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Obstacles to Capitalist Development in Russia

The failure of Gorbachev's reforms from 1985 to 1990 caused great discontent and disillusion among the people. The reformers themselves were dismayed. Some of them were inclined to abandon the framework of socialism, within which the reforms had remained. Valentin Pavlov, who replaced Nikolai Ryzhkov as premier, admitted later that by 1990 he was firmly convinced that only a bourgeois-democratic revolution could save Russia. (See *Segodnya*, November 29, 1994.)

The attempted coup of August 1991, followed by the removal of the CPSU from power, the disintegration of the USSR, and Gorbachev's departure from the Kremlin, brought new political forces into the leadership—forces opposed to socialism as well as to the former leaders of Soviet society. Many historians, sociologists, and other commentators refer to the events after August 1991 as a "revolution." It is variously called a "liberal revolution," an "anti-Communist revolution," a "democratic revolution," an "anti-totalitarian revolution," even a "national liberation" revolution.

IS IT CAPITALISM THAT'S DEVELOPING IN RUSSIA?

But hardly anyone calls it a "capitalist revolution." Partly this is for tactical reasons, with intent to deceive the public. In 1991 the masses supported demands for freedom and democracy, opposed the privileges and power so long monopolized by the Communist Party bureaucracy, and hoped for an improvement in their material conditions. The mass rallies for Yeltsin featured banners such as "Down with Gorbachev" and "Down with the CPSU," but I never saw a banner saying "Long Live Capitalism" or "All Power to the Bourgeoisie."

In recent years the Polish Social Democrats (former Communists), who have been winning elections in their country, have refrained from using the term "socialism." They have advanced a slogan that seems strange to us, although it has proved popular in Poland: "Build Capitalism for the People, for the Workers." The "reformers" around Yeltsin have been reluctant to use the term "capitalism" openly, and Yeltsin himself has not designated capitalism as the ultimate goal of the "structural reforms" being carried out in Russia.

Nevertheless, economist Aleksei Ulyukaev, a close associate of Yegor Gaidar, considered Yeltsin's victory in the 1996 elections a decisive step "forward" toward capitalism. Those elections, in his opinion, answered the decisive question, "Who will prevail?" in favor of capitalism (*Segodnya*, September 20, 1996).

Prime Minister Viktor Chernomyrdin consistently rejected the term "capitalism." "The main thing I want to say," he declared in 1993, "to those who cry out everywhere that Russia is heading toward capitalism is that we are not leading Russia toward capitalism of any kind. Russia simply does not have the capability for that. It will be neither socialist nor capitalist" (see the newspaper *Argumenty i Fakty*, No. 42 for 1993). Two years later he explained, "We are building a totally new society, without 'isms' " (*Segodnya*, August 9, 1995).

Some authors speak of the "systemic transformation" of the society, but their explanations generally defy comprehension. Gennady Burbulis, the prime ideologist of the new government, defined its aims more candidly. "The socioeconomic goals of reform, from my point of view, can be expressed this way: to establish the institution of private ownership. People must live in a society where they can acquire and freely exercise, without fear, ownership of any form of private prop-

erty. Historical experience teaches that nothing that corresponds more closely to human nature has been invented in the last ten thousand years. It is not an ideal system, but it is normal" (quoted in V. V. Sogrin, *Politicheskaia istoriia sovremennoi Rossii, 1985–1994* [Political History of Present-Day Russia], Moscow, 1994, p. 118).

Cabinet ministers under Yeltsin and Chernomyrdin were from the beginning more outspoken, disdaining to conceal their intention to work toward establishing capitalism. "Russia has already chosen capitalism," declared Yevgeny Yasin, minister for the economy. "Today we are making a further choice, between an efficient kind of capitalism and an inefficient, oligarchical kind" (*Pravda*, October 5, 1995).

This lack of agreement in defining the aims of the "structural reforms" is noteworthy, but not accidental. It reflects fears and hesitations flowing from the *unpopularity* of the notion of establishing capitalism in Russia. It reveals the uncertainty of the reformers, an uncertainty that has weighty grounds.

One of Gaidar's associates sought to explain away the difficulties and deprivations the population was suffering with the argument that they would not be long lasting. Setting the ship of state on a new course, he argued, required much effort and careful maneuvering. But once the sails were set for the new course any wind would be to the advantage of the ship and its passengers. The greater part of this difficult and painful change of course, be said, had already been accomplished, and the wind of capitalist development was already blowing in the sails of Russia's economy.

Not all the reformers shared this optimism. Some of them warned that the transition to capitalist development might take two or three generations before the fruits of the "glorious capitalist future" could be tasted.

There is a huge difference between a program of carefully thought-out, gradual market reforms in a country with a nonmarket economy and a program aimed at transforming a socialist society into a capitalist one by "shock therapy." Hardly anyone today disputes the fact that "state socialism" led Russia into a dead end, from which no escape was possible without using some forms and methods of a market economy. An intelligent program of privatizing some state-owned enterprises and the gradual creation of a competitive environment, the restoration of many forms of private ownership in small and medium-sized production, in trade, and in service industries, the encourage-

ment of Western investment in the Russian economy, partial liberalization of foreign trade, joint ventures and jointly owned companies, banks, and stock markets, and other elements of a market-oriented infrastructure would all be steps in the right direction.

Moves in this direction were begun under Gorbachev and they should be continued, deepened, speeded up. I will not go into the successful experience of China, which over the last twenty years increased production by 500–600 percent and raised living standards for its 1.3 billion population by 400–500 percent. This success has set a record for the twentieth century, which has had no shortage of "economic miracles." We should also recall the experience of postwar Germany and Japan, which in twenty years managed to overcome destruction and chaos and emerged as economic leaders of the West.

Even Lenin, under the New Economic Policy (begun in 1921), successfully tried to use market methods. Steps in the same direction were taken by Aleksei Kosygin in the 1960s. In the 1970s the Politburo discussed the idea of establishing, on a trial basis in several small cities, a system of private services, including small shops and restaurants. Discussions were held with Henry Ford II about the possibility of his company's participation in construction of the Kama River Auto Plant (Kamaz), and with the Hilton corporation about establishing several hotel complexes in Moscow. Even under Stalin during the war with Germany, when state industry was used entirely for the needs of the army, a revival of private trade and small-scale private production was permitted. Huge goods markets and even commercial stores arose in Soviet cities, as well as semi-legal foreign currency exchanges. The authorities put an end to this unofficial NEP only after the monetary reform of 1947.

In the 1970s and 1980s Soviet society and the Soviet economy were in dire need of radical reform. But the attempt to establish a Western-type capitalist society—to impose full-scale capitalist relations on a society where noncapitalist relations had taken shape over a period of seventy years—was absurd, utopian, and bound to fail.

Gaidar himself wrote at a later time (i.e., after his unsuccessful premiership):

> We began the reforms in a very interesting situation, in which it was possible to list at length everything that we did not have to show why reforms could not be carried out. I myself could have

> explained very well why they couldn't be carried out in 1992. There was no stable support in the parliament, there were no normal institutions of government capable of taking action (army, customs personnel, police)—they had been shattered by the crisis of power in 1990–91. There were sixteen central banks instead of one, there was no tradition of private entrepreneurship, and there was no strong private sector, as there was in Poland. There wasn't even a kopeck to spare in the way of foreign currency or gold reserves, and there was no possibility of attracting resources on the free market, the international financial market. But in spite of all that, we did not have the option of waiting and doing nothing while explaining why we couldn't do anything.
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> (Cited in Yeltsin's memoirs, *Zapiski Prezidenta*, Moscow, 1994, p. 246)

Gaidar in this instance is misleading his readers. In late 1991 the program put forward by him and his team was only one of many anti-crisis programs. Other government leaders and economists were offering Yeltsin their support and their programs. They weren't proposing "to wait and do nothing" or simply explain "why they couldn't do anything." Gaidar, in his articles and books, presents only the secondary factors working against radical capitalist reform in the state of crisis, confusion, and disarray of 1990–91. The obstacles facing any attempt at capitalist revolution were far more serious.

In 1990 Gaidar proposed to the leaders of the USSR that we should "close our eyes tightly and leap into the unknown" (*Pravda*, April 16, 1990). In 1991 the same Gaidar proposed to the leaders of Russia "to extricate ourselves from socialism" and "return to the path of capitalist development" (Gaidar, *Dni porazhenii i pobed*, p. 247). It might have made sense to propose this in some form in the Czech Republic, Hungary, Lithuania, or Poland, which had not diverged from the capitalist road until the late 1940s. Capitalist relations had taken root in those countries much more deeply than in Russia before 1917. But for the Russia of the 1990s a *return* to the capitalist road was a bizarre notion, since that "road" had been torn up long since and even the faintest traces of it were no longer discernible.

There is an unalterable general law of development of socioeco-

nomic formations, or systems—that is, the different forms taken by human civilization. The Bolsheviks disregarded this law after 1917, and the radical reformers did likewise after August 1991. No social system or new form of civilization can be built if it has not already taken shape in the interstices of the previously existing form of civilization, or social system. Socioeconomic formations, as Marx called them, are not dead, inert forms, but living, self-driven systems. Their emergence can be assisted, or speeded along, but only living seeds and shoots can develop roots and stems, trunks, branches, and leaves. Living systems are governed by inner laws of operation, not by the desires or endeavors of legislators and/or reformers.

