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The End of Market Romanticism

The social and political conflicts of 1993 took place against a background of continuing economic decline and social degradation. The establishment of new political structures and the relative consolidation of a "democratic authoritarianism" also required fundamental corrections in economic policy. In the aftermath of the December 1993 Duma elections, Prime Minister Chernomyrdin declared: "The period of market romanticism has ended for us today." The winter of 1993–94 was long and severe. Heating fuel had to be supplied to the cities. A budget for the first quarter of 1994 had to be drawn up. It was also necessary to pay back wages owed to millions and millions of people in all sectors of the economy, but especially those in the North who were owed for November and December 1993.

"The era of market romanticism has ended not only for Gaidar's economic reforms," wrote Vladimir Orlov in *Moskovskiye Novosti* ([Moscow News], 1994, no. 4, January 23–30). "For the president, too, it has exhausted itself." Orlov wrote that Chernomyrdin had support and confidence in many quarters, particularly in the "power ministries" and among government officials tired of constant reorganization and unpredictability and longing for stability.

Changes in the makeup of the cabinet accompanied the shift toward pragmatism. Disheartened by his poor showing in the Duma elections, Vice Premier Gaidar submitted his resignation. The number two figure in the cabinet had been Finance Minister Boris Fyodorov. Chernomyrdin insisted on his departure as well. On becoming an ex-minister, Fyodorov sent Yeltsin a letter predicting terrible disasters for Russia now that he and Gaidar were no longer in the cabinet. But Yeltsin ignored the "warning" and appointed Sergei Dubinin as minister of finance. Mikhail Poltoranin also left the government. Earlier he had been very close to Yeltsin and had been called "unsinkable." Vladimir Shumeiko, the first deputy vice premier, to whom Chernomyrdin was obviously unsympathetic, also withdrew.

Ella Pamfilova, the minister for social protection, also sent Yeltsin a letter of resignation, charging that the government's social policy was a complete fiasco. In the Supreme Soviet of the USSR Pamfilova had headed a committee to investigate official privilege, and I remember well her speeches describing the fancy villas of various Soviet marshals and generals. She knew quite well how the top officials of the Brezhnev and Gorbachev eras had lived. But now she wrote: "Compared to the current abuses of power, those of the past seem like child's play. . . . There is a growing epidemic of suicides. People are drinking themselves to death and becoming brutalized in other ways. More and more children with birth defects are being born, and the ranks of orphans, homeless people, and beggars are constantly growing. Against this background of increasing impoverishment the same old corrupt bureaucracy, bound by ties of mutual loyalty and mutual protection, continues to grow fat and to run the show" (see *Argumenty i Fakty*, 1994, no. 5, p. 3).

Only one person remained in the cabinet from the former Gaidar team—Anatoly Chubais. On March 4, 1994, a session of the cabinet was held in the hastily repaired White House, which had now become the seat of Yeltsin's government. At this session the president and the prime minister supported one another on all aspects of economic policy. Chernomyrdin made no promises of a better life in 1994. In order to keep the situation under control, to reduce inflation and stop the decline in production and in living standards, and to avoid a massive rise in unemployment, the government, according to Chernomyrdin, would have to act not only firmly and decisively, but also with extreme caution, "for we are walking on the razor's edge."

Credits and subsidies would be forthcoming, Chernomyrdin said, but only if the recipient enterprises guaranteed results and only on the basis of strict and rigorous repayment. All areas of production that showed good prospects would be supported. Russia would not become a raw-materials appendage to the West.

Chernomyrdin spoke critically of the ministers and vice premiers who had engaged in irresponsible experimentation and then left office when their experiments and theories failed. "Russia is not a racing car," said Chernomyrdin, concluding his report, "that you can drive for a while and then get out—leaving the entire country shaking." This part of his speech was shown on all television channels, with the camera switching back and forth between Chernomyrdin and Gaidar.

On the other hand, Chernomyrdin did not propose a change of course, but called for increasing "the cruising speed" of market reforms. Corrections were to be made only in some areas, for example, conversion from military to civilian production, tax policy, imported alcohol, and monitoring of the financial activity of banks and enterprises.

The overall goal set for the government by the president and the premier was to stop the decline of production in 1994 and, in 1995, to complete "structural reforms" for the most part, so that in the period 1996–99 economic growth would be assured and Russia would return to the ranks of advanced industrial countries. It was necessary to avoid a prolonged depression, which would throw Russia into Third World status as a helpless supplier of raw materials to more efficient economies. Unfortunately, the goal they set was not achieved. You can't reach a destination if the road you're on doesn't go that way.

END OF THE "THIRTEENTH FIVE-YEAR PLAN"

For many decades (since 1928–29) we had planned our country's economic development and assessed its progress on the basis of five-year plans. The most successful five-year plan, to judge by the economic indicators, seems to have been the eighth, from 1966 through 1970—and the least successful, the twelfth, 1986–1990. But when it came to the "thirteenth five-year plan," that is, the 1991–1995 period, to call it merely "unsuccessful" would be a mockery. Appraising the results of those years, the authors of sober economic studies, not given to hyperbole, used words like "crash" or "catastrophe." However, even a crash requires analysis, probably more, in fact, than success or victory.

The economic measures taken by the Yeltsin, Gaidar, and Chernomyrdin governments did have some positive results. One undeniable achievement was the elimination of shortages. The market was saturated, and sometimes oversaturated, with consumer goods, and in real terms, prices have stopped rising to such an extreme degree. The service sector has grown quickly and occupies a larger share in the gross domestic product. Millions of people lost their jobs in production but found a way to apply themselves in trade, including such rather uncivilized forms as the "shuttle trade" and the enormous markets, bazaars, and swap meets that have grown up. Supply now exceeds demand in almost all areas, and according to the market economists, that is the primary basis for a healthy economy.

In 1994–95 the average real income of the population declined more slowly than in 1992–93. Opportunities to display initiative and earn additional income expanded. Inflation was substantially reduced, and the authority of the ruble rose. It almost became convertible. Banks in Poland, Finland, Austria, even Germany began trading in rubles. A system of financial institutions and other basic elements of a market infrastructure had essentially taken shape: there were commercial banks, commodity exchanges, markets for securities and government bonds, foreign currency markets, insurance companies, pension funds, and a body of arbitrators, notaries, and attorneys dealing with civil cases. Many economists saw this as indicating a healing process in the economy. The majority of the population did not see it that way, however, since their living standards continued to decline.

A relatively stable correlation between the dollar and domestic Russian prices expressed in rubles gradually developed. For holders of foreign currency, life in Russia ceased to be incredibly cheap. The plundering of the country through the export of all sorts of cheaply purchased Russian goods and materials also came to an end. The reliability of savings banks was partially restored and confidence in them began to revive. Many healthy forms of private enterprise developed. For about 10 percent of the population life obviously became better, and for approximately 200–500,000 it began to seem simply splendid. (See chapter 5.)

In November 1994, Chernomydin commented that the citizens of our country had "already experienced all the negative aspects of the breakdown of the old economy, but had little experience of the positive aspects inherent in the new economy." He promised that in 1994–95 the government would be more responsible in turning toward a "new, normal life under market conditions" (*Rossiyskaya Gazeta*, November 29, 1994).

This promise, unfortunately, was not fulfilled. In the first half of 1994 the decline of production was 26 percent of that in 1993 and almost 50 percent of the decline in 1991. The falling off in investment activity was even greater. The state of affairs in material production continued to worsen.

In the second half of 1994, in an effort to check the continuing downturn, a program was adopted to restore financial balance, ensure the bringing in of the harvest, and increase the capacity of native industry to compete on the world market. The proposal was made to establish a real estate market and to expand opportunities for foreign investors. Most of this program, however, went no farther than the paper it was written on.

