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II. Structural and Cultural Factors in Russian Economic Reform Planning

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SHORTCOMINGS OF THE "WESTERN APPROACH" TO RUSSIAN ECONOMIC REFORM

EXECUTIVE SUMMARY

This is a Summary of four papers on the subject, the second of which, "Structural and Cultural Factors in Russian Economic Reform Planning" is attached. The first, "The Political Requirements of Effective Reform" was distributed by the Council on June 27, 1994. The remaining two will be distributed seriatim when finished, each introduced by this Summary with the addition of the titles of the earlier papers and their dates of distribution.1

Although Western advisers who participated in Russian economic reform planning have correctly observed that "shock therapy" was never implemented in Russia, a larger problem is that the formula urged for Russia in the West is fundamentally flawed on several counts. In the four reports of this series, we examine key shortcomings of the "Western approach." First, this approach is flawed in its conscious strategy of disregarding the fundamental contradiction between democratic decision-making and the forced implementation of a narrowly-conceived economic vision. Second, the economic arrangements of a nation must take into account its social and cultural features no less than its political dimensions. A third disadvantage of the approach is that it neglects particularities of Russia's production and distribution system which would have to be taken into account in any potentially viable reform program. Finally, planners were inadequately attentive to reform strategies that would not have required massive infusions of Western money—levels of anticipated assistance which should never have been seen as realistic. These mistakes have brought unnecessary economic turmoil and political instability to Russia while discrediting both democracy and market relations among a disquieting proportion of the Russian electorate. Thus the national interests of both Russia and nations of the West have been betrayed by the ill-considered "Western approach."

Jeffrey Sachs writes correctly at the beginning of 1994 that the Russian "reformers were never able to implement a coherent, sustained program of reforms."2 He misses the mark badly, however, in elaborating on the reasons for this failure. Sachs sees real shock therapy as Russia's missing link to political stability and optimal reorientation of the economy. "'Shock therapy' did not fail in Russia. It was never tried," Sachs observes.3 We suggest in this series

1 NCSEER Note
of papers, however, that the formula Sachs and other prominent Western advisers offered for
Russian economic reform is fundamentally flawed on several counts, and that the theoretical
"ideal" of Western advisers was no less deficient than the policies that were implemented.

Inadequacies of the "Western Approach"

In any but a thoroughgoing totalitarian system, economic transformation must be realized
in a context of studied attention to the legitimate interests of the different "stakeholders" in
existing economic arrangements. Open deliberation can frame these interests, and identify
points where compromise is the only solution to overlapping claims. And when compromise
solutions are developed to overcome the inevitable logjams of interest-group claims, it is
vigorous discussion and debate in a democratic framework that can keep the reform process
moving forward productively. The first inadequacy of the "Western approach" to Russian
reform which we examine—the focus of our first paper—has been its conscious strategy of
disregarding the fundamental contradiction between democratic decision-making and the forced
implementation of a narrowly-conceived economic vision. Indeed, the "Western approach" has
been found to advocate democratic processes in the abstract for Russia while consistently
encouraging profoundly anti-democratic actions by Yeltsin and his reform team that were
judged, by a small cadre of policymakers, to be moving reforms "in the right direction." But
no economic program can thus ignore political realities within a country and succeed, if the
goal is to do better than establish some form of "capitalist totalitarianism," weakly propped up
by propagandistic slogans.

The economic arrangements of a nation must be articulated with its social and cultural
sphere no less than its political sphere. Economic principles, even the most basic ones, do not
operate in a cultural vacuum. The cognitive schemes that predominate in a culture or a
subculture shape perceptions; and, as a large number of studies have unambiguously shown,
exchange arrangements have a normative basis which varies markedly from country to country,
and which exerts major influence over economic transactions. Identifying key features of a
nation's normative structure, and utilizing that knowledge in developing reform strategies, can
help to insure that newly-created opportunities for economic exchange will have a good chance
to gain cultural acceptance and contribute positively to societal development. (Some subcultures
welcome and quickly adapt to changes for which the ground has been inadequately prepared in

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"Our use of the term "stakeholders" draws on the discussion of Andrei Shleifer and Maxim Boycko, who
consider stakeholder interests to be the interests of people and groups with existing "control rights over assets." See
Andrei Shleifer and Maxim Boycko, "The Politics of Russian Privatization," in Post-Communist Reform: Pain and
the larger culture. It is in these contexts, for example, that organized crime can reach epidemic proportions. A second shortcoming of the "Western approach," then, is its inattention to the broader implications of economic policy for the functioning of social and cultural institutions.