It is wrong, then, to liken social development to the construction of a building or the sailing of a ship, as we so often do. A less superficial analogy would be the tending of an orchard or forest, neither of which can develop in two months, let alone two years.

TEN FACTORS IMPEDING CAPITALIST REVOLUTION

Below I list ten factors that have doomed the attempt at a capitalist revolution to failure, an attempt that for too many years now has caused the people of our country unjustifiable suffering and required unnecessary sacrifice.

1. The Previously Existing Economic Reality

The plan for a "systemic transformation" worked out by Gaidar and his Western advisers was not applied to conditions of chaos and ruin, like those in Russia in 1920–21, Germany in 1945–46, or China in 1977–78. Since 1929, there had been twelve five-year plans, and a vast system of economic production had been created in the USSR, a system that served the needs of both government and population, sometimes well, sometimes poorly, sometimes "fair to middling." Extreme centralization and administrative-command methods of management were not the only problems. Two dogmas of the Marxist school of political economy were embodied in this system—dogmas that might have seemed true in the nineteenth century but were out of line with the economic realities of the twentieth.

According to the first dogma, free competition under capitalism

inevitably leads to economic anarchy and overproduction, consequently to cyclical downturns and unemployment. Moreover, as monopoly replaces competition, the result is higher prices, slower progress in technology, and stagnation. Both monopoly and competition are bad, but a socialist planned economy can eliminate the cycle of boom and bust and transform monopolistic centralization into a positive advantage. Under the Soviet system a strict government monopoly on production and distribution was maintained, with competition ruled out even in the service industries. Auto producers, rather than compete with one another, simply produced machines of different types and sizes. The task of producing various diameters of pipe was divided up among several metallurgical plants. All the paper cups for the entire Soviet Union were produced in one plant in the Baltic region. When all production could not be centralized in one or a few plants—for example, in the production of meat and dairy products—the markets that needed to be supplied were divided up, and each plant worked for a strictly defined region.

According to the second dogma, large or very large production units enjoy significant advantages over small or medium-sized units, especially in the realm of planning and efficiency of organization, as well as in the utilization of resources and application of new methods or new models. Thus, in the USSR gigantic factories predominated, while small businesses, such as barber shops, hairdressing salons, laundries, and bathhouses, were grouped together into huge "trusts" under the direction of the Ministry for Municipal Economies. This "gigantomania" was also reflected in the kind of goods produced. The largest excavating machinery in the world, the largest generators, the largest trucks, tractors, and combines, the world's biggest lathes—all were produced in the USSR. Production of mini tractors or small electric power plants was disregarded. Hundreds of new cities came into existence, each centered on one or two giant plants.

Today we can see that this mistaken policy doomed the USSR to economic and technological backwardness. One cannot help seeing, as well, that the production relations that took shape in the USSR affected the entire superstructure—from the forms of government and administration to our laws and moral values. Each element of the economy became a single cell in the larger system, and the country as a whole was like one huge factory, with the government as the sole employer. This type of production gave rise to solidly entrenched

stereotypes of behavior and thought affecting several generations of industrial workers, office workers, and technical intelligentsia (engineers, etc.), not to mention the party and government bureaucracy, the so-called nomenklatura.

It is not hard to show that in the super-centralized Soviet economy there were many excesses and defects that were partially offset or compensated for by administrative rather than economic action. Nevertheless, there were certain advantages in this cumbersome economic system. In a number of areas, the Soviet Union was able to concentrate enormous resources in order to achieve certain major objectives. It was possible and necessary to change and improve the system, eliminating its deformations and inadequacies, modifying or getting rid of excessive centralization and privatizing some publicly owned property. It would have been useful to trim down some of the industrial giants, creating a parallel system of small or medium-sized enterprises based on private or cooperative ownership. Irrational monopolization could give way to rational competition, and economic methods of regulation could have supplemented or partially replaced the purely administrative methods, etc. A slow and careful reform process was required, based on scientific research, discussion, and experimentation. Only in this way could the Soviet economy have been given the flexibility and dynamism characteristic of the market without depriving it of the advantages of centralization and planning.

"Shock therapy" or "radical surgery" could do tremendous harm to the rather unusual economic and social organism existing in Russia, while producing hardly any significant positive results. Radical reforms have been under way in Russia since the beginning of 1992. There have been changes, of course, but the extent to which they have been changes for the better should not be exaggerated. The same giant auto plants, tractor plants, metallurgical complexes, shipyards, mines, ore-enrichment plants, oil fields, petrochemical plants, natural gas pipelines, nuclear power plants, paper plants, and vodka distilleries are in operation now as before 1992. But today all these economic units are functioning much less efficiently than they did ten or twenty years earlier. Things are also much worse on the land, where the former state farms and collective farms have been reorganized as joint-stock companies or distributed to small farmers or medium-sized farming businesses. There are exceptions, of course, but they are very rare.

The reformers' disregard for Russia's existing industrial capacity and infranstructure, and for the tremendous potential of its millions of skilled personnel, is surprising to many Western economists. Alice Amsden, an economics professor at the Massachusetts Institute of Technology, and Lance Taylor, an economics professor at the New School for Social Research in New York City, have written about this as follows:

> although Eastern Europe's overthrow of its ancien regime circa 1989 qualifies as "revolutionary," what it has tried to create in its stead is by historical standards already outdated. True, the transition has been as unique as it has been unprecedented; nowhere in the world has capitalism been created *after* pseudo-socialism. But instead of lurching toward a new economic and political system in order to catch up with the world's richest countries, Eastern Europe's societies have searched for mores, methods, and models to help them catch up in ways congruent with their own highly selective memory and with the mythologized histories of the most advanced capitalist countries. . . .
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> No revolution is ever completely successful in coming to terms with its own past, but few revolutionary societies have dipped into history so indiscriminately, or abused the past so wastefully, as Eastern Europe's. . . . [A]llowing first-rate firms to go bankrupt and world-scale research and development laboratories to deteriorate has delayed not just catching up with the world's richest countries but recovering pretransition income levels by several years. Most important, the choice of a capitalist model that dates back to the eighteenth century and that represents an extreme, primitive form of market economy has failed in five years to lay the groundwork . . . for modern capitalist development.
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> [Translator's note: The author cites as his source for the above quotation: *Ekonomicheskaya Gazeta*, October 1995, no. 35–39. Actually, this Russian-language journal was quoting from a book by Amsden, Taylor, and the Polish economist Jacek Kochanowicz, *The Market Meets Its Match: Restructuring the Economies of Eastern Europe* (Cambridge: Harvard University Press, 1994), pp. 2–3.]

These two American economists discuss the negative consequences of mistaken economic policies in such countries as Poland, Hungary,

Bulgaria, and the Czech Republic. They make a direct link between the political instability in those countries and the "insufficient utilization" of the previously created economic potential there. Russians know, from the experience of life since 1992, that the defects of economic policy Amsden and Taylor describe, which have been partly corrected in some countries of Eastern Europe, were much more substantial and much less explicable in Russia. It is not surprising that *Ekonomicheskaya Gazeta* put a more expressive title on its review: "The Task Ahead for Russia—Replacing Learned Foolishness with Good Common Sense."

2. The Military-Industrial Complex—Legacy of the Cold War

For specific historical, political, and ideological reasons the chief sector of the Soviet economy was the so-called military-industrial complex. Total expenditures on arms production, the armed forces, military aid to allies, the space program, and intelligence of all kinds, as well as on the state security apparatus, added up to no less than one-third of the government budget.

To serve military needs, whole new rail lines and airports were built, along with huge new factories, whether on the shores of Lake Baikal or in the suburbs of Moscow. A large share of the research done by the Academy of Sciences was for the military-industrial complex. In the 1970s and 1980s this part of the Soviet economy, having grown to gigantic proportions, became a heavy burden hampering the overall development of the economy. Many superficial Western observers, having discovered that Soviet industry was incapable of producing good typewriters or reliable tape recorders, assumed that the quality of Soviet tanks, helicopters, and ICBMs was equally poor. Serious economists outside the USSR did not share that opinion. Many Western military experts also had no doubt about the effectiveness of Soviet military industry and the Soviet military machine.

Having worked for about twenty years in the field of polytechnical education, I became familiar with many different enterprises in various branches of the economy and all regions of the country. Even to a nonspecialist the discrepancies in the level of technology and production organization were striking. The lowest productivity of course, and the lowest standard of living, was in agriculture, which since the 1920s had served as a donor to the rest of the Soviet economy. The

"pumping over" of material and intellectual resources from the countryside to the city, which in the debates of the 1920s was called "a temporary tribute," not only continued but actually increased in the subsequent decades. In light industry and the food industry the productivity level was not very high, although these sectors received a large share of the Soviet budget. Soviet extractive industry also lagged behind world standards, even though the export of raw materials was the main source of foreign currency for the Soviet state. Heavy engineering and the metallurgical industry were more advanced economically and technically. Most of the productive plant in these sectors was built during the first five-year plans and symbolized the industrial might of the Soviet Union. The general level in these sectors was nevertheless lower than in analogous economic sectors in Western Europe and the United States. This becomes evident in any comparison of quality and variety of goods produced.

I was not personally acquainted with the operations of the secret military plants or those in the space industry. But those more familiar with the military-industrial complex have testified that the productivity level and quality of output was quite comparable to, and sometimes better than, analogous operations in the West. Millions of the most highly skilled workers were employed in Soviet military industry, as well as the best technical and engineering personnel. The many research institutes and design offices in those sectors employed hundreds of thousands of specialists from the universities. The enormous material resources and strategic reserves of the Soviet Union were concentrated here.

In the West, production of the most advanced weapons systems and production for the space program are not primarily based on market principles. This is because of the very nature of the goods produced. A new type of missile or a new system used in the space program requires fifteen to twenty years to go from planning and design to production. The same is true for new generations of nuclear submarines, bombers, and aircraft carriers. New types of tanks, armored cars, or helicopters require eight to ten years. The scale of such production and the length of time required mean that these things cannot be accomplished without scientifically based planning, broad cooperation among different branches of industry, and major budget allocations. Besides, governments are the only customers for most types of military output. Competition does exist, but it tends to be between countries

more than between companies, and the operation of the laws of the market is therefore quite limited.

The production of nuclear submarines, missiles, and aircraft carriers does not make a country richer. The costs of military production have been a burden on the economies of the United States, Britain, and France for many years. The economic successes of Germany and Japan are largely related to the restrictions imposed on them after World War II, preventing them from having large armies or producing major offensive weapons. Other Western countries also managed to produce both guns and butter. They did not have such a big disparity between sectors of the economy as existed in the USSR previously and in Russia still. Competition required companies to pay serious attention to the production of shoes, food products, perfumes, and passenger cars, not just tanks and bombers. That is one reason why economic reform models applicable in the West cannot be simply transferred to Russian soil. What Russia's economy needed was a separate reform plan for each sector, whether light industry, agriculture, the machine industry, the extractive industries, or the energy industry, each having its own methods and timing. Particular care and caution should have been taken in reforming military industry. These distinctions were ignored, and that is one of the reasons for the difficulties.

Gorbachev, in carrying out perestroika, was advised by a number of prominent economists—Leonid Abalkin, Stanislav Shatalin, Abel Aganbegyan, and Nikolai Petrakov. Yeltsin surrounded himself with younger, but not very competent, economists, who had no experience of working in the government or on the scale of the economy as a whole. There was a third school of economists in Russia, headed by the late Yuri Yaremenko. The Russian press, which touted many other economists, paid little attention to Yaremenko, and only in his obituaries was he referred to as "a classic." Many learned about him only after his death.

Yaremenko engaged in deeply probing research and analysis and came up with the most solidly grounded economic forecasts, but he scorned publicity and did not consider it necessary to fight to promote his work. His book *Structural Changes in the Soviet Economy* is considered the most serious analysis of the post-World War II era, but it is written in a highly specialized language and would be difficult for a nonspecialist to understand—and the leaders of the USSR, CPSU, and Russian Federation can be counted among the nonspecialists.

Yaremenko was not overburdened with official duties and ceremonial titles. He learned a great deal in the research institutions of the State Planning Commission and as early as the 1970s headed an institute for forecasting scientific and technical progress under the Soviet Academy of Sciences. After the dissolution of the USSR Yaremenko became director of the Institute of Economic Forecasting of the Russian Academy of Sciences. I never heard of him taking part in the conferences of economists held by Gorbachev and Ryzhkov—or later by Yeltsin and Chernomyrdin. Yet the findings of Yaremenko and his institute were more thoroughly researched than those of other economists. Between the cautious proposals of Yaremenko's group and the wild schemes of Gaidar, Chubais, and their Western advisers, Jeffrey Sachs and Anders Aslund, there is simply no comparison.

In Yaremenko's opinion, Western economic theories could not be applied to Russia, because of the enormous disparity between the super-modern aeronautics and space industry and military production systems, on the one hand, and civilian industry with its massive reliance on manual labor, on the other. Both the U.S. and the USSR pursued the arms race, but its effects on the two countries were not identical. For the USSR it meant massive diversion of resources from civilian sectors, resulting in social degradation. Although consumption increased in the USSR, the quality of goods remained low, and the shortage of resources was made up for by intensified exploitation of the raw material base, disregard for the environment, and increased production of alcohol. Various means were employed for pressuring or inducing people to work in unattractive locations. The civilian consumer economy was artificially restricted, and this led to the growth of organized crime and other forms of social degradation. For forty years the USSR, with amazing recklessness, exerted almost all its energies on trying to maintain military parity with an economically more powerful opponent. This could not help but end in disaster.

Strange as it may seem, Yaremenko linked the suicidal policies pursued in the "era of stagnation" to a reduction in the leading role of the CPSU. In his opinion, various government agencies escaped from party control and ceased to function as parts of a unified whole. They became more autonomous, and in pursuit of their own goals began to devour the resources of the country at an accelerated pace. The military departments proved to be the most voracious, although others

were no slouches. Yaremenko hoped that sooner or later the government would come to its senses and change its policies. The main thing he insisted on was an end to the Cold War. He did not give advice to political leaders and did not wish to prompt the authorities into any hasty decisions. But, he said, the government had to get out of a game that it could only lose. Only by extricating itself from the Cold War could the USSR begin to reform military industry and convert defense production to civilian use on a large scale.

Investment and resources could gradually be shifted from the military sectors to the construction of quality housing, the development of areas with summer cottages and gardens for city dwellers, production of consumer goods, and improvement in the technical level and organization of production in civilian sectors. This would make it possible to develop new incentives for people to work and would stop the process of social degradation. Yaremenko was not opposed to limited market reforms, but he protested emphatically against making the market the chief regulator or the chief instrument for reforming the Soviet economy. That was not the road to prosperity, in his opinion, but to chaos and decline. The country would have to pay too dearly if market relations for which it was not ready were introduced in unwise ways. Defense industry was an ace in the hole, the chief means of encouraging the growth of civilian production and raising its technical level. Such a complicated reorganization could not be carried out, he felt, by the use of market reforms. Planning and government regulation of the economy would have to continue.

Yaremenko considered arguments about the so-called inherent inefficiency of a planned economy to be nonsense. Instead of the Gaidar-Chubais formula "Transform power into property," which he also considered nonsense, Yaremenko proposed another formula—"Transform military might into economic might." A transition to the market and to an "open society," in his opinion, should not be the first step in such a transformation, but the second. He was not opposed to democracy, but he was a realist. He was troubled by many of Gorbachev's initiatives, especially when the entire Soviet press was talking about democratization and transition to a market economy, but no one was paying any attention to the question of conversion.

Yaremenko's forecasts became increasingly gloomy concerning the abrupt turn in 1992 toward the capitalist market system. He predicted mass unemployment and a weakening of the position of those

strata of the population with technical skills and other forms of higher culture. The reckless opening of Russia's borders, he believed, would turn Russia into a second-class power for decades to come. "A country must live by some idea," Yaremenko wrote. "In the modern world positive ideals are linked in one way or another with high technology. The elimination of the highly qualified upper stratum would mean the loss of ideals. What would remain in that event? Primitive consumerism, which in its crassest form can be neither an effective stimulus nor a constructive idea" (*Segodnya*, September 20, 1996).

In the years 1992–95, Yaremenko tried to develop a number of scenarios that would prevent, or soften the impact of, the crash that would inevitably result from the capitalist reforms. In his opinion, those reforms had not been chosen by the people but were imposed by Russia's former opponents in the Cold War in alliance with the corrupted upper echelon of the new Russian government and the economists in its service, as well as the oil and gas lobby. But no one was interested in the opinions and suggestions of this outstanding economist.

Not only for a trained economist like Yaremenko, but for many nonspecialists as well, it was evident that the attempt at a hasty capitalist transformation of society was unwise and doomed to failure. Late in the fall of 1992 a major conference was held in the auto-producing city of Togliatti in Samara province on the Volga. Taking part were directors of most of the largest factories and plants in Russia—80 percent of them belonging to the military-industrial complex. Also participating were nearly all members of the Russian government, including Gaidar, Shokhin, P. Aven, and A. Nechaev. The Italian journalist Giulietto Chiesa also attended the conference and provides an account of it in his recently completed book *Farewell, Russia*. The following passages from his book appeared in Russian in *Novaya Gazeta*, March 17–23, 1997.

> All the "Red directors" were there, at least of the biggest factories that were still state-owned. I remember those "cadres," those stalwarts of the nomenklatura's middle echelons, who embodied the monopolistic principle of the Communist state. They took the microphone one after the other while on the presiding committee there sat young people, almost juveniles, who

had just left the walls of American universities, fully steeped in the Reagan-Thatcher credo, convinced believers in deregulation.

