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## Russia: Was There a Better Way?

By **Robert Cottrell**

*The Tragedy of Russia's Reforms: Market Bolshevism Against Democracy*

by Peter Reddaway and Dmitri Glinski

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### 1.

It was Victory Day in Russia when I finished reading *The Tragedy of Russia's Reforms*, and Moscow was celebrating the fifty-sixth anniversary of Hitler's defeat, the one event in Russian history which all Russians can agree to have been a great and glorious moment. In May 1945 Russia got it right. This is the holiday of which Russians will never tire.



Boris Yeltsin

If only events allowed them a similar measure of enthusiasm for their emancipation from Communist Party rule in 1991. Memories are being stirred, as 2001 runs its course, by a series of tenth anniversaries reaching a climax at year's end with that of the dissolution of the Soviet Union. But there are few celebrations, public or private. The intervening years have been too unkind.

Could the transition away from a failing dictatorship have been managed differently? That is the main question asked by Professor Reddaway and Dr. Glinski, though they put it a bit more grandly. "As for us," they say,

we share the view of thinkers who believe that history does present alternative courses of action for both individuals and nations, and that denying their existence suggests a poverty of imagination—or lack of will—in those whose interests and beliefs would favour a different path of development.

If they do not finally persuade one that Russia could indeed have taken a much better "alternative course of action" in the 1990s, given the people and system

and resources to hand, it is certainly not a poverty of imagination that inhibits their argument. Nor is it a lack of will, if strength of feeling is any measure. That Russia should have done it all differently is the point argued here with all the force that Reddaway and Glinski's choice of title would suggest.

They depict the course of Russian policy under Boris Yeltsin as so ill-conceived, so twisted, so unprincipled that the pages of their dense and detailed book are barely enough to contain their scorn. They find that "Russia from at least 1990 has been sinking—from the socio-economic, demographic, cultural, and moral points of view—into turmoil and decay."

They argue that Yeltsin's fatal choice of economic policy—the liberalizing reforms, including a new system of market prices, commonly called "shock therapy," and labeled by the authors "market bolshevism"—followed from his choice of allies in society. He was, they write, helped to power in 1989–1991 by a disparate coalition of interests in which nationalists and populists, hungry for power on Yeltsin's coattails, mingled with social democrats and idealists who hoped that the Soviet attempt at communism could be supplanted by something closer to a Western European welfare state—"socialism with a human face," in the rhetoric of the day.

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The patron saint of the idealists was Andrei Sakharov, the nuclear scientist and human rights campaigner whose death in December 1989 left a void that nobody else could fill. The social democrats clustered into movements such as Democratic Russia, which claimed 300,000 members in 1991 but which collapsed from internal squabbling within two years. When Reddaway and Glinski write of Young Turks who espoused nationalism and populism, they have in mind men such as Sergei Baburin, a Russian from Kazakhstan, whose radicalism quickly pushed him into the parliamentary opposition that Yeltsin crushed in 1993, and who remains active on the nationalist left to this day; Sergei Shakhrai, from Simferopol in Ukraine, whose lack of political convictions enabled him to remain a close adviser to Yeltsin until 1998; and Oleg Rummyantsev, a Muscovite who helped draft a precursor of the new Russian constitution in 1990–1991, who turned against Yeltsin in 1993, and who now works as a public relations man in Russia for the US firm Mars.

As Reddaway and Glinski show, Yeltsin dismayed or betrayed many of those who helped him into power, by deciding that his grassroots revolution would go no further than his own election as president. That accomplished, he set about consolidating his power by allying himself instead with the old Soviet-era elites, many of them managers of state enterprises, whom he would leave in place and bribe into supporting him by parceling out the nation's real wealth to them through arbitrary privatization. Lesser Russians were left only with paper savings at best, to be consumed by hyperinflation when prices were liberalized and

quickly increased. Reddaway and Glinski consider this a political as well as an economic and human tragedy, because, for them, the martyred middle class embodied the values of true democracy. Hence their implied antithesis between the "market bolshevism" which won, and the "democracy" which lost.

They blame this outcome on the "missionary fervor of Western pro-Yeltsin radicals and the hopeless resignation of people being led like cattle to the slaughter." They see the sacrifice of the middle class as having come at the very moment when it might otherwise have claimed the leadership of society—"turning [Russia] away from the Byzantine and autocratic past," as they put it, "and embracing the best the West had to offer. Shock therapy destroyed this moment, and its brutal effects have largely destroyed the best of the middle class as well." In sum, say Reddaway and Glinski:

The years since the launching of shock therapy have...drastically weakened the incipient civil society, blocked most opportunities for democratic participation in politics, and doomed the Russian body politic to alternate between oligarchy and authoritarianism for the foreseeable future.

If this were a full and accurate indictment, it would be a damning one indeed.<sup>[1]</sup>

## **2.**

I doubt that anybody would disagree with Reddaway and Glinski's general argument that Russia has been badly governed over the past ten or fifteen years; indeed, one can argue that it has been badly governed for many of the preceding centuries, in strikingly consistent ways. In criticizing so fiercely the actual course of recent events, the authors accept the implied obligation to indicate how history might more profitably have been directed. They argue that changes during the Gorbachev era might have sufficed to prevent an independent Russia with Yeltsin at its head from coming into being at all. In their view:

The disintegration of the Soviet bloc might have been averted or at least delayed by launching around 1987 a comprehensive program of economic restructuring and development for the Comecon countries as a whole, along with democratic reforms to ensure a reasonably fair and legitimate distribution of benefits.

Again, I doubt anybody could disagree with that proposition. If these things had been done successfully, then the disintegration of the Soviet Union might have been averted. But the question is, by whom? Gorbachev, in his mind's eye, surely set out to do more or less exactly this. And instead he ended up precipitating the very disintegration of the Soviet block that his policies were intended to avoid. So not Gorbachev. His conservative rivals within the Communist establishment could argue much more plausibly now that the disintegration of the Soviet empire could best have been averted or at least delayed by avoiding economic restructuring and democratic reforms altogether.

As for the "grassroots democrats" who helped carry Yeltsin to power, it is scarcely possible to argue that they had the right combination of political skills within their number. Bright as their ideas and hopes might have been, they were lost when it came to practical strategy even in municipal politics.

Reflecting on the path an alternative economic policy might have taken under Gorbachev, Reddaway and Glinski have this to say:

The Soviet middle class used the relatively prosperous and stable 1960s and 1970s to amass a considerable amount of personal savings in government bank accounts. In the Gorbachev era, when denationalization and deregulation of the economy came on the agenda, these middle-class savings were ripe to be channeled toward productive investment in industry, which in a broader framework of reasonable reform policies could have led to internally generated and sustainable growth along the lines of the postwar Japanese miracle.

I am not sure this claim can be sustained, even with the most implausibly favorable presumptions to support it.

For one thing, we risk confusing rubles and real money. Soviet Russia, for most of its citizens, was a closed economy in which rubles had an arbitrary value set by the government. Rubles were a promise—often an empty promise—of goods and services to come. It was the goods and services, when at least some arrived, that were the "wage" paid to Soviet workers, much as fodder is the "wage" paid to horses on a farm.

Doubtless those rubles could, nonetheless, have been in some sense "invested" in Soviet industry, by giving both the rubles and Soviet industry an arbitrary value, and then by creating a mechanism for these arbitrary values to be exchanged. But here we begin to converge with the sort of privatization that actually was attempted under Yeltsin, when the state proved neither strong nor wise enough to preserve any sort of equity in the distribution of its wealth.

What of the "broader framework of reasonable reform policies," needed for Russia to enjoy the kind of rapid growth Japan enjoyed during the postwar period? Helped by the experience of the past ten years, we can see that the word "reasonable" doesn't adequately describe the reforms that would have been needed to make Russia like postwar Japan. The reforms would have had to be fundamental and deeply transforming, involving the creation of a rule of law, a strong civil society, an effective government, and a new concept of international relations.

These are, in fact, exactly the reforms about which Russia talked so much in the Yeltsin era, but did so little. The great Russian question is no longer Lenin's "What is to be done?" There is general agreement on that. The question now is,

"Who can do it?" Not Gorbachev. Nor Yeltsin. Perhaps Putin, but the jury will be out on that for at least the next seven years.

In discussing the different courses that they think Russia might have taken even under Yeltsin, Reddaway and Glinski demonstrate mainly that things might have gone differently if both the conditions and the people in charge had been different. They show (in my view, though this is not always their intention) that in the given circumstances there was no real competition facing the Yeltsin regime, whether from middle-class liberals or from Communists and nationalists. The question was what policies Yeltsin chose to pursue.

If one believes his policies brought about a "tragedy," however, then that is not the end of the matter. The question of why Yeltsin followed such policies becomes a central one, in which one cannot avoid moral judgments. Was it a tragedy brought about by chance, or by incompetence, or by well-meaning ignorance, or by deliberate greed and malice?

The two basic elements of Yeltsin-era economic reform were a sudden price liberalization in 1992, followed by a rapid privatization of state-owned industry. The wisdom of this approach and the reasons for its many failures in practice have been much debated. (See the box on this page.) In fairness, I should say that I sympathize with those who believed that radical reform did need to be attempted, whereas Reddaway and Glinski argue that the probability of failure should have been obvious from the outset.

Reddaway's and Glinski's view of the economic reforms as products of greed and power politics compounded by incompetence and ignorance now counts as the conventional wisdom. So it should be pointed out that Professor Reddaway was attacking reform in the earliest years of the Yeltsin era when this was still a minority position in the West. The consensus has rallied to his point of view, rather than vice versa.

It has been helped along in that direction by recent works such as Janine Wedel's *Collision and Collusion* and Anne Williamson's widely read manuscript "Contagion: The Betrayal of Liberty: Russia and the United States in the 1990s."<sup>[2]</sup> Both are powerfully written, both argue persuasively that Western aid was foolishly committed to reforms and corrupted both the givers and the receivers while doing very little to help the Russian public. Reddaway and Glinski add greatly to the story by way of political and historical detail. They add rather less in advancing the central argument.

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A striking feature of their book is that it gives more than a thousand footnotes indicating sources; yet I do not count more than a half-dozen of these referring directly to interviews conducted by the authors themselves. I do not for a

moment question the vast knowledge and experience that the authors are bringing to bear. Professor Reddaway has been in the forefront of Russia studies for more than thirty years, and is a past director of the Kennan Institute for Advanced Russian Studies. Dr. Glinski is a senior research associate at the Russian Academy of Sciences' Institute of World Economy and International Relations. I only wish that they had given us a book rooted more deeply in their personal experience, rather than one that depends so much on published sources, some of them contestable.

I doubt, for example, that I am alone in stumbling over the authors' proposition that "Russia's net financial loss from the decline of science amounts, by some estimates, to \$500 billion– \$600 billion annually." If this is true, then it does indeed amount to a damning indictment of the cutbacks in research and academic funding under Yeltsin, the point which Reddaway and Glinski are making. But can it be true, when Russia's entire GDP amounts to less than \$300 billion annually? In any event it demands more explanation than a footnote referring the reader simply to "*Argumenty i Fakty*, 1997, number 50." *Argumenty i Fakty* is a moderately serious, mass-circulation Russian weekly newspaper. Pending further detail, this figure for losses to science belongs among the *argumenty* rather than the *fakty*.

I suspect also that a slightly more rigorous policy on secondary sources might have cut short some of the digressions which shed at best a very faint and oblique light on Reddaway and Glinski's main themes. Their subjects range from corruption in Uzbekistan to Boris Berezovsky to the nature of statehood. All are tackled with equal gusto, and have more than their share of throwaway lines. Can one really rank the Bank for International Settlement among organizations that have "entered the domain of national economic policy and in many cases severely circumscribed national sovereignty"? Are NATO and the IMF "a kind of atavistic reversion to the age of the Holy Roman Empire and the Holy Alliance"? I doubt it in both cases, but both propositions are worth thinking about, and they tell us a little more about the world view of the authors.

### **3.**

When Reddaway and Glinski explain how things might, in their view, have gone differently under Yeltsin, they also analyze why things did not in fact go those ways. This is a commendable but hazardous aspect of their book. As will readily be seen, such an analysis is not a very easy one to bring off convincingly. If you explain persuasively why circumstances prevented an alternative course from being taken, you are hard pushed to argue that it could have been taken nonetheless. You are left describing desirable impossibilities.

By my count, Reddaway and Glinski list at least eleven crucial periods after 1990 during which, by postulating various configurations of foreign pressure and

domestic opposition, "a peaceful democratic alternative to market bolshevism was available to Russian political actors, if they had been willing to struggle for it."

Setting aside the loaded antithesis between "market bolshevism"—their words for Yeltsin's policies favoring former Soviet managers and other powerful forces—and a "peaceful democratic alternative," eleven successive failures to choose the latter would seem, in the event, rather more than a coincidence. The more you pile up the occasions on which history might have gone the other way but didn't, the more evidence you are, in effect, providing that history went the only way it could. If an alternative course was genuinely available on eleven occasions, one might expect a country to have take it at least once, if only by accident.

The conclusion must be that the strength of the constituency for "market bolshevism" was overwhelming, whatever its size or legitimacy. It consisted, in effect, of those who were already powerful, many of them with high positions under the Communist regime, now clamoring to get rich. Later it became the rich clamoring to get richer. It had the not inconsiderable long-term benefit of putting the rudiments of a market economy in place, which appeased the ideologues both inside and outside Russia who oppose direct government control of prices and production. And to foster that last project the West was willing to lend Russia billions of dollars.

Broadly speaking, the authors argue that alternatives to the Yeltsin regime and its "market bolshevism" might nonetheless have been constructed on two main foundations. The first was the idealistic popular movements demanding both democratic freedoms and the equitable distribution of national wealth that helped carry Yeltsin to power in 1989–1991. The second was the changing cast of serious political rivals, hardier and more cynical than the early idealists, whose power base throughout the decade was the Russian parliament in its various formations.

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For Reddaway and Glinski, the first failure of what they call the "democratic" parties is the overwhelming tragedy of the Yeltsin era. The grassroots democrats included large numbers of professionals and intellectuals bred by the Soviet system who were giving Russia something approximating a middle class for the first time in history. The towering figure of this new class, had he and it survived, would have been Andrei Sakharov. Reddaway and Glinski clearly admire, too, leaders of the Democratic Russia movement, including Yuri Afanasiev, the historian; Marina Salye, who rose to prominence as a crusading city councilor in Leningrad; and Gleb Yakunin, a priest and gulag veteran. A civil society shaped by and after such people would at last have given Russia the social structure it needed to join the liberal democracies of the West. But instead of rewarding and encouraging this nascent middle class, Yeltsin betrayed it. He abandoned it to

poverty, so as to hand over the wealth of the state to the same *nomenklatura* that had controlled it, though not owned it, in the Communist period.

One cannot really fault the youthful democratic movements for this failure. They were amateurs and innocents with a hazy grasp at best of what they wanted to achieve and no grasp at all of how concretely to achieve it. Unlike the new democratic parties of Eastern Europe, they were not in any useful sense the inheritors of a strong movement for national liberation. When Yeltsin chose to leave the old bureaucratic power structures in place, and to occupy all available political space himself, they were lost.

One can fault Yeltsin for not having supported the grassroots democrats more strongly and reliably. How marvelous a Velvet Revolution would have been on a Russian scale. But if the grassroots democrats were not strong enough to bend Yeltsin to their will, they would certainly not have been able to bend the whole of Russia if they had had the opportunity to confront it. The oil and gas lobbies, the security services, the criminal gangs, the provincial bosses, and the military-industrial complex were all constituencies whose power Yeltsin himself could not break; he could only bribe them. They would have ripped a Velvet Revolution to threads. Reddaway and Glinski discuss all of these constituencies at some length. But I fear they still fail to give full weight to them as political actors able to defy or outlast almost any elected leader. Yeltsin's room for maneuver was more limited than the authors allow.

As for other politicians who might have challenged Yeltsin, or at any rate his economic policies, they were a motley bunch, and it requires some ingenuity on the part of Reddaway and Glinski to suggest that they might have changed anything at all. In discussing the people that Yeltsin might have chosen as his first acting prime minister, in place of Yegor Gaidar, they say the following of Yuri Skokov, a rather gray former factory manager:

Skokov had many shortcomings, but his instincts were those of a statist and dirigiste government official, and this fact might have allowed him to attract a team of economic thinkers capable of elaborating an alternative to shock therapy that Skokov himself could not produce.

But evidently, even Yeltsin drew the line at choosing his prime ministers on the basis of their limited capacity to think.

Of Grigori Yavlinsky, the leading social democrat, Reddaway and Glinski write:

He had personality traits that prevented him from being president of Russia: his inability to be brazen, his academic professionalism of judgment, and his moral scruples.

The irony of these lines is evident. But so, unfortunately, is the literal truth.

The authors accurately describe Gennadi Zyuganov, the perennial leader of the Russian Communist Party, as projecting a deep-rooted defeatism. This is a strange condition for a professional politician: it ought to be a fatal one, though Zyuganov survives. I suspect the explanation is that his energies have always been entirely absorbed by the struggle to stay in control of his own party. Presidential elections, and with them the chance to run the country, count as unavoidable but unwelcome intrusions.

Reddaway and Glinski rightly deduce that Zyuganov, had he won an election by mistake, would not have shown any great zest or confidence in trying to lead Russia down some other road. At best, they seem to think that (as with Skokov) his weakness might have been a perverse source of strength:

Zyuganov's potential victory [in 1996] would not have been a threat to democracy, because his political weakness and lack of foreign support would have compelled him to cooperate with some of his opponents among the democratic reformers and to govern by coalition.

Again, there is logic of a sort here. But again, one can understand Russian voters hesitating to vote for Zyuganov in the hope of giving his opponents a chance to rule.

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So instead it was Yeltsin, and Yeltsin again, until Yeltsin himself gave up, appointed a pale young martinet as his successor, and staggered off to bed. Yes, he was an unpleasant man in many ways. Yes, he did some dreadful things. But time may improve the appearance of them a little.

It can be argued that the sort of economic gains that the reformers and privatizers hoped for five or seven years ago are finally starting to be made. Industrial assets are ending up in the hands of people who want to own and manage them; the result is a perceptible improvement in basic management methods and even some modest capital investment. More Russian-made goods are in the shops since the ruble crash of 1998, which priced many imports out of the market. The desire for a better business climate is one big reason the government is pushing ahead now with much-needed legal reforms. Among the main reasons that private investment in Russia remains so meager are the difficulties in getting a contract enforced, or a court judgment upheld, or a fair court judgment delivered in the first place. A package of bills now going before parliament will fix a stricter code of conduct for judges while also raising their pay from \$200 to \$1,000 a month—so reducing the temptations to corruption, and, with luck, keeping more competent judges in the profession.

As for President Putin, he has some big political and moral blind spots: the long and brutal war in Chechnya and the grotesque harassment of NTV, Russia's

biggest private television station, as well as of the magazine *Itogi*,<sup>11</sup> are evidence enough of that.<sup>13</sup> He is centralizing power over many institutions in ways that may bring some short-term gains in efficiency, but will also create the preconditions for authoritarian rule. An ambiguous figure still, Putin may yet bring shame upon his apologists. But against that, he is also trying to deal with problems that urgently need to be addressed. He seems serious about reforming the sprawling and ill-disciplined army, for example; about getting an adequate pension system in place; and about curbing the powers of provincial leaders to interfere in national politics.

If Putin is proving a more effective president than Yeltsin was, at least in the ways I have mentioned, that is in large part because the failures of the Yeltsin era have made the need for different policies in Russia so painfully obvious. Like Reddaway and Glinski I wish those failures could have been avoided. Unlike them, I do not think the means of avoidance were all that readily to hand.

## **THE DEBATE ON RUSSIAN ECONOMIC REFORM**

In brief, the advocates of radical market reforms after the fall of Gorbachev argued for rapid price liberalization, expecting that this would lead to a single sudden rise in prices but not to sustained high inflation. Influential US economists such as Harvard's Jeffrey Sachs believed that once higher prices had attracted a steady supply of goods into the market, and so long as monetary growth was kept under control, prices would stabilize at their new free market levels. The market reformers also believed that even the one-time rise in prices would mainly be bringing into the open inflation that had long been hidden. They pointed to the high black market prices for many goods already evident in the late Gorbachev years, when official prices were kept low but goods were rarely available at those official prices.

Some opponents of quick liberalization of prices said that privatizing state assets should come first. The aim would be to offer private savers the opportunity to buy shares in state companies at the old nominal value of their savings, before that nominal value was wiped out by inflation. Other opponents of quick price liberalization argued that, in the actual conditions of Russia, high inflation could not be brought under control once it had started—mainly because the central bank lacked discipline and expertise. The government would seize the chance to print money freely to make up for its own failures in tax collection.

A sudden price liberalization went ahead in 1992, because the government feared that otherwise the country would face a critical shortage of food and other goods. However, a prolonged inflation did follow, for many of the reasons the doubters had cited.

When Russia began privatizing its state industry in 1992, the rules were fixed so that the factory bosses were assured of being able to buy their own factories

cheaply. This meant, in practice, that little changed when a factory was privatized, except that managers had more of a free hand to strip it of cash and assets that caught their fancy. Many who had been managers under the Communist regime became rich.

The reformers said that this, nonetheless, was better than no change at all. What was most important was to break up the old Soviet system and give managers more incentive to manage efficiently. The critics of such reformers argued, first, that the new manager-owners showed little disposition in practice to manage more effectively; and, second, that passing ownership of public assets over to a relatively small group of people in the presumed interests of economic efficiency was contrary to natural justice.

The final and most controversial stage of privatization occurred in 1995–1996 with the so-called "loans-for-shares" deals by which some of the state's biggest and most valuable shareholdings in natural resources companies were sold for next to nothing to a handful of bankers. There was little or no theoretical defense for this, only the claim that if the bankers did not grab the assets, then somebody else would. These deals were the product not of government policy, but of state weakness.

Privatization was a failure throughout the Yeltsin era, if one judges only by the remorseless fall in industrial output despite the transfer of industry to private ownership. However, privatization succeeded in its political aim of making almost inconceivable any return to a centrally planned economy.

—*R.C.*

## Notes

<sup>[1]</sup> Of course, the foreseeable future does not stretch very far in Russia, and already critics of President Vladimir Putin say he has contrived to unite both the oligarchs and the supporters of the trend toward authoritarian-ism in a single regime. The Putin phenomenon comes too late for Reddaway and Glinski to give it more than glancing reference.

<sup>[2]</sup> *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe* (Palgrave, 2001). An interview with Ms. Williamson, the story of her manuscript, and a link to other materials can be found at [www.thewandererpress.com/will.html](http://www.thewandererpress.com/will.html).

<sup>[3]</sup> See Masha Lipman's article, "Russia's Free Press Withers Away," *The New York Review*, May 31, 2001.

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