The government did not have the necessary resources to make investments or even repair worn-out equipment. Private capital had no desire to invest in industrial and agricultural production that promised only low returns. Owners of capital preferred trade, services, and semi-criminal operations where return on investment was high.

Chernomyrdin complained about discrimination against Russia on the world market. "We have things to trade. We have competitive products. Not just raw materials! We have metal products, machine tools, items produced for the space program, products related to atomic energy and the nuclear industry, areas where we can compete. But we are kept in the waiting room of the world market like poor relations. We are in fact being discriminated against" (*Rossiyskaya Gazeta*, May 6, 1994).

Chernomyrdin criticized Gaidar for relying too much on aid from abroad. The promised $40 billion—or even $26 billion—never materialized. Yet Chernomyrdin's government was incapable of mobilizing internal sources of investment capital and itself began to look hopefully toward the West, seeking to create a favorable climate for foreign investment. The statistics, however, were unrelenting. Only about 0.1 percent of all foreign investment in the world was going to Russia. In this respect, such countries as Poland, the Czech Republic, Hungary, and even Estonia were doing better.

Overall results for 1994 were not at all consoling, with basic economic indicators making an even worse showing than in 1993. The press spoke of a year of "lost opportunities" (*Delovoi Mir*, March 4, 1995). The budget deficit increased noticeably in 1994. Expenditures for the maintenance of government bodies and administrative agencies increased more than twofold relative to gross domestic product. Production continued to decline, and GDP was only 85 percent of what it had been in 1993. Agricultural production shrank by almost 10 percent. The inflation rate remained high, and the debt for unpaid wages was enormous. An unexpected financial crisis hit in the fall of 1994 (so-called Black Tuesday), and only with difficulty did the government overcome the consequences of that disaster. According to official statistics, approximately half the population was below the poverty line, and some 30 percent were living in such extreme poverty that malnutrition, even starvation, threatened.

The situation did not change substantially in 1995. The war in Chechnya, which began in December 1994, proved to be bloody and prolonged, and contributed to a worsening of the economic situation. But there were hopeful signs. There was a slowing of inflation and production declined more slowly. The State Statistical Committee even noted increased production in metallurgy and in the oil and chemical industries. The functioning of the transportation system improved. But there was no increase of capital investments, not even in these improving sectors. Equipment was hardly even being repaired, let alone renewed, with the result that serious accidents were on the rise.

From April to June 1995 the decline of the economy continued, but at a slower pace—3 percent in the second quarter, as opposed to 4.5 percent in the first. The biggest downturn was in the garment industry and in consumer durables. Investment in production was also contracting slowly. There was a substantial increase in housing construction for wealthy customers in suburban areas. Thousands of beautiful homes, sometimes small palaces, made their appearance in picturesque areas outside of Moscow. Most of this work was done by construction crews brought in from Ukraine, Belarus, and Yugoslavia. Naturally demand for building supplies, tools, and equipment increased. Major urban construction projects were also being carried out, especially in Moscow. Foreign trade continued to expand, both imports and exports, with a favorable trade balance of $15 billion, which helped to service Russia's foreign debt. The decline of production in electric power, ferrous metallurgy, and even heavy engineering came to a stop. The exchange rate of the ruble improved. At the beginning of the year it had been 5,400 rubles to the dollar, but from June to December it remained steady at 4,600 to the dollar. Of course, with prices generally continuing to rise, people's savings lost value; as a result people used any surplus income they had to buy foreign currency, rather than trust in Russia's savings banks.

During the third quarter of 1995 the decline of industrial production practically stopped. It remained at about the same level as the second quarter (98–102 percent of the level in April). The grain harvest, however, was substantially below average, and the number of livestock declined. Inflation continued, so that by September prices had risen by 100 percent for the year. The number of people living in poverty continued to grow, as did unemployment. The birth rate declined and the death rate rose.

There had been hopes that 1995 would mark a turning point, but that did not happen. In the press, economists appraised the results not only for the year, but for the whole five-year period. It was generally agreed that an economic collapse of such proportions had not been seen since the civil war of 1918–21. Gross domestic product in 1995 was about 40 percent of what it had been in 1990; industrial production was 42 percent of 1990; agricultural, 65 percent. Capital investments had fallen to only 28 percent of those in 1990. These figures (published by *Ekonomicheskaya Gazeta*, 1996, no. 2) were disputed by some economists, who presented statistics indicating that the downturn was even greater. Production was down substantially in some branches of extractive industry but also in the processing of raw materials intended for export to the West. Yet earnings from these exports paid for the consumer goods being imported. Oil production, for example, was 307 million tons in 1995, or 58 percent of the 1990 level.

High technology production in many areas was on the verge of extinction. Some very important centers for fundamental and applied research had been destroyed, and the brain drain continued at a threatening pace.

Over the five-year period the system by which the country had provided its own food supply was brought to the verge of destruction. In industry, iron and steel production had been reduced by 40 percent in five years. The production of trucks in 1995 was 39 percent of the 1990 level; of tractors, 10 percent; of combines, only 6 percent! Production of synthetic fiber was only 33 percent of the 1990 level; of refrigerators, 47 percent; washing machines, 25 percent; color television sets, 15 percent; tape recorders, 10 percent. The production of textiles was 21 percent of 1990, and of shoes, only 14 percent. Figures like these, testifying to a general breakdown rather than "successful reform," could fill many pages (as they do in a special section of *Pravda-5*, 1996, nos. 3 and 4, entitled "The Orphan Economy" [*Besprizornaya Ekonomika*]).

Disregarding the special features of Russia's economy, ignoring Russia's history and the difficulties of its geographical position, the "reformers" succeeded over a five-year period in creating a situation of virtually unparalleled difficulty.

In some regions the "reforms" produced genuine disaster areas. This was especially true of the coal-mining regions of Vorkuta and the Kuznetsk Basin (Kuzbas). Another disaster area was the Ivanovo-Voznesensk textile-manufacturing region. It was affected by reduced levels of production and delivery of cotton from Uzbekistan, while at the same time Russia was flooded with cheap textiles from China, Turkey, Korea, and Vietnam. Among the newly impoverished areas were almost all the former top-secret centers of scientific research, which had previously been closed to foreign visitors, including certain "atomic cities" and many research centers near Moscow and Novosibirsk.

The rural regions also found themselves in an extremely difficult situation. In the past, state farms and collective farms had suffered from forcible government requisitioning as well as from planning quotas that were impossible to meet. Now there was often a simple refusal to purchase the products of Russian agriculture. For example, 70 percent of Moscow's food requirements were being met by imports from Europe, North Africa, and the Near East. In other major cities the share of imports in the food supply varied between 30 and 50 percent.

The weaknesses and inadequacies of the Soviet economy were no secret to many economists. No less than half of Russia's industrial capacity needed radical modernization or conversion. Our "science cities" did not always function efficiently. The condition of roads and communications systems, and the quality of services in the Soviet Union, hardly bear mention. Problems like these needed to be dealt with, and a reform program was necessary. But such problems could not be solved in one year or even several years. The Russian economy at the end of 1995 could be likened to a sick person in whom the doctors have discovered ulcers, tumors, and other diseased conditions that could not be eliminated easily, a situation in which it was not at all clear what course of treatment to pursue. The doctors from Yeltsin's government kept fussing over the patient, trying to keep him alive with various injections, but still not knowing what to do to get him back on his feet.

In seeking to explain the failures of what I call the "capitalist thirteenth five-year plan," Gaidar has repeatedly insisted that the legacy of socialism was too heavy, that the "bankruptcy of the socialist system" was the reason for these terribly painful social costs. According to Gaidar, the reforms were begun in the ruins of an economy where the Communists had stolen or sold off everything that could be stolen or sold off. That was why the reformers were unable to stabilize and correct the situation to save Russia and its people from hunger and destruction (see *Nezavisimaya Gazeta*, January 5, 1996).

The economist Galina Rakitskaya gives another explanation for the failure of the reforms:

> The president and his administration quite successfully—quickly and competently—carried out the program of the International Monetary Fund, which envisaged the destruction, to a significant extent, of the Russian economy, the transformation of Russia into a country of the colonial type, with a standard of living for most of the population much lower than before, with mass unemployment, and with an industry incapable of competing on the world market, the transformation of Russia into a source exclusively of cheap labor and cheap raw materials for the First World.
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> (*Voprosy Ekonomiki*, 1995, no. 6, p. 58)

Rakitskaya's explanation for the painful results of the reforms put through by Yeltsin, Gaidar, and Chernomyrdin is the same one that some of Gorbachev's opponents used to explain the failure of perestroika—it places all blame on Western financial circles and on Russia's political (or geopolitical) opponents in general.

In my opinion, the reasons for the failures of the past decade are to be found in a combination of incompetence and voluntarism, or willfulness, on the part of those in power, their inability to foresee the results of their actions or to forestall negative consequences, their haste and impatience, and their infatuation with grandiose, but unrealistic projects. Lenin's attempt at a "cavalry charge against capitalism" in 1918 was of the same order, as were Stalin's "all-out collectivization" and many of Khrushchev's misguided reforms. Besides this, however, there was another element present in some of the reforms of recent years—a desire to destroy all the previous existing structures, or as Chubais, Gaidar, and Shokhin put it, to bring the Russian economy to a "point of no return." This element comes to mind above all when we review the course and results of the privatization campaign, whose absurd and destructive character seems to defy all rational explanation.

NEW STAGE OF PRIVATIZATION

Privatization had begun early: the process had started during the premierships of Nikolai Ryzhkov and Valentin Pavlov in 1990 and 1991. Continuing and intensifying under Gaidar and Chernomyrdin in 1992–93, privatization led to a substantial redistribution of property in Russia. A large proportion of urban housing passed into private hands. Buildings or structures not used for housing were reequipped and turned into stores, warehouses, offices, cafes, workshops, and so forth, whereas previously they had hardly been used at all for purposes useful to society. A substantial part of the commercial trade, including public catering and other services, also passed into private hands. Despite all the costs of this process its overall results may be regarded as positive. The swift expansion of all kinds of trade and services created millions of new jobs, easing the negative social consequences of incipient unemployment.

In rural areas tens of millions of household plots, summer gardens, and lands allotted for use as orchards or vegetable gardens became the private property of the citizens who worked that land. Both urban and rural inhabitants acquired ownership of about 40 million hectares, which undeniably resulted in improved economic utilization of this portion of Russia's arable lands.

Less useful, and less comprehensible to the population, was the voucher form of privatization. Essentially it provided nothing for the ordinary citizen except annoyance over the great but empty fuss and the unrealized hopes and promises. The government budget, as we have said, did not benefit. Some benefits did accrue to certain brokerages that bought up vouchers and to some individual businessmen, but this is an area less suitable for economic analysis than for investigation by prosecutors. We have already seen that 51 percent of the stock in Uralmash was purchased by a single businessman, but at least he was a Russian citizen.

Certain more questionable purchases were made under the voucher form of privatization. For example, the American aircraft companies Boeing and Sikorsky made use of certain local firms, the MMM Company and Sadko-Arkada, as agents to buy up cheaply one-third of the stock in the celebrated M. L. Mil Helicopter Works. The aim of this purchase was to gain access to technology and designs and also to remove from the world market a dangerous competitor in aviation technology.

In 1994 a new stage of privatization began. Thousands of enterprises in Russia's basic industries were put up for sale. Formally this was supposed to be done through auctions—but for real money, not vouchers. By this time the Chubais team had set up an apparatus to oversee privatization. Chubais himself never stopped praising his staff for its professionalism and competence. This narrow group of individuals was given practically uncontrolled authority to dispose of some of the largest industrial plant in the world. This was industrial property that had been built up over a period of seventy years, a unified economic complex embracing all levels of social production, distribution, and exchange (as described in Article 16 of the USSR Constitution).

I will not argue that the party-state bureaucracy and economic management staff of the Soviet Union disposed of the property entrusted to it in the best way. Much has been said, and still can be said, about lack of efficiency, excessive privilege, and abuse of power by the ruling circles of the USSR. However, in comparison to the new "democratic" nomenklatura the ruling circles of the Soviet Union now appear as highly diligent and conscientious managers who took care to see that state property steadily expanded if only because their own well-being depended on the effective functioning of the productive apparatus under their control.

In 1992 the situation changed. With Yeltsin's blessing the management of Russia's state-owned property and its privatization was turned over to Anatoly Chubais, to the directors of the State Property Committee, to the Federal Property Fund, and to various subordinate units of the executive branch of government connected with the Committee and Fund. Chubais's team has been zealously protected from public opinion, the press, the work collectives, and also from business circles, from so-called national capital, and from directors of various branches of the economy. This protection has been provided both by President Yeltsin's administrative apparatus and by the cabinet ministers, as well as by the Federal Assembly of 1994–95. Only Moscow was able to preserve its autonomy against Chubais's destructive monopoly, whose activity has been described by the well-informed newspaper *Delovoi Mir* (February 3, 1996) as "secretive and inexplicable."

It is generally understood that the market economy is based on the sacred right of private property. Article 8 of the Constitution of the Russian Federation states that "private, state, municipal, and other forms of property are recognized equally and equally protected." Acquaintance with just a few examples of the activity of Chubais and his State Property Committee will show that this article of the constitution was continually violated during the course of privatization. State property was treated as though it were a burden, like escheated property, property that had been used up and worn out, as useless goods to be gotten rid of as quickly as possible. The process of getting rid of state property proceeded very quickly. As early as 1994 Chubais's staff proudly announced that more than 50 percent of all productive capacity in Russia had passed into private hands. By the end of 1995 the state had sold or delivered into private hands about 80 percent of all formerly state-owned enterprises. The next question on the order of the day was the sale of urban real estate belonging to the government and of economically valuable land: forests, farmland, and land of other types. Several groups of economists have drafted programs for selling the resources beneath the land surface of Russia. Apparently the question of selling Russia's territorial waters, including its rivers and lakes, has not yet arisen.

The motives for this vast selling-off of government property, which has no parallel in world economic history, are incomprehensible. Here and there references are made to the needs of the budget, but the budget received very little from privatization, because the government's property was sold at extremely low, almost symbolic prices. For example, a controlling block of shares in the Northwest Steamship Line, consisting of more than a hundred oceangoing vessels, worth more than $450 million, and an enormous amount of property on dry land, worth more than $400 million, was pawned off for only $6 million, a value equivalent to just one ship. The Hercules plant, located near Moscow, which marketed breakfast cereals familiar to all Muscovites, was sold to the Menatep Bank for only $20,000. (See *Delovoi Vtornik* [the Tuesday business supplement of *Komsomolskaya Pravda*], January 30, 1996.) This was less than two or three months wages for a Western diplomat or correspondent working in Moscow.

The Russian press was brimful of examples of this kind. The sale of very large and important state enterprises went through even when the seller, that is, Chubais's office, knew very well that the buyer was insolvent. For example, the Vnukovo Airlines, which had annual receipts of $400 million, became the property of a company named VIL, which no one had ever heard of and which had assets of only $1 million. Acting as a guarantor in this deal was the Ratobank, which had a total capital, its own and borrowed, of only $30 million. (*Delovoi Mir*, February 3, 1996.)

In a market economy it is a customary practice to sell at low, or almost symbolic prices, if a property is antiquated or a business is debt-ridden and nearly bankrupt. In such cases the new owner modernizes the property, introduces new management techniques, and finds new markets or new incentives to raise the productivity of labor. In Western Europe and the United States almost all employee-owned businesses came into existence through such processes. China purchased dozens of obsolete plants and factories at low prices in industrially developed countries and shipped them home on special vessels. Given the condition of cheap labor in China these properties could produce effectively for the domestic market, and even for foreign markets, for another ten or twenty years. Nothing like that happened in Russia during the years of privatization.

In 1994–95 it was not just antiquated or money-losing operations, whose maintenance was a burden on the state, that were put up for sale;

highly profitable enterprises were also sold off. For example, in November 1994 a group of Western investors bought 55 percent of the stock in a famous Moscow candy factory—Krasny Oktyabr (Red October). This was the first case in which Western capital was able to buy a controlling share in a successful and prospering Russian business. After this first instance came many more. A previous case involved the purchase by an American company of 49 percent of the stock in the Moscow textile factory Bolshevichka, Russia's largest maker of men's clothing. This purchase cost the Americans $5.5 million.

Some specialists expressed the opinion that Chubais's office did not know how to correctly gauge the real value of stocks or to take advantage of rivalry among potential buyers. There were other explanations as well. *Komsomolskaya Pravda* recounted in detail how the multinational Philip Morris Corporation was able to buy for $100 million a number of large tobacco factories in the Kuban region of Russia, when other tobacco companies were ready to pay $140–150 million for the same properties. The deal was put through under the direction of Vladimir Shumeiko, who was still an influential politician at the time. Since then many people in the Kuban refer to him, not as Vladimir Filippovich (his middle name), but as Vladimir Filipp-Morrisovich.

Many furniture and woodworking enterprises that were doing quite well were sold cheaply for dollars or marks. Even the largest oil and gas companies in Russia were put up for auction in 1995. In the colorful expression used by several commentators, these "geese that could still lay golden eggs" were being hustled off to market. In this case the buyers had to pay tens or hundreds of millions of dollars, but the companies being privatized had a market value of hundreds of *billions* of dollars. The behavior of Chubais's office in these cases caused bewilderment, anger, and protests within the branch of industry affected. At the end of 1995 the Association of Oil and Gas Industrialists sent a message to Yeltsin and Chernomyrdin noting that market value had been reduced by 50–70 times for enterprises being sold in their branch of industry. The hasty and disorderly sale of shares in oil and gas companies, in the Association's opinion, could result in serious losses for the state and reduced investments in this vital sector of the economy. The Yukos oil company was worth probably more than $2 billion, yet 78 percent of the stock in this company was sold for $350 million.

Bewilderment was the reaction to the sale not only of profitable enterprises but also of obsolete or money-losing operations. These were neither taken out of the country (as China had done) nor modernized. Privatization created no incentive to reconstruct these plants or pay their debts. Most often the buyers themselves did not have the means to carry out modernization. Reconstruction of Uralmash or of the Moscow ZIL auto plant would have required a hundred times the capital used to buy them. If the new owners were small, but greedy private firms, why would they spend huge sums to modernize these plants? In these cases privatization was simply a gift from the state to a private individual at the expense of the taxpayers.

Former Minister of the Economy Aleksandr Shokhin explained to the uninitiated the aims of this phase of privatization. "When we entered the monetary phase of privatization [as opposed to the voucher stage] an obvious clash of choices revealed itself: would it be privatization for purposes of investment or privatization for the budget? The ideal scheme would have been one in which income from monetary privatization could go toward real investment in the economy. This was a road leading directly toward revival of the economy. But the financial and budgetary situation in 1995 forced us to think about the necessity of selling as much property as possible to cover the noninflationary budget deficit" (*Rabochaya Tribuna*, July 15, 1995). Shokhin's arguments cannot stand up to the slightest criticism. After parting with an enormous amount of state property in 1995, Russia made only about $1 billion, or 5 trillion rubles, which accounted for approximately 1.5 percent of budgetary income. This was of little help in eliminating the budget deficit or combating inflation. On the other hand, the government had reduced the possibility of earning income from its own property and had blocked investment in many large and important enterprises.

In an attempt to somehow justify privatization at such low prices, the officials of Chubais's commission stated that no one in Russia had sufficient capital to acquire the biggest "chunks" of publicly owned property. Yet it was necessary, they argued, to create as quickly as possible a stratum of private owners who could manage their newly acquired property more efficiently than the state. This was an illusion. The new owners had neither the ability nor the incentive to manage these cheaply bought enterprises efficiently. The Russian press is full of examples in which the production performance of enterprises was worse after privatization. Nowhere have I encountered convincing examples in which new owners introduced more efficient management. Undoubtedly such cases exist, but there cannot be many of them.

A more troubling aspect of this phase of privatization is that in many cases foreign companies were known to be using Russian firms as agents or false fronts in order to buy up important Russian enterprises. Here are some examples given by one of the directors of the State Property Committee, who became frightened upon discovering the enormous scale on which Russian industry was being sold to Western firms:

> The British company Madrima acquired 19 percent of the shares in the famous St. Petersburg plant Elektrosila. Another 20 percent of the shares in this plant were acquired by a major German firm. Their aim was not to help the plant but to force Elektrosila out of the traditional markets in which it sold its products. . . .
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> [One] corporation from the United States, through local individuals acting as its agents, bought 30 percent of the shares in the Moscow enterprise Aviazapchast [an acronym meaning Aircraft Spare Parts] . . . .
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> Through a local dummy firm, Bransvill, the American company Baldwin Enterprises bought more than 10 percent of the shares in a defense plant by the name of Komponent, most of whose production goes to fill military orders for the General Staff of the Armed Forces and the Counter-Intelligence Service of Russia. . . .
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> Two former citizens of the USSR, M. and L. Cherny, having established themselves abroad, were able to buy, through local dummy firms, 28 percent of the shares in the Krasnoyarsk Aluminum Plant and 48 percent of the shares in the Bratsk Aluminum Plant.

This information was published by the newspaper *Argumenty i Fakty* (1995, no. 22) under a rather expressive headline "The Homeland Has Been Sold Out" (*Rodina prodana*).

Numerous protests appeared in the Russian press when the top-secret government enterprise NIIgrafit [which means Scientific Research Institute on Graphite] was sold along with the Moscow Electrode Works, which was used as the institute's proving ground. This enterprise produces uranium-graphite elements for nuclear submarines and power plants, as well as tips for nuclear warheads and technology for stealth airplanes and the space program. In the opinion of specialists, NIIgrafit was one of the key enterprises at the heart of Russia's military industrial complex. This deal was carried through by a Russian company called Graniks, whose capital had been supplied by a U.S. citizen named Jonathan Hay, a person completely unknown to the business world. Journalists were able to locate this not very wealthy American rather quickly. It turned out that since 1991 he had worked in Chubais's office, heading a department providing expert advice and technical assistance to the State Property Committee. Four other U.S. citizens worked in that department. But who supplied Mr. Hay with the hundreds of millions of dollars used in this purchase?

According to information provided by the Duma Committee on Property and Privatization, by the end of 1993 approximately 500 major Russian enterprises in the fields of metallurgy and machine manufacture, and in the oil, gas, and chemical industries, having a real market value of $200 billion, had been sold for a total of only $7.2 billion and had ended up in the hands of foreign companies, purchased through local dummy firms (see *Rossiyskaya Gazeta*, January 24, 1995). We do not know how much of the $7.2 billion mentioned by Burkov actually went into the government treasury and how much remained abroad in the bank accounts of various intermediaries and sharp operators. The process of selling Russian enterprises to foreign firms at low prices continued in 1995. If we take only the case of one American company, Credit Suisse-First Boston, a transnational at the heart of the Mellon empire, we find that it was able to buy up substantial blocks of shares in more than *eighty* major Russian enterprises, including Norilsk Nickel, the Novo-Lipetsk Metallurgical Complex, the telephone systems of Moscow, St. Petersburg, and Novosibirsk, and even the Leningrad Optical Mechanical Works (Russian initials, LOMO), which produced optical instruments for Soviet spy satellites and launching systems for nuclear missiles.

The intermediary in these very favorable deals turned out to be the Russian Privatization Center, an organization subordinate to the government of the Russian Federation, but headed—according to the newspaper *Moskovsky Komsomolets*—by an American citizen, one Bruce Gardner, and a fellow countryman of his, whose name is given by *Moskovsky Komsomolets* as Boris Bostonets (which means "Boris of Boston"). A third person in this group was a Russian emigre by the name of Leonid Rozhetskin, who was in charge of drafting most of

Russia's laws having to do with privatization. The scandal that began to unfold during the Duma investigation of all these deals and the revelations about them in the press was one of the main reasons for Chubais's resignation (see *Moskovsky Komsomolets*, February 7, 1996). Boris Shilov, writing in the newspaper *Delovoi Mir* (February 12, 1996) summed up Chubais's work:

> It is understood that the work Chubais carried out was done by government order. But it was done crudely, without the necessary qualifications, and with an inclination toward laxness. He does not deny the very serious charges against him, even after his resignation, but instead conducts himself with great self-assurance, sometimes even arrogance. Why? Because he knows too much and feels that he is protected—that is the only possible answer. But here, too, he is going astray. Under any new government—a government of the left or of the right or a coalition government—under any, he will have to answer for his actions. It is to be hoped that the Attorney General's Office of Russia, having undertaken an investigation of the privatization process, will not limit itself to exposing isolated infringements of the law or put the blame on "the little man." This would only be a way of covering up for the main actors in the drama.

A question arises about what was behind Chubais's activity. It is the same question Shilov raises in the title of his article: "Economic Illiteracy or Malice Aforethought?"

The scandal involving the Mellon firm, incidentally, did not put a stop to the sale of military enterprises. According to the League for Assistance to Defense Plants, at the very end of 1995 preparations began for the sale of a famous planning and design office, the Sukhoy, and of certain production installations connected with it, where aircraft are produced for the Russian Air Force, Navy, and Civil Defense. On top of that, Anatoly Chubais was brought back into the government and given an even higher post than his previous one.

THE NEW RUSSIA AND THE WEST

Hope of receiving economic aid, with no strings attached, from the developed capitalist countries proved illusory. Western governments and financial institutions, even when providing credits at high interest rates, set increasingly strict, sometimes humiliating terms. The U.S. Congress, for example, to this day refuses to give Russia "most favored nation" status, although such status has long been granted to China and the Eastern European countries. Russia has not been allowed to join GATT (the General Agreement on Tariffs and Trade), which embraces nearly 120 countries. This kind of discrimination is especially inappropriate because Russia itself has given its Western partners every conceivable and even inconceivable kind of advantage, and not only in trade.

Western business organizations were unable to resist temptation in the years 1992–95 when Russian properties were being sold for a song. If the port facilities at Novorossiysk were being offered for sale for only $22.5 million, if the famous Krasnoye Sormovo shipyard in Nizhny Novgorod was valued at only $21 million, what were Western buyers to do? Be offended at the low price and demand that it be raised ten times, or fifty times, higher?

It is difficult to estimate the overall size of Western acquisitions in Russia's economy, because many deals were made by "Russian" firms fronting for Western ones. What has become known, however, is mind-boggling and arouses feelings stronger than mere concern or anxiety. In some cases the aim of the Western buyers was clearly to gain control of potential competitors. In others, their aim was to acquire high technology and trained personnel.

Not surprisingly, Western governments were interested above all in technology developed by the Soviet defense industry, which had previously been top secret. Yevgeny Primakov, who was head of Russia's foreign intelligence service in the period 1992–95, reported to his government at the end of 1994: "On the whole, the West has acquired new technology from Russia on such a large scale that NATO has established a special program to process it all. . . . As part of this program there is an organized effort to invite Russian specialists to help classify this newly obtained technology to conform with European standards" (see *Pravda-5*, January 19–26, 1996). Often the aim of Western businessmen and politicians has been to increase the delivery of Russian raw materials to the West.

Together with the process of privatization, the delivery and sale to the West of oil, gas, and metals (aluminum and others) increased markedly. The export of timber and all other types of raw materials also increased. Certainly the export of raw materials had existed before that. Without exports it would have been hard for Russia to plan on restructuring its economy. But in some cases from 1992 on Russia began to export resources it might better have held back for later sale at a better price or sold in smaller quantities. This applies to timber, unprocessed diamonds, and at least some of the oil and gas that was exported. Our own diamond and woodworking industries might have been expanded to make use of these raw materials.

No small part of the exported raw materials was sold to various middlemen at prices considerably below those prevailing on the world market. Besides that, much of the foreign currency earned from these exports went into private accounts in Western banks. As a result, it was not Russia that grew richer, but various enterprise directors, commercial middlemen, and officials in the Ministry of Foreign Trade and other parts of the government. Some of the earnings from exports went to pay for imported food and consumer goods rather than Western technology or know-how. Many of these imports were not particularly needed and a goodly number were of poor quality, including perishables whose expiration dates had passed. The very large scale of alcohol imports had the effect of undermining the government budget (since the sale of domestic alcohol had traditionally been a government monopoly and a major source of revenue). The sale of an enormous quantity of imported food products undermined domestic agriculture, including private farmers. Sometimes competition from imports stimulated our native producers to do better, but more often the Russian competitor lost market share and was forced out of business.

The Gaidar team deliberately introduced this kind of competition, although they did not publicize the fact. Among themselves they were more candid. They would say, confidentially, that if Russian agriculture and industry were unable to compete with the West, so much the better. They would rather let such inefficient production be ruined than try to reorganize it or provide government aid. Russia could be supplied with food and consumer goods, they felt, in exchange for the natural resources it was exporting. This was the policy of the Yeltsin-Gaidar government, and it was undeniably harmful to the long-term interests of the Russian economy.

Under the privatization program many Western companies were able to gain control of some quite efficient and productive Russian enterprises. Having gained such control, they were naturally concerned above all with their own interests, not those of the Russian economy. We can take as an example the operations on the Russian market of one of the largest transnational corporations, United Technologies, which established itself quite confidently in some previously top-secret parts of the military and space industries. Through subsidiary firms in Russia, United Technologies took control, for example, of Energiya, an industrial and scientific conglomerate in Moscow which produced rocket engines for the space program but which had fallen on hard times. A joint venture was established by an agreement signed in the United States, for the purpose of development, production, and sale of RD-120M, formerly a top-secret engine that now has been exported to the U.S. A director of United Technologies' space program stated not without satisfaction: "The first Russian serial-production rocket engine in history has been delivered to the United States" (*Pravda-5*, January 19–26, 1996).

Joint ventures like this did not always choose the best model for research, development, and production. Pratt and Whitney, a subdivision of United Technologies, gained control of the Ilyushin Aircraft Complex and also "came to the rescue" of two impoverished Russian firms, Perm Motors (formerly known as the Sverdlov Works) and a company called Aviadvigatel (meaning "Aircraft Engine"; formerly the Perm aircraft engine manufacturing enterprise KB). As a result, production of the PS-90, the best aircraft engine in Russia, was shelved. This engine had been developed jointly by the skilled personnel of the aircraft industry in Perm and the Central Institute for Aircraft Engine Production (which had been declared bankrupt even though the Russian government owed it more than 19 billion rubles). In place of the PS-90, the American company's design went into production—even though the American engine cost $12 million, while the Russian one cost only $1.5 million and matched its rival in terms of reliability, noise level, fuel consumption, and other qualities (see *Pravda-5*, January 19–26, 1996). A great many examples of this kind are recorded in the Russian press.

According to data provided by Russian economists, 55 percent of the consumer market in Russia had been taken over by foreign companies or their Russian subsidiaries by the end of 1995. This figure had been expected to rise to 70 percent in 1996. Russian producers of food products and other consumer goods were being driven out of the market, and so were such giants of the heavy engineering industry as Uralmash, Izhorsk, and Kramatorsk. "Don't let ourselves be turned into a raw-materials appendage to the West!" warned Ivan Silaev, the former Russian premier and current president of the Machine-Building Association of the CIS (in *Delovoi Mir*, December 5–11, 1994).

Quite a few painful blows have already been dealt to the Russian economy under the guise of Western "aid." In 1992–93, Russia was virtually forced out of the world arms market, although Russian weapons systems were often better and cheaper than Western ones. In 1994–96, with great difficulty, Russia reestablished itself as an exporter of arms. Without such exports it would be difficult, if not impossible, to carry through a conversion of military industry to civilian uses. Russia has not been able to use the advantages it has in the market for space technology or the peaceful uses of atomic energy. Only with difficulty was Russia's Ministry of Atomic Industry able to defend its contract with Iran to build a nuclear power plant in that country against objections by the U.S. government.

The West also waged a surreptitious campaign to discredit Russia's financial structures: "In Russian business circles the opinion is growing stronger that the demonstrative Western friendliness toward Russia is hypocritical. They like us as long as we make no attempts to stand on our own feet. Our slightest move toward lifting ourselves off our knees results in a blow to the head. . . . They don't hit someone that's lying down. They hit them trying to get up" (*Komsomolskaya Pravda*, December 20, 1994). No large sums of foreign currency were earned by selling shares in Russian industries to Western firms. Often the money brought in was enough only to pay some debts of the Russian company and to meet its payroll, but not for very long. This was no substitute for direct investments. In recent years there has been a slowdown in the economies of the advanced capitalist countries. Bankers have encountered difficulties in placing capital investments and have been forced to lower interest rates. They have very large reserves of investment capital, but hardly any of it has flowed into Russia. Russia's unstable economic and political conditions are only partial explanations for the caution displayed here. Direct Western investment in the Russian economy was $1.4 billion in 1993, $1.05 billion in 1994, and $1.85 billion in 1995 (see *Delovye Lyudi*, January–February 1996, p. 52). Under normal market-economy conditions, no country would refuse foreign capital investments. Western investments in China in recent years are valued at tens of billions of dollars. But Russia has been slow to establish a system of laws covering foreign investments, and this is just as important to potential investors as political stability.

Among Russian economists, the country's increasing indebtedness is also a cause for concern. Criticizing the administration of Nikolai Ryzhkov, who was Soviet premier under Gorbachev from 1985 to 1990, Yegor Gaidar has often complained that he began his reform program with a government treasury that was empty and with a huge debt to Western creditors. But Gaidar fails to mention that since 1991 Russia's indebtedness has not been reduced, but in fact has doubled.

In 1985 the Soviet Union's foreign debt was not large. The USSR's role in the world economy was primarily that of a creditor nation. Soviet leaders gave generous credits to their allies of the Comecon countries and to such Third World countries as Iraq, Ethiopia, Angola, Nicaragua, and Southern Yemen. During "perestroika" (1985–1991) the Soviet foreign debt grew quickly. Some economists considered this quite normal and even urged Gorbachev to borrow more from Western creditors, because it would be possible, they argued, to simply pay interest for decades, rather than immediately repay the loans in full. Gorbachev was dubious about such advice. Nevertheless, in the difficult situation facing the Soviet economy he turned more and more often to Western creditors for assistance.

By the beginning of 1991, the total Soviet debt was $71 billion. This was not an excessively large amount in proportion to the number of inhabitants of the USSR and the size of its gross domestic product. The IMF determines a country's creditworthiness in terms of the size of its foreign trade and its overall trade balance. Before 1986 the Soviet Union exported more than it imported, but a sharp drop in world oil prices in the spring of 1986 (from $30 per barrel to $10) changed the picture. Prices fell proportionately for natural gas, which was the USSR's second most important source of foreign currency. Imports should have been reduced, but the government could not bring itself to take such measures, because that would have affected people's living standards. For all its difficulties, the Soviet government had no serious problem in paying its debts, although to do so, it had to borrow further from Western banks and deplete some of its gold and hard currency reserves.

When the Soviet Union dissolved, Russia assumed most of its foreign debt. At the beginning of 1992, Russia's foreign debt was $69 billion. (Data concerning foreign debt comes from materials provided by Zhores Medvedev and from the newspaper *Delovoi Mir*, November 27–December 3, 1995.) The new government team headed by Yegor Gaidar apparently nourished the illusion that Russia's debts might be written off in exchange for political and economic reforms that were favorable to Western interests.

Past precedents did exist in which debts had been written off when positive political changes took place, particularly in Greece, Turkey, Portugal, and Spain, during those countries' transitions from dictatorship to democracy. Likewise, in the case of Poland, some debts had been canceled. But in all these cases, the debts had been incurred by intergovernmental agreement and serviced through the so-called Paris Club of creditor nations. Debts to commercial banks are serviced though another creditors' institution, the London Club, and they as a rule are influenced less by political considerations. The situation had been more favorable in regard to the Polish debt—although it amounted to more than $40 billion—because 74 percent of that debt was to Western governments and only 26 percent to commercial banks. The structure of Russia's debt was much less favorable: only 22 percent of it was paid through the Paris Club, while 78 percent derived from the London Club (with involvement by more than 600 private commercial banks). There were no strong financial grounds for writing off the Russian debt. Russia's "credit rating" was quite high and kept going higher as its favorable trade balance increased, reaching $18 billion in 1993.

Gradually the illusions about a possible writing-off of Russia's debt dissipated. In order to increase its foreign currency reserves, Russia began selling oil and gas to other former Soviet countries at world market prices and in exchange for dollars only. This drastically reduced deliveries of these energy sources to Ukraine, Belarus, and other countries of the "near abroad" because they did not have dollars. Oil exports to the "far abroad" were stepped up, raising the level of profits from export. Also, the number of Russian companies licensed to export oil, gas, and the like was sharply reduced. This measure was intended to restrict the flight of Russian capital, which was ending up in foreign bank accounts. Foreign currency trading inside Russia was forbidden, and all the stores that had appeared in Moscow, St. Petersburg, and other major Russian cities to sell imported goods for foreign currency (mostly joint ventures) were told they could sell only for rubles. Import tariffs were raised, and strict measures were imposed for collecting taxes on foreign currency transactions. Certain favorable terms for foreign investments were introduced, and some foreign banks, including Chase Manhattan, were given the opportunity to open branches in Moscow.

Western investors preferred not to carry out financial transactions through Russian commercial banks, whose number had risen above two thousand. Thus, the presence in Russia of foreign banks with reliable reputations was expected to help increase the influx of investment capital. These measures did have some effect, and the hard currency reserves of Russia's Central Bank and other financial institutions began to increase.

In 1993 Russia's foreign debt was $82 billion. In 1994, this grew quickly to $120 billion—an increase of 46.3 percent. By the end of 1995 the debt had reached $130 billion, and at the end of 1996 it was $150 billion. This is the biggest debt owed by any country lacking a convertible currency. By 1997 Russia's debt to the West had reached $900 per capita and continued to grow.

In early October 1994, at a regular session of the IMF in Madrid, the Russian delegation was waiting for a decision on the release of credits that had been promised earlier, in 1993, and on the rescheduling of current debt payments. Russia hoped these payments could be extended over a ten-year period, with a five-year moratorium on repayment, effective immediately. These hopes were dashed. Neither credits nor rescheduling of payments was forthcoming. The IMF experts had concluded that no real structural transformation had yet taken place in the Russian economy. In their opinion, the unemployment rate was still "too low" and no "inefficient" enterprises had been allowed to go bankrupt. The average consumption level in Russia had even risen, they complained. (This was because of imported consumer goods.) "Capital flight" remained high, and the self-indulgent life of "new Russians" abroad had already become legendary.

Commenting on the IMF meeting, the London *Financial Times* (October 4, 1994) wrote: "The message from Madrid is that the world cares less about Russia and is less well disposed toward it than many in its government had thought." Western financial officials were annoyed by the Russian willingness to live at others' expense. The prevailing attitude was to let the Russians solve their own problems.

From a creditor nation Russia had been transformed, by Gorbachev's perestroika and Yeltsin's "reforms," into a country living on borrowed money. Even under the most favorable of circumstances the people of Russia are doomed to financial dependence on the West for the next 15–20 years. And how can we count on favorable circumstances?

In order to change this situation, ruinous financial and economic policies must be altered. In particular, a policy of government regulation and intervention in the economy must be adopted. The market, as the experience of the last several years has shown, is not able to allocate resources rationally. The Yeltsin government, however, is in no hurry to change its policies. Instead, it continues to lead the country toward financial and economic disaster.

A DISASTER FOR THE HEALTH OF RUSSIA (AND A DEMOGRAPHIC DISASTER)

[This section is based on materials provided by Zhores Medvedev.—R.M.]

The economic decline in Russia, accompanied by reduced living standards for most of the population and a drastic reduction in all forms of social protection, has had serious consequences for the health of the Russian people.

In 1988 the population of the Russian Federation was 147.4 million. According to data from the World Health Organization (WHO), there were 1,569,112 deaths in Russia that year: 732,710 men and 836,402 women. (The disparity in these unhappy statistics reflected the simple fact that there were 9.4 million more women than men.) By 1992 the population of the Russian Federation had increased by only 300,000, but there were 1,807,444 deaths that year. Moreover, this was the first time since the period of World War II (1939–45) that more men than women had died. In 1993 the trend continued, although the death rate for women also rose sharply. In 1993, deaths from all causes reached 2,129,339, of which 1,112,689 were men and 1,016,650 were women.

There had been times in the past when an increase in the death rate had been observed—most recently the decade 1972–82. But in 1985 the death rate moderated, especially for men and children, and average longevity increased. In 1990 this trend began to reverse, and by

1992–93 the Russian nation was experiencing a demographic disaster, for the death rate began to significantly exceed the birth rate. The only reason the population as a whole did not grow smaller was because Russian refugees from Central Asia, Transcaucasia, and the Baltic region made up the difference. If the influx of refugees had not camouflaged the picture, the population of Russia by 1995 would have declined by 2 million.

Only in the famine years of 1932–33 and the Stalin terror of 1937–38 did the Russian people suffer such losses during peacetime. The artificial nature of this demographic catastrophe is indicated by the fact that the sharpest increase in the death rate was not among children and the elderly, as usually happens when a country suffers a sharp decline in living standards because of economic difficulties. It was among men of working age.

The death rate for children from 1988 to 1993 did not change in relative terms, but it did change absolutely—it declined because of a lower birth rate. In Russia in 1993, 25,946 children died. At the same time among men aged 35–54 the death rate nearly *doubled*. In 1988, 287,223 men of that age died, and 90,191 women. During this period the average life expectancy for men dropped from 64.8 to 58.9, with the sharpest drop occurring in 1992–93. In 1994, according to data from the World Health Organization, life expectancy for men fell to 57.7, and it barely started to rise again in 1995–96. In average life expectancy for men Russia not only lost its place among the economically developed countries, where it had already been in last place. It exceeded the parameters for practically every country whose death rate for men had until then been close to Russia's.

In the case of comparable death rates in Africa, the occurrence of death is mainly among male children or elderly males. The only countries where men of working age die at the Russian rate is in African countries with prolonged civil wars (Angola, Sudan, Somalia).

The high death rate in Russia cannot be explained by economic factors alone. After the dissolution of the USSR, the economic situation in Kazakstan, Ukraine, and Belarus, for example, was worse than in Russia. But life expectancy for men did not drop so drastically in those republics. In Kazakstan, from 1988 to 1993 life expectancy for men fell from 64.7 years of age to 61.3, and in Belarus the corresponding figures were 67.0 and 63.8. In Ukraine the decline in life expectancy was less, from 66.6 to 65.0. In Eastern and Central Europe life expectancy fell for both men and women, but the difference was a matter of months, not years.

A question naturally arises. Why is it that Ukraine "paid" for the transitional period of economic reforms with one year off the life expectancy of its men, and Belarus about three years, while Russia "paid" *seven years*? Making things worse, of all the countries undergoing "reforms," Russia also suffered from the most severe decline in birth rate.

There is no direct connection between the economic conditions in a country and the health of its population, although of course on the average people live longer in wealthy countries than in poor ones. Such factors as climate and national peculiarities of diet and lifestyle affect the health of a population no less than income level. In Europe, the poorest country—Greece—leads the pack in average life expectancy for men, 75.5 years of age. The wealthiest European countries, Sweden and Switzerland, whose per capita GNP is three or four times larger than that of Greece, have the same life expectancy for newborns but lag behind Greece in life expectancy for older males. In Spain, men live longer than in Germany, Denmark, or Britain, although Spain is twice as poor as any of those countries. Gerontologists explain these differences by the more favorable climate of the Mediterranean and the Greek and Spanish habit of using olive oil rather than butterfat. They also credit the southern Europeans for their healthy custom of the siesta, a two-hour rest or sleep in the afternoon. In recent years another positive factor has been noted: it seems that wine, when taken in moderation, helps lower the instance of arteriosclerosis.

France holds the record in Europe for longevity among women, with a life expectancy of 82.3 years of age—over ten years more than Russia's in 1993. In the Western Hemisphere, Canada is ahead of the United States in health statistics, although the United States not only has a larger per capita GNP but also spends three times more of its GNP on health care and medicine.

On our planet the region of greatest demographic catastrophe is unquestionably Africa. The average annual per capita income in most African countries ranges between U.S. $110 and $500, that is, it borders on the most extreme poverty. The largest African country, Nigeria, with a population of nearly 100 million, had a life expectancy for men of only 53.5 in 1993 (for women, the figure was 55.9). The worst health statistics for a country not suffering from civil war were in Tanzania. Owing to a crisis of indebtedness and an unsuccessful attempt to make a transition from "African socialism" to a market economy, the country was bankrupted and the annual per capita income fell to $110. Average life expectancy for men also fell from 50.0 years of age in 1987 to 41.5 in 1994.

Among the larger countries of Asia, the worst situation was in Bangladesh and the best in Japan, where in 1980 life expectancy for men was 76.5 years, for women, 83.1. But the standard of living in Japan is lower than in the United States or Western Europe despite the comparable per capital GNP, because a greater part of income goes to savings and investment. In Japan, pensions are small, there is a six-day workweek, and workers receive only two weeks paid vacation (in contrast to Germany, where they get six weeks). The Japanese spend three times less per person on health care than the United States. In Japan, there is one doctor for every 570 persons; in the United States, one for every 390; in Russia, one for every 225. Nevertheless, men in Japan, on average, live 4.3 years longer than men in the United States. And many years longer than men in Russia. Japan's advantages apparently stem from several factors: the absence of unemployment, a homogeneous ethnic composition, and the predominance of fish rather than meat in the diet. Japanese also drink less alcohol.

Why, then, have Russian men been dying so much earlier? The Russian press almost unanimously blames the excessive use of distilled alcoholic drinks, especially vodka. Similar explanations were presented in a survey of Western experts (published in the *British Medical Journal*, no 310, 1995, pp. 646–648). Indeed, Russia holds first place in the world for annual per capita consumption of pure alcohol—14.5 liters in 1994. In the 1970s the consumption of alcohol was higher in France and Italy (17.6 and 16 liters, respectively)—though, to be sure, this was in the form of wine. These countries are now paying for those excesses with Europe's highest death rate from cirrhosis of the liver.

According to international statistics, there is not a direct link between the level of alcohol consumption and the average length of life. In fact, an increase in the consumption of alcoholic beverages usually reflects a rising standard of living. Alcoholic drinks are of course not among the prime necessities of life. Thus, spending on alcohol is higher in countries where people have more money left over after the basic necessities. In the 1970s the number of people recorded in medical institutions as suffering from alcoholism was highest in the richest country, the United States, and reached as high as 5.4 million (with an annual per capita alcohol consumption of 11 liters). In France, the annual per capita consumption of alcohol reached a peak of 22.6 liters in 1968, and the figure for those suffering from alcoholism was correspondingly high (1.5 million). In Russia at various times between 1980 and 1991 the number of people on record as being under treatment with a diagnosis of alcoholism was between 2.5 and 2.9 million, relatively less than in France or the United States.

In Western countries the recognition that alcoholism endangered public health resulted in a systematic increase in taxes on the sale of alcoholic beverages and tariffs on wine and vodka imported from other countries. Thus prices for alcoholic beverages rose continually and invariably exceeded the rate of inflation.

In the USSR from 1970 to 1982 the increased consumption of alcohol was also related to the generally rising income of the population. But in 1985 Gorbachev, instead of using the tested method of raising prices, decided to drastically restrict the production and sale of vodka, wine, and even beer. This led to a completely predictable increase in the illegal production of alcohol, and by 1987 the production of "samogon" (homemade vodka) exceeded the production of vodka at government-owned distilleries. The incidence of alcoholic poisoning also rose accordingly.

The era of drastic economic reform in Russia in 1992–93 differed markedly from generally accepted practices until then, both internationally and in the Soviet Union. During those two years, (and to a lesser degree in 1994–95 as well) the consumption of alcohol increased greatly under conditions of precipitous decline in the monetary income of the population and a decline in the standard of living by a factor of two or three for most of the population. For nearly half the families in Russia income fell below the "survival minimum." Yet at the same time, consumption of alcohol increased rapidly, and the same thing occurred with cigarettes and other tobacco products.

The press tends to maintain the absurd theory that there is an inclination among the Russian people as a whole to abuse alcohol. Any nation is capable of drinking too much—especially if it is government policy to promote such behavior. The sharp rise of alcoholism in recent years can be directly linked with government policy. In early 1992, President Yeltsin issued two decrees. The first abolished the government monopoly on vodka production and introduced complete freedom, an unprecedented absence of restrictions, on all forms of sale of alcoholic beverages. No other country in the world has every had such free and unrestricted sale of alcohol. In no time there suddenly appeared dozens of new kinds of vodka of unknown origin, and they were sold everywhere, out of boxes, and from booths set up on the streets and along the highways. At the same time the unrestricted import of alcohol, free of any tariffs, was permitted, Also many organizations that previously had nothing to do with the sale of liquor were given special permission to import alcoholic beverages (this included sports organizations, veterans organizations, and associations of invalids).

An enormous flood of inexpensive foreign liquor poured into Russia. Vodka became incredibly cheap. The purchasing power of the average wage fell by nearly half in 1992–93, but relative to vodka it *increased* three times over. This was a quite conscious attempt by the government to encourage the use of alcohol by making it accessible to even the poorest strata of the population. (In 1994 the same was done in regard to imported tobacco products, whose prices, instead of increasing, fell.) The result of all this "opium for the people" was something that greatly surprised Western observers—there were hardly any serious social disturbances in Russia as government-owned property was redistributed in haste and passed into private hands. In Kazakstan, Ukraine, and Belarus these changes took place at a much slower pace, but it was also true that in those three former Soviet republics the incidence of homicide, suicide, death by poisoning, and death from cardiovascular or other diseases was much lower than in Russia. In 1993, Russia took first place in the world in the number of fatal poisonings (48,342 men and 14,555 women). In the number of homicides Russia outpaced the United States not only relatively (per 100,000 persons) but absolutely. In 1993, there were 45,060 murders in Russia, but in the United States, only 26,254. In this regard Russia pulled even with Brazil, although it still lagged behind Colombia, which leads the world in crime statistics.

The shortening of the average life span in Russia cannot be attributed solely to alcohol. In the years 1992–94, death from infectious diseases increased sharply in Russia. Nearly 20,000 people a year die from tuberculosis now in Russia. This is the result of increased poverty and the collapse of the former system of epidemiological and clinical services.

The sharp increase in the number of suicides, especially among men—from 26,796 in 1988 to 46,016 in 1993—can only partly be attributed to alcohol. Latvia, Estonia, and Lithuania hold first place among former Soviet republics in the number of suicides relative to total population. They also hold first place in Europe (displacing Hungary). This is an indication of the extreme social tension in those countries, where economic reforms have been accompanied by mass violations of civil rights, especially in regard to the Russian-speaking part of the population.

The generally poor nutrition or malnutrition being observed in Russia today of course has a major negative effect on the health of the population. According to figures compiled by experts, the average per capita daily calorie intake is 2,100 calories, less than the minimum recommended by the WHO. In the Soviet Union from 1980 to 1985 the average daily intake was 3,400 calories, which exceeded WHO recommendations. In the United States in 1993, the average per capita annual intake was 3,732 calories.

Of course, even the wealthy countries have discouraging problems when it comes to death rates and causes of death. In the years 1992–1994 the United States was the only developed country in which AIDS figured as one of the ten chief causes of death (with 13.7 persons per 100,000 of the population dying of AIDS). Kidney disease and homicide preceded AIDS as primary causes of death. In Japan diseases of the nervous system were among the main causes of death, a reflection of the stressful character of work in that super-disciplined country.

In 1995, after the most trying phase of economic reform and redistribution of property, the Russian government tried to bring order into the anarchy surrounding the production, import, and sale of alcohol. Tariffs on imported alcohol were introduced, and began to rise rapidly. Stricter rules for quality control and regulation of the sale of alcohol were also established. Vodka had played its social role in reducing combativity during the harshest period of the economic reforms, and it was now necessary to restore alcohol's previous function as a source of funds for the budget. This process is likely to proceed rather slowly, and it is to be hoped that the health of the population will improve accordingly—but of course other problems besides that of alcohol will need to be resolved.