All the "Red directors" said approximately the same thing: we understand that socialism is dead; we know that a good part of our productive capacity must be sacrificed on the altar of competition, efficiency, and the market. But we beg you, we implore you, to consider two key aspects of the situation. First, behind us stand millions of families, who we cannot just abandon to the whims of fate. Second, many of the factories and plants represented here could become competitive on the world market in fairly short order if only the government worked out an investment policy aimed at revitalizing them. We are ready to shut down what must be shut down, but please tell us what we can save, what you want to set your sights on that would contribute to the growth of production in the future.

I remember what boredom was etched on the faces of the young men of the presiding committee. They had not contemplated any government investment program. Still less were they concerned about the families of those who would lose their jobs. Not because of hardness of heart. It simply never entered their minds that reform on such an awesome scale, such an unprecedented, extremely complex operation, might be carried out by enlisting the support of, not the majority of course (that would be practically impossible), but a significant part of the population. I was amazed by the lack of comprehension in their responses. The cabinet that had just been formed by Boris Yeltsin had not the slightest conception of what a conversion of military industry to civilian uses might entail. The youthful government simply never envisioned such a thing.

According to Chiesa, not all international economic agencies agreed with the recommendations of the IMF and the group of experts sent to Russia from the West. A study by the World Bank made in early 1992 argued that the state must play a central role in at least four areas that are of first-rate importance for any transition to a free-market capitalist economy. These are: (1) maintenance of social equality, which guarantees the stability necessary for reform to proceed; (2) support of the private sector through clearly defined programs and antimonopoly action; (3) preservation of an internal mar-

ket, distinct from the world market, with protection of its weaker structures against the predictable pressures exerted by overly powerful foreign investors; and (4) state control over the key elements of financial policy. "This advice of the World Bank," Chiesa declares, "which cannot be suspected of either foolishness or Marxism, helps to dispel once and for all the notion that any criticism of the Yeltsin model of 'reform' signifies, in the best case, lack of understanding of the laws of the market or, in the worst case, hidden Communist sympathies."

By mechanically reducing government orders for goods produced by the defense industry, the Yeltsin-Gaidar regime dealt a serious blow not only to the plants and factories of the military-industrial complex but to all civilian sectors of the economy as well, denying them the opportunity for modernization based on the resources and skilled personnel of this most advanced part of the former Soviet economy.

The factories and plants of the defense sector are still in operation today. The factories that produced nuclear submarines are now busy eliminating them. To take nuclear warheads apart and find some use for the remaining components has proved to be not much easier or less dangerous than making them in the first place, although the government is barely paying for the labor involved. The Russian defense industry is trying to sell its goods—the world's best tanks and military aircraft—to Third World countries, to India and China. But meanwhile the Russian army does not have the means to pay for military exercises or training flights.

Life goes on in the formerly top-secret towns, about fifteen in number, that are under the direct jurisdiction of the ministries of defense and atomic energy. There is more openness about these towns now. You can read articles on them in the magazine *Sovershenno Otkryto* (whose title means "Absolutely Open"—i.e., the opposite of "Top Secret"). But the standard of living in these places is much lower than before. Apparently today in the towns of Krasnoyarsk-26 or Chelyabinsk-65 there are no killings by orders from on high, but suicides do occur, including some of the most outstanding scientists. The gigantic potential of the military-industrial complex continues to be slowly destroyed. An influential figure in the management of the economy said to me in 1994, "So defense is being destroyed. Let it be. Who needs it?"

3. Geography, Nature, and the Russian Economy

Factors having to do with geography and nature are of course enormously important to the economy of any country. With the dissolution of the USSR all the more southern and western republics separated from Russia. In territory, Russia remains the largest in the world, but this is mostly northern and eastern land with a harsh continental climate.

None of the major capitals of the world has a winter so long and so fierce as Moscow. Spending on capital construction, heating, and lighting is much greater than elsewhere. The big industrial districts of the Urals and Siberia are located in climate zones that are even colder than Moscow's. In such cities as Yekaterinburg, Chelyabinsk, Krasnoyarsk, and Novosibirsk, temperatures may reach as low as -30C or even -40C (-22 to -40F). Russia's vast territory adds to its wealth, but with this vastness comes the added burden of high transportation costs, while the consumption of gas, electricity, oil, and wood is extravagant. Russia does not economize on water usage, and neglects recycling. Yet even if the thriftiest use of resources prevailed, Russia would still have to spend more per unit of output than the United States, Japan, or Western Europe.

By refusing subsidies and keeping rates for power and transportation high, the Yeltsin government made Russian factories noncompetitive on the world market. Much of Russia's oil and gas, for example, comes from above the Arctic Circle, meaning greater cost and less profit in the exporting of these materials.

The Russian Federation has a great deal of land, but the climate of course is not very favorable for the pursuit of agriculture. Butter from Vologda province may be of better quality, but it is not, and cannot be, cheaper than butter from New Zealand. Under conditions similar in some ways to Canada's, a population of 150 million, not 26 million, must be fed.

Despite these special geographical difficulties, the hastily thrown together plans for "structural transformation" on whose basis the Gaidar team began breaking up and rearranging the Russian economy, copied Western models or IMF programs for Southeast Asian and Latin American countries. These programs and models did not provide for any large-scale government aid to industry, agriculture, or transport. Italy or Argentina could do without such subsidies perhaps,

but not Russia. In 1990, Finance Minister Valentin Pavlov told me: "Looking at the big picture, we have no need for Vorkuta. The best thing for our country would be to shut down all those mines in the Far North, which were profitable only under Gulag."

What Pavlov said may be true. But in that case the government is obliged to take a hand in relocating the residents of the northern European mining city of Vorkuta to warmer climates and providing jobs for them. The government of Russia, however, is no longer concerned even with such an important part of the economy as the northern Siberian city of Norilsk with its giant nickel mining and processing industry.

4. Spirit of Enterprise and the Russian Soul

There can be no hope of success in making abrupt economic changes if objective factors like the ones discussed above are disregarded. But that is also true of subjective factors—popular traditions, the capabilities of the population, the general cultural level and the quality of the culture, particular national or religious features, the psychological outlook and accepted system of values prevailing in a country. It would be rash to use IMF recommendations worked out for Mexico or Nigeria as a guide for reforming Russia. This was understood in China, where different variants of economic reform were elaborated for different provinces. But the Gaidar team made a conscious choice to reject such an approach. "There are no special countries," Pyotr Aven, one of Gaidar's cabinet members, declared in February 1992. "From an economist's point of view, if economics exists at all, then it is a science with its own laws and, on the level of currency stabilization, all countries are *one and the same*" (emphasis in original; see *Nezavisimaya Gazeta*, February 27, 1992). It is awkward even to argue with such an assertion—or to point out to Aven that there is a difference between economics and mathematics.

One may speak with disdain about Soviet traditions and training and scornfully refer to Soviet citizens as "moochers" who lacked initiative and were content with a state of dependency. One may angrily complain that too many Soviet citizens would have preferred to remain "little cogs" in the vast and powerful machinery of the Soviet state, which, after all, did look after them in many ways. What cannot be done is to simply ignore the particular traits of Russia's population,

for it is the only one we have. Only idealists and adventurers, out of touch with reality, could propose that all we need do is break up the totalitarian structures and institute democratic mechanisms and the market, and then the previously shackled creative powers of the Russian people would automatically move the country's economy and culture forward and change life for the better.

The creative potential of the Russian people is indeed great, but releasing these hidden powers is not such an easy task. After being defeated in the 1995 Duma elections, Yegor Gaidar declared that his chief constituency was among the schoolchildren who were earning more than their parents by washing cars in the streets and parking lots. This is not only extremely cynical but indicates an unwise approach toward Russia's long-term prospects. Does Gaidar include among his future constituents those high school girls who display such an enviable "spirit of enterprise" in other forms of street business?

Undoubtedly the totalitarianism of past decades produced forms of consciousness corresponding to the social "being" of those times. But before October 1917, too, Russian conditions and traditions differed substantially from those in the West. That was one of the reasons for the failure of many of the reforms attempted by Pyotr Stolypin, Russia's premier in the aftermath of the 1905 revolution.

Aleksei Kiva, a political scientist loyal to Yeltsin, writing in the government newspaper *Rossiyskaya Gazeta* (September 2, 1995), gave the following advice to the regime he supports:

> For the average Russian the idea of social justice stands higher than the idea of democracy. . . . The interests of the collective and of the state stand higher than those of the individual. Collectivism and solidarity are valued more highly than individualism. The individual in Russia has not won the necessary respect, and the idea of the inherent value and importance of the individual remains an abstraction, without specific content. The idea of wealth or of social inequality is not accepted with any enthusiasm. The idea of patriotism, of a strong state and a strong army, is just as influential as previously. Especially highly valued is the idea of a spiritual foundation, and the role of moral incentives is exceptionally great. . . .
>
> Only those who are far removed from a historical view of things can think that this hierarchy of values was erected acci-

> dentally thanks to the influence of bad tsars, evil rulers, and popular delusions. There are certain lawful regularities behind all of this, conditioned by the course of Russian history itself. Any party will inevitably doom itself to defeat if for one reason or another it begins to disregard the popular frame of mind. By disregarding those values that are most highly regarded among the people, the democrats doom themselves to failure. Russia can't be reconstructed on the basis of appeals for the building of capitalism, which does not have the best associations in the minds of most Russians. One may unintentionally construct a new Gulag.