The implications of economic proposals for normative relations among a citizenry are highlighted and taken into account in the "normal" course of democratic deliberation in established democracies. When a proposal for welfare reform is being debated in the US Congress, for example, lawmakers do not fail to examine the likely implications of the proposal in light of defining social and cultural features in the United States. This critical stage was omitted as the course of Russian economic reforms was being determined, however, in keeping with the guidelines of the "Western approach." Indeed, the importance of articulating economic changes with normative conditions was consciously downplayed by the "economic determinist" thinking that prevailed among the reform planners. And predictably, the reforms foundered for lack of adequate attention to critical features of Russia's socio-cultural landscape, and a number of unwanted developments accompanied the program.

Why is crime now rampant in Russia and mafia structures have become a defining feature of Russian economic life? Why is the very fabric of Russian society now at risk, as reflected in the rapid decline of scientific production, a widespread and growing sense of alienation among the population, and many other changes which have followed the initiation of Gaidar's economic reforms? And why is international security now threatened by the possibility that significant amounts of nuclear materials from Russia may fall into the hands of terrorist groups? Proponents of the "Western approach" are largely oblivious to the direct connections between these developments and the economic policies they have encouraged. Sachs deemphasizes Russia's current crime epidemic, for example, by referring to an "excess focus" on the 'mafia' in Russia today," not only by attempting to downplay its pronounced hold on the society ("[M]any of those who are called 'mafia' are simply traders") but also through the familiar technique of misdirection—by labeling the discredited "Communist Party of the Soviet Union" as the real mafia. Of course, such diversions ignore the larger question of how economic changes influence ongoing social practices, and how economic policies could be formulated to make those influences more positive than negative, in both the near-term and the long run. It is critical that proponents of the "Western approach" to Russian economic reform not be allowed to externalize the considerable social, as well as economic, cost of their unrealizable monetarist vision.

The Russian reformers' inattention to the "embeddedness" of a country's economy in its non-economic institutions was a major factor in the inability of the government to keep the reform initiative "on track," and the consequences of this mistake have been broad and severe. Bureaucratic and nomenklatura control were prominent features of Russian political and economic organization from Peter's time forward, and the reforms under Yeltsin have permitted key members of the Soviet elite in Russia to become the principal beneficiaries of the reform effort. The crime explosion is directly linked to the Gaidar-Chubais reform strategy. The reforms failed to address problems which have persisted because the socialist culture of work has continued to prevail. Before Gaidar's appointment, Western advisers painted an unrealistically optimistic picture of the likely effects of neo-liberal monetarist reforms, and as those predictions became more grim over time, hostility increased in Russia toward those who have actively encouraged the hurry-up restructuring effort which has brought economic hardship and intensified societal crisis.

It is recognized by a large number of analysts that the rationality assumption which is fundamental to neoclassical economics seriously oversimplifies this "embeddedness" in non-economic institutions. Whereas this perspective requires that the relationship between a country's economy and other spheres be taken into account in reform planning, followers of the "Western approach" adopted a very different planning strategy in attempting, from 1991 onward, to force into place as many policies as political circumstances would bear that are consistent with their driving monetarist theory. But the pace of reforms that was established by the Russian government's program effectively precluded serious attention to non-economic factors which shape economic relations in a country.

From the fifteenth century onward, Russia was notably autocratic in comparison with nations of Western Europe, and the apparatus for central administration that developed there was multidimensional and extensive. The August 1991 putsch brought a startling end to Bolshevik rule, but no relief from top-down administration in the political sphere. Rather, the democratic reforms that had been initiated under Gorbachev were sharply reversed under Yeltsin. Power was soon consolidated in the executive branch, as the reformers repeated another familiar Russian theme in their fixation on cataclysmic societal transformation.

The government bureaucracy has mushroomed under Yeltsin, and not surprisingly, most of these bureaucrats were the same people who filled similar roles in the Soviet era. It was to be expected, of course, that experienced Soviet-era nomenklatura would be well represented in any post-Soviet political configuration. But if the objective had been to transform the old command system into a trimmer and more responsive one, deliberate and comprehensive measures would have been required to break the old organizational mold. Such measures were not forthcoming. Instead, Yeltsin's tendency was to restore the Soviet Central Committee
structure within his administration. It is now widely believed in Russia—both among analysts and the general population—that a large number of bureaucrats and members of the nomenklatura have become the chief beneficiaries of Russian privatization.

Gaidar wants to blame these developments on the partial implementation of his monetarist reform plans, but his retrospective analysis fails to confront the inevitable consequences of a reform strategy which was, from the beginning, highly centralized—consistent with Yeltsin’s overall executive approach. Rather than formulating a reform plan aimed at trimming bureaucratic structures, the Russian political and economic reformers, collectively, have expanded them, in keeping with the traditions of their Soviet and Russian past. What has been lost in Russian bureaucracy under Yeltsin is the firm and extensive control from the top which, in the Soviet system, coordinated all lower level hierarchical structures—the regional and local bureaucracies. Those have, for the most part, remained solidly in place and fully functioning.

Organized crime has mushroomed in Russia and is now entrenched in a large proportion of Russian enterprises, in nearly every sector. Additionally, Russian organized crime is now increasingly involved in political institutions, as well as with international crime groups. There is a growing fear of the arming of terrorist groups with nuclear weapons or weapons-grade nuclear materials from Russia.

The inevitable difficulties that would attend Russia’s move toward a market economy in the context of a corruption-riddled bureaucratic control system were well-recognized in Russia and the USSR long before the Gaidar reforms began. Russia’s more thoughtful analysts had emphasized the necessity of providing for mechanisms to work against the spread of corruption and crime in the transition. But Gaidar’s approach was to largely ignore this tangled web, and even to clear a path for criminal involvement in reforms. In our interviews with Russian government officials and other leaders, we found that the distinction between legal elites (nomenklatura) and criminal elites was widely becoming blurred, as was differentiation between "legal" and "illegal" business activities.

Having a desire to adapt to new economic arrangements does not provide the tools or means for shaking free from patterns in which most citizens and institutions have long been immersed. By ignoring this fundamental problem the Russian reformers ensured that their initiatives would quickly founder on shoals that had already been clearly mapped.

A third disadvantage of the "Western approach" is that it neglects particularities of Russia’s production and distribution system which would have to be taken into account by any potentially viable reform program. Put differently, this approach has not only failed to adequately consider political requirements and cultural constraints, but it also has misread the
implications for policy formulation of Russia's purely economic climate. We can find only two explanations for this neglect among policy-oriented economists whose training and experience should alert them to such matters. One is that the reformers and their advisers erred both in assuming the universal efficacy of their overgeneralized strategies, irrespective of the particular economic context, and in reaching misleading conclusions based on inappropriate comparisons of the Russian economy with the economies of other Eastern European countries, on the one hand, and with that of China, on the other. Alternatively, economic improvement may simply not have been a high priority in the "reforms." We have noted elsewhere that the Gaidar strategy was clearly oriented more toward destroying the discredited command system than building an effective production system. If this objective was paramount, in spite of the reformers' claim to have been pursuing positive economic transformation, then the "Western approach" must be judged more as a political than an economic program—and more in terms of covert objectives than those that were publicly articulated. And if the program's aim was more to achieve political than economic results, then the inadequacy of the reformers' attention to fundamental political realities is even more damning.

Finally, the "Western approach" placed undue emphasis on substantial Western aid as integral to Russian reforms. Too much Western help was assumed, without adequate assurances, as the program took shape. The reform strategy that resulted from these deliberations was markedly different from the kind of reform initiative that would have been hammered out had expectations of Western assistance been more realistic. Russian planners were inadequately attentive to other reform strategies that were available to them—approaches that would not have committed Russia to a course that required massive infusions of Western money. Ultimately, Russian national interests suffered from this neglect, and both Russian and Western policy-makers demonstrated perplexing insensitivity to the political liabilities for their countries of a Russian reform program too conspicuously influenced by unrealized Western inducements.

Conclusion

The inadequacy of the "Western approach" to Russian economic reform is in no way relieved by the frequently-voiced idea that Russia needs "strong power" at the beginning of the reform period, and that heavy-handed reform policies are desirable at this stage of Russia's

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transition. Whether the form of rule is authoritarian or democratic, Russia’s interests would be best served by economic reforms that are earnestly directed toward improvement of the country’s economy. Reform strategies that are hurriedly developed, away from the creative influence of open deliberation among diverse interest groups, and that neglect critical social and cultural factors, simply cheat the country—especially if the stated objectives of economic reform are little more than a smokescreen for an avowedly-political agenda. Once a large proportion of Russia’s enterprises are privatized, whether under a democratic or an authoritarian regime, economic performance will be important to political stability. By pressing authoritarian decision-making under a democratic banner, and by then forcing dysfunctional economic change labeled as "market reforms," the "Western approach" has achieved the impressive result of effectively discrediting both democracy and market relations among a disquieting proportion of the Russian electorate—while simultaneously heightening political instability in a still-powerful nation with nuclear warfare capability. Thus the national interests of both Russia and the West have been betrayed by the ill-considered "Western approach."
Structural and Cultural Factors in Russian Economic Reform Planning

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Structural and Cultural Factors in Russian Economic Reform Planning

Social policy would be much simpler if people from different cultures were interchangeable robots, responding uniformly to given situations. But a large body of evidence indicates that they are not. The peoples of given societies tend to be characterized by reasonably durable cultural attributes, which can have major political and economic consequences. If this is true, then effective social policy will be better served by learning about these differences . . . than by pretending that they do not exist.

-Ronald Inglehart, Culture Shift in Advanced Industrial Society¹

Introduction

The government officials and advisers who developed Russia’s economic reform strategy failed, most fundamentally, in not adequately recognizing that radical economic reform involves a great deal more than economics—that market transactions take place in political, organizational and cultural contexts that are relatively enduring. Far from being extraneous to economic relations, these factors importantly shape the economic sphere and constrain actions within it. For example, structural arrangements that influence work relations, and therefore motivation and productivity, must be understood if economic improvement is to be realized through reform, and the developmental basis of ongoing interorganizational patterns cannot be ignored if effective structural transformation is to be accomplished. And in Russia, interorganizational relations remained integrally bound up, as the reforms began, with the bureaucratic structures of the Soviet era. When these structural and historical factors are studiously examined as economic proposals are being created, obstacles to the realization of reform objectives can be identified, and avenues of opportunity which are presented by these specific societal features and configurations can be exploited in the pursuit of effective reforms.

The importance of taking into account these noneconomic factors at the beginning of the reform period in Russia was recognized by a number of analysts. For example, a 1992 World Bank Country Study, Russian Economic Reform, emphasized that "Russia’s transition to a market economy requires a thorough-going institutional transformation in virtually all spheres of the economy and society," and that "Institutional reform within the public sector must transform the state, and simultaneously encourage the growth of a civil society capable of

perpetuating and preserving the economic space for private enterprise." Stephen Haggard and Robert Kaufman highlight a key justification for this emphasis. "When economic reform is viewed over the long run," they suggest, "the biggest challenge is not simply to initiate new policies but to sustain and consolidate them so that they gain credibility among economic agents." Radical planning, John Friedmann emphasizes, is "not merely normative" but also includes "a strong analytical element" and necessitates "a knowledge of institutional constraints" and "an ability to assess and evaluate alternative solutions."

This is the second in a series of four papers examining the "Western approach" to economic reform in Russia, whose defining features we have discussed elsewhere. Whereas the first report in this series particularly emphasized the need for openness and responsiveness in economic reform planning, the other three will consider factors that should draw on the expertise of planners during the initial phase of policy formulation. Articulation with the political sphere can contribute importantly to this effort, because through open deliberations which include diverse interest groups, a broad array of noneconomic features of a society are likely to surface which should be taken into account in reform planning. But planners do not arrive at the stage of political articulation with an empty plate. And during preliminary reform
planning, it is vital that overarching structural and cultural features of a country be brought into the deliberations if a proposal is to be developed which can usefully guide reformers' work at the second, political articulation, stage--when the proposal is exposed to the unblinking eyes of divergent interest groups. At that point, the comprehensiveness and balance of preliminary planning will be judged by representatives of the people who will have to live with the reforms, and some of its inevitable omissions will be challenged. If these deliberations proceed constructively, more corrections than distortions will be introduced into the proposal.

There is nothing novel about our emphasis on the embeddedness of economic relations in a larger network of political and social arrangements, as is illustrated in the 1992 World Bank Country Study cited above. The fundamental importance of these interrelationships is well-established in the literatures of comparative political and cultural studies, organizational analysis, and planning. Structural and cultural dimensions of a nation are critically important to the operation of its economic sphere, this literature shows, and planners must take a great deal more than macroeconomic stabilization into account if programs for economic restructuring are to be viable. In mainstream economics, also, this perspective has achieved widespread acceptance.

In the first part of this report, we will highlight two contrasting views regarding the preferred operational approach to economic reform planning, and we will discuss the implications of the path that Russian reformers chose for outcomes that followed from late 1991 onward. Next, we will illustrate the Russian reformers' neglect of critical noneconomic factors as they developed a reform program for Russia. Our objective is not to provide a comprehensive enumeration of critical noneconomic factors which should be examined in Russian reform planning. Rather, we will select examples which are so basic and important as to confirm our contention that the Russian reformers quite clearly disregarded even the most fundamental dimensions of their required task.

Here, we will also discuss characteristics of Russian society and culture which provided fertile ground for the initiation, if not the successful enactment, of the neo-liberal monetarist experiment that was attempted. The reformers' call for a shock therapy-induced program for radical reform resonated well with a deep-seated tendency in Russian culture to prefer dialectical change to more evolutionary approaches--a tendency which was repeatedly exploited during seven decades of Bolshevik rule. Neo-liberal monetarism was, from this perspective, a

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6Of course, the same principle should also be utilized in taking into account regional variations within a country as well as the multi-national context of national reforms.
"natural" successor to Leninism-Stalinism. With neo-liberalism, the preferred method of societal transformation remained unchanged from the Bolshevik period--a radical break with the past, followed by reorganization according to the dictates of a new vision. The monetarists' emphasis on economic determinism, also, matched that of the Bolsheviks. Thus, culture has played a dual role in recent Russian reforms--both facilitating the adoption of a monetarist reform agenda and inhibiting the successful implementation of the monetarist program. In the report's concluding section, we will discuss inadequacies of the "Chicago school" approach to economic reform in light of what is known about the dynamics of societal change, and we will review two contrasting interpretations of why the "Western approach" has been so inattentive to structural and historical-cultural factors which could have given the reforms a better chance to succeed in Russia.

Economics and Society: Contrasting Views

Beyond the Rationality Assumption. Inadequacies of the simplifying assumptions that characterize neoclassical economics have repeatedly been highlighted. "The economic approach is clearly not restricted to material goods and wants, nor even to the market sector," Gary Becker argues in The Economic Approach to Human Behavior (1976), adding, "Moreover, the economic approach does not assume that decision units . . . can verbalize or otherwise describe in an informative way reasons for the systematic patterns in their behavior." This perspective both extends and refocuses Karl Polanyi's insistence that the economy is "embedded in non-economic institutions" by emphasizing, as Jack Hirshleifer puts it a decade later in The American Economic Review, that "economists will . . . have to become aware of how constraining has been their tunnel vision about the nature of man and social interactions. Ultimately," he suggests, "good economics will also have to be good anthropology and

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sociology and political science and psychology." Why? Because "the model of economic man has indeed been productive, but only up to a point.""10

And for a large number of contemporary analysts, this recognition has taken firm root. The key conclusion which follows—a perspective that is now widespread in the social sciences and philosophy—is that the economic, political, social, cultural and psychological dimensions of human life are intertwined. Philosopher John Rawls, following the tradition of Rousseau and Kant, is critical of the unqualified economic rationality assumption, arguing that "The more evident and easily applied principles of rational choice do not specify the best plan" for action in actual decisionmaking situations11—partially because a social contract among individuals takes precedence over personal utility-maximizing strategies.12 Sociologist Amitai Etzioni maintains that "a new conception of how people make choices" is emerging—a perspective which recognizes that economic decisions "are boxed in by emotion and values."13 And Cornell University economist Robert H. Frank finds several important deficiencies in "the standard economic model of rational choice." People are often not efficient processors of information, as Herbert Simon has demonstrated,14 and judgment errors are often systematic. Further, Frank emphasizes, "we are creatures not only of reason but also of passion."15

The "emotions," "values" and "passions" that Etzioni and Frank identify are located in a larger cultural framework by Paul DiMaggio, a sociologist in Yale University's School of Organization and Management. Among several proofs DiMaggio provides for his statement that "Culture influences economy at the organizational as well as the individual level," he revisits Roy's 1954 study of a Chicago machine shop, where management's dysfunctional interventions into the workplace resulted from the managers' seeming "to have been blinded by


10Ibid., 54.


12Ibid., 11-17.


strongly held cultural conceptions of organization." In short, their behavior in the economic sphere was importantly influenced by cultural factors. Underscoring this point, economist Robert Heilbroner emphasizes that the kinds of social obligations and activities which result in "economic" production vary from society to society. Observing that the idea of exchange is at the center of market mechanisms, Heilbroner examines "the psychological basis for the exchange relationship" and, in the spirit of Kant and Rawls, concludes (citing Locke) that "market society, with its linchpin principle of impersonal, equal-valued exchange, presupposes" subordination to a social contract which may often be at variance with "rational maximizing" behavior. Thus, for Heilbroner, "insofar as [economics] accepts as final the analysis of social movement in terms of unexamined 'economic' forces," the discipline remains "an ideology—a belief system." 

Henry J. Aaron, director of economic studies at The Brookings Institution, observes in 1994, however, that this broader conceptualization of the relationship of economics to other spheres often is not yet employed in policy analysis. Taking issue with Becker "that the standard [economic] model is capable of extension to encompass the full range of human actions," Aaron argues instead that if the adequacy of economists' policy work is to be improved economists must "rely less slavishly on the insights of theory" and "abandon a measure of disciplinary chauvinism" in favor of a more empirically-grounded and interdisciplinary approach.

"Strict and Orthodox" Macroeconomic Reform: Basic Requirements. Whereas the stream of economic thinking represented by Aaron's perspective requires that the relationship between a country's economy and other spheres be taken into account in reform planning, followers of the "Western approach" to Russian economic reform have adopted a very different planning strategy. Their goal from 1991 onward has been to force into place as many policies as
political circumstances will bear that are consistent with their driving monetarist theory, disregarding as completely as possible specific features of the economic, social and cultural environment of Russia in which these neo-liberal reforms are being planted.\(^{21}\) Politics, they recognize, has been a limiting factor; but they have not recognized how limiting, or how to generate long-term political viability for reforms, as we indicated in our last report.\(^{22}\) And beyond this inadequacy, proponents of the "Western approach" have believed that they can steamroller their proposals to realization in spite of other societal barriers as well. Preserving the theoretical integrity of the neo-liberal monetarist idea, they believe, should take precedence over any other considerations.

Former economic adviser to the Russian government Anders Åslund, for example, believes that the "frequent references to the unique nature of Russia" by Russian economic planners "undermine attempts to move in the direction of a market economy."\(^{23}\) Åslund has repeatedly stated his belief that, for Russia to extricate itself from its economic crisis, the country's "macroeconomic stabilization program should be as strict and orthodox as possible."\(^{24}\) And writing in 1993 of his Russian economist colleagues, Åslund argued, "Being armed with appropriate theory, they are working in the Russian government and outside of it, striving to apply it to existing conditions in Russia. Thanks to the efforts of such Russian economists as Egor Gaidar, the Russian economy can develop very quickly, in spite of its past."\(^{25}\) In a like vein, former economics adviser to Russia Jeffrey Sachs insists, "The lack of experience and of a democratic tradition in Russia . . . cannot serve as an argument to justify a more cautious approach to market reforms . . . The success of the reform depends on the stability of


\(^{22}\)Nelson and Kuzes, "Shortcomings of the 'Western Approach' to Russian Economic Reform, I: The Political Requirements of Effective Reform."


\(^{25}\)Anders Åslund, "'Esli Rossii khochet vyrvat'sia . . .'," Moskovskie novosti, no. 33 (15 August 1993), 13A. Emphasis added.
currency and its convertibility." Throughout their tenure as economic advisers, these key participants in Russian reform planning consistently urged that macroeconomic stabilization measures take precedence over all other considerations. Indeed, the pace of reforms that they insisted was necessary for Russia effectively precluded serious attention to noneconomic factors which shape economic relations in a country.

Gaidar accepted this point of view without reservation, although the level of "shock" that he applied was less extreme than most Western advisers had urged. "We proceeded from fundamental laws of economic behavior of homo sapiens," Gaidar states in a February 1994 article. "And it turned out that these laws work in Russia, with our [country's] specific character, as well as they work in Argentina, Korea, the Czech Republic, Slovakia or Australia." Below, however, we will suggest that inadequate attention to the ongoing societal forces which sustain longstanding organizational features of a country risks reproducing, in a reconstituted form, the very characteristics that reformers are trying to transcend. The Soviet bureaucracy succeeded for decades in prevailing over Gaidar's "fundamental laws of economic behavior," and its roots were deep in every facet of Russian life when the Gaidar team began their work. It was an inexplicable mistake for the reformers to think that they could wish away the hold of this powerful system by attacking primarily its surface manifestations. Ministries can be abolished by decree, certainly, and ownership hurriedly transferred from state to private hands. But such "reforms" do not speak to the larger problem of how to create conditions that will sustain market relations, among a citizenry steeled in very different patterns of both organization and thought. The reformers offered scant guidance in that area—a subject which should have been among their top priorities.

The reformers' failure to adequately attend to the requirements of effective structural transformation in their untimely rush to the "market" has not only thwarted realization of their stated economic goal but has also allowed important parts of the beleaguered core of the old command structure to survive, and to grow in power and influence since the beginning of the

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reforms--thus seriously impeding the unparalleled opportunity that existed at the beginning of
the Yeltsin period for broadening and deepening the reach of Russia's new political and
economic initiatives.

Autocracy, Hierarchy and Seismic Change in the Russian Tradition

The Russia inherited by Lenin's Bolsheviks had been, from the fifteenth century onward,
notably autocratic in comparison with nations of Western Europe. And along with one-person
rule there developed a multidimensional and extensive apparatus for central administration.
There were hierarchies of state service, of riches and taxes, and of ethnicity. Peter used the
tsars' autocratic power and the bureaucracy they had created to launch Russian industrialization
according to his personal vision, and from Peter's day until 1905, Teodor Shanin observes,
"all the major changes in the political structure of the tsardom of the Romanovs were to come
neither from 'below' nor from the 'outside' but from its very top, and were put to work by the
state officialdom."30

Russian history illustrates the tenacious hold that these trends can establish over time, and
the opportunities for alternative development paths that are often thus forgone. Russia was little
affected by the social and cultural ferment that accompanied the Protestant Reformation or the
political effects of the French Revolution which reverberated throughout Western Europe.
There was no conflict between church and state in Russia, where the church was officially
subordinated to the state, and Russia therefore failed to benefit from the creative tension and
robust civil society that this conflict helped to stimulate in Western Europe. James Billington
characterizes the turn to "social thought" in Russia from the 1840's to the 1880's as "in many
ways an artificially delayed ... Russian response to the rich ferment of reformist ideas in
France," but the movement it signalled, away "from the blue skies [and] into the kitchen"31
did not succeed in loosening the grip of Russia's oppressive bureaucracy. And when
revolutionary reversals finally began, and Russia was forced to submit to the erratic visions of
a "new class" of autocrats, Russia's hierarchical tradition found even more decisive expression
under Lenin and Stalin.

29 See Teodor Shanin, Russia as a "Developing Society": The Roots of Otherness: Russia's Turn of Century

30 Ibid., 26.

31 James H. Billington, The Icon and the Axe: An Interpretive History of Russian Culture (New York: Random
House, 1966), 370. The last quotation is from Belinsky.
The Renewal of Autocracy under Yeltsin. The August 1991 putsch brought a startling end to Bolshevik rule, but no relief from top-down administration in the political sphere. Rather, the democratic reforms that had been initiated under Gorbachev, which finally lifted the Soviet legislature above its rubber-stamping function in compliance with executive power dictates, was sharply reversed. As the government’s reform planners increasingly faced resistance to their economic proposals among Russia’s legislators, they ultimately rejected all attempts at legislative oversight, consolidating power in the executive branch. Finally, a new legislative structure and constitution were born out of confrontation and violence, and not surprisingly, Yeltsin acquired sharply increased powers. This is a characteristic authoritarian strategy, of course. It resuscitated, in the Russia of 1993, the Soviet-style system of government that had prevailed before Gorbachev’s 1989 reforms—reforms which had offered the promise not only of facilitating a separation of executive and legislative power but also of promoting the development of a civil society. The “State Duma” was an historically-appropriate name for the new parliament’s lower house. The Imperial Duma had been the advisory body to the tsar. The State Duma elected in December 1993 became largely an advisory body to Yeltsin.

Not surprisingly, this replay of the Soviet and Imperial past was manifest, not only in Russia following the demise of the Soviet Union, but throughout a large portion of the former Soviet Union (FSU). As political scientist Philip Roeder observes, "Russia’s lurch away from the balanced powers of its previous constitution reflects a broader pattern of post-Soviet political evolution toward authoritarian regimes." But Roeder’s analysis shows that the experience of the Soviet period did not consign the republics of the FSU to authoritarianism. At the beginning of 1994, Roeder finds, three of these republics seemed "to be on paths—albeit precarious paths—toward inclusive, competitive democracies." Turning away from the recent structures and patterns of authoritarianism in these republics, however, has required a deliberate and persistent effort to break free from the authoritarian shackles of the past—one which has been thwarted in Russia, for now, by Yeltsin and his supporters.

New Life for an Old Bureaucracy. Yeltsin not only repeated the autocratic responses to political challenges that had been the characteristic hallmark of Bolshevik leaders and tsars who had preceded him, but he followed them in enlarging bureaucratic structures to enforce his dictates. The government bureaucracy mushroomed under Yeltsin. Zhores Medvedev points out


33Ibid., 98.
that, although the population of Russia is just over half that of the USSR, and that the Council for Mutual Economic Assistance, the Warsaw Pact structures, the government of the USSR, and the organizational apparatus of the Communist Party of the Soviet Union (CPSU) have all been dissolved, virtually none of the people who had staffed the bureaucracy of the Soviet Union were put out of jobs. All of the administrative buildings of the CPSU and the USSR remained in the hands of Russian bureaucrats following the breakup of the Soviet Union. "The bureaucratic apparatus in Russia, in comparison with that of the USSR, did not shrink but rather grew in size--by 20 percent, according to some estimates," Medvedev states.34

Aleksandr Pochinok, vice chair of the State Duma Budget Committee, acknowledged in an April 1994 interview that, although "there are no longer any Soviet Union structures, the number of ministries and departments is about the same. But there are even more bureaucrats," Pochinok added.35

Not surprisingly, most of these bureaucrats are the same people who filled similar roles in the Soviet era. Ol’ga Khryshtanovskaia, a sociologist at the Institute of Sociology in Moscow, has documented the survival the "old Party nomenklatura" among Yeltsin’s army of "new elites." Her research group have interviewed "almost all" living members of the highest levels of Soviet and Party nomenklatura. They found that in early 1994, 75 percent of the members of the Yeltsin presidential administration had come from the Soviet-era nomenklatura. Thirty-seven percent of these individuals had held political positions under Brezhnev, and an additional 38 percent had climbed the political ladder under Gorbachev. A large number of these members of Yeltsin’s circle, then, were seasoned veterans of the Soviet-era administrative system. This body of presidential appointees had grown by 1994 to the point that it equalled the size of the government---that is, the entire executive branch outside the presidential administration. In the government (executive branch), 74 percent came from the Soviet nomenklatura, and among regional political elites 83 percent were nomenklatura members.36

It was to be expected, of course, that Soviet-era nomenklatura would be well-represented in any post-Soviet political configuration. These people were, after all, the most experienced and knowledgeable people in Russia about political and economic matters. But if the objective

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34 Zhores Medvedev, "Rossiia v ozhidanii demokratii," Delovoi mir, no. 247 (6-12 December 1993), 12.

35 Tat’iana Skorobogat’ko, "Biurokratiia bessmertna?" Moskovskie novosti, no. 16 (17-24 April 1994), 6A.

were to transform the old command system into a trimmer and more responsive one. deliberate and comprehensive measures were required to break the old organizational mold. As management analyst John Child observes, in rigidly hierarchical systems organizational learning tends to be low, partially because of information closure, which inhibits adaptability to changed external conditions. Adaptation, then, must be planned, and restructuring must be directed toward fundamental organizational reorientation if persistent patterns are to be changed in a progressive direction.

But that was not what happened. Instead, Yeltsin's tendency was to restore the Soviet Central Committee structure within his administration, and throughout Russia, the bureaucracy flourished. Political analyst Anatolii Kostiukov observes that, "In the process of commercialization of everything and everyone, the bureaucratic office became one of the most profitable of today's industries." This development has been studiously examined by a number of Russian analysts and political observers, and has been widely discussed within Russia--and not just by Yeltsin's political foes. Even Gaidar has acknowledged this trend, observing in a February 1994 article that "the bureaucracy is very quickly acquiring its 'classic' forms." Gaidar continues, "Today, state bureaucrats have a very specific ideology--the ideology of cynical bureaucratic decadence." Gaidar adds that these officials do not have any global aims for the state. Rather, "their aims have a very private character--to strengthen the role of the state for the sake of getting rich quickly at the state's expense. It has always been that way," Gaidar notes, "but as a secondary goal. Today, this goal is becoming predominant."

And this development was widely recognized among the respondents in our four-city study (described in note 41). When our general population sample was asked to estimate how much several types of groups were benefiting from voucher privatization, they answered that officials

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39 See, for example, Andrei Fadin, "Skuchno ne budet," Obshchaia gazeta, no. 1 (1-7 January 1994), 7; Gavriil Popov, "Revansh sovetskoi sistemy," Izvestiia, no. 93 (19 May 1994), 4; and Sergei Chugaev, "Vybiraia mezhdu reformami i vlast'i, politiki obyshno predpochitaiut vlast', Izvestiia, no. 63 (5 April 1994), 4.

40 See also Egor Gaidar, "Fashizm i biurokratia," Segodnia, no. 110 915 June 1994), 10.

41 Gaidar, "Novyi kurs." Emphasis added.
and members of the former nomenklatura were benefiting a great deal more than the general population, and almost as much as enterprise directors, who themselves were part of the old economic nomenklatura structure (Table 1). 42

The results of our interviews with Russian government officials, 43 opinion leaders and prominent businesspeople were consistent with those from the general population sample. During 1993 our research team interviewed 427 government officials and other prominent leaders in Moscow, Ekaterinburg, Voronezh and Smolensk. In selecting these respondents, our strategy was to seek out the most prominent and influential members of these groups. In selecting excerpts from our interviews for this report, we consistently attempted to choose statements that represented the characteristic viewpoints and positions which a particular subset of respondents voiced about the particular issue being discussed. This approach has the disadvantage of failing to highlight the full range of positions and views among our respondents, but if it is carefully followed it offers the advantage of reflecting the overall trends in our data.

Bureaucrats—particularly members of the former nomenklatura—were repeatedly cited by our officials and other leaders as being principal beneficiaries of the government’s economic reform program. "The nomenklatura and the mafia have benefited more than anyone else from privatization," a property fund member emphasized—highlighting a linkage we were to hear again and again from the most knowledgeable people in our study about new property

42As part of our ongoing study of Russian economic and political reform, we collected data during June and July, 1993, from general population subsamples of 1,000 adult respondents (eighteen years of age and older) in each of our research cities. Names were randomly selected from address bureau lists in Moscow and Ekaterinburg, and from voucher lists in Voronezh and Smolensk. All respondents were interviewed in person, and all interviews were conducted during the evening. No substitutions were permitted within a household for the individual named on address bureau and voucher lists, and interviewers made two follow-up attempts, if needed, to contact not-at-home individuals. (Ten percent of the interviews in each city were verified either in person or by telephone.) In this analysis with the four-city general population sample, students, military personnel, and individuals under 50 years of age without employment outside the home are excluded. The resulting sample size is 3,294. The overall response rate was 93 percent. (Among the 2,720 respondents who were employed, 1,344 worked in state enterprises; 1,048 worked in privatized or privatizing firms; and 328 worked in private, start-up businesses. City-by-city totals for employed respondents and those who were retired or were homemakers older than 50 are as follows: Moscow, 746 employed and 82 retired/homemakers; Ekaterinburg, 695 and 124; Voronezh, 684 and 167; and Smolensk, 595 and 201.)

43This category includes members of executive and legislative branches at the federal, oblast, municipal and okrug levels; and also members of the Constitutional Court, Procuracy officials, and others. We interviewed heads of local administrations, State Property Management Committee (GKI) members, Federal Property Fund (FI) members, local property management committee and property fund members, and State Antimonopoly Committee members.
arrangements and transactions in Russia. Most of the privatization officials we interviewed in all our research cities and at all levels of government made this point, as did a number of other officials and community leaders. "We have already seen, in Smolensk, the formation of mafia-nomenklatura 'clans,'" a well-known opinion leader maintained. "They will be the ones who will share all the privatized property among themselves." We will return to this theme in a later section of the report.

A privatization specialist in the Sverdlovsk oblast suggested, further, that many of the difficulties that were being experