

PART I

MYTHS AND REALITIES OF CAPITALISM IN RUSSIA

A Capitalist Perestroika: First Steps, 1992–1993

After the failed coup attempt of August 1991 the power of the central government of the Soviet Union faltered. Real power was in the hands of Boris Yeltsin, who only a month before had taken his oath of office as president of Russia. The central ministries of the Soviet government were paralyzed; officials in the central governmental structures did not know what their powers or prerogatives now were, or what their future might be. By September the Russian Federation and other union republics in fact were operating as fully independent states, and they were obliged to deal with problems previously under the jurisdiction of the president and government of the USSR.

Yeltsin and his circle, unprepared for this turn of events, didn't know what to do first. Oleg Poptsov, a writer and Yeltsin confidant, gives this account:

During those days [August 19–22, 1991] power fell at the democrats' feet. It tumbled down out of the heavens in all its vast dimensions and crushed to the ground the none-too-sturdy administrative organism of the democrats. Yeltsin's whole conception had been geared toward a long, tough struggle with the

central government, steadily pushing it back, denying it any right to administer Russia. That perspective within an hour's time had disappeared. To be sure, it would have been a wearing struggle, but in the conception held by Yeltsin's team, it had its indisputable advantages. First, it allowed the democrats a fair amount of time to get to know their own strength, to smooth out the form and functioning of their government, to maintain the potential, advantageous on all occasions, of speaking from the opposition, of accusing the central government of failure in making economic reforms. Most important, it would have allowed time to form a fundamentally new administrative apparatus, in contrast to the central bureaucratic structures.

(Oleg Poptsov, *Khronika vremen "tsaria Borisa"* [Chronicle of the Times of "Tsar Boris"], Moscow, 1996, pp. 205–206)

The ministries of the Russian Federation were also unsure what to do next; they had no program to follow, nor much understanding of the situation in the country. It seemed that Yeltsin himself didn't know, or didn't want to know, about the growing breakdown and disorder everywhere. Even the apologists Vladimir Solovyov and Yelena Klepikova, who were writing a biography of Yeltsin, were surprised by this. They had quickly flown to Moscow from New York right after the failed coup, in order to add a new chapter to their book. Here is what they reported:

Yeltsin had grown used to being in the opposition. He had made preparations for prolonged trench warfare with the Kremlin. Then suddenly power fell into his hands as a result of the conservatives' failed coup. He had neither a concrete plan nor the habit of rule—hence the kind of stupor the new Russian rulers fell into during the first weeks after the putsch. We found the Moscow "White House" lost in dissension, intrigue, and bickering. Their enemy had disappeared, and the democrats were busy sorting out relations among themselves. Even the "Sverdlovsk mafia" . . . was disunited, its members vying with one another for the attention of their boss, as though fighting over a woman.

(Solovyov and Klepikova, *Boris Yeltsin*, Moscow, 1992, pp. 9–10)

Within a few weeks after their coming to power a reshuffling of the personnel on Yeltsin's team began. In late September his longtime associate Ivan Silaev submitted his resignation from the post of prime minister. During September and October 1991 Yeltsin considered various candidates as a replacement.

Yeltsin rejected quite a few promising candidates—first of all Vice-President Aleksandr Rutskoi, who in the fall of 1991 was very active in various fields of administration, from the consolidation of Russia's new borders and the creation of a new customs service to problems with Chechnya and the fate of the former Soviet armed forces. Yeltsin and those closest to him viewed Rutskoi's initiative and independent activity with disfavor.

Mikhail Bocharov, chairman of the Supreme Economic Council of the Russian Federation, was an experienced economic administrator and legal expert, but from Yeltsin's point of view, he was aiming too high. A prime minister, in Bocharov's opinion, should direct the work of all cabinet ministers and be solely responsible, based on the principle of unified management. In the fall of 1991 he sent Yeltsin a long letter on the situation in Russia and ways to emerge from the crisis. It had been Yeltsin's practice to consult frequently with Bocharov and take his advice to heart, but now Yeltsin refused even to meet with him. Soon Bocharov withdrew his candidacy and resigned.

Grigory Yavlinsky had for several months worked as Silaev's deputy and headed the Government Commission on Economic Reform. But Yeltsin rejected him with the comment, "He's a Gorbachevite."

A more difficult problem was the candidacy of Yuri Skokov, who was part of Yeltsin's inner circle. When the government of the Russian Federation had been formed, this tough, experienced administrator was appointed first deputy premier, and twice during 1991 Yeltsin spoke of his desire to see Skokov in the premiership. Now, however, the only post Yeltsin offered him was that of adviser on security affairs.

Nikolai Petrakov, a distinguished economist, was another rejected candidate, as was Oleg Lobov, who had long worked with Yeltsin in Sverdlovsk. Yeltsin himself had invited Lobov to come work in the government in Moscow, but Lobov had not distinguished himself in his position as one of several vice premiers.

Not until November did Yeltsin make his choice—Gennady

Burbulis, another old associate from Sverdlovsk, but one who had no experience in government or the economy. On Burbulis's advice Yeltsin himself assumed the post of premier, but not the actual responsibilities. He named Burbulis first deputy premier, assigning him to form a cabinet and chair its meetings.

Gennady Burbulis was from a working-class family and as a young man had been a metal worker for about a year. After graduating from Uralsk University he earned a candidate's degree in philosophy and for fifteen years brought edification to students at technical colleges in the field of Marxist philosophy and "scientific communism." His political opponents often reproached him for his many years' work of propagating Marxism-Leninism and Burbulis answered his critics with the cautiously vague and flowery rhetoric so typical of him: "I would refer to that period in this way: a turbulent interweaving of selfless sincerity, professional university-level functioning, and naive self-deception. . . . Yes, I loved educational work. I love it still. There are still powerful homiletic-confessional chords in my soul; sometimes they are manifested more, sometimes less" (*Rossiia*, September 11-17, 1991, p. 3)

In 1988, a time of ideological ferment and widespread challenging of official doctrine, Burbulis had been active in forming party clubs and forums for discussion, and soon became a candidate for the USSR Congress of People's Deputies. He made Yeltsin's acquaintance in March 1989 and immediately proclaimed himself a Yeltsin supporter. This helped him win election. But he also helped Yeltsin, who was then taking his first steps as a leader of the democratic opposition.

Burbulis quickly became part of Yeltsin's inner circle. He was not a good speaker and did not know how to dialogue in a straightforward way with people of competence, but with his vague and pseudo-scientific line of argument he was able to captivate the none-too-well-educated politician, Yeltsin. The latter has acknowledged this influence. "Our intimate communication pleased me," Yeltsin has written:

I will not hide the fact that my conversations with Gennady Eduardovich [Burbulis] inspired me to new ways of thinking. He knew how to look ahead. How to lend a broader, strategic, global assessment to immediate events. A conception of a new politics, a new economics, a new governmental system and system of daily life for Russia was sketched out ever more vividly, clearly, and distinctly. . . . He made a powerful impression on me with

his erudition as a professional philosopher. And we had common roots. Memories of Sverdlovsk meant a lot in our relationship. Last but not least, he was a serious soccer enthusiast. Like me, he loved sports.

(*Rossiia*, September 11–17, 1991, p. 3)

At the time of Yeltsin's election as chairman of the Supreme Soviet of the RSFSR in 1990 Burbulis was his chief of staff, just as he was when Yeltsin was elected president of the Russian Federation in July 1991. A special post was created for Burbulis, not provided for in the Russian constitution—secretary of state of the Russian Federation. Officially his job was to “oversee” several important ministries, but in the unofficial Table of Ranks he held second place to no one in Russia but President Yeltsin himself.

Burbulis understood the dangers facing the reformers, but he convinced Yeltsin it was necessary to carry through a rapid transformation of the entire social system, not just try to solve particular problems from moment to moment. It was a harsh and utopian program, similar to those of the left-wing Communists of spring 1918 and fall 1920, only heading in the opposite direction. Yeltsin approved this program.

In choosing his first deputy premier, Yeltsin had been guided mainly by concern for preserving his own personal power. Burbulis did the same, choosing his team from among those for whom he would be an indisputable authority. His choice of a chief figure to carry out the “reform” program fell on a young and little-known economist, Yegor Gaidar.

Gaidar had no experience in industry or administration. He was a typical representative of that small cohort which in 1991–92 rose from being heads of research departments to become government ministers. He grew up in a family that was very well provided for under the Soviet system. He never knew poverty or want. His paternal grandfather, Arkady Gaidar, was the author of “classic” works of Soviet children's literature. His maternal grandfather was also a writer well known in Russia, Pavel Bazhov. His father was a naval officer and celebrated journalist, Timur Gaidar. While still a university student, Yegor Gaidar married the daughter of the science fiction writer, Arkady Strugatsky. He joined the CPSU as a student and received a Lenin scholarship to Moscow State University, testimony to his aca-

demic achievements and ideological loyalty. Graduating with distinction, he went on to write a dissertation for a candidate's degree on the relatively narrow topic of value indicators in the Soviet system of "self-financed" enterprises. The central idea of this dissertation was the not very profound observation that, whether under capitalism or socialism, an enterprise has to make a profit.

After defending his doctoral dissertation, Gaidar was put in charge of the economic policy department of *Kommunist*, the main theoretical magazine of the CPSU Central Committee. In 1990 Gaidar became head of the economic section of *Pravda*, the CPSU's main newspaper. His prominent posts in the party press made Gaidar an influential figure in party ideological circles. He supported perestroika and called for full utilization of the potential of the socialist economy while freeing it from the mistakes and deformations of the past. He favored a cautious introduction of the principles and mechanisms of a socialist market economy. He openly withheld support for the programs and proposals of the radical marketeers Shatalin and Yavlinsky. In early 1990 Gaidar wrote: "There exists an entire industry for producing pseudo scientific constructs and providing an aura of scientific respectability for these unwise programs. Among professional academics this occupation is not highly regarded; on the other hand, it is quite lucrative" (*Kommunist*, 1990, no. 2, p. 33).

Actually, at the time, Gaidar himself was enthralled with an idea that could hardly be called scientific. Writing in *Pravda* on April 16, 1990, he called for the abolition of government control over prices—arguing that the "liberalization" of prices should be the first and most important market-reform measure. An entire series of transformations would follow in a logical chain. "In economics," he wrote, "everything must be paid for. The time is past when the economy could be stabilized without difficult and unpopular measures. It is a frightening thing to unfreeze prices given the present rates of growth of the total currency in circulation. But it can be done by making a decision once and for all. *We must simply shut our eyes tightly and leap into the unknown.*"

In April 1990 no one either supported or criticized Gaidar's proposal. It just didn't seem serious. In the fall of 1990 the Gorbachev government did make an attempt at unfreezing prices on bread, tobacco products, and beer, but so much protest erupted that Gorbachev and his prime minister of the time, Nikolai Ryzhkov, retreated.

At the end of 1990 Gaidar was given the opportunity to organize a new research center, the Institute of Economic Policy. Among the young economists brought in to work at this new institute were Andrei Nechaev, Vladimir Mashits, Vladimir Mau, Aleksei Ulyukaev, and Aleskandr Shokhin. Some Western analysts have tried to argue that as early as the mid-1980s Gaidar, Chubais, and Shokhin held anti-Communist views and were working within the socialist system to get to know it better, so as to be able to eliminate it more quickly. This is empty conjecture—although it is true that for Gaidar personally it was not a difficult psychological transition to reorient toward capitalist methods and accept the advice of Western experts. He had long been called a “Chicago boy” (referring to the Chicago school of neo-liberal economists).

In 1992 the Russian magazine *Business People* (*Delovye Lyudi*) wrote that Gaidar was “a thoroughly Americanized professional” for whom many terms were easier to pronounce in English than in Russian. The magazine went on: “There is nothing in him that could appeal to the man in the street: he doesn’t play tennis or volleyball, like Yeltsin, or fly a plane, like Rutskoi. He has no interest whatsoever in cars, horses, stamps, or playing cards. In this sense Gaidar is said to be something of an outsider in his own country” (*Delovye Lyudi*, July–August 1992, p. 83).

Soon after the failure of the attempted coup of August 1991 Burbulis began putting together a large group of young economists to work out economic policy and a program of economic reform for the Russian Federation. Gaidar was placed at the head of the group. A number of Western experts, headed by Jeffrey Sachs, were also drawn into this work. The standard recommendations of the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) were adopted as the basis for this work, even though these recommendations did not take into account the structure of the Russian economy and its particular features. On the contrary, these proposals carefully guarded the interests of the wealthy Western countries, whose contributions of course are the basis for virtually all international financial institutions.

Burbulis introduced Gaidar to Yeltsin in late October 1991. They had a very long talk. Gaidar explained to the Russian president the general outlines of his program, especially its central feature—“liberalization of prices.” He assured Yeltsin that prices would rise only by

a factor of three, or four at the most, and that liberalization was indispensable if the economy were to be healed and genuine market reforms instituted. The population would, of course, be against this measure and the overall risk was very great, but passivity and a wait-and-see policy were even more dangerous. Moreover, Yeltsin could always demand the resignation of his cabinet, which would take full responsibility for the drastic measures.

Yeltsin took a liking to Gaidar. "He knew how to talk simply," Yeltsin wrote in his memoirs,

And this was tremendously important. First of all, sooner or later it would be necessary to talk with our opponents, and he could do this, not me. He did not oversimplify his conception, but spoke in simple terms about complex matters. He is able to make his ideas catch on, and the person he is talking to begins to see clearly the road ahead. Finally, there were two other decisive factors. Gaidar's scientific conception coincided with my own inner determination to get through the most painful part of the journey quickly. I couldn't make people keep waiting, postponing the main events and most important processes for years to come. Gaidar let me know that an entire team of very young and highly varied specialists stood behind him . . . independent, eager to go, and free of psychological complexes. I understood that, in addition to the hidebound old Russian wheeler-dealers, this kind of "brazen youth," if you will, were bound to enter the Russian business scene. And I very much wanted to give them a try-out, to see them in practice . . . In addition to that, you know, it's a curious thing, but I couldn't help being affected by the magic of his name. After all, Arkady Gaidar—entire generations of Soviet people had grown up with that name. Including myself. And my daughters. And so I had faith in the inherited talent of Yegor, son of Timur, grandson of Arkady Gaidar.

(*Zapiski Prezidenta*, Moscow, 1994, pp. 164–165)

A few years later, reminiscing about his first meetings with Yeltsin, Gaidar wrote about the Russian president's personal qualities as follows:

His is a complex and contradictory character. In my view, his greatest strength is his ability to intuitively sense the public

mood, and to take that into account before making decisions full of the greatest consequence. In matters of fundamental importance he trusts his own political instinct far more than any advisers. Sometimes in this way he makes the absolutely right decision, but sometimes he is seriously mistaken. As a rule, what is to blame in such cases is his mood, which changes fairly often and leads him astray. One of his great strengths is his ability to listen. A personal appeal to him, one that echoes with him convincingly, can influence him more than the finest, most carefully written document. But a danger is concealed here: whoever gains his confidence and manages to persuade him also has a chance to abuse this confidence, something that has happened more than once, including in the making of extremely important decisions. I have often caught myself thinking about the similarity between Yeltsin and that hero of medieval Russian epics, Ilya of Murom, who at one moment was bravely slaying Russia's foes and the next, was sleeping on the stove.

(Gaidar, *Dni porazhenii i pobed* [Days of Defeats and Victories], Moscow, 1996, pp. 105–106)

Gaidar managed to win Yeltsin's confidence quite quickly. While everyone else was suggesting a period of three to five years for their economic plans or programs to be carried out, Gaidar convinced Yeltsin that a fundamental change for the better could be accomplished in just one year. Within a few days of meeting Yeltsin, Gaidar and his team were occupying offices on Old Square and New Square, the main locations of Russian government agencies at the end of 1991. The new vice-premier's official title was "deputy to the chairman of the government of the RSFSR on questions of economic policy, minister of finance and the economy." Enormous power, and a key role in government, were in his hands. Burbulis remained nominally the first vice premier and was considered the head of the cabinet, but people immediately began to speak in terms of a "Yeltsin-Gaidar government."

The Fifth Congress of People's Deputies of the RSFSR, convened on October 28, 1991. It was an extremely important event in deciding Russia's destiny. The Congress accepted Yeltsin's decision to assume the post of "chairman of the government." Also, the members of the first Constitutional Court of the RSFSR were elected, headed

by Valery Zorkin. After several rounds of voting Ruslan Khasbulatov was elected chairman of the Supreme Soviet of the RSFSR. The most significant event at the congress, however, was Yeltsin's announcement of a new program of economic reforms and the Congress's decision to grant him additional powers in order to carry through this program.

Aleksandr Shokhin, the minister of labor, sought to explain the concept "liberalization of prices," which many failed to understand. It would take place without a preliminary demonopolization of production, he said, and with an unstable financial system and a major budget deficit. This was contrary, he admitted, to all the recommendations of "classical" economics, and there was a danger that prices would start to rise too quickly. He expressed confidence, however, that any inflationary upsurge would not be very big, because a system of price monitoring would be introduced. Moreover, he said, market mechanisms would start to operate full force once the reforms began, and Russia would soon have a stable currency. It was the conviction of the new government that *within a year* Russia would have a budget without a deficit and a system of maximum social protection for its population (*Rossiyskaya Gazeta*, October 30, 1991).

The new reform program was presented only in general outline. Yeltsin and Gaidar preferred not to make it fully known at the Congress of People's Deputies. A more detailed presentation was given in a confidential memorandum addressed to the IMF. Gaidar hoped to receive more than just the IMF's approval; he hoped for substantial inputs of foreign currency, without which the most important aspects of the program could not be implemented. There were other reasons, too, for the secrecy of the program. This had to do with very painful measures of "shock therapy," which the authors of the program did not wish to make public. Besides that, many aspects of the program had not yet been worked out; it was proposed that the government deal with problems as they arose.

The Fifth Congress approved the new program of radical economic reforms without any serious objections. It granted Yeltsin emergency powers, but only until December 1, 1992. The president was given the right to unilaterally decide questions having to do with the structure and reorganizations of the highest bodies of the executive branch, including the composition of the cabinet. Yeltsin sought to reassure the deputies at the Congress and the citizens of Russia in gen-

eral, who were alarmed by the rise in prices that had begun even before “liberalization.”

“The time has come,” he said,

to act decisively, with toughness and without hesitation. Everyone knows what our starting point is. The situation is a very tense one. There are difficulties with food and other prime necessities. Our financial base is on the verge of collapse. Inflation has reached a critical point. Fifty-five percent of our families are living below the poverty line. And the situation is not getting any better . . . A one-time transition to market prices—that is the difficult but necessary measure we are forced to take . . . *Things will be worse for everyone for about half a year, then [there will come] a lowering of prices, and the filling up of the consumer market with goods. By the fall of 1992, as I promised before the elections, [there will be] stabilization of the economy, and gradual improvement in people’s lives.* [Emphasis added.—R.M.] To defend everyone’s standard of living in the first stage of the reforms is something we cannot do.

(*Rossiyskaya Gazeta*, October 29, 1991)

The people’s deputies of the Russian Federation and the citizens of Russia were willing to be patient for another half year, or in the worst case, for another year. They never imagined what difficult times and cruel disappointments lay in store for them.

LIBERALIZATION OF PRICES

In December 1991 hardly anyone blamed the Russian government for the difficult, if not desperate, economic situation. It had to its credit the confidence of the population, which was more important than the scanty financial credit being offered by Western governments. The measures taken by the Yeltsin-Gaidar government were not the only possible ones. A system of rationing and price controls, possibly combined with free-market experiments in selected cities or regions, was another option. But instead, as so often in its history, Russia was taken down an untrodden path.

On January 2, 1992, a decree on “liberalization of prices” went

into effect. As Yeltsin himself said, Russia plunged into the water without knowing how to swim.

The Russian economy was thrown into the anarchy of the market system with its hands tied. No competitive environment had existed, even among related industries. No legal standards for market relations had been adopted, and the necessary infrastructure was lacking. The realities of January and February 1992 confirmed, not Gaidar's expectations, but the worst predictions of the opponents of "liberalization." Yeltsin and Gaidar kept asserting that during the first quarter the increase in prices would not be greater than 300 percent, that in April inflation would slow down to 10–12 percent, and that by the end of the year it would be down to only a few percent. Gaidar estimated that for the whole year the decline in production would be no more than 10–12 percent.

In a speech on Russian television on February 20 Yeltsin was still saying: "We will obtain real results as early as the fall of 1992. I believe that reform will win out and that the victory will be evident, without question, this year." These promises were to have the same fate as Yeltsin's 1991 promise to "lay his head on the rails" if an increase in prices were to be carried out in Russia.

In the first quarter of 1992 prices, "allowed to float freely," increased by 800–900 percent for most goods and services. Prices for some items that had been extremely cheap before were suddenly 20 to 30 times more expensive. The price of salt rose from 9 kopeks to 9 rubles per kilogram, a hundredfold increase. The price for a box of matches increased 250 times over, from one kopek to 2.5 rubles. In contrast, average wages only doubled during the first quarter.

The leap in prices was not a "one time only" affair: they kept rising all through 1992, now faster, now slower. There were various estimates of the extent of this headlong inflation, based on differing methods. The lowest estimate was that prices rose 2,500–3,000 percent (i.e., 25–30 times over). The highest estimate was a hundredfold increase.

There was no observable financial stabilization. Production declined by more than 20 percent. There was a notable reduction in the productivity of labor and an increase in all production costs. Factory managers kept raising the prices of their goods to try to compensate for their losses. But since all other prices kept rising, production costs rose in turn; and once again management had to seek to compensate at the consumer's expense.

The whole process had nothing to do with "the market." The actual

quantity of goods in circulation kept growing smaller. The government's income also grew smaller, but the budget deficit increased quickly despite cutbacks in social welfare and military spending. Enterprises found themselves seriously short of working capital. The rural areas, which had sold their products in the fall at the "old" prices, could not afford to buy machinery or fertilizer. Many factories serving the agricultural sector were simply shut down because their warehouses were overflowing with unsold goods.

The sharp rise in prices meant a greatly increased need for currency, including large-denomination bills worth 200, 500, and 1,000 rubles. But the factories of Gosznak (the government money-printing agency) were not prepared for the increased workload or the changed currency denominations. For some reason Gaidar blamed Khasbulatov for allegedly blocking implementation of government decisions in this area—decisions which, Gaidar claimed, had been issued in a sensible and timely fashion. Whatever the truth of that charge, by March 1992 there was a currency shortage, and tens of millions of people were not paid wages, pensions, scholarships, and other benefits on time. From then on, every spring and every fall a similar "crisis" has arisen—although Gosznak has gotten used to printing 50,000-ruble notes, and even notes for 100,000 or 500,000 rubles.

Some enterprises began paying wages in kind—for example, dishes, bottles of vodka, lumber, coal, candy, fabrics, refrigerators, canned goods. A special decree announced unrestricted freedom of trade: Russian citizens could henceforth sell whatever they wanted wherever they wanted. For several months the streets and squares of downtown Moscow were turned into a giant yard sale or swap meet. It was no longer against the law to engage in speculation, and many restrictions on foreign trade were also lifted.

The Yeltsin-Gaidar government feared a social explosion in response to the skyrocketing inflation, but it did not occur. The number of strikes increased, but not significantly. Among blue-collar and white-collar workers, confusion and disorientation prevailed. Besides, during 1991 many families had stockpiled essential goods.

There was no support for the reform. A poll conducted by the Institute of the Sociology of Parliamentarism showed rising discontent and disruption of the social equilibrium. In January the number of people expressing discontent increased from 61 to 81 percent; 46 percent of those polled, and 67 percent of invalids and pensioners, said

the price increases were “impossible to endure.” To the question, “Do you believe Yeltsin’s economic policy will succeed?” the number who said “Yes” on January 2, 1992, was 53 percent, but on January 30 it was only 38 percent. Only 6 percent believed Yeltsin’s promise that the economic crisis would be overcome by the end of 1992. Another 20 percent had hopes that the economic situation would start to improve during 1993–94, and 21 percent were sure life would get better in five years, in 1997. Only 14 percent had no hope for improvement even in ten years, and 13 percent considered it necessary to remove the Yeltsin-Gaidar government, including by “forcible pressure” if necessary. There was nothing to rejoice about in this, however, because the “reforms” continued, creating ever new difficulties.

There also arose the phenomenon of “capital flight” from Russia. A large share of the profits from exports were deposited in Western banks, usually in private foreign-currency holdings that served as a hedge against inflation and a protection for large- and medium-sized operators from the taxation agencies of the Russian government. Part of the dollar earnings from exports were used to expand imports aimed at the consumer market, thus becoming a further negative pressure on domestic manufacturers of consumer goods.

The idea of stealing a railroad car full of copper or an entire train-load of petroleum would hardly have occurred to anyone before these “reforms.” The internal prices for raw materials had been fairly low, and the borders closely watched. Now the situation changed. The borders with former Soviet republics became extremely porous.

The earnings from this illegal commerce were shared among officials and wheeler-dealers not only in Russia but in the “near abroad” and the “far abroad.” As early as 1992 tens of thousands of tons of nonferrous metals were being exported from Estonia, although there was no mining of such metals in that country

SUMMER AND FALL 1992: A WORSENING SITUATION

A rather dry report from the Government Statistics Committee said the following about the first half of 1992:

The decisive beginning and energetic implementation of economic reforms had a strong impact on all sectors. The most

painful aspect for the people and the economy was the liberalization of prices. By June, in comparison with December 1991, consumer prices had risen tenfold. Purchasing activity by the population declined sharply, and commodity circulation fell by 42 percent. In industry there was a fifteenfold increase in wholesale prices, while collective farm market prices were six times higher . . . The national income declined by 18 percent in comparison to the same period the previous year. The number of redundant, or unneeded, enterprises grew. In industry, the indebtedness of enterprises for products delivered came to 2.5 trillion rubles, and in more than half the cases, the payment-due date had expired. The indebtedness of enterprises to their own employees also grew. The lack of wherewithal to pay wages was felt especially sharply in Tyumen province, Yakutia, Krasnoyarsk territory, the provinces of Murmansk, Chelyabinsk, Irkutsk, and Kemerovo, and in several other areas.

(Ekonomicheskaya Gazeta, July 30, 1992)

The same report told us that production of consumer goods had declined by 14 percent, and that of food products by 23 percent. Moreover, production of meat fell by 27 percent, of sausages by 37 percent, and of whole milk products by 48 percent. The production of bread and sugar also declined, although prices for those products increased.

From July to September things continued to worsen. Social programs began to be terminated. The financing of health, education, culture, and science was cut back sharply. Many plants in the military-industrial complex stopped working. Because of the dissolution of the USSR, the army and navy began to fall apart, as did the transport, electric power, and airline systems. The former union-wide security and legal systems also disintegrated.

The tender shoots of domestic business found it hard going, burdened as they were not only by taxes and the extortions of corrupt officials but also by the cruel racketeering that kept growing stronger. Comprador groups, those working directly for or with foreign capital, were better protected against taxes, bribes, and racketeering.

Academician Oleg Bogomolov, assessing the results of eight months of economic reform, wrote the following in an article characteristically entitled "Hope Remains."

Falling living standards are outpacing the decline in production. Commodity circulation is half what it was; the real income of the population, it seems, is even less. In comparison to January 1991, the cost of living has risen twenty times over, while wages for those employed in the national economy are only seven or eight times higher People are trying to adapt to the changing circumstance in order to survive: they are economizing wherever they can, cultivating vegetable gardens, abandoning state-owned enterprises and going into business for themselves, mainly in commerce and services As the inflation spirals higher and the money famine continues, capital investment in new construction and the upgrading of equipment is cut back Incentives for the development of agriculture are disappearing. Weakened control over foreign trade and the unjustifiably low exchange rate of the ruble are accompanied by an outflow of raw materials and energy resources to the detriment of the Russian economy. A substantial proportion of foreign currency earnings (as much as US\$1 billion per month) are being hidden away and deposited abroad, because our tax and foreign-currency policies make it disadvantageous or impossible to use those earnings to import many types of goods. For now, only one thing can be said: the attempt to apply shock therapy in Russia following the Polish model and the advice of the International Monetary Fund and a group of Western experts has turned out to be very painful. Will this attempt have a curative effect? Doubts about that are prevalent. But hope remains.

(Moskovskie Novosti, September 6, 1992)

The “Westernizers” among the radical democrats were dissatisfied. They criticized the “managerial” democrats for imitating the “social engineers” of the Soviet Communist Party, who had imposed Communism on Russia by force. Like them, these new “democratic” social engineers were trying to drive Russia by force—but this time into capitalism. The legal expert Viktor Danilenko argued,

Power today should be organized in such a way that there would be a government of property owners, controlled by property owners, oriented toward the interests of property owners, and in all ways effectively open to their influence. The most important

government decisions would be made directly by people who have shouldered the burden of property. . . . Only in this way can it be achieved that the interests of the economy stand at the head of politics, and not the other way around. Only in this way can the revolution of words, slogans, and the finest intentions become a revolution of practical deeds.

(*Izvestia*, August 18, 1992)

How could such a recommendation be carried out in the Russia of 1992? There was no social class of property owners formed over the course of decades, or even centuries. There was not even a thin social stratum of such people, let alone a solidly established class. Property owners as a social group were just coming into existence, and among them the same old managerial stratum of the 1970s and 1980s predominated. The groups of independent businessmen that did exist were much less powerful or influential than the great body of government bureaucrats, who were quickly reasserting the might they had enjoyed under the Soviet system.

DOWNFALL OF BURBULIS

As early as May 1992 Yeltsin began making changes, not so much in his policies as in government personnel. By then, the immense dissatisfaction with the reforms felt by a large section of the population and by most people's deputies was focused on the figure of Burbulis. A new phrase was even coined—the "Burbulization of Russia." Yeltsin removed Burbulis as first deputy premier, while leaving him in charge of a group of presidential advisers until November. The widely held negative view of Burbulis was described in an article signed L. Leonidov:

For the man in the street Burbulization refers to the criminal free-for-all (*bespredel*) in the economy, the complete loss of any decency or respect on the part of government bureaucrats, cynicism, and cruel, cold indifference toward the "little people" of this world. . . . Burbulization is when decrees that have no effect are adopted every day, and there is no law dealing with organized crime. No good books or symphonies are being written; the strength and talent of creative people are being used mainly to

adapt to the new geographical and socioeconomic circumstances. Judging theoretically, Burbulization is a state of total collapse of society, including in political, economic, and spiritual respects, with a constant increase in destructive processes, conditioned by the unnatural form of the preceding existence and way of thinking. (*Nezavisimaya Gazeta*, May 19, 1992)

A typical time server, able to hold onto power thanks solely to his connection with Yeltsin, Burbulis shocked many people with his arrogant manner, which apparently concealed an inferiority complex, according to one of his former assistants, who wrote:

Without Yeltsin's authority he could not have expected much. The people have a keen sense for detecting those who really care about them and those who are just titled favorites. . . . A politician on the scale of Burbulis should not have been entrusted with the baubles of privilege accompanying government office. That is another vulnerable area for the present-day secretary of state. If he is going to have an office, it has to be the former office of Suslov or Gorbachev, if an automobile it has to be the kind that the people rightly call "chlenovoz"—member-of-the-top-circle-carrier.

(*Rossiyskaya Gazeta*, November 26, 1992)

Sitting in his office in the Kremlin (formerly Gorbachev's), Burbulis gave an interview to journalists. He was asked: "Do you think that at some point Yeltsin will turn against you?" and he answered: "No." He was asked more pointedly: "Do you mean to say that in Yeltsin's entourage you have no rivals?" Burbulis answered: "I would like to put it more delicately and precisely: I know my own worth. No one else can do what I can do" (*Novoye Vremya*, 1992, No. 34, p. 16).

Nevertheless, Burbulis was obliged to evacuate his Kremlin office and his place by Yeltsin's side. "The posts and offices I hold," Burbulis once said, "are variables, but my relationship with Yeltsin is a constant." Yeltsin, for his part, was saying at the time, "I never give up my people." And yet he had to give up Burbulis, and not only him. In the same way the Russian tsars in olden times would be forced to choose some boyar who was especially hated by the people and throw him to the crowd raging outside the Kremlin, which would tear him to pieces. Burbulis got off more lightly. He became head of the non-governmental Strategy Foundation. Although he still sought, through

informal contacts within Yeltsin's circle, to push one or another policy suggestion, hardly anyone paid attention to him after 1992. In his memoirs Yeltsin explained why he retired Burbulis. The Russian president placed all the blame on Burbulis and on Gaidar's team for the unsatisfactory results of the first year of the reforms.

In the summer of 1992 Yeltsin added to his government several representatives from the corps of experienced factory directors. Georgy Khizha, the vice mayor of St. Petersburg, became vice premier. Not long before that he had been head of a very large electrical engineering complex, the Svetlana group. Khizha would be unable to hold his post for long; within a year he retired from Russian politics. Another vice premier was Vladimir Shumeiko, who not long before had been director of a measuring-instruments plant in Krasnodar. He was also a people's deputy of the RSFSR and deputy chairman of the Supreme Soviet of the Russian Federation. Shumeiko lasted in his post for about a year and a half, and would remain in high politics in Russia until January 1996. A third vice premier—in charge of the fuel and energy sector of the economy—was Viktor Chernomyrdin, chairman of the board of the newly formed Gazprom corporation.

As for Yeltsin himself, he withdrew from the premiership, while Yegor Gaidar assumed the duties of prime minister. From then on sessions of the cabinet proceeded under Gaidar's leadership.

On July 17, 1992, an elaborate program of activities projected by the new cabinet was published in the official government newspaper *Rossiyskaya Gazeta*. The document was entitled "A Program for Deepening the Reforms." Although it did not use the term "capitalism" it spoke of the need for creating at a forced pace "a market economy whose primary motive forces would be entrepreneurship and competition, based on private ownership." The government warned that a certain decline of production would continue but not beyond "a certain level" and in its place there would soon come "the economic revival of Russia, the flourishing of the domestic economy, and the assurance of prosperity and freedom for all citizens on this basis." The government promised the all-round development of trade, stabilization of the financial system, strengthening of the ruble, more privatization and private enterprise, increased competitiveness of Russian goods on the world market, and integration of the Russian economy into the world economy. It undertook the obligation to pursue an active social policy and protect the more vulnerable strata of the population.

Hardly anyone paid much attention to this program, since it had little to do with the economic realities in Russia. Throughout the summer and fall the destruction of the economy continued, and living standards declined further. The idea of reducing inflation to only 3 percent per month remained a pious wish, as did the promises of tax reform and support to agriculture and domestic small business. Plans to attract major foreign investment in the Russian economy also remained only on paper.

THE ROBBERING OF SAVINGS BANK DEPOSITORS

In the Russian Federation at the end of 1989 there were 118 million savings bank accounts, totalling 192 billion rubles. The average account was worth 1,626 rubles. The main holders of such accounts were people over fifty, and their savings were intended to provide some security against old age and illness; for many pensioners, this was their “funeral money.” (See *Narodnoe khoziaistvo SSSR*, 1989: *Spravochnik* [USSR National Economy, 1989: Handbook], 1990, p. 92.) Also, many people were saving money for their children or toward the purchase of an apartment or automobile.

Yegor Gaidar later claimed that a large part of the savings in these accounts came from “inflationary money” in 1990–91. But that was not so. Inflation tended to cause more spending, not saving. During 1990–91, only 24 billion rubles were added to total savings, which at the end of that period amounted to 216 billion. That was not a very large sum in terms of Russia’s economy, and in fact, when inflation is taken into account, it was a smaller total than had existed in Russia’s savings banks in 1989.

For the professional economists on Gaidar’s team it was unforgivable to assume that only ordinary citizens would suffer from the devaluation affecting savings accounts and insurance policies. The government, and Gaidar’s own cabinet, suffered no less, perhaps even more. Savings were not kept in safety deposit boxes. This was money that circulated in the economy. Western economists, too, have described the wiping out of the population’s personal savings as a major strategic error committed by the Russian authorities. By deliberately devaluing the internal debt, the Russian government destroyed the main source of future private investment. According to *Izvestia*

(November 10, 1995), 70 percent of the working capital in the USSR and almost 100 percent of investment “could be accredited to” (i.e., had as its source) the financial surplus deposited by the population in the national savings bank, Sberbank.

According to most thoughtful economists, the ratio between the amount of credit available to an economy and the total sum of savings by the population is one of the main criteria determining the maturity of market relations in any given country. Under normal conditions, the ratio should be 1:1. In other words, the amount of credit permitted in a nation’s economy should not be greater than total deposits in savings banks. Yet in Russia by late 1992 the amount of credit in circulation was 5 trillion rubles, whereas savings accounts totaled only 680 billion. Thus, in Russia credit no longer corresponded to its natural base. (The source for these figures is the same issue of *Izvestia* mentioned above, for November 10, 1995.)

The confidence of the population in savings banks and the government was undermined. Given the wild inflationary spiral, no one was interested in putting their savings in the Sberbank. It made more sense to buy foreign currency and squirrel it away at home. But there wasn’t much foreign currency in Russia in 1992, and what there was cost dearly. This was the psychological background against which various financial pyramid schemes were able to flourish—such notorious operations as MMM, Vlastelina, Khoperinvest, and Tibet. By advertising massively on all TV channels, these “investment funds” were able—without any interference by the government—to finish the job of robbing most of Russia’s small investors.

Throughout the world investments are made with the use of savings, whether those of governments, businesses, corporations, or private individuals. Government savings were greatly reduced during the Gorbachev era and continued to shrink under Yeltsin. What savings, or reserves, the government had went, not for new investment, but to service the foreign debt. The savings of individual enterprises had also shrunk; they were insufficient to provide even for planned repairs or to replace worn-out equipment. Many enterprises, in order to remain above water, were forced to sell off some of their material resources or unused production areas, or the like. The private savings of individuals either disappeared or passed out of government control. As a result, for an extended period the economy was deprived of the means for expanded reproduction, and was often unable to maintain current production.

The liberalization of prices and the robbing of investors laid the basis, not for the reestablishment of Russia's financial system on a healthy basis, but for a financial disaster whose consequences had still not been overcome by the end of the decade.

THE FALL OF GAIDAR

As the economic crisis deepened and the material conditions of the population kept growing worse, a political crisis developed and spread. A center of opposition arose in the Kremlin itself. Vice President Aleksandr Rutskoi began to speak out more and more sharply, criticizing the cabinet and eventually Yeltsin himself. Formerly a military pilot, leader of "Communists for Democracy" in 1990-91, and an active defender of the Russian White House in August 1991, his criticism of the cabinet began as early as the fall of 1992 when he denounced Gaidar's team as "boys in pink trousers."

With the intention of neutralizing, perhaps discrediting, the vice president, Yeltsin put Rutskoi in charge of agrarian reform. A man trained for military duty in the air force was obviously not prepared for this kind of assignment. Profound knowledge of agriculture was not necessary, however, to understand the absurdity of the agricultural policy pursued in 1992. As he took his first trips around the country Rutskoi was surprised by the chaos and lack of elementary good management, as well as the enormous losses being suffered at all stages of agricultural production. In Stavropol territory the sunflower crop simply was left unharvested, while the government imported vegetable oil from abroad. In Oryol and other apple-growing provinces a huge crop was lost, while Russia spent \$102 million buying apples from Western Europe. In 1992, 45 percent of Russia's sugar beet crop perished, but in the same year \$605 million was spent importing sugar. Rutskoi estimated that no fewer than twenty beet-sugar processing plants could have been built with this money.

At the end of 1991 the government announced it would pay \$60 per ton for grain produced above the planned quotas. This would have been advantageous to both the government and the peasants. Documents showed that Moscow had earmarked \$5 billion to meet these obligations. By the end of 1992, however, the countryside had received only \$500 million worth of imported goods. The rest of the

money and goods somehow “got lost” on the way to the villages. Rutskoi called such policies criminal and said that instead of talking about reform, legal steps should be taken. In response to Rutskoi’s criticisms, Yeltsin stopped meeting with him and would not even talk to him on the phone.

By the fall of 1992 the inhabitants of the “White House,” the people’s deputies of the Russian Federation, were becoming more and more actively opposed to the policies of Yeltsin and his cabinet, as were most of the political parties and movements in the country. A large number of oppositional parties had been registered in the spring of 1992. On the right wing of the political spectrum were the Russian nationalist and “patriotic” parties. These included the Russian National Assembly (Sobor), the Russian Party of National Revival, the Russian All-People’s Alliance, Officers for the Rebirth of the Fatherland, the Union of Officers, the Council of Opposition Forces of Moscow University, the self-styled Permanent Presiding Committee of the USSR Congress of People’s Deputies, the Council of Popular and Patriotic Forces of Russia, and the “Dignity” Women’s Council. As a rule, these were radical organizations that rejected both Communism and liberal pro-Western ideology.

There were also radical and moderate organizations on the left, usually formed from one or another current in the former CPSU. These included the Russian Communist Workers Party, the Russian Communist Party, Toiling Russia, Toiling Moscow, the Union of Communists, and the Socialist Party of Working People. Early in the fall of 1992 a large number of opposition organizations agreed to coordinate their activity within a common bloc. A “Political Declaration of the Left and Right Opposition” was published in a number of oppositional papers. (See, for example, *Sovetskaya Rossiya*, September 22, 1992.)

A month later came the founding conference of the National Salvation Front (NSF), which demanded the resignation of the president and cabinet. (*Sovetskaya Rossiya*, October 27, 1992.) (For more on the NSF, see chapter 7, on Gennady Zyuganov.) On the eve of this founding conference an impressive demonstration of oppositional forces was held, with approximately 250,000 taking part. A counter-demonstration hastily called in support of the government was able to attract only a few thousand. The swift decline of the “democratic” movement, which in 1990–91 had brought out hundreds of thousands

to its demonstrations, was further underlined by the Third Congress of the organization Democratic Russia, held at the end of 1992. The press took hardly any notice of this congress, although this was the organization that in 1990 had brought Yeltsin to power. Yeltsin himself did not appear at the congress, although he had promised to. The only prominent politicians taking part were Gennady Burbulis, Anatoly Chubais, and Galina Starovoitova

There was a mounting sense of uneasiness in Yeltsin's circle. On October 28, he signed a decree banning the "so-called National Salvation Front" on the grounds that it was an extremist organization tending to destabilize society. However, the Constitutional Court quickly ruled his decree unconstitutional.

Given the changed atmosphere in society, the Seventh Congress of People's Deputies of the Russian Federation, scheduled for December 1, 1992, loomed as a threat to Yeltsin. Some of his advisers urged him to dissolve the congress and dispense with the existing constitution, which recognized the congress as the highest governing body in Russia. (See, for example, the article by the then-popular writer Aleksandr Ivanov in *Kuranty*, October 30, 1992.) Article 121 of the constitution stated: "The president of the Russian Federation does not have the right to dissolve or stop the functioning of the Congress of People's Deputies of the Russian Federation. . . . The president's powers cannot be used to change the national-governmental structure of the Russian Federation, or to dissolve or stop the functioning of any legally elected government body."

For two years Yeltsin had had fairly solid support among the people's deputies. It was they who, in their majority, first made him the head of the Russian Federation, and most of them had supported Yeltsin in his struggle against Gorbachev. They had decisively opposed the attempted coup by the so-called State Committee on the State of Emergency. The Supreme Soviet of Russia, elected by these deputies, had ratified the Belovezh agreements dissolving the USSR, and the Fifth Congress of People's Deputies of Russia had approved Yeltsin's program of radical economic reforms, granting him extraordinary powers for carrying them out. These special powers expired, however, on December 1, 1992.

As early as April 1992 the rather idyllic relationship between Yeltsin and the people's deputies had begun to come apart. At the Sixth Congress of People's Deputies of Russia, held that month, there

was sharp, and sometimes quite coarse, criticism of Yeltsin's policies. I remember, in particular, the vivid oppositional speeches of Aman Tuleyev, deputy from the Kemerovo region; Nikolai Travkin, leader of the Democratic Party of Russia; and Ivan Rybkin, a deputy from the Volgograd region, one of the leaders of the group called Communists of Russia.

It was at the Sixth Congress that, for the first time, Chairman of the Supreme Soviet Ruslan Khasbulatov spoke out openly and emphatically in opposition to Yeltsin and his government. Two years earlier Khasbulatov had been a virtual unknown. Having a doctoral degree in economic sciences, he headed the economics department at the Plekhanov Institute of the National Economy in Moscow. In 1990 he was elected to the RSFSR Congress of People's Deputies as a representative from the Chechen-Ingush Republic, his original home. At that time, when Yeltsin became chairman of the Supreme Soviet, Khasbulatov was elected deputy chairman, and he actively supported Yeltsin until the end of 1991.

Khasbulatov had not been included in Yeltsin's new government team in the fall of 1991. His disagreement with the new economic policies, his own considerable ambitions, his dislike of Yeltsin's new favorites, Gennady Burbulis and Sergei Shakhrai, plus the changing attitude of the majority of people's deputies all prompted Khasbulatov by the spring of 1992 to forget about his former loyalty to Yeltsin. He quickly became one of the Russian president's strongest and most dangerous opponents.

Yeltsin, too, observed the change of mood in the legislative bodies of the Russian Federation. He began to discuss with his inner circle various possible ways of eliminating both the Congress of People's Deputies and the Supreme Soviet, which acted in behalf of the Congress when the latter was not in session. The scenarios first considered by Yeltsin and his advisers involved trying to destroy these institutions from within, using the numerous supporters that Yeltsin and his cabinet still had in the Congress.

The situation in Russia caused uneasiness among Western politicians, too. In the fall of 1992 George Bush was of course campaigning for the U.S. presidency, and any trouble in Russia might adversely affect his chances against Bill Clinton. In October he sent Henry Kissinger to Moscow to look the situation over. At the end of October Robert Gates, director of the CIA, also visited Moscow. He had him-

self filmed making a one-man “victory march” in Red Square to mark the winning of the Cold War by the West. This incident was not, however, shown on government-controlled Russian television.

The Congress of People’s Deputies opened in the Great Hall of the Kremlin on December 1, 1992. Although the same deputies gathered as in 1990 and 1991, the heated passions and clash of opinions between political parties and factions were far more intense than at previous gatherings. The main questions before the body were appraisal of the economic reforms and confirmation of the prime minister. The debates were broadcast over Russian television and radio. Khasbulatov began the proceedings with a powerful and persuasive speech condemning not just particular failings but the overall plan of radical reform carried out along lines advocated by American monetarists. Gaidar’s report was superficial and noticeably lacking in self-criticism, although he had to admit failure in the most important area—financial stabilization and strengthening of the ruble. Yet it was precisely Gaidar whom Yeltsin proposed to the Congress for the post of chairman of the Council of Ministers. Voting by secret ballot, the delegates rejected Gaidar’s candidacy by a vote of 490–470.

The situation was red hot. All night long the lights stayed on in the president’s Kremlin palace. The mood among those in Yeltsin’s inner circle favored confrontation. The next morning from the speaker’s platform Yeltsin appealed to the deputies and to the population at large to show their support either for himself or for the Congress. He called on his supporters in the Congress to walk out and take no further part in its proceedings. This was a call for the elimination of the Congress of People’s Deputies as a governing body.

The total number of deputies was 1,049, but only about 1,000 had come to Moscow. The various votes showed that about 320 were resolutely opposed to Yeltsin and his cabinet. About 300 deputies from the reform coalition consistently voted with Yeltsin and his team. A group of 150 deputies had formed what they called a “centrist bloc of constructive forces.” A group of about 250 deputies voted in various ways, depending on the circumstances. In the parliamentary jargon this grouping was called “the swamp.”

Yeltsin greatly overestimated his influence on the deputies as a whole. He had assured Gaidar that the vote for him would be between 540 and 560—i.e., well above the 520 he needed to win. It turned out that he could only count on 470. However, if all the reform-coalition

deputies walked out, the Congress would be deprived of a quorum and would not be able to function. Here too, however, Yeltsin and his advisers, with Burbulis still playing first violin, miscalculated. People's deputies valued their status quite highly. They had many rights and privileges which they would lose if the Congress ceased to function. Many of them would have to leave Moscow and return to their impoverished home regions. Few of the deputies had yet managed to privatize the Moscow apartments assigned to them. Even some of Yeltsin's closest adherents were reluctant to return to the status of ordinary citizen and "man in the street."

I was present at this session of the Congress and observed that in response to Yeltsin's appeal for a walkout, only a small number of deputies left their seats. Together with Yeltsin they went off into some of the innermost rooms of the building. Several dozen deputies went out into the lobby but did not follow Yeltsin. After half an hour of confusion, a new round of registration of deputies still in attendance showed that Yeltsin had failed. More than 850 deputies still remained in session. This constituted a quorum, and Khasbulatov announced that the Congress would proceed with its work. Among those present were the ministers of defense, internal affairs, and state security, the attorney general, and the chairman of the Constitutional Court.

A demonstration outside the Kremlin walls in support of the president drew only about 50,000, but Yeltsin refused to return to Congress sessions. Difficult negotiations began, ending in a compromise. The opposition factions made the proposal to Yeltsin that of the 17 candidates he should select five, reserving the right to choose among any that received more than 50 percent of the vote. He still hoped for Gaidar to win, but these hopes were in vain. In a straw poll, the voting gave Yuri Skokov 637 and Viktor Chernomyrdin 621, but only 400 for Gaidar, just one vote more than was gained by Vladimir Kadannikov, director of a major auto plant in Togliatti, who had just flown to Moscow. The vice premier Vladimir Shumeiko came in last, with 270 votes. Yeltsin asked for an hour to think things over. He consulted with various people in his inner circle, including Gaidar, who said, "Pick whoever you want—only not Skokov." Yeltsin proposed Chernomyrdin and the Congress immediately approved him by an overwhelming majority. It was late on the evening of December 14, 1992, that the Congress adjourned, having completed its work.

Burbulis's political career ended after the Seventh Congress. Not so

with Gaidar. Although he left the government, he remained in politics and repeatedly made his presence felt in the subsequent period.

VIKTOR CHERNOMYRDIN

The selection of Chernomyrdin for the premiership was a surprise to most deputies at the Congress, even though a large number had voted for him. It was a surprise to Yeltsin, too, although he himself had added Chernomyrdin's name for the straw poll. It was a surprise to journalists and political observers at the Great Hall of the Kremlin, including this author, who had been closely following all the ins and outs of that longest and tensest session of the Seventh Congress, not concluded until midnight. But the one most surprised was Chernomyrdin himself, who never suspected on the morning of December 14 that before the day was over he would be chairman of the Council of Ministers of the Russian Federation. He rose to the speaker's platform and thanked the deputies for their vote of confidence, but during the first break he rushed for the exit, refusing to hold a press conference. Surrounded by journalists, he did make a few remarks, which were frequently quoted afterward: "I am for a market, but not for a bazaar." "I am for the development of a market, but not through the impoverishment of the people." "I am for Russia, but not for a Russia of street peddlers."

Chernomyrdin spent that night at the government building on Old Square, as did nearly all the government ministers and vice premiers. Besides inquiring about his views, the journalists began looking into his past career. Viktor Stepanovich Chernomyrdin was born in 1938 in Orenburg province, in the village of Cherny Ostrog. He was not an especially diligent student. School records showed him getting mostly the equivalent of C's and D's. Unlike the exemplary student Gaidar, who went directly from high school to the university, Chernomyrdin at the age of seventeen took a job, first as a metal worker, then as a machinist, at an oil refinery in Orsk. After serving two years in the army, he returned to the Orsk refinery. Not until 1962 did he take up higher education, entering the Kuibyshev Polytechnic Institute, and after graduating he again returned to the Orsk refinery, this time as a supervisor. Next, he completed correspondence courses up to the post-graduate level. He holds a candidate's degree in technical sciences and,

by training, is an engineer-economist and an engineer-technologist. He joined the CPSU in 1961 and in 1966 was promoted to head the industry and transport department of the CPSU's municipal committee in Orsk. But he was not drawn to party work, and he soon switched to a job as chief engineer at a natural gas processing plant in Orenburg, becoming the director of that plant in 1973. Twenty years later Chernomyrdin declared at a conference: "I am proud to have come from the ranks of the 'Red directors.' "

From 1983 to 1985 Chernomyrdin headed Tyumengazprom, the association of industrial enterprises engaged in the extraction of natural gas in the Tyumen region of western Siberia. In 1985, the year Gorbachev became head of the Soviet ruling party, Chernomyrdin was made minister of the natural gas industry for all of the USSR. In 1989 the Ministry of the Gas Industry, for the sake of greater efficiency in this sector, was reorganized as a government-owned corporation, Gazprom, with Chernomyrdin remaining as chairman of the board. This was market reform of a far-sighted kind. At a time when oil exports and the export of other commodities were shrinking, the production and export of natural gas had been expanding. In 1992 it accounted for roughly one-third of Russia's foreign currency earnings. On European markets, even the powerful German concern Ruhrgas was being squeezed by Gazprom.

When Yeltsin formed his first cabinet in late 1991 he appointed Vladimir Lopukhin minister for fuel and energy. Lopukhin was a 40-year-old economist and friend of Gaidar's whose experience was limited to work as a researcher at academic institutions in Moscow. Half a year later, without even consulting Gaidar, Yeltsin relieved Lopukhin of his duties and appointed Chernomyrdin in his place, something the "Chicago boys" did not view kindly. Amidst general economic collapse in 1992 Chernomyrdin kept the gas industry working efficiently while transforming the major enterprises in his branch of industry into joint-stock companies and making a smooth transition to free-market prices for sources of energy.

The left-wing press greeted the selection of Chernomyrdin with open approval, while the radical "democrats" made no secret of their disappointment, predicting that market reforms would be stopped or that a total change of course would occur. Yeltsin stated that he and this "Red director," Chernomyrdin, had worked together for decades in the sphere of industrial production, that they knew

each other well and got along well together. On Gaidar's team despondency reigned. Yeltsin announced, however, that under Chernomyrdin there would be no retreat from market reforms and no big reshuffling of the government. For his part, Chernomyrdin did not ask for governmental changes—and even suggested Gaidar remain in the cabinet. But Gaidar declined. When asked his view of the new premier Gaidar would say only: "At least he's a decent person."

Most economists and political scientists welcomed Chernomyrdin's appointment. Commentator Leonid Skoptsov made this observation: "To say that Chernomyrdin is less of a free-market supporter than Gaidar only on the grounds that Gazprom earns its foreign currency on the world market while Gaidar coaxes it out of the International Monetary Fund, thus displaying his excellent knowledge of English—that is more than I can do" (*Rossiyskaya Gazeta*, December 17, 1992).

As early as mid-1992, when the first conflicts with the Supreme Soviet had begun, the "Gaidarite" government ministers made a decision: if Gaidar were to leave the government, all the members of his "team" would do so too. But after the Seventh Congress there was no rush to resign. Anatoly Chubais and Vladimir Shumeiko immediately announced their intention to remain in the government, and most of the other "Gaidarites" held onto their posts. With little enthusiasm Chernomyrdin agreed that the new finance minister and vice premier would be Boris Fyodorov, whose views diverged fundamentally from those of the ministers with experience in industry, like Chernomyrdin. Fyodorov had earlier worked on the staff of the European Bank for Reconstruction and Development and had become a director at the World Bank; thus he had the confidence of international financial circles. He immediately began to conduct himself in a completely independent way within the government, and by no means did he always carried out direct orders from the new premier.

All in all, the decisions of the Seventh Congress brought about no fundamental changes in the composition of Yeltsin's cabinet nor any change in Russia's foreign and domestic policies. The people of Russia bade farewell to 1992 without regrets, but without any great hopes for the year to come. It had been the most difficult year in Russia's post-World War II history, but 1993 turned out in many respects to be even worse.

ECONOMIC CRISIS AND DECLINE CONTINUE

There were many circumstances creating difficulties for Chernomyrdin from the outset.

First of all, the force of inertia behind the negative processes in the economy, the social sphere, and in Russia's relations with other countries, both "near" and "far," was so great that they proved impossible to stop. On January 1, 1993, there was a substantial rise in prices on a large number of goods and services, producing once again a chain of dangerous consequences: social protest, nonpayment of wages, increases in wages, benefits, and pensions, increased taxes, continued nonpayment of wages, then another rise in prices. Some sort of program for economic stabilization was needed, but Chernomyrdin had none. Nor did he try to elaborate a new conception for Russia's economic development. With no long-term, overall strategy, he was condemned to trying to cope by stopgap measures and partial solutions.

Second, he took the premiership without having his own team. For the first several months the cabinet continued to consist mainly of "Gaidarites." Only gradually did new names begin to appear—Aleksandr Zaviryukha, Oleg Soskovets, Yuri Yarov, Oleg Davydov, Vladimir Babichev. Even then, people whom Chernomyrdin himself called "market romanticists" predominated. By the decision of President Yeltsin, Gaidar himself was returned to the cabinet as a vice premier, though he had no clearly defined functions. The operations of government were often paralyzed as a result of this disparate composition of the topmost officialdom. There were many instances in which Chernomyrdin, Soskovets, or Viktor Gerashchenko, head of the State Bank, would make a decision to provide financial aid to enterprises whose continued work was essential to the country, but within a short time Fyodorov, Chubais, or Gaidar would stop these subsidies.

The Chernomyrdin group drafted a plan for an economic union within the framework of the Commonwealth of Independent States (CIS) and for a single ruble zone for part of the CIS. The other vice premiers and government ministers worked in the opposite direction. Addressing Chernomyrdin at a session of the Supreme Soviet, Ruslan Khasbulatov exclaimed: "Viktor Stepanovich, who is in charge of this government? I suspect it is not you." Western analysts discussed openly that the chief figures in Yeltsin's cabinet in 1993 were Boris Fyodorov, Anatoly Chubais, Aleksandr Shokhin, and, later in the year,

Yegor Gaidar. Specific negotiations with the IMF or the G-7 were said to be conducted exclusively by these members of Yeltsin's government.

The separate administrative apparatus of the Russian Presidency, which kept growing in size and influence, also impeded the work of the cabinet and of Chernomyrdin personally. The presidential administrative system became a kind of parallel government, more and more obviously playing the kind of role the CPSU Central Committee apparatus had formerly played in running the country. The numerous agencies of presidential authority had long since outgrown the Kremlin and expanded into the thousands of (former Central Committee) offices on Old Square and New Square. The heads of the "power ministries" (armed forces, ministry of internal affairs, state security) and many vice premiers and heads of economic ministries were appointed directly by Yeltsin, not by Chernomyrdin, who also had no influence on the Foreign Ministry or the Ministry of Information. Many cabinet members had direct access to Yeltsin and drafted decrees and orders for him without consulting Chernomyrdin. Although Yeltsin took leave of Burbulis, the system of favoritism in his inner circle persisted. The head of the presidential guard, Aleksandr Korzhakov, acquired influence that extended far afield, even to certain economic areas.

Although Chernomyrdin often felt troubled by this absurd state of affairs, he carefully concealed his dissatisfaction, avoiding conflicts with Yeltsin and with other cabinet members. Things were not going well in Russia, and criticism of the government kept intensifying, but it was hardly ever directed against Chernomyrdin personally. The main blows of the opposition, both the moderates and the intransigents, were aimed at such government figures as Shumeiko and Chubais, Shokhin and Gaidar, Mikhail Poltoranin, and Sergei Shakhrai.

Chernomyrdin was a man who had devoted his working life to one branch of industry. His knowledge in other fields was limited. Unlike such politicians as Khrushchev, Gorbachev, and Yeltsin, who had risen through the party machinery and as party bosses were inclined to issue orders on any and all questions—from agriculture to space research to art and literature—Chernomyrdin had no desire to act like an expert on all questions. As premier during the first months of 1993 he sought to gain some understanding of the problems of the various branches of the economy, traveling a great deal, both near and far, getting to know the situation first-hand. For a while he made no major decisions.

His first decision in the economic sphere was to provide financial support to the fuel and energy industry: in late December 1992, with the approval of the parliament, 200 billion rubles of credit on easy terms were made available. Economists commenting on this measure noted not only that the new premier was supporting “his own” branch of industry but that, unlike Gaidar, he was seeking to promote development in basic industry.

Not until the end of January 1993 did the new premier give his first press interview. He said his main concern was to determine the actually existing state of affairs. He did not hide his critical attitude toward the results achieved in 1992. “We had a certain level of economic development. We *had* it. Why were we obliged to lose the level that we had? After all, the workforce [at the various enterprises] had not changed. They were working just as they always had. Well, then, what changed was the structure, the administration. The forms of property are changing Let them change! But that does not necessarily have to lead to such a steep decline. Forecasts can be made, results can be estimated in advance, and appropriate measures can be taken.” Chernomyrdin cited the natural gas industry, in which there had been no decline.

His chief immediate concern, he said, was to ensure the food supply, and to provide machinery and fertilizer to the rural areas at acceptable prices. Farmers would receive subsidies in return for commitments to sell the government a set amount of food products in the fall. In industry, credit would be granted only to those enterprises capable of using it rationally to increase the wealth. For example, Russia needed thousands of airplane engines, which it bought from Poland, using foreign currency. Meanwhile, the Baranov plant in Omsk, on its own initiative, had begun to produce airplane engines that turned out to be more compact, more reliable, and cheaper than the Polish ones. The government would support plants like the one in Omsk, he said, adding that there were quite a few such plants.

He corrected his earlier remarks about “street peddlers.” He was not against them, he said. Let them engage in commerce, but they should be licensed, pay taxes, and clean up after themselves.

“I am for private farming,” he said,

But not indiscriminately—just giving out land to anyone. I’m a practical man. For the private farmer to work properly there

must be a rural banking system. That doesn't exist yet. There should be a system enabling the farmer to order fertilizer and machinery. I've had occasion to see where people have been given land, but all that's growing there, just like before, is weeds. I am for the market. But as I've said before, without work, without the strictest discipline, nothing will come of it. It just isn't true that we can live like they do in the West while working like we do in Russia. We must work hard. Using our heads. Moochers and idlers should be punished. And not just "by the action of the ruble."

In 1993 production continued to fall. The negative trends in the economy were slowed but not stopped. Social tensions increased, and the conflict between president and parliament developed in new ways, distracting attention from the task of solving economic problems. The government expended its main efforts in trying to solve urgent, but partial, problems, dealing with the consequences of bigger and more frequent industrial accidents, and seeing to it that the weakened economy did not collapse completely under the weight of unsolved problems.

By the end of August 1993 neither economists nor those in charge of production were able to detect any signs of economic stabilization. In practically all regions and sectors of the economy the situation was getting worse. A small number of people were growing rich but millions were slipping down below the poverty line. In order somehow to pay its obligations despite its reduced income, the government increased taxes on the profits of successful enterprises, thus sawing off the branch on which production was barely being maintained. The "reform" elements in the government gave a big build-up to Finance Minister Boris Fyodorov for being able to say "No" to Chernomyrdin himself (in matters involving subsidies for essential industries). But many economists felt that one reason for the continued decline was the clumsy conduct of financial business and the desire to squeeze as much money out of the sick economy as possible without investing in expanded production or in the social sphere.

For the new class of businessmen and for many government-owned and privatized businesses alike, it was to their advantage to take their money out of the country, rather than invest in the Russian economy. Under these circumstances it was unrealistic to count on generous

Western investment. It was hard to find an entrepreneur in Russia who honestly paid all his taxes, which sometimes amounted to 95 percent of profits. Fictitious profit rates were listed in contracts, and huge sums of money circumvented the government agencies overseeing payments. As a result fewer resources flowed into the government budget than might have if the Ministry of Finance had established more reasonable tax rates.

At an all-Russia economic conference the audience responded with the greatest sympathy to a sharply worded speech by Georgy Kostin, director of a large plant in Voronezh. Evaluating the results of the first half of 1993, he complained that there was still no plan to bring the country out of its economic crisis. The heavy engineering sector of the Central Black Earth region, he said, had been paying 35–40 percent of its budget for energy. But in August, with price rises for coal, gas, and electric power, that figure was expected to go up to 57–63 percent. It was impossible to go on in that way (*Rossiyskaya Gazeta*, August 4, 1993).

The overall results for 1993 were not consoling. Over the course of the year, gross domestic product had shrunk by 12.5 percent and national income was 14 percent lower. Industrial production had fallen by 25 percent; agricultural, by 5.5 percent. The average monthly inflation rate was 16 percent. The rate of exchange had worsened: at the end of 1992 it had been 450 rubles to the dollar; at the end of 1993, it was 1,250 rubles to the dollar. The material conditions of the population had also worsened substantially (see *Voprosy Ekonomiki* [Problems of Economics], 1994, No. 1, pp. 86–96).

A report by the economics division of the Russian Academy of Sciences summing up two years of “shock therapy” said the following:

The income of the 10 percent of Russia’s citizens most well-provided-for was ten times higher than that of the least well-provided-for 10 percent. A third of the population has income below the official “subsistence minimum,” and 10 percent, or 15 million people, are below the threshold of what is considered necessary for physical survival. This signals the entry of society into a phase of severe social conflict. . . . The moral foundations of society, its social values and ideals, the hopes of families and individuals—all are breaking down. A process of marginalization is going on in the population. The number of beggars,

homeless people, alcoholics, drug addicts, and prostitutes is growing, and more and more children with defects are being born. The society that is actually taking shape in Russia today is far removed from the models existing in countries with highly efficient, socially oriented market economies. It resembles to a greater extent a society based on hypertrophied property differentiation, corruption, organized crime, and foreign dependence. From the socioeconomic point of view, this is not a step forward. Rather, our country has been thrown back two centuries to the “savage era” of capitalism, the era of primitive accumulation. An analysis of the course of the reforms and their results during 1992–93 makes it possible to draw several conclusions.

FIRST. This profound crisis is not the result of unresolved problems accumulated in the past, of particular errors, or of resistance by conservative forces (although all of these have been present). It is the inevitable consequence of the course of reform that was chosen and the methods by which it was carried out. The attempt to solve all problems “at one leap” or by a “cavalry charge” was dictated not by sober scientifically-grounded calculation, but by impatience and political ambition. The course of reform, despite the assertions of its initiators, was and remains driven by ideology to an extreme degree and is being implemented by methods that can be characterized as “neo-Bolshevik.”

SECOND. Confronted with the failure of their economic policy, the initiators of “shock therapy” did not draw the appropriate lessons, but stubbornly insisted that their policy must be continued. This only worsened the situation and placed new burdens of the population. In an attempt to cover up the fiasco, the reformers in power sought to misinform public opinion, distorting the real situation and the real living conditions of the people.

THIRD. From the very beginning a mistaken orientation was adopted as to the decisive role of foreign aid, and internal sources for the stimulation of business and investment activity were not brought into play. It became clear that this was a major strategic miscalculation. The miserly amounts of the aid that was constantly being promised could not under any circumstances have seriously affected the results of the changes taking place in Russia.

FOURTH. At the root of many of the errors and the refusal to change the course of economic policy lies a claim to infallibility, to possession of the absolute truth. Hence the wish not to listen to criticism, the desire to portray all criticism as coming from “enemies of reform.” One idea is stubbornly instilled in the public mind—the absence of any alternative to the “shock therapy” chosen by the authors of this policy and the particular strategy and tactics by which it was carried out. Belief in one’s own infallibility serves as a breeding ground for the deliberate refusal to seek a national consensus.

FIFTH. By now the lack of professionalism of the authors of “shock therapy” has become clear. Evidence of this is seen in their ignorance of the realities of Russia’s economy and of the mentality of the populations inhabiting Russia, their selection of inadequate reform methods, and their crude miscalculations in forecasting the economic and social consequences of the measures implemented. For a prolonged period the government has declined to discuss fundamental problems of its policies with leading scientifically trained economists and representatives of progressive parties, movements, and civic organizations.

I have quoted at length from this previously unpublished document, a copy of which is in my personal archives. It was distributed to all leading institutions in Moscow, to all public organizations, and to the press, but it was deliberately ignored by the authorities. There were other, similar studies that drew analogous conclusions.

Scientists and scholars in almost every field condemned the policy of “shock therapy” precisely because science and the system of higher education in Russia were being destroyed even faster than industry and agriculture. Tens of thousands of scientists and researchers from all branches of knowledge were leaving the country. At the same time in the cities, tens of thousands of astrologers, fortune tellers, clairvoyants, psychics, specialists of all kinds in magic spells and the spirit world surfaced. None of them, however, could conjure away the “evil eye” effects of faulty economic policy.