The humorist M. Zhvanetsky once asked, "Why is it that we can't live like they do 'over there' when living like we do here is obviously impossible?" A similar question was raised in an article by Larisa Piyasheva (L. Popkova) entitled "Whose Pies Are Puffier?" (*Novy Mir*, 1987, No. 5). Many thought her article was meant as a parody, but she explained later: "When I think about the ways and means of reviving Russia, nothing comes to mind but to transfer to our territory the experience of the postwar 'German miracle.' My hopes center on the idea that if the 'spirit of enterprise' is unleashed in our land, it will reawaken the will to live and revive the Protestant ethic."

Such naivete is amazing. What lessons Piyasheva, holder of a doctor's degree in economics, has drawn from her own enterprising but unsuccessful ventures in Moscow I do not know. (In 1991–92 she headed the Committee for Economic Reform of the Moscow mayoralty and began the first campaign to privatize state-owned businesses in the capital city.) But I do know that it isn't possible to "revive" a Protestant ethic where it never existed—in Orthodox Russia, Islamic Tatarstan, or Buryat Mongolia with its traditions of Lamaist Buddhism. Marx himself acknowledged that the Western type of capitalist economy was based on a particular cultural and religious foundation. He wrote to Vera Zasulich that his volumes of *Capital* reflected Western realities and were not always applicable to Russia.

The connections between Western forms of capitalism and religion were also studied by Max Weber. In his opinion, the Protestant Reformation led by Luther and Calvin in the sixteenth century caused a revolution in thinking and ethical practices. The new Protestant ethic became the first link in a complex chain of transformations in the traditional way of life and as a result there arose that system of

thought and way of perceiving reality that can be called the "spirit of capitalism." It required centuries for this new ethic of acquisitiveness, this "spirit of capitalism," to take shape. Weber regarded the sermons of Richard Baxter, the seventeenth-century English preacher, as an early point in this evolution. The eighteenth-century homilies of Benjamin Franklin were a mature expression of this new outlook, and the high point, in Weber's view, was reached in the twentieth century with the American school of "scientific management" linked with the names of Taylor and Ford. (See A.I. Kravchenko, *Sotsiologiia Maksa Vebera* [Sociology of Max Weber], Moscow, 1997, pp. 110–121.) This kind of evolution in social mores and popular consciousness did not occur in Russia. The ethics of traditional Russian Orthodoxy, as well as the socialist currents of thought prevailing in nineteenth-century Russia, were far removed from the values of Western rationalism and the Western acquisitive spirit.

Of course the Protestant ethic is not the only basis for capitalist development. This was shown by the experience of Japan, which had its own traditions and religion. Yet the Japanese form of capitalism proved to be more efficient in many ways than the European one. An organization recently established in Russia, the National Democratic Vanguard Foundation, has as one of its aims to find a Russian road to capitalism, based on purely Russian values, which it hopes will prove even more efficient than the Japanese variety. But the foundation's statement to the public (in *Izvestia*, March 13, 1996) admitted that no Russian model has yet been found. If no one has yet discovered a Russian model of capitalism, wouldn't it be simpler to reform the model of socialism that already exists? Who would destroy their own home, where it is still possible to live, however uncomfortably, when there isn't even a blueprint for a new dwelling place?

5. Growing Resistance by the Population

The radical reformers' disregard for national values and traditions, the history of Russia, and the particular psychological features and ethical standards of the population has given rise not just to mass discontent but to growing opposition and resistance. Following the example of the coal miners, those who have engaged in various protest actions include workers in the energy industries, textile workers, metal workers, workers in the machine industry, teachers, doctors, sci-

entists, pensioners, subway construction workers, workers in the defense industries, farmers, and students.

In 1991 Zbigniew Brzezinski wrote:

> Most Russians long for "normalcy," which they equate with political and economic Westernization. . . . Russians tend to fall into extreme boastfulness at one moment and extreme self-deprecation at another. Today they are experiencing an epidemic of self-denunciation. They see their fate as having been one of terrible historical failure, and they are looking abroad in desperate search for ideals. They would like to be like the United States or, even better, like Sweden, which pleases them with its ability to combine democracy and prosperity with social justice.
>
> (*Stolitsa*, 1992, no. 27, pp. 8–9.)

The author's arrogance and limited perception prevented him from making a sober evaluation of the superficial character and the motivation behind the upsurge of Russian Westernism.

Ulyukaev also failed to understand this when, in retrospect, he described the moods of 1991: "In a very short time the masses were won to the idea of democracy and the idea of capitalism. The ideological consensus that took shape on the basis of the blending of these two ideas . . . became the driving force of the political revolution" (*Segodnya*, September 20, 1996).

Ulyukaev's assertions are erroneous. The Westernism among Russians in 1990–91 did not go very deep; it was a passing mood; people had broken with Communist ideology but hadn't found a new, unifying national idea. As for wanting to "be like Sweden," there weren't many Russians who knew much about life in Sweden or the Swedish economy. In regard to the United States, most ordinary Russians had only a distorted notion of that country—based on movies, television, and books, especially detective novels. A poll taken in 1990 showed that 32 percent of Russian respondents considered the U.S. a model to be emulated; another 32 percent cited Japan; 17 percent, Germany; 11 percent, Sweden; and 4 percent, China.

However, the first few months of Gaidar's reforms altered such moods and opinions among Russians. A second poll, in 1992, based on the same questionnaire, gave a radically different picture. Only 13 percent now cited the U.S.; Japan, 12, and Germany, 7. The total num-

ber of pro-Western respondents fell from 90 to 40 percent. In late 1995 only 25 percent still considered Western models suitable for Russia. (*Izvestia*, October 13, 1995.) Although I haven't seen more recent polls, it seems to me likely that by 1997–98 the number of "Westernizers" would probably have fallen as low as 10 or 12 percent.

The "Westernizer" ideology in nineteenth-century Russia rested on much more substantial social strata and more stable moods. The philosopher Vadim Mezhuyev has commented on this:

> The old Westernizers, despite their critical attitudes, did not renounce Russia in favor of the West. For them Russia was more beloved than any country in the world, although it was backward in many respects. That backwardness, to them, was not a sign of limitation or decline, or of some sort of inherent freakishness in Russia. It was simply a sign of youthfulness, of a country for which everything still lay ahead. Recognition of backwardness did not give rise to a feeling of inferiority or hatred toward everything Russian. The Westernizers believed in a great future for Russia, whereas the Slavophiles focused on what they believed was Russia's great past. The Westernizers of today are different. . . . They have declared the state to be the main enemy of private property. Nihilism toward the Russian state is perhaps their most characteristic feature. I don't know of any Westernizing democrat in the past who would have wanted to achieve political and economic freedom at the expense of territorial loss and geopolitical defeat, the weakening and disintegration of his own state. . . . Today's Westernizers are indifferent toward national consciousness. For them patriotism is a dirty word.
>
> (*Nezavisimaya Gazeta*, February 13, 1997)

Yeltsin's victory in the 1996 election cannot be considered a victory for pro-Western or pro-capitalist ideology. He won, not by speaking with the Russian people in the language of Milton Friedman; he used the language of social democracy. He also spoke as a patriot and advocate of a strong state. After the 1996 election the promises of social democratic and patriotic measures were not kept. And resistance to capitalist reforms is growing, although it is still mainly passive. The patience of the population amazes even the reformers. But it is not unlimited. (See chapter 9, "War on the Rails.")

6. Market Complexities

The term capitalism is an abstraction. There are many forms of capitalism, depending on the history and traditions, nature and size of a country. There is American capitalism and European; Japanese and Turkish; Latin American and African; Indian and Pakistani. The Swedish model differs from the British; the model in Taiwan, from that in Thailand. Gaidar and his cothinkers wanted to follow the Anglo-Saxon model, although it is the farthest removed from conditions in Russia.

The problem is not just that Russia lacks the "Protestant ethic." Western capitalism today enjoys a highly advanced economy and high level of productivity, but it also rests on an enormous amount of capital accumulated over the course of centuries. Russia does not have this. The accumulation of capital in the West came not only from domestic sources; it was derived also from a far-flung system of colonies and semicolonies. Although the colonial system collapsed in the mid-twentieth century, the dependence of Third World countries on the metropolitan centers has persisted.

Advanced capitalism is a system of highly complex relations, which also took centuries to develop and cannot be reproduced by methods of "shock therapy." Oleg Pchelintsev, an economist with the Gorbachev Foundation, has rightly noted:

> Among us the market is often depicted as a simple mechanism (along the lines of such formulas as "demand creates supply," "goods produce money, which produces goods," etc.). Actually, the market is simple only in the imaginations of the ideologues of neoliberalism. In fact, it (or they, for there are a great many markets) is fantastically complex. Many volumes have been written about all the deviations from the model of "pure competition," and disregard for this knowledge, which has been arrived at through great effort by generations of economists, is probably the main defect of the neophytes on Gaidar's team.
>
> (Pchelintsev, *Rossiya na novom rubezhe* [Russia at a New Frontier], Moscow, 1995, p. 179)

Many well-informed people, as early as 1991, wrote about the unrealistic and utopian nature of the plans for a speedy introduction of market relations into Russia, but their arguments were rejected. In the

fall of 1991, for example, an American political scientist with the Russian name of Igor Yefimov addressed his former countrymen:

> The market! The market economy is our only salvation. Place everything in private hands, allow producers to compete freely, let prices find their own levels, don't plan, or command, or regulate, and the country will revive. And there will be neither hunger revolts nor political strikes in Russia. But why wouldn't there be? What kind of fairy-tale country is Russia when through the ages in all countries of the world people have killed each other by the millions over property issues, but in Russia—after seventy years of the most ruthless political and economic oppression—some kind of fantastically kind-hearted population has supposedly grown up, so that people will stand in line peacefully and take what they like: one will take a mill, another an airport, another a high-voltage power line, another a nuclear reactor, or a railroad, or the Ostankino TV tower. And everyone will peacefully and harmoniously begin working and trading—to the envy of the rest of the world, which until now for some reason has been shaken by revolts, strikes, expropriations, gangsterism, confiscations, crisis, inflation, hunger, and destruction.
>
> To be sure, the market form of economic regulation has shown that it is the most efficient. But history has also shown just as clearly that the free market is a luxury that not every nation can allow itself, and certainly not at all times in its history. Solid and tested social structures are needed that will prevent the market from turning into a source of chaos and ruin. . . .
>
> Dear readers and fellow countrymen, look at the world around you with open eyes. You can see that socialism has not ruined Sweden, while capitalism has not saved Brazil. This is because there is something in the world more important than economics. . . . The name of this most important element in social existence is—cultural maturity. When we speak of culture we are not talking about the number of books read or poems memorized. By culture we mean the way in which a human community is constructed. Culture in this sense is slow to mature. If a country tries to move at too great a speed, one that is beyond its capabilities, it explodes from within, just as the

> prosperous country of Lebanon exploded, and Iran, which was in such a great hurry to industrialize.
>
> (*Nezavisimaya Gazeta*, October 17, 1991.)

These warnings went unheeded in 1991, but it is not too late to repeat them now. The mass of the people learn, not from slogans, as was said by Lenin, but from their own experience of life.

7. Lack of Resources

Even if it were true that the population of Russia, in its great majority, supported the idea of transforming "state socialism" into capitalism, still the accomplishment of this objective would require enormous material and financial resources, which neither the government nor the population have.

Western analysts consider the "systemic transformation" of the German Democratic Republic (GDR), the former East Germany, an example of a relatively successful transformation from socialism to capitalism. The GDR was numbered among the industrially developed countries of Europe. The general opinion was that the economy of the GDR functioned better than that of the Soviet Union or those of Poland, Hungary, and Romania. In labor productivity and living standards the GDR was ahead of all other countries of Comecon (the Council of Mutual Economic Assistance), the economic bloc of countries formerly allied with the Soviet Union. The crop yield in East Germany was less than in Hungary, but far more than in the USSR. The transition to a market economy began for the GDR in 1990 when it was merged with the Federal Republic of Germany, the former West Germany—the mightiest industrial country in Europe. The estimates of German economists were that it would take no less than four or five years, at a cost to West Germany of $250 billion, for the main part of this transition to be accomplished. Yet East Germany's territory was only 108,000 square kilometers, with a population of only 16.7 million. The German economists' estimates turned out to be greatly understated.

In March 1997, at the invitation of the German Party of Democratic Socialists, I visited Berlin and Thuringia, parts of the former East Germany. In the opinion of the residents I met there, the situation is still far from having reached the prosperity that was expect-

ed. Unemployment there is between 20 and 25 percent. Many factories that were fully viable under the standards of Comecon, but did not meet the technical requirements of the European community, have been closed. Also shut down were the eight nuclear power plants built on Soviet designs. All the state and collective farms of East Germany continue to exist, because no one has yet been able to finance a transition to private family farming. The actual expenditures on capitalist reforms in the former GDR have exceeded $400 billion, greatly increasing the national debt and the budget deficit for Germany as a whole. As a result of this overly hasty attempt at "transformation" the Germany economy has gone into a slump in recent years. In March 1997, mass demonstrations by German miners and construction workers, protesting unemployment, dominated the news in Germany. Yet the former GDR was about the size of only one province of Russia (not much bigger than Moscow province).

A plan for radical market reforms in Russia worked out by economists Grigory Yavlinsky and Stanislav Shatalin in 1991 said the main work could be done in—500 days! Gaidar promised to accomplish the job in two years. Galina Starovoitova predicted that if radical market reforms were carried out, Russia would be the economic leader of the world by 2000! What was all this—self-deception or deliberate deception of the people of Russia?

Many reformers, of course, hoped for Western aid. Valentin Pavlov asked American financial authorities to support a "structural perestroika" of the Soviet Union to the tune of "only" $24 billion. Gaidar hoped to obtain between $20 and $40 billion from the West for his reform program. Yavlinsky's "500 days" program envisaged Western investment in the Russian economy amounting to $500 billion over five years. Many other proposals were drawn up for a new variant of the Marshall Plan, the program by which the United States, from 1948 through 1951, provided large amounts of aid to restore the economies of Western Europe ravaged by World War II. All the proposals for a Marshall Plan for Russia were completely naive and utopian. The most advanced forms of capitalism in today's world are not noted for their philanthropic tendencies.

Many Western politicians and businessmen were of course happy to see the downfall of the CPSU, the dissolution of the USSR, and the adoption of a program of market reforms by the new government of the Russian Federation. But their comments became very guarded

when the question of real material aid to the new Russia was raised. In 1991, George Kennan, a former U.S. ambassador to the Soviet Union, wrote about the changes in Russia (in *Foreign Affairs*, vol. 69, no. 5, Winter 1990/1991, p. 184):

"What is now emerging on the territory traditionally known as Russia will not be—cannot be—the Russia of the tsars. Nor can it be the Russia of the communists. It can only be something essentially new, the contours of which are still, for us and for the Russians themselves, obscure."

On the question of American aid to the new Russia, Kennan wrote: "The greatest help we can give will be of two kinds: understanding and example." By "understanding" Kennan meant simply a recognition that the Russian people were passing through a difficult and in many ways humiliating time. He saw "no reason why an understanding American attitude towards Russia at this juncture in its history should not include a reasonable measure of compassion."

So there you have it: understanding, compassion, setting an example. As for material aid, Kennan felt it should be "of minor importance." In his opinion, America had too many of its own problems that required the attention and resources of its taxpayers. Those problems included crime and drugs, urban decay, a decline in education, deterioration of the economic infrastructure and of the environment. We have the same problems in Russia, and in recent years they have reached dangerous proportions. But we cannot count on money from American taxpayers to solve our problems for us.

When they didn't receive the aid they had hoped for from the West, the Russian reformers began reaching more and more often into the shrunken wallets of their own countrymen, drastically reducing real income for most of the population. They did not hesitate to destroy a system of social welfare and social protections that had been built up in Russia over a period of decades. It proved impossible to begin the "systemic transformation" and at the same time preserve the social safety net.

8. Competition from the West

Western capitalism remains an egoistic society in spite of globalization and the increased international division of labor. Competition between countries, between multinational corporations, and between

trading blocs persists. None of these entities wishes to see a strong new competitor emerge in Europe and Asia. Two Polish economists presenting a paper entitled "The Transition of an Economy from Socialism to Capitalism," at the Academy of Finance in Russia, drew on the experience of Poland in recent years to give their listeners a bit of good advice.

"Experience shows," they said,

> that the transition from a socialist economy to a capitalist one is possible, although the process is not easy. The more characteristic the socialist features of an economy were and the more it depended on trade with other socialist countries, the more significant were the difficulties of transition. However, trade with the West can also prove to be destructive. Because of Western protectionism a country with a transitional economy feels the temptation to abandon the policy of capitalist reforms, because trade barriers can simply choke off development possibilities for a country with a transitional economy.
>
> (*Belorusskaya Delovaya Gazeta* [Byelorussian Business Gazette], November 21, 1994)

Russian reformers were unable to persuade the West even to drop the harsh trade barriers erected in the late 1970s, supposedly because of human rights violations by the Soviet government. On its own side, Russia removed virtually all the barriers that had previously prevented the influx of Western goods. As a result Western companies have solidly established themselves in Russia and have undersold many of Russia's domestic industries. Russia is also entangled from head to foot in foreign debt. We have lost our economic independence and become an appendage to the Western economies as a supplier of raw materials.

Aleksandr Panikin, a leading Russian entrepreneur who successfully competes with the best Western firms on the knitted goods market, has given the following testimony:

> The attempt to enter the world economy has ended in the almost complete degradation of our domestic industry. Soviet industry was inefficient, sluggish, resource-intensive, and ecologically dangerous and could not operate successfully under normal conditions. . . .

