months ahead, as relations between the executive and legislative branches worsened -- that the "Congress of People's Deputies are blocking the possibility of continuing along the chosen course." 9

This time, the Congress backed down. On April 15 the Congress approved a resolution affirming its commitment to the government's course of economic reform and, in effect, allowing Yeltsin's emergency powers to stand, including his authority to appoint his own cabinet without approval.

Why did the Congress reverse itself during the April session? Analyst Aleksandr Bekker argued that, "Despite the dramatic tension visible on the outside, the outcome of the duel was predetermined: The government had a big material advantage in the form of the West's promise of \$24 billion in credits and a stabilization fund for the ruble. Ruslan Khasbulatov [the chair of the Congress and speaker of the Supreme Soviet] and the comrades close to him in mind-set could not offer anything remotely similar."<sup>10</sup> Much of the promised \$24 billion was not forthcoming, however; and the following December Khasbulatov would not let the Congress forget it--claiming that the unfulfilled aid promise had been a Western scheme to to further weaken the faltering Russian economy.

Overall, the Congress's mood in April 1992 seems to have been more skeptical than intentionally obstructionist. During the April session, 505 deputies were polled about their opinions regarding the sharing of power between the legislative and executive branches, and the progress of economic reform. At that time, more deputies believed that the course of the government's reform program was right than supported Yeltsin's success in achieving his aims until that point. When asked, "What do you think of the government's economic reforms in general?" a majority (53 percent) said that they supported the general direction of reform, at least in part; although most of these deputies now believed that major modifications were needed. Yet, to the question, "How would you evaluate the results of the first three months of the economic reform?" only 29 percent gave Yeltsin's program favorable rating.<sup>11</sup>

Growing uneasiness about Yeltsin's economic policies was, therefore, clearly a major reason for the critical shift in the legislature's center of gravity that was manifest in April. Perhaps there was also another reason -- one which underscores the delicacy of Russia's nascent political democracy. Support for Yeltsin's radical reforms had been broad-based partially because he had successfully stared down the powerful Soviet machine; but with the dissolution

of the Soviet Union, the strains in this coalition became increasingly pronounced. And the deputies now found themselves in a very different position than before. Under a veneer of solidarity, among the majority who supported Yeltsin's early proposals, were conflicting interests and loyalties which might have remained suppressed had Yeltsin's reform initiatives produce the result he had promised, but which surfaced with the first sign that Yeltsin's heroic image was no longer unassailable.

Yeltsin's parliamentary majority in the Congress during the early days of reform had come from a bloc of liberal reformers and a substantial number of deputies from a larger "centrist" block who would generally have preferred more gradual reform but were willing, if often grudgingly, to give Yeltsin's idea a chance. A minority of the Congress, perhaps between a third and 40 percent, comprised a "red-brown" coalition of old guard communists and fervent nationalists. An important unknown, from the beginning, was whether the large center would ultimately press its own agenda, possibly picking up critical support from the factions nearer the extremes, or whether enough centrists would back Yeltsin and his liberal democrats to allow them to pursue their program. At first, Yeltsin's perspective prevailed, but by April the center was asserting its reservations more pointedly. To rekindle diminishing support for the government program, the Gaidar team resuscitated the idea of distributing vouchers to all citizens. This action would prove, however, to create its own set of problems.

On June 11 the Supreme Soviet approved the Gaidar-Chubais privatization program for 1992.<sup>12</sup> The main points of Russia's new program had been outlined eleven months before, in the July 3, 1991 legislation. The intervening period had seen an aborted coup, jockeying for position among republic and USSR officials, and the ultimate collapse of the Soviet Union. Privatization-by-decree had been proceeding, following Yeltsin's order the previous December 29;

but months had been lost with the legislature in developing privatization legislation. In the process, animosities were heightened during the debates over economic reform which brought a quick end to Yeltsin's "honeymoon" period following the coup and which continue to stalk the government's privatization effort--resulting, finally, in the death-grip confrontation in March 1993.

During the Supreme Soviet discussions in June, the proposed voucher system was the most controversial issue. "Long and hot debate"<sup>13</sup> surrounded the question of whether only workers or other people also, including all citizens of Russia and possibly foreign investors, should have the right to buy state enterprises with government-issued vouchers or money. Following approval of the privatization program by the Supreme Soviet, issues surrounding the voucher plan became lively topics of discussion among the general public.

Public opinion about the legislature had never been strongly favorable, and now the deputies were acceding to reform initiatives that were getting ever lower marks among the population. From the time Gaidar first proposed the voucher program to the Congress in April until they approved it two months later, Yeltsin's approval rating dropped 11 points, to a shaky 32 percent. Gaidar's support in the general public, always a better indicator of public opinions about specifically economic reform, dropped to 19 percent. By this time only 17 percent endorsed the Supreme Soviet's performance -- practically the same approval rating as Gaidar's.<sup>14</sup> Undoubtedly, many deputies believed that their low approval rating was tied to their compliance with the government's reform initiatives. The stage was inexorably being set for a confrontation, unless the reforms soon began showing more favorable results. Yet, apparently only a fourth of the deputies were willing to consider asking for resignations among Gaidar's team at that time.<sup>15</sup>

Anders Aslund was not so generous. One of Yeltsin's prominent foreign consultants who had help fashion Gaidar's reform program, Aslund took the role

of political as well as economic advisor. To Åslund, reforms could be pursued more aggressively with a different legislature. He complained in an article written for Izvestiia that reform had been hampered by Russia's lawmakers. "Democratization is the life blood of successful economic reform," he argued. "It is essential," he maintained, that early parliamentary elections be held; because "87 percent of the current Supreme Soviet are former communists. A new parliament will create a reformist government."<sup>16</sup>

Even before the privatization program for 1992 was finally approved in June of that year, Gaidar's team began working on a program to deepen overall economic reform. The program went through several revisions, the last of which was presented to the Supreme Soviet on October 5.<sup>17</sup> In the introduction, the governmental working group admitted that the results of reform until that point were not encouraging. "Pathological processes in the economy are too deep," they emphasized, "deeper than had been expected." Financial stabilization, one of Gaidar's main objectives, had proven to be impossible. There had been some positive results, too, they thought. The population was more active in economic activity, and increasingly people were asking for "freedom to make their own fate" instead of for money and social guarantees.

According to the "Program for Deepening Reform," the transition from the present crisis to a period of economic growth was projected to take three years. The program outlined procedures for achieving the goals of financial stabilization, reform of state expenditures and economic growth. Rather than discussing specifics of the proposal, however, the now-restive Supreme Soviet concentrated on criticizing Yeltsin and his advisors and blaming the current economic crisis on the government's reform strategy.<sup>18</sup> It was at that point that Yeltsin for the first time distanced himself from the Gaidar program by declaring to the Supreme Soviet that the "big jump" was a mistake from the beginning. "There turned out to be too much macroeconomics in [Gaidar's]

economic politics," but not one of the macroeconomic tasks was realized, Yeltsin said.<sup>19</sup> The reform program needs to be revised, he added, and "useful ideas" need to be included from other political movements. He specifically mentioned the centrist bloc *Graszhdanskii Soiuz* (Civic Union), which was then headed by Arkadii Volskii, Aleksandr Rutskoii and Nikolai Travkin.<sup>20</sup> Yeltsin closed his speech with a quotation from Volskii: "The market itself is not the aim, but the means to restore the Russian economy."<sup>21</sup> Yeltsin still recognized, at that point, the authority of the legislature.

On November 26, following the Supreme Soviet's directive, Gaidar presented a government "Anti-Crisis Program" which, as Yeltsin had ordered, took into account suggestions from *Graszhdanskii Soiuz*, the Supreme Economic Council of the Russian Supreme Soviet, and several academic institutions. It focused on inflation and productivity decline, and it outlined a system of state credits and expenditures to support production over the following four months. The parliament approved the proposal in principle, asking for a more detailed plan. The revision was to be presented to the Congress of People's Deputies, which would convene on December 1.<sup>22</sup> When he took the floor to describe the revision, Gaidar emphasized that the most important task of economic reform is to maintain momentum away from the command economy. Attempts to stop the privatization ("privatizatsiia") process now could only open the way to steal state property ("prikhvatizatsiia").<sup>23</sup> Gaidar was on the defensive, fighting for his political life and a reform program delegitimated by persistent and accelerating economic decline.

The Congress's disaffection with the Yeltsin-Gaidar economic approach before year's end is not difficult to understand, in light of the optimistic predictions they had made earlier in the year and the worsening of Russia's economy after that time. When price liberalization was introduced on January 2, Gaidar predicted price increases of 3.5 times, but by September they had jumped

by more than 20 times. Economist Vladimir Tikhonov, an advisor to Yeltsin, attributed this huge discrepancy to the monopolistic character of the Russian economy<sup>24</sup>--no excuse for Gaidar, who should have been well-versed in the workings of monopolies. To gain support for their program, both Yeltsin and Gaidar repeatedly predicted that the economic picture would soon improve. When Yeltsin introduced his economic proposal in late 1991, he announced that the economy would begin to improve in the summer or fall of 1992.<sup>25</sup> By the spring, when all indicators had worsened and public dissatisfaction was rapidly mounting, Gaidar stated that by the end of 1992 "inflation will slow down to a few percent, the rouble will stabilize and the necessary preconditions will be created to attract foreign investment."<sup>26</sup> In June, improvement was nowhere in sight; and that month Yeltsin told an interviewer from Komsomolskaia pravda, "I expect prices to stabilize by the end of the year. People's lives will start to improve then."<sup>27</sup> By December, however, Russia was "begging the world for humanitarian aid," wrote economist Nikolai Petrakov, a former adviser to Gorbachev.<sup>28</sup> The "carrots" offered by Russia's government may have been necessary to secure compliance with the hardships they knew would be created in the near term by their policies. But not all of the people, or of the people's deputies, forgot all of the promises. "The people feel deceived," Yavlinskii wrote near year's end, and "Trust in reformers and reforms has gone completely or is close to doing so."<sup>29</sup>

Russia's 1992 GNP was 20 percent below its 1991 level.<sup>30</sup> The buying-power of salaries shrank alarmingly during the year. Average prices increased at more than twice the rate of salary increases; and not surprisingly, the structure of spending changed. Food accounted for an ever-increasing proportion of most families' budgets (45 percent of average family incomes, up from 34 percent in 1991). Pensioners spent 81 percent of their income for food. The total volume of spending for all types of consumer goods, including food, was also different in

1992. People bought 39 percent less in 1992 than the year before, including 13 percent less meat, 20 percent less milk, 30 percent fewer shoes, and 54 percent less clothing.

It would be one thing if these abrupt changes could be explained by the new dynamics of a rapidly growing private sector, which might suggest that the strains of 1992 could be eased as the system adjusted; but in actuality, the effect of the much-discussed privatization was slight. By year's end, 72 percent of all consumer goods were being sold in the state sector, up only five percent over 1991. Most non-state sales were made by cooperatives -- not newly privatized enterprises or other private businesses. Only 8 percent of goods sold in retail enterprises were in the private sector, although retail enterprises were primary objects of the government program's first stage of privatization.

Consumer goods were not 1992's only production casualty. In almost every category, production was down from 1991. Production of steel declined 14 percent, tractors 25 percent, industrial equipment 25 percent, and plastics 80 percent. In short, under Yeltsin's leadership the economy was in free-fall with no turnaround in sight. On the positive side, the reformers emphasized, mass privatization was proceeding; shops were well-stocked; the ruble was still in demand, in spite of its declining value; and orders for manufactured goods were on the rise.<sup>31</sup>

But by December, the Congress wanted a change. Yeltsin's approval ratings had peaked in the summer, and had gradually fallen after that time.<sup>32</sup> In October, nearly half (47 percent) of the respondents in a VTsIOM survey described the country's situation as "unbearable,"<sup>33</sup> and by November 49 percent of the respondents in another VTsIOM survey thought it was "quite likely" that there would be "mass action against the government's economic policy . . . over the next few months," and another 20 percent thought it was "hard to say" whether or not public rejection would be this pronounced.<sup>34</sup> A national survey

conducted by VTsIOM in November found that, while more people supported Yeltsin than anyone else to be the leader of Russia's government, he was favored by only 27 percent of the people interviewed. The other respondents chose different people. Second place went to Russian Vice President Aleksandr Rutskoi (13 percent), who would be one of the first to speak out after Yeltsin signed his "decree of special rule" on March 20, 1993.

Yeltsin's strongest support at the end of 1992 came from entrepreneurs (with 39 percent favoring him), young people (35 percent) and pensioners (32 percent).<sup>35</sup> Entrepreneurs supported Yeltsin because there was no other national leader with the potential they saw in Yeltsin to work for their interest. Yet, this hope was based on little that was tangible. Gaidar's program had focused primarily privatization of state enterprises. Private entrepreneurs were remembered primarily as sources of tax revenue. Among people in the army and the militia, Rutskoi was the first choice (33 percent). Rutskoi was also more popular than Yeltsin among middle-aged people.<sup>36</sup>

People's deputy Viktor Sheinis pinpointed December 3 as the day when "a drastic change in the Congress's mood occurred. . . . The center had swung toward the opposition." Sheinis explained this development as a negative response by many deputies to Yeltsin's proposal at the beginning of the Congress that he be granted additional special powers. (The special powers he had requested a year earlier expired the day the Seventh Congress convened.) This move "was assessed," Sheinis observed, "as an attempt by the executive branch to encroach on the prerogatives of the legislative branch."<sup>37</sup> They refused, and relations between Yeltsin and the legislative majority rapidly worsened after that time. When the Seventh Congress completed its December 1992 session, fewer than one third of the deputies could be counted on to support Yeltsin's economic reforms.

Analyst Ludmila Telen concluded that the decisive shift had occurred even before the Congress began meeting on December 1. In November, the political bloc that supported Yeltsin most strongly, Democratic Russia, had started a campaign to block the Congress from convening in December. Foreign Minister Andrei Kozyrev and privatization director Anatolii Chubais, among others, urged at a press conference for foreign journalists that the meeting of the Congress that was scheduled to begin December 1 should be cancelled. Yeltsin, also, hinted in several public statements that he would rather that the Congress not meet in December.<sup>38</sup> The result of these actions, Telen stated, was that "the political centre read the signs as the President's renouncing the tactic of compromise just before the Congress."<sup>39</sup>

It is not surprising, then, that the Congress was decidedly unhappy with Kozyrev in December, and also with the Gaidar team--for reasons that transcended economic policy, although contention over economic issues was the basis for broader disputes about where power should reside. The Congress was unable to remove Kozyrev, but Gaidar was more vulnerable. The day after Gaidar was rejected as prime minister, Yeltsin angrily called for a national referendum to let the voters choose between him and a legislature he now attacked unmercifully. "What they failed to do in August 1991, they have decided to repeat now by means of a creeping coup," Yeltsin charged in a televised address. These were fighting words--especially since many members of the Congress, including Khasbulatov, had fought as courageously as Yeltsin against the coup. Washington Post correspondent Michael Dobbs reported that Yeltsin's challenge "was greeted by gasps and shouts of protest from the hall."<sup>40</sup> Yeltsin then "stalked out of the Grand Kremlin Palace" and asked his supporters in the Congress to join him. No more than 20 percent did.<sup>41</sup> Thus the rift between Yeltsin and the Congress was visually dramatized, for the world to see. This was

just one of several coordinated moves to discredit a legislature that had become unhappy with Yeltsin's economic policies.

The question Yeltsin wanted to put to voters was whether they supported him or the Congress. Between December and March, when a list of four questions was finally decided upon, the proposed referendum was a subject of heated controversy. Along the way, his attempt intensified to characterize the Congress as moving in the direction of a "pro-communist dictatorship."<sup>42</sup>

The coordinated effort to discredit a legislature that had become unhappy with Yeltsin's economic policies was aimed at the West as much as Russian voters. Foreign Minister Andrei Kozyrev was a major actor in this offensive. Four days after Yeltsin's unexpected referendum announcement, Kozyrev shocked a Stockholm audience of foreign ministers and diplomats by delivering a lengthy speech in which he pretended that Russia was now taking an aggressive stance toward the West. In a second address, nearly a hour later, he clarified the intent of his dramatization. The statement he had read earlier, Kozyrev insisted, was a compilation of views which were "far from the demands of the most radical members of the opposition."<sup>43</sup> He was particularly referring to opponents of Yeltsin's economic reform program.

These maneuvers worked handily. Most prominent U.S. media personnel were effectively netted by the Yeltsin team's stratagem, and their news reports began to plainly reflect the stereotype crafted by Yeltsin and his advisors. Opposition to Yeltsin's economic initiatives was now characteristically interpreted in the U.S. media as opposition to any economic reform and also to democracy. Serge Schmemmann wrote in The New York Times of "a legislature packed with neo-Bolsheviks, nationalists and old apparatchiks." Fred Hiatt of The Washington Post described the Russian legislature as an assembly of "holdover Communists and nationalists" who threatened to "derail his [Yeltsin's] privatization program, unseat his reformist ministers and slow the

demilitarization of Russia's economy."<sup>44</sup> Television summaries were typically no less antagonistic toward the Russian legislature; and predictably, several popular analysts painted even more vivid descriptions in this dispute, which was increasingly being viewed in the West as a good-versus-evil confrontation. These negative images were aided by several academics who dutifully warned, in the mode of Harvard's Jeffrey Sachs, against the "unrepentant apparatchiks of the Russian congress."<sup>45</sup> Cautions by more thoughtful analysts were largely drowned out in the West by the rising crescendo of support for Yeltsin.

As early as April 1992, Yeltsin strategist Gennadii Burbulis had begun to label Russia's established legislative bodies as "historically the last link with the totalitarian system," and he hinted at a possible conflict between the Yeltsin forces and the deputies at session of the Congress where Yeltsin would first propose a "presidential republic." Burbulis's approach was not that of a government official seeking to work cooperatively with the legislature.<sup>46</sup> "We realized that the legislative branch would be a brake [on Yeltsin's reforms], and I thought that the idea of a presidential vertical [system] would be best--and the idea of a parallel power structure," Burbulis suggested retrospectively in early 1993.<sup>47</sup>

With increasing signs that the conflict between the legislature and the executive branch was escalating, many Russian liberals felt that they had to make a choice of loyalties. The old Soviet constitution which specified the division of authority among state power structures precluded a real balance of power between the legislature and the executive branch; and Yeltsin, rather than himself advocating a balance, instead made every effort to get more power for himself. His strategy not only sowed further discord between his government and the Congress, but it also created a dilemma for democrats. For those who saw Yeltsin as Russia's best hope--and there were many with this view--it was

difficult to avoid consenting to Yeltsin's appeals for "presidential power" over a legislature with whom he found it increasingly difficult to work.

On the one hand, the Russian Congress was vulnerable to a series of serious criticisms. But most deputies were not as extreme as Yeltsin persistently charged, on the other hand, and many of their complaints against his policies were appropriate. Further, even if the Congress had been as uncooperative as Yeltsin said they were, his tactics to circumvent the legislature's authority were indefensible within a democratic framework. Underscoring this point, editor Vitalii Tretiakov, minced no words in judging the Congress after its late March session: "The Congress is terrible," he exclaimed, "and deputies are saying ridiculous things." Tretiakov quickly added, "But it should not be broken up, even if the West should express support for President Yeltsin's strict measures 25 times more. ...The legislature can be dismissed only if there is a dictatorship."<sup>48</sup> In October, Tretiakov's Nezavisimaia gazeta was one of the publications printed with "white space" where articles were to have appeared--articles removed under threat of government censorship.

It is true that during this period, relations between Yeltsin and the legislature deteriorated to the point that fruitful negotiations of differences became increasingly difficult; and people on both sides of the political battles that developed often took extreme positions--which intensified after the April referendum and culminated in the October conflict. And there is abundant evidence that People's Deputy Father Gleb Yakunin's conclusion about the parliament, voiced to me in an interview this past summer, was correct. "The main thrust of the Supreme Soviet is antidemocratic now," he said. Yet earlier, during the time that the Congress was, according to Yeltsin, moving toward a "pro-communist dictatorship," most political realignment in the legislature was, instead, toward the center--away from both the right and left extremes. Yeltsin's frequent unwillingness to seek the compromises that are necessary

among lawmakers in any legislature representing a variety of interest groups, and the failure of his economic reforms to produce the results he had promised, were not insignificant, I believe, in the in the parliament's perceptible shift during the months preceding the September standoff away from the center and more to the right.

By the beginning of 1993 there were 14 factions in the Congress representing a broad political spectrum. Of the 1,033 deputies (reduced by eight from the 1,041 elected in 1990), 834 belonged to one of these factions. The Institute for Complex Social Studies began tracking the political positions of deputies in the Congress in 1990. Then, the most populous faction was Communists of Russia, which could claim the support of 355 deputies. According to the research of the Information Analysis Group, which rated congressional factions at the Seventh Congress in December 1992 on a scale distinguishing between, at the extremes, "firm support for the course of radical political and economic reforms" (+100) and "sharp opposition to them" (-100), the Communists of Russia averaged -89.<sup>49</sup> This faction was "the most consistent and disciplined" in the Congress, the researchers stated, "which not once in three years has allowed itself to wobble at all or make any compromises." Membership in this most conservative faction in the Congress consistently declined after the deputies were elected in 1990. At the Ninth Congress in April 1993, membership in the Communists of Russia had dropped to 67, or 19 percent of its strength three years earlier.<sup>50</sup>

At the other political extreme were Radical Democrats and Democratic Russia, with IAG ratings of +89 and +82, respectively. The Radical Democrats faction did not exist in 1990 but claimed 50 members at the Ninth Congress. Democratic Russia had 205 members in the summer 1991, and its membership declined to 48 in April 1993.

Kostiukov estimated in April 1993 that between 240 and 250 deputies, or no more than 25 percent of the Congress, held a pro-Communist orientation (which included most members of the last four factions listed in Table B-9.1).<sup>51</sup> At the other end of the continuum, Kostiukov characterized about 100 deputies as "radical liberals," who wanted to eliminate as quickly as possible the remaining vestiges of Russia's command economy.<sup>52</sup> "Liberal democrats" consisted of 230 to 250 legislators,<sup>53</sup> who comprised a self-identified "democratic center;" and the generally more conservative "social democrats" included 280 to 320 deputies.<sup>54</sup>

The makeup of the Congress before the April 1993 referendum was hardly a democratic reformer's ideal, but Yeltsin's increasingly strong attacks seem to be best explained as his way of acquiring unchallenged power rather than being forced to work with the Russian Congress and Supreme Soviet. This past summer Petr Filippov stated this point to me unambiguously in an interview that we completed at the Kremlin gate, as he was going in for a meeting with Yeltsin to which he had been summoned as we talked earlier in Filippov's office. Filippov was formerly head of the subcommittee of privatization of the Supreme Soviet; and as did so many deputies who were Yeltsin supporters, he left the parliament to work in the Yeltsin government. (This trend was one of several signs that Yeltsin had little interest in working with the legislature, as it became clearer that the lawmakers were increasingly resistant to his desire for unassailable authority.) Filippov is now a close Yeltsin advisor and frequent spokesperson for the administration. "I wish I could convince Boris Nikolaevich," Filippov told me this past August, "that you can't run a country the way a Party boss could run a region." Filippov had highlighted a second critical failing of the Yeltsin reform program. It was not only the legislature that Yeltsin wanted to dominate. Again, as so often before, Yeltsin's reform strategists were attempting to decree reform almost entirely from above, with

little visible attention to the hardships they were creating for a huge proportion of the Russian people.

### *Reform from Above?*

In the Gaidar-Chubais privatization program, as in the collectivization which privatization was intended to correct, the plan from the beginning was top-down transformation. "We are ready to unveil Big Privatization," Anatolii Chubais declared with the beginning of price liberalization in January 1992. "We have worked out the required tasks for privatization in regions, oblasts, Moscow and St. Petersburg."<sup>55</sup> According to Chubais's estimate, more than 50,000 government personnel would be required to implement the privatization program. In January 1992 Chubais said that the government had applied to the Central Bank for five hundred million rubles (R500,000,000) just to purchase office equipment and supplies for work related to privatization. Most of the employees Chubais was seeking to fill the new jobs for privatization would, in his words, come from "branches where there massive staff reductions are now going on."<sup>56</sup> That is, he was hiring seasoned veterans of the state system to staff yet another bureaucratic machine.

In trying to bury the centralized Soviet system with quick and strategic action by a centralized post-Soviet replacement, the Yeltsin reforms from late 1991 until now have registered impressive progress in privatizing a large number of state enterprises. By September of this year, about 69 percent of all small enterprises had been privatized, according to Deputy Prime Minister Anatolii Chubais, and about 14,000 larger state-owned firms with more than 200 workers are expected to be privatized by the end of 1993. Also by September, seven thousand privatizing firms had been converted into joint-stock companies and shares in 3,500 had been sold at voucher auctions. Those auctions have brought

in about one-fourth of the vouchers that have been distributed. Chubais expected that, by the end of 1993, more than half of all employees in Russia will be in non-state business.<sup>57</sup>

But the Russian privatization program is not mostly about economics, but rather politics. On that privatization director Chubais is clear. In an interview this past August, Chubais told me candidly, "This is not an economics program; it is a political program. It is five percent economics and 95 percent politics." Nor does Chubais hesitate to make gloomy long-range predictions for the prospects of a very large number of privatizing enterprises. In a speech last July, he warned, "The biggest price that we will pay will come tomorrow. The main danger to the whole privatization program is the risk that it will face when some of the privatized enterprises, or probably most of them, become bankrupt."<sup>58</sup> Another way of phrasing Chubais's point is to say that the privatization program is more about destroying a production system than about building one.

Chubais and other members of the Yeltsin government have been successful in their campaign to convince the public that a slower rate of privatization would produce even more problems than rapid privatization. Chubais has frequently warned of uncontrolled nomenklatura and mafia involvement if privatization should be pursued more gradually, and of a "narrow window of opportunity," for privatization because of an increasingly resistant legislature. "After mid-1992," Chubais stated this past July, "it became impossible to get any kind of positive or even reasonable decision about privatization from the Parliament."<sup>59</sup> The question is, what was reasonable here? Legislative endorsement of a program which, according to the program's director, is likely to cause most privatized enterprises to go bankrupt?

A substantial majority of our general population sample in 1993, comprising 4,000 respondents randomly selected from address bureau lists (Moscow and

Ekaterinburg) and voucher lists (Voronezh and Smolensk) supported rapid privatization. Sixty-four percent told us that the current pace of privatization in Russia is not fast enough. And a majority (55 percent) of the directors we interviewed in state and privatized firms also agreed that privatization should be speeded up. There is a fascinating paradox here. When we asked the general sample how much the general population is benefiting from the voucher program, only 20 percent said "a great deal" or even "somewhat." An overwhelming 82 percent thought that mafia and crime groups were benefiting, however; and 76 percent believed that current officials were. Only 34 percent of these respondents were even "somewhat satisfied" with the results of privatization in the retail and consumer services spheres, which, at that time, were more than 50 percent privatized.

These results cast strong doubt, I believe, on Chubais' claim that his privatization program is a "bottom-up" rather than a "top-down" approach. I think it unlikely that "grass-roots" style privatization would follow a path that appears to people at the grass-roots level to benefit special interest groups more than them. Instead, what was presented to the people of Russia was the single option of accepting the Gaidar-Chubais centrally-devised privatization program as the way out of the old central planning system. Chubais's reasoning that, because "everybody can take the initiative and apply...for privatization,"<sup>60</sup> it must be a grass-roots phenomenon, avoids the fact that both the old and the new paths appeared at the grass-roots level to have notable deficiencies.

*One Step Forward and Two*

*Steps toward the West*

The Yeltsin government's narrow conceptualization of how to move Russia toward market-oriented reforms has a history, of course. The evolution of the reasoning which produced "shock-therapy" price liberalization in January 1992 and the strong emphasis on rapid privatization of the Yeltsin-Gaidar economic program bears the stamp of Western economic advisors, who had little concern with utilizing the strengths offered by Russia's already-existing institutions. Most Russian economists had different ideas, which were more attentive to both the cultural context and the potential of the existing production and distribution system. There was a rich recent literature on economic reform from Gorbachev's last years--the Shatalin-Yavlinskii "500 Days" plan being one of the notable examples. But Yeltsin and his advisors largely turned their backs on this more indigenous stream of work, in favor of a set of controversial monetarist principles imported from the West.

In a Stockholm conference held during the summer of 1991, Anders Åslund, director of the (then) Stockholm Institute of Soviet And East European Economics, had emphatically advocated the prescription Yeltsin would write for Russia four and a half months later. "In the USSR, there is a nearly universal belief in the necessity of gradualism in the transition to a market economy," Åslund wrote in his conference paper.<sup>61</sup> Åslund made it obvious that, as he saw it, Soviet economists were not as qualified as their Western counterparts to evaluate the workings of a market economy. "Even reasonably knowledgeable Soviet reformers have great difficulty understanding what a market economy actually entails," he stated, adding, "It seems that travelling abroad is necessary but not sufficient to give reformers such insights."<sup>62</sup>

Hammering home his point, Åslund described the customary view among reformist Soviet economists as "an unfounded belief in gradual transition." Insisting that since "the current Soviet price structure is utterly distorted in all aspects, the only response that could work would be rapid price

liberalization. "Decrying the fact that "every programme under consideration [in the USSR] is in favour of a gradual liberalization of prices," he claimed, "Any partial alteration will only lead to new distortions."<sup>63</sup>

Prophetically, in this paper Åslund highlighted his respect for the economic thinking of academician Egor Gaidar, whom Yeltsin would name almost exactly one year later as his new acting prime minister, in charge of the government's fledgling economic reform program. "The Soviets should focus on the experiences of Poland," Åslund urged, "to which Egor Gaidar in particular has given appropriate attention."<sup>64</sup>

Then Åslund both stated the empirical basis for his proposition and provided the challenge that Yeltsin would soon present to the Congress the following October 28, in his call for economic shock therapy: "In short, capitalism has to be declared and to become a basis of the new rule, as it was in the East-Central European countries before they launched a true shift to a new economic system."<sup>65</sup>

In truth, Åslund had no adequate empirical basis to urge shock therapy as the preferred means of initiating economic reform in the context of a Soviet-type economy. There have not been enough cases for any objective analyst to make the strong claims from historical precedent that characterized Åslund's argument, and the examples he drew on from East Europe were not good parallels to the Russian situation on a number of dimensions. Even if they had been, both in Russia and elsewhere when the monetarist doctrine has been partially followed, the outcomes have consistently been economically damaging and have brought hardship to large numbers of people. Would a more gradual approach have been better? Åslund has no evidence at all that it would not, in spite of his bold assertions.

A year later Gaidar explained why he had favored the strategy of price liberalization. "The Russian government had no choice remaining," he reasoned.

"It had to become the initiator -- to start the transformation . . . We realized very clearly that price liberalization by itself would not provide even the minimum prerequisite to make the market work," he added. People had money, but there were few things to buy. Price liberalization was intended to make profitable production possible, which would get goods into the stores so that people would put their money in circulation.<sup>66</sup>

Gaidar's defense would have been familiar to anyone knowledgeable about Aslund's point of view. He called forth the same historical examples Aslund had referenced a year earlier in the Stockholm conference. "The East European countries used the same procedure in reforming their economies," Gaidar emphasized, quoting Aslund almost directly.<sup>67</sup> Had Gaidar's ideas been aired in Stockholm, some other participant might have pointed out that none of Aslund's East European examples offered much clear guidance for the Russian case. Early reforms were more successful in some of those countries than in others, and so many changes were taking place almost simultaneously that no objective analysis could definitively identify the most important reasons.

For the men who would become Yeltsin's closest economic advisors, however, the way Aslund framed the problem had political appeal. It would unambiguously show, as Gaidar later explained it, that the government was finally doing something. With clear clean strokes, Aslund had crafted a daring vision for economic leadership. Yeltsin would find out through decree whether or not it was good economics.

There were several other Western economists among the Russian and Soviet governments' cadres of advisors during this period. Along with Aslund, Jeffrey Sachs, who had also been an advisor on economic policy to Poland, was one of the most influential. Sachs, also, was a participant at the 1991 Stockholm conference. "The successful transformation of the socialist economies," Sachs began, "has to be based on three fundamental factors." The second factor he

named was "truly radical economic reform."<sup>68</sup> In Poland, the reform plan tied to overnight price liberalization was called "the big bang."

A few weeks after Yeltsin's announcement of shock therapy for January, Economist Vladimir Popov offered a succinct assessment of the plan: "Boris Yeltsin proclaimed the imminent liberalization of prices on October 28th. By the beginning of November, all shops were stripped bare of all products, including bread. On November 5th, the rouble dropped to an all-time low"; and, Popov continued, prices in 1992 will probably increase "by tens of times."<sup>69</sup>

Within a month after price liberalization, the verdict was already in from many analysts. "Market prices should be determined by competition between private producers and retailers, and not on the whim of monopolistic manufacturers and those who deliberately withhold products which are in short supply," Aleksandr Zaichenko wrote in January. "Unfortunately," he continued, "this glaring truth has passed the Russian authorities by."<sup>70</sup> The Central Bank had proposed that prices should be freed only in sectors of the economy where competition could hold the lid down on prices, but this suggestion was ignored. "As a result," Zaichenko insisted after two months of experience with the new initiative, "monopolies compete with each other only in raising prices."<sup>71</sup>

During the summer of 1992, our research team explored the government's reasoning in putting price liberalization ahead of demonopolization in its economic reform program. We wondered why, in light of widespread opposition among Russian experts, Yeltsin's proposal to loosen the grip of command economics with one swift, clean stroke had met with little resistance. According to a nationwide survey conducted just before the January price liberalization by the Center for Public Opinion and Market Research (VTsIOM), only 26 percent of the respondents said they supported price liberalization; another 18 percent said they didn't know; and 56 percent stated that they definitely opposed the idea.<sup>72</sup> Yet those skeptics never congealed into an organized opposition.

By the following February, another national VTsIOM survey found that 45 percent of the respondents would support a general strike against the price increases of January 2.<sup>73</sup> Three months later, in May, 70 percent of the respondents in a nationwide survey said they did not believe that price liberalization would help lead the country out of its economic crisis.<sup>74</sup> In an interview that same month with Dmitrii Vasilev, a vice chair of the State Property Management Committee, we asked with the benefit of hindsight if it had been a good idea to liberalize prices before widespread privatization. He quickly responded, "It was not an idea. It was a necessity. Do you remember that in December 1991, several times there was no bread in Moscow and Leningrad for as long as four days? We definitely had no choice."

I did remember. I was in Moscow at the end of 1991, and we knew the apprehension that hung heavy over this city of 9 million as food in near-empty stores grew scarcer by the day. On the one hand, it was nearly inconceivable that millions of people in this mighty nation could soon find their stores entirely emptied of food. On the other hand, ever-lengthening lines signaled less food--not more--with no certain solutions in sight. There was talk of famine. Such concern was not, as Ellman and Kontorovich emphasize, "just idle chatter from people who could not distinguish between food shortages and a famine. There are people alive today in the USSR," they continue, "who have known four famines"; and "These famines, especially the first two, were major catastrophes in which millions of people died. Hence in the USSR," they conclude, "people do not use the word 'famine' lightly."<sup>75</sup>

There was just one problem with Vasilev's explanation. The serious food supply problems had developed in November and December. Price liberalization had been declared soon-to-be-implemented policy at the end of October. Thus, price liberalization was not a response to the year's end scarcities. It probably

exacerbated them, as retailers held goods in anticipation of huge markups in January.

Some of Gaidar's predictions about the positive effects of price liberalization were realized. Goods did begin flowing into the stores again within several weeks. People spent their money. And the pace of economic change accelerated. But there were also effects Yeltsin and Gaidar had not expected. Money quickly lost most of its value because of inflation; and production, rather than increasing, continued to decline.

Vasilev's argument was repeated by Jeffrey Sachs in March 1993. Sachs was attempting to shore up the Clinton administration's strong defense of Yeltsin, following his power struggle that month with the Russian legislature; and he argued, against the views of most members of the Russian Congress of People's Deputies, that "If Yeltsin can stay the course on economic reform, Russia will prosper."<sup>76</sup> As was the case with Vasilev the preceding summer, Sachs, also, seemed not to understand that the acute food shortages in December 1991 were partially caused by the announced price liberalization for the new year: "When Yeltsin began his radical reforms in January 1992, Russia was plagued by food shortages, empty shops and the real fear of hunger in major cities. Russia has passed its second winter without mass hunger because free-market prices have allowed for normal trading. Like the rest of the world, Russia now manages to get goods to the market."<sup>77</sup>

What Sachs failed to add was that, in 1992 agricultural production declined along with production in almost every other sphere of the economy. Agricultural output in 1992 decreased 10 percent over 1991 and is expected to decrease another 6 to 7 percent in 1993. Average diets had, predictably, been slimmed. In an intended defense of price liberalization, Yakov Urinson of the government's economic ministry, admitted late in 1992, "Living standards have dipped by 20 to

25 percent compared with 1991"; but, he added in weak encouragement, "Even so, about 100 million people, or the bulk of the population, maintain consumption at an acceptable level."<sup>78</sup> Urinson's unarticulated admission, was that a third of the population were underfed by year's end.

It seems clear that the economic advice that some of Yeltsin's closest foreign advisors have offered has been partially driven by a political agenda in which human hardship and industrial decline have been only secondary considerations. That a large proportion of the population has been willing to tolerate the consequences says a great deal more about the onerousness of the Soviet-style system than about the appropriateness of the reformers' alternative.

#### *The Almost-Forgotten Private Business Community*

A fourth mistake of the Yeltsin government's approach to economic reform has been its conspicuous neglect of the need to stimulate new and existing private businesses, which must surely be seen as critical to a thriving market economy. Indeed, in Gaidar's economic reforms the private sector, which had begun to flourish by the time Gaidar initiated his reforms, was virtually ignored; and the introduction of price liberalization, along with higher taxes, had the damaging but entirely predictable effect of driving many non-state firms out of business.

Non-state businesses began to establish a presence in Gorbachev's Soviet Union with the legalization of cooperatives; and the early growth of cooperatives was impressive.<sup>79</sup> The philosophy behind cooperatives was to preserve the idea of "socialist enterprise." The stream of legislation about cooperatives that was passed in the USSR parliament during the late 1980s was justified as fostering a form of economic activity that was both true to the

goals of communism and suited for the conditions of the time. This attempt to avoid breaking with party orthodoxy, however, soon ended. Most cooperative owners actually wanted to be private business people; and workers, while preferring non-to state employment, had a strong preference for a form of private business activity other than cooperatives--private firms or joint ventures, for example.<sup>80</sup> An RSFSR law approved December 25, 1990, On Enterprises and Entrepreneurship, outlined several permissible forms of property ownership, including private enterprises.<sup>81</sup> By 1991, most people that were beginning new businesses in Russia started private enterprises, not cooperatives.<sup>82</sup>

Private business people were frequently accused of primarily engaging in speculation during this period; and indeed, Tikhonov notes, hardly any new production enterprises were started in the private sphere during the last half of 1991 and in 1992. For Tikhonov, the prime culprit at first was the inaccessibility of materials for production, which were easier to procure in the state sector. Most of the capital of new entrepreneurs was therefore kept in the monetary sphere.<sup>83</sup>

By the beginning of 1992, many private entrepreneurs had large reserves of capital which they were ready to invest in production enterprises. The capital which had been accumulated by private business people lost most of its value nearly overnight. It was very difficult for these private firms to borrow money for business development; and when loans were available they were nearly always short-term (one to three months) at very high interest rates (from 100 to 200 percent in the autumn). Ironically, the actual number of small businesses declined during 1992--the first (and only) year the Yeltsin-Gaidar reform program was in operation.<sup>84</sup> In March 1992, Delovye mir editor Yurii Kirpichnikov described the most pressing problems of small businesses: "Because the state is not supporting small businesses, it did not make it possible for them to secure financial, material and natural resources for production. Thus their main field

is selling and buying--not production." This subject is the most serious problem in the Russian economy, Kirpichnikov maintained.<sup>85</sup>

Before joining the Yeltsin government, Gaidar the academician had written in glowing terms about the salutary role of entrepreneurs, and he had been an active supporter of the Russian economy's entrepreneurial segment.<sup>86</sup> Gaidar the decision-maker, however, had not taken into account the crippling effect of the government's price liberalization and tax policies on entrepreneurial activity.

The Council on Entrepreneurship, an independent think-tank made up of domestic business executives, had been established in March 1992 by a Yeltsin decree. Its purpose was to provide a business perspective for governmental decision-making. Soon members were voicing urgent unhappiness with the government's neglect of private business, however, arguing that the government had created "a climate adverse to business development where the interests of production and entrepreneurship are infringed."<sup>87</sup> This was decidedly not what Yeltsin wanted to hear. He did not soon meet with his Council. "The Gaidar team is open to dialogue," one member indicated, "but while listening, it does not hear much."<sup>88</sup>

Yeltsin and Gaidar did speak positively about private ownership and entrepreneurship repeatedly during 1992, and Yeltsin promised that state support would soon stand behind the words. The private business community waited with anticipation for a Yeltsin decree that would afford them opportunities which would match some of the advantages that had been bestowed on state and privatizing enterprises. A decree intended to address that imbalance appeared on November 30. "The President's administration has finally issued its long-awaited document on private business, and it is not helpful at all," a Delovoi mir business editor concluded after examining the decree. "They probably don't understand that real measures to support small business were needed, as we say, yesterday."<sup>89</sup> The 1993 privatization proposal did address the issue of

stimulating the development of new private business, but the commitment of resources envisioned by the government was miniscule relative to the need, and even this inadequate action came inexcusably late.

*Conclusion: A New Mandate, and a Familiar Danger*

The evidence is persuasive, I think, that the Yeltsin-Gaidar economic program of 1992 and the Yeltsin government's continuation of most of the same policies this year was based on inadequate attention to reform solutions which could have helped to creatively transform Russia's production system on the way to a market economy. A number of reform alternatives have been worked out by Russian economists, some of which take into account unique features of the Russian political and economic landscape more comprehensively than the program initiated under Gaidar's direction. The reentry of Gaidar into the Yeltsin government, while probably a positive sign to some democrats in Russia and many Western leaders, suggests that many mistakes of the past two years may be repeated. The radical reformers have been too eager to see the old system quickly wrecked, rather than being transformed in ways that would more effectively utilize the production system's resources and potential. In pursuit of their objectives of achieving momentous change as rapidly as possible, the reformers have largely ignored the negative social consequences that were certain to follow. Western-backed economic policy initiatives in smaller East European countries were, themselves, based on questionable logic which is vigorously debated in the economics literature. Attempts to shape Russia to the East European mold introduced additional distortions. It is true that the Yeltsin-Gaidar plans were never fully implemented in the way that foreign advisors and officials of Western financial institutions wanted them to be; but I find little empirical basis for the contention that their proposals could have

been efficacious under other circumstances, either. The Eastern European examples which are often offered in evidence do not provide an affirmative answer to this now-theoretical question.

The political crisis Yeltsin helped to create beginning in late 1992, with his aggressive stance toward the legislature, restored much his diminishing symbolic capital, both in Russia and in the West. By increasing his political leverage through confrontation, however, he not only increased the risk of political fragmentation but also diverted emphasis away from pressing economic problems. This was not the first time Yeltsin had played this card to buy more time; but in the past, between periods of confrontation, his performance had left large numbers of people dissatisfied, if not disillusioned. If Yeltsin had chosen a more gradual economic reform approach in late 1991, as many reform-minded Russian economists had urged without success, some of the costly developments of 1992 and 1993 might well have been avoided. And in trying to eliminate the threat of a Communist resurgence through rapid economic reorganization, I suspect that the reformers in Yeltsin's government inadvertently heightened the risk that authoritarian forces in Russia might enjoy increasing momentum. In this case, the authoritarian strain may have been nurtured on several fronts, both outside and within the government. I fear that the support Yeltsin has received for his calculated moves to discredit and ultimately dissolve Russia's legislature and, in the wake of that triumph, to move quickly against other institutional sources of opposition in Russia as well, may soon offer unblinking testimony to the error of encouraging economic and political transformation through manifestly undemocratic means.

Notes

<sup>1</sup>Quoted in Margaret Shapiro, "Yeltsin Starts Push for New Constitution," The Washington Post, no. 146 (30 April 1993), A35.

<sup>2</sup>Ibid., A38.

<sup>3</sup>Vladimir Orlov, "Political Crisis in Russia Reaches Its Peak," Moscow News, no. 39 (24 September 1993), 1.

<sup>4</sup>See Anatolii Kostiukov, "Chto El'tsinu nado?" Megapolis-Express, no. 9 (3 March 1993), 20. Kostiukov was writing about the referendum originally scheduled for April 11. His reasoning is obviously applicable, also, to the April 25 referendum.

<sup>5</sup>Aleksandr Orfenov, "Kogo podderzhivaiut Rossiiane," Megapolis-Express, no. 17 (25 April 1992), 13. The study included 1,300 respondents and was carried out by the Public Opinion Foundation in 13 cities.

<sup>6</sup>Vladimir Boikov, "Vlast' priznaiut, no uzhe ne doveriaiut," Megapolis-Express, no. 30 (29 July 1992), 7. The survey included 1,200 respondents in 30 regions of Russia and was conducted by the Institute for Complex Social Studies from June 1 until June 5.

<sup>7</sup>The Current Digest of the Post-Soviet Press (CDPSP), vol. 44 (29 July 1992; from Moskovskie novosti, 24 May 1992), 20.

<sup>8</sup>"Gosudarstvennaia programma privatizatsii gosudarstvennykh i munitsipal'nykh predpriatii Rossiiskoi Federatsii na 1992 god," Delovoi mir, no. 64 (2 April 1992), 12-13.

<sup>9</sup>CDPSP, vol. 44 (13 May 1992), 6; from Izvestiia (13 April 1992), 1.

<sup>10</sup>CDPSP, vol. 44 (13 May 1992), 9; from Megapolis-Express (22 April 1992), 3.

<sup>11</sup>T. Chalov, "Deputaty o reforme," Vecherniaia Moskva, no. 69 (8 April 1992), 1.

<sup>12</sup>"Gosudarstvennaia programma privatizatsii gosudarstvennykh i

munitsipal'nykh predpriatii v Rossiiskoi Federatsii na 1992 god,"  
Ekonomicheskaiia gazeta, no. 29 (July 1992), 15-18.

<sup>13</sup>Nikolai Zimin, "Privatizatsiia Rossiiskie zakonodateli ne toropiatsia,"  
Delovoi mir, no. 109 (9 June 1992), 1.

<sup>14</sup>Vladimir Boikov, "Vlast' priznaiut, no uzhe ne doveriaut," 7.

<sup>15</sup>Vladimir Boikov and Evgenii Levanov, "Pravitel'stvo no liubiat. No poka  
eshche uvazhaiut," Megapolis-Express, no. 24 (10 June 1992), 13.

<sup>16</sup>Anders Åslund, "Shokovaia terapiia v Rossii -- mif," Finansovye  
izvestiia (Izvestiia supplement), no. 251 (18 November 1992), 1.

<sup>17</sup>"Programma uglubleniia reform," Izvestiia, no. 224 (9 October 1992), 2.

<sup>18</sup>Sergei Chugaev, "Oppozitsiia stavit pod vopros sud'bu reform,"  
Izvestiia, no. 224 (9 October 1992), 1-2.

<sup>19</sup>Anatolii Kostiukov, "Boris El'tsin povernul telegu. Budet li meniat'  
konei? Megapolis-Express, no. 41 (14 October 1992), 20. See also

<sup>20</sup>Vasilii Kononenko, "Koppektirovka reform: prodolzhenie ili smena kursa?"  
Izvestiia, no. 222 (7 October 1992), 2; and Valerii Vyzhutovich, "El'tsin  
zakliuchaet soiuz s 'grazhdanskim soiuzom,'" Izvestiia, no. 222 (7 October  
1992), 2.

<sup>21</sup>Valerii Vyzhutovich, "El'tsin zakliuchaet soiuz s 'Grazhdanskim  
soiuzom,'" Izvestiia, no. 227 (7 October 1992), 2.

<sup>22</sup>Dmitrii Khranovitskii, "Tol'ko s'ezd pokazhet, chego khotiat deputaty:  
prodolzhat' reformu ili povernut' ee vspiat'," Izvestiia, no. 258 (27 November  
1992), 1.

<sup>23</sup>"Khod ekonomicheskikh reform v Rossii: vzgliad E. Gaidara," Izvestiia,  
no 261 (2 December 1992), 1,3.

<sup>24</sup>Vladimir Tikhonov, "Scourge of Monopoly," Moscow News, no 38 (20-27  
September 1992), 3.

<sup>25</sup>Grigorii Tsitriniak, "Pogranichnaia situatsiia," Literaturnaia gazeta,  
no. 44 (28 October 1992), 11.

<sup>26</sup>Egor Gaidar, "A Tunnel Two Years Long," Delovie lyudi, no. 22 (April 1992), 19.

<sup>27</sup>Quoted in Delovie lyudi, no. 29 (December 1992), 33.

<sup>28</sup>Nikolai Petrakov, "A Second Stage of Reform . . . ," Delovie lyudi, no. 29 (December 1992), 27.

<sup>29</sup>Grigory Yavlinskii, "Trust in Reformers and Reforms Has Gone . . . ," Delovie lyudi, no. 29 (December 1992), 44.

<sup>30</sup>The 1992 figures given here are from the government report "Sotsial'no-ekonomicheskoe polozhenie Rossii v 1992 godu (predvaritel'nye dannye)," Delovoi mir, no. 7 (15 January 1993), 6-7.

<sup>31</sup>For a discussion of these points, see Otto Latsis, "God s Gaidarom," Izvestiia, no. 275 (22 December 1992), 3.

<sup>32</sup>See, for example, Boris Grushin, "Kogda Rossiiskie lidery mnenii liubiat svoego prezidenta?" Nezavisimaia gazeta, 8 (16 January 1993), 1-2.

<sup>33</sup>"MN Express Poll," Moscow News, no. 45 (8-15 November 1992), 2. This national survey included 1,520 people and was conducted October 10-20.

<sup>34</sup>"MN Express Poll," Moscow News, no. 49 (6-13 December 1992), 2. The national survey included 1,603 people and was conducted November 13-23.

<sup>35</sup>Aleksei Levinson, "Ostav'te vse kak est'!" Izvestiia, no. 260 (1 December 1992), 2.

<sup>36</sup>Ibid.

<sup>37</sup>CDPSP, vol. 44 (6 January 1993), 10; from Moskovskie novosti (13 December 1992), 7.

<sup>38</sup>Andranik Migranian, "Ot VII s'ezda narodnykh deputatov k referendumu," Nezavisimaia gazeta, no. 29 (16 February 1993), 5.

<sup>39</sup>Liudmila Telen, "The Play Begins behind the Scenes," Moscow News, no. 50 (13-20 December 1992), 7.

<sup>40</sup>Michael Dobbs, "Yeltsin Challenges His Foes in Congress, Calls for Referendum," The Washington Post, no. 6 (11 December 1992), 1.

<sup>41</sup>Ibid., A48.

<sup>42</sup>Fred Hiatt, "Attempt to Rein In Yeltsin Fails," The Washington Post, no. 96 (11 March 1993), A26.

<sup>43</sup>Vladimir Abarinov, "'Ul'timatum' Andreia Kozyreva," Nezavisimaia gazeta, no. 241 (15 December 1992), 1.

<sup>44</sup>Fred Hiatt, "Power Struggle Traps Yeltsin," The Washington Post, no. 99 (14 March 1993), A24.

<sup>45</sup>Jeffrey Sachs, "The Road to the Market," The Washington Post, no. 113 (28 March 1993), C2.

<sup>46</sup>"ABC of Russia's Revival" (interview with Gennadii Burbulis), Moscow News, no. 14 (5-12 April 1992), 6.

<sup>47</sup>Kostiukov, "Chto El'tsinu nado?"

<sup>48</sup>Vitalii Tret'iakov, "Pozhaluista, ne delaite bol'she oshibok," Nezavisimaia gazeta, no. 56 (26 March 1993), 5.

<sup>49</sup>CDPSP, vol. 45 (24 March 1993), 1-3; from Grazhdanin Rossii (February 1993), 6.

<sup>50</sup>Anatolii Kostiukov, "Depkorpuz Rossii: politicheskaia anatomia," Megapolis-Express, no. 15 (21 April 1993), 23; and "S"ezd parlamentariev i obshchestvo," Delovoi mir, no. 63 (6 April 1993), 5. For additional analysis see Sergei Chugaev, "Deputatskie nastroeniia meniautsia v zavisimosti ot zanimaemoi dolzhnosti," Izvestiia, no. 56 (26 March 1993), 2.

<sup>51</sup>Kostiukov, "Depkorpuz Rossii: politicheskaia anatomia."

<sup>52</sup>Representing the Radical Democrats and Democratic Russia factions.

<sup>53</sup>Representing the Accord for Progress, Left Center/Cooperation, Free Russia, Motherland, and Sovereignty and Equality factions.

<sup>54</sup>Representing the Workers' Union, Rising Generation/New Policy, and Industrial Union factions.

<sup>55</sup>Vladimir Orlov, "Gosudarstvo idet s molotka," Moskovskie novosti, no. 2 (12 January 1992), 14.

<sup>56</sup>Ibid.

<sup>57</sup>Anatolii Chubais, "Remarks Delivered by Vice-Premier Anatolii Chubais at the International Institute for Applied Systems Analysis, July 9, 1993" (mimeo); and Geoff Winestock, "Yeltsin Aide Defends Property Sell-Off," The Moscow Times, no. 293 (9 September 1993), 1.

<sup>58</sup>Anatolii Chubais, "Remarks."

<sup>59</sup>Ibid.

<sup>60</sup>Ibid.

<sup>61</sup>Anders Aslund, "A Critique of Soviet Reform Plans," in Anders Aslund, ed., The Post-Soviet Economy: Soviet and Western Perspectives (New York: St. Martin's Press, 1992), 172.

<sup>62</sup>Ibid., 170 (emphasis added).

<sup>63</sup>Ibid., 174-75.

<sup>64</sup>Ibid., 169 (emphasis added).

<sup>65</sup>Ibid., 172 (emphasis added).

<sup>66</sup>Egor Gaidar, "Rossiia i reformy," Izvestiia, no. 187 (19 August 1992), 3.

<sup>67</sup>"Ekonomicheskaiia strategiiia pravitel'stva Rossii," Bizness, banki, birzha, no. 12 (22 March 1992), 1.

<sup>68</sup>Jeffrey Sachs, "The Grand Bargain," in The Post-Soviet Economy: Soviet and Western Perspectives, 209.

<sup>69</sup>Vladimir Popov, "Hyperinflation Is Setting In," Business in the USSR, no. 18 (December 1991), 19.

<sup>70</sup>Aleksandr Zaichenko, "Short Sharp Shock?" Business in the Ex-USSR, no. 20 (February 1992), 16.

<sup>71</sup>Aleksandr Zaichenko, "Pleasing No One," Business in the Ex-USSR, no. 21 (March 1992), 16.

<sup>72</sup>Megapolis-Express, no. 7 (13 February 1992), 15. The survey included 1,960 respondents.

<sup>73</sup>Tat'iana Boikova, "Drada poka ne zakazana," Megapolis-Express, no. 7 (13 February 1992), 21.

<sup>74</sup>Aleksandr Sidiachko, "Pravitel'stvo y nas khoroshee," Megapolis-Express, no. 25 (17 June 1992), 19.

<sup>75</sup>Michael Ellman and Vladimir Kontorovich, "Overview," in The Disintegration of the Soviet Economic System, ed. Michael Ellman and Vladimir Kontorovich (New York: Routledge, 1992), 2.

<sup>76</sup>Jeffrey Sachs, "The Road to the Market," The Washington Post, no. 113 (28 March 1993), C2.

<sup>77</sup>Jeffrey Sachs, "The Road to the Market," The Washington Post, no. 113 (28 March 1993), C2.

<sup>78</sup>Yakov Urinson, "The Main Thing Is . . .," Delovie lyudi, no. 29 (December 1992), 36.

<sup>79</sup>A fuller discussion of cooperatives is provided in Anthony Jones and William Moskoff, Ko-ops: The Rebirth of Entrepreneurship in the Soviet Union (Bloomington: Indiana University Press, 1991).

<sup>80</sup>Lynn D. Nelson, Lilia V. Babaeva and Rufat O. Babaev, "Perspectives on Entrepreneurship and Privatization in Russia: Policy and Public Opinion," Slavic Review 51 (Summer 1992): 278.

<sup>81</sup>"O predpriatiiakh i predprinimatel'skoi deiatel'nosti," Ekonomika i zhizn', no. 4 (January 1991), 16, 17.

<sup>82</sup>Valentina Sal'nikova, "Pul's malogo biznesa Rossii," Delovoi mir, no. 134 (15 July 1992), 5.

<sup>83</sup>Ibid.

<sup>84</sup>O'l'ga Osetrova, "Podderzhit li gosudarstvo predprinimatelia," Torgovo-promyshlennye vedomosti, no. 5 (November 1992). See also N. Palkina, "Podderzhka malykh predpriatii v Rossii," Ekonomicheskaya gazeta, no. 39 (September 1992), 16.

<sup>85</sup>DSiaz Zamilov, "Nishcheta i blesk malogo predprinimatel'stva," Delovoi

mir, no. 48 (11 March 1992), 6.

<sup>86</sup>Leonid Shinkarev, "Chastnoe delo millionov," Izvestiia, no. 6 (14 January 1993), 5.

<sup>87</sup>Miliail Glukhovsky, "Yeltsin's Council Means Business," Delovie lyudi, no. 26 (September 1992), 20.

<sup>88</sup>Ibid., 21.

<sup>89</sup>Igor' Krylov, "Gora rodila mysh'," Delovoi mir, no. 240 (12 December 1992), 9.