> Today there is beginning to take shape on our planet an economic system in which transnational corporations (TNCs) play the leading role. Can we expect mutually beneficial interaction with the TNCs? Is Russia of interest to them? . . . In the short term the interests of the TNCs are linked with the delivery and sale of food products to Russia (as long as we have something to pay with). As for mineral resources, the increasing costs of extraction and transportation dictate for the TNCs the strategy of penetrating and establishing their presence in the Russian raw materials market, not so much in order to quickly start up production, but to have a strong presence in Russia in case of changes on the world market.
>
> The TNCs are obviously not interested in helping the development of advanced production of complex machinery by Russia's heavy engineering industries. They have no intention of strengthening our military-industrial complex, and in fact oppose any such thing with all the means at their disposal, including connections in Russian domestic politics. In relation to Russia, then, the TNCs of the developed countries are interested in only a few areas. First, transferring ecologically dangerous types of production to Russia. Second, draining off intellectual resources and the technical elite, including any ready-made inventions or high-tech ideas. Third, the recreational possibilities of Siberia.
>
> We can enter the world market today only by gathering together all our resources and capabilities and exerting our will power to the utmost. Otherwise, we will not be able to control even our own territory and Russia will disintegrate into dozens of small feudal principalities.
>
> (*Nezavisimaya Gazeta*, September 27, 1996)

No such harnessing of potential or exertion of will power is yet observable. In 1997, President Yeltsin did make an appeal to the citizenry to buy only Russian-made products. He also signed a decree that government officials had to use Volga automobiles, rather than foreign-made cars. But this is only a tiny part of what needs to be done to protect and restore the Russian economy. According to Panikin, the only solution is to create Russian transnational corporations—something that is easier said than done. Neither the government nor the pri-

vate sector has the resources to accomplish that aim. The nomenklatura-dominated type of capitalism in Russia, as Panikin himself admits, has not created a real market, and it stifles truly productive economic activity. Rather than opposing, it is helping the West to subjugate Russia.

Latvia, Lithuania, and Estonia have become part of an economic bloc of countries on the Baltic, but only as junior partners. Hungary, the Czech Republic, Slovenia, and Croatia have also apparently resigned themselves to the status of growing dependence on the powerful economy of Germany. But Russia is not a country that will resign itself to being a mere economic appendage to the wealthy countries of the West.

9. Lack of a National Idea or Radical Reform Ideology

No revolution can be successful unless the mass of the people are inspired by ideas that are strong and appealing, with a set of slogans that simply and concisely express the ideology of the leaders of the revolution and the revolutionary party.

But today's leaders in Russia have no new ideology, and the mass of the people have no strong new national idea. The slogans of democracy, freedom, and the fight against privilege which inspired a significant number of people in the years 1989–1991 have now been discredited by the democrats themselves, since their leaders have brought Russia only poverty and economic decline. No new slogans or ideas have come to replace those of 1989–91, to catch the imagination of the people and thereby become a material force. Why should the people of Russia suffer ever new difficulties and deprivations, with the prospect of more losses to come? Is there a believable purpose or ultimate aim in all this?

The absence of a unifying national idea is acknowledged by today's Russian leaders themselves. In 1996, President Yeltsin called on his supporters, and on all politicians and academic experts, to help find or create a national idea that could consolidate the population into a unified whole. The government newspaper, *Rossiyskaya Gazeta*, announced a contest entitled "An Idea for Russia," the winner to be awarded $2,000. Since then this newspaper has published several hundred suggestions, but no idea acceptable to the country as a whole has been found.

Russia lacks even an ideology justifying the radical reforms that have taken place. It has been said that a new liberal ideology should take the place of Communism. But where has this ideology been presented, and by whom? Who is the most authoritative advocate or theoretician of Russian liberalism? Is it Yeltsin? Or Chubais? Or Chernomyrdin? None of them aspire to that role, nor do they engage in theoretical study of the history and traditions of liberalism. As for the leader of the so-called Liberal Democratic Party of Russia—Zhirinovsky—he can hardly be considered a liberal.

Yegor Gaidar is most frequently cited as the chief ideologist of Russian liberalism. In 1997, Aleksandr Tsipko wrote that Gaidar's "anti-statist" ideology had won the support of the masses at the turn of the year from 1991 to 1992 and that the "new Westernizers" at that time had won a complete victory over the neo-Slavophile "statists." The ideology of Gaidar and his team, said Tsipko, has continued to be the ideology of the Russian reform movement and the new ruling party. Tsipko's assertions are mistaken in regard to both 1991–92 and 1997–98.

Before 1991 Gaidar, in his numerous articles and speeches, declared himself a supporter of democratic socialism, not liberalism. He did propose that market relations be encouraged, but only within the framework of a socialist economy. One of his articles in *Moscow News* (1989, no. 41) states, for example:

> A reform program that does not provide for the reinforcement of such values as equality, an equal start in life for all people without regard to wealth or property, social control over differences of income, and active participation by working people in economic management—a program without those is simply not viable. A policy course aimed at the renewal of socialism, including the democratization of social existence and the creation of a flexible, dynamic, multi-sectoral economy with a system of social guarantees, is not just a matter of paying tribute to the ideological orientations of the past. It is simply the result of a sound analysis of the actual, current disposition of social forces.

All the leaders of the democratic opposition from 1989 up through the first several months of 1991 adhered to the slogans of democratic socialism and called for socialist renewal. This was true of all the most prominent democrats, including Yuri Afanasyev, Gavriil Popov, Yuri

Chernichenko, Yuri Karyakin, Vladimir Lysenko, Vladimir Shumeiko, Vyacheslav Shostakovsky, and Ruslan Khasbulatov. When they called for an end to the political monopoly of the Communist Party, the democrats raised the demand "All power to the Soviets." Some members of the Inter-Regional Group of Deputies (IRGD) called themselves radical democrats, but none advocated "liberalism." In early 1990, in an appeal to voters during the election campaign for seats in the Supreme Soviet of the RSFSR, a group of radical democrats belonging to the IRGD—including Galina Starovoitova, Ilya Zaslavsky, Sergei Stankevich, and Telman Gdlyan—accused the leadership of the CPSU of having betrayed the legacy of the Bolsheviks. These radical democrats declared their adherence to the ideals of October 1917. The main slogans of the IRGD ideologists were: "Power to the people," "Factories to the work collectives," "Land to the peasants," and "Property to each and every one." The historian Vladimir Sogrin has justifiably described these slogans as "a modernized version of the program of the October revolution" (see *Otechestvennaya Istoriya* [Native History], 1997, no. 1, p. 109).

On July 6, 1990, Boris Yeltsin, in his capacity as chairman of the Supreme Soviet of the RSFSR, spoke at the seventh session of the Twenty-Eighth (and last) Congress of the CPSU. He criticized the conservative forces in the CPSU and the bureaucratic character of the party. Speaking in the name of "Communist democrats," Yeltsin declared:

> All of us, who have given dozens of years of our lives to the party, considered it our duty to come here and try to say that there is still a way forward for the CPSU. The party's name must be changed. It should be the Party [or League] of Democratic Socialism. . . . Members should pay minimum dues to the new party or league. Any group or faction having a socialist orientation but belonging to another party could join this league of the democratic forces of Russia. The people would recognize this league and follow it if it proposed an economic program for getting out of the present crisis, but not one based on deceiving the people or piling further burdens on their shoulders.
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> ("Biulleten' No. 6. Dlia delegatov s"ezda" [Bulletin No. 6 for Congress Delegates], in *XXVIII s"ezd KPCC* [Twenty-Eighth Congress of the CPSU], Moscow, 1990, pp. 43–44)

No one at that time talked about Gaidar. He came to Russia's attention only in December 1991, and then as an economist, not as an ideologist or political leader. At that time the mass of the people, and much of the intellectual elite, supported Yeltsin, not Gaidar. And Yeltsin called himself sometimes a left radical, sometimes a radical democrat, sometimes a social democrat, but never a liberal. Even in the years 1992–94 Gaidar resolutely refused to distinctly formulate his credo. He wrote: "Free capitalism or the social state? . . . This is a topic for academic discussion only. Neither von Hajek nor Lord Keynes constructed his theory to be applied to an 'Asiatic' bureaucratic state that finds itself under powerful criminal influence. Let us change the system and lay the groundwork at least for a Western-type society, and then such questions will become relevant" (Gaidar, *Gosudarstvo i evoliutsiia* [The State and Evolution], Moscow, 1995, p. 198).

The chief ideologist in Yeltsin's circle in 1991–92 was of course Gennady Burbulis, rather than Gaidar. But Burbulis, too, was unable to elaborate a new liberal ideology for Russia. He spoke a great deal about "the freedom of the individual" and the need to defend the institution of private property, urging reformers to "renounce the hypocritical and false task of regulating relations among citizens on the basis of social justice" (*Izvestia*, August 31, 1992). Yet equality and justice are central concepts, along with freedom, in most twentieth-century varieties of liberalism.

As a social and political movement and as a theory, liberalism is a highly complex phenomenon and not at all homogeneous. Nineteenth-century liberal theories differ substantially from those of the twentieth century, and European liberalism is quite distinct from the American variety. The Western press has printed many articles on the crisis of classical liberalism and the attempts to create some sort of "neoliberalism." Yet the names of the ideologists of this new liberalism are not known in Russia—e.g., Dahrendorf, Vorlander, Sorman.

A group of Russian ideologists of liberalism who were prominent at the turn of the century—Peter Struve, Boris Chicherin, Pavel Novgorodtsev, and Konstantin Kavelin—have also, for the most part, been forgotten. Hardly any of present-day Russia's ideologists, political leaders, or social activists have even a superficial knowledge of the ideas and doctrines of the founders of liberalism—such as Adam Smith, John Locke, Jeremy Bentham, John Stuart Mill, Thomas

Jefferson, Wilhelm Humboldt, or Count Camillo Cavour. A first attempt at a discussion of liberalism and neo-liberalism was carried by the magazine *Novoye Vremya* in 1997, but as the editors of the magazine themselves admitted, the result was "only a monstrous piling up of questions" with no clarification of "what is really going on in the Russian economy, what the theoretical basis is for the current awful mess, and whether there is any reason to expect something qualitatively better" (*Novoye Vremya*, 1997, no. 17–18, p. 19). Only in recent years have books on the history of Western or Russian liberalism begun to appear in Moscow. The number of copies printed is small, and there is no great demand for these books.

It is also a mistake to say, as Tsipko does, that "the liberal ideology of Gaidar" was the ideology of the ruling party. In the 1995 Duma elections, Gaidar and his party suffered a crushing defeat. None of the parties of the democrats became "ruling parties." As for Our Home Is Russia, the center-right party created by Yeltsin and Chernomyrdin, it differentiated itself emphatically from the liberal democrats of 1991–92. The party of power as constituted after the 1996 elections did not wish to be seen as an heir to the Gaidar type of reformer of 1991–92. It refused to join the coalition of liberal parties set up by Gaidar and others in 1996. Gennady Shepilov, a leader and theoretician of Our Home Is Russia, dismissed the liberal parties as marginal and unpopular. An alliance with them, he said, would "destroy the image of our party as a solidly centrist movement" (see the supplement to the government newspaper *Rossiyskaya Gazeta*, October 19–25, 1996).

This "solidly centrist movement," the ruling party of Russia, also refrained from any clear formulation of its main slogans and ideology. It, too, lacked any inspiring new idea capable of winning wide support within the population.

10. Weak and Diffuse Character of the Forces Moving Toward Capitalism

Evaluation of the nature and prospects of any revolution requires a clear conception of its driving forces, which are not always homogeneous in social and political respects. Moreover, the role and conduct of various classes and groups within the population can change fundamentally at different stages of the revolutionary process, advancing

one or another leader from their midst or, alternatively, casting them aside. In the historical and political writing, no precise or well-grounded analysis has been made so far in regard to the driving forces behind the new Russian revolution at its various stages. The political and social shifts of the last five or six years have been so complex and contradictory, and subject to varying interpretations, that it is no easy task to make an adequate assessment.

The struggle for personal power by individual leaders, the struggles between parties, social classes, and ethnic groups, spontaneous movements and conscious actions—all this has blended into a single mass of events whose overall outcome is difficult to evaluate or predict. It is still unclear which classes or social strata in the former Soviet Union and in the Russian Federation have had a particularly vital interest in the new dispensation.

The historian Andrei Ryabov has written that what occurred after August 1991 was "an anti-Communist political revolution that overthrew the party nomenklatura [or bureaucracy] that had dominated for more than seventy years. The driving force in this revolution was the Soviet middle class—a social entity to which too little attention has yet been paid by science and scholarship in our homeland" (*Kentavr* [Centaur], 1993, no. 1, p. 3).

Aleksandr Buzgalin, a Moscow University economist, proposes a more complex schematic diagram of the driving forces behind the historical shifts and changes of the 1990s which he does not think can properly be called a "revolution." As he sees it,

> In the depths of the decaying Brezhnev system, social forces took shape that had an objective interest in the establishment of a "nomenklatura-and-speculator-dominated type of capitalism." These social forces included a new, cynical generation of the upper and middle party-state bureaucracy and the "elite" strata of the intelligentsia: the children of those who had enjoyed the privileged life of the party and government "aristocracy," though on a secondary level. . . . These "sons" had an interest, objectively and subjectively, in a new dispensation, a change in the forms of power. No less interested in the development of a speculation-oriented capitalism were the wheelers and dealers of the shadow economy and the legalized entrepreneurs, mostly in cooperative businesses, who made their appearance in the late 1980s.

There is some truth in Buzgalin's account, but as I observed the development of the various people's fronts, democratic movements, and political clubs in the late 1980s, I did not see many from the "elite" among the leaders and activists. Those movements were made up mostly of people whose careers (in the party or the military or in business or academic life) had not been particularly successful and who saw a chance for social advancement through activism in protest movements. As for Yeltsin, in 1987–88 he was seeking rehabilitation in the ruling party, not advocating some form of "speculator capitalism."

Sergei Kurginyan, who is associated with a foundation called the Experimental Creative Center, gives a more complex account of the driving forces behind the capitalist revolution of the 1990s. In his opinion, five groups of "the Soviet and non-Soviet nomenklatura" entered the struggle for power. He describes these, in his own peculiar terminology, as "the Orthodox," "the cosmopolitans," "the Russian party," and the "super-nomenklaturas of New York and Moscow." Allied with "the cosmopolitans," in his view, were elements of the "Third Estate"—the intelligentsia and those active in the cooperatives and in the shadow economy. The struggle among these nomenklaturas and super-nomenklaturas, as he calls them, has passed through five phases during the 1990s and is still going on.

Kurginyan's constructs seem to me to be highly synthetic, abstract, and unconvincing. It isn't possible to discuss only the "elite" and various groupings in the nomenklatura without taking note of the political movements that involved substantial numbers of the urban population in the years 1988–91, including blue collar and white collar workers and the lower ranks of the intelligentsia. These citizens of Russia wanted to improve their material and social conditions but they were not "yearning for capitalism."

The Serbian philosopher Svetozar Stojanovic has written:

> History knows of no mass popular movements dedicated to private market-based commerce or oriented toward making bigger profits. On the contrary, mass social movements have always had as their goal the fight for justice, equality, freedom, civil rights, national rights, human rights, and have protested against hunger, unemployment, and exploitation. The rise of mass movements in support of capitalism is not to be expected, including in the post-Communist era.

Freedom and social justice—not market reform—were the slogans that attracted rank-and-file participation in the "democratic" movements in Russia. Most of these participants withdrew their support for Yeltsin in early 1992, when they felt the results of "shock therapy" on their own backs. To hold onto power, Yeltsin was obliged to disperse by force the very same Congress of People's Deputies that had elected him head of the Russian government in 1990 and had supported his campaign for the presidency of Russia in 1991, then voted to grant him special powers later that same year. As it turned out, the main social support of the Yeltsin regime in the years 1994–96 continued to be the Russian government officialdom, whose privileges and corruption far exceeded those of the Soviet party and government bureaucracy of the 1970s. The new entrepreneurs also support Yeltsin, of course, but in the last few years the Russian nationalist and "patriotic" opposition has also found increasing support among entrepreneurs. (We look more closely at this group in chapter 5.)

In early 1995 one of the sociological institutes of the Russian Academy of Sciences conducted a poll among various parts of the population on ideas that might serve as the basis for policies to revive Russia. The following ideas were chosen by the following percentages: justice, 44 percent; human rights, 37; order, 36; peace, 33; freedom, 20; private property, 14; spirituality, 13; equality, 10; loyalty to a strong state (*derzhavnost*), 10; Orthodoxy, 8; internationalism, 7; brotherhood, 6; the nation, 4; nationality, 4; religion, 3; capitalism, 3. (These results were published in Moscow by the Realists Club [Klub "Realisty"] in their *Informatsionno-analiticheskii biulleten* [Informational-Analytical Bulletin], no. 19, 1996, pp. 54–55.)

Jeffrey Sachs, when asked about the reasons for the failure of liberal reforms in Russia, replied: "When we undertook the reforms we felt ourselves to be doctors who had been called to someone's sickbed. But when we placed the patient on the operating table and opened him up, we found that his anatomical structure and internal organs were completely different, of a kind we never encountered in medical school" (*Novoye Vremya*, 1995, no. 28). Sachs simply left Russia, but Yeltsin has brought his young "democrat" associates back into the government—including Anatoly Chubais and his friends, as well as Boris Nemtsov—in order to "deepen the reforms."

Aleksei Ulyukaev, one of the most outspoken ideological defenders

of the "reforms," justifies in advance the imposition of capitalism in its cruelest forms:

> When people perform a vitally necessary operation (in the absence of antibiotics, sterile instruments, bandages and dressings, or even electricity)—what they do is painful, and rarely does anyone express gratitude or have anything good to say about them. On the contrary, harsh, sometimes furious, criticism is their lot . . . But what does that matter? Let our common monument be the capitalism we have built through struggle. Amen.
>
> (*Segodnya*, September 20, 1996)

Such statements are not worth commenting on. It is quite obvious that with reformers such as these the only monument most Russians will have is a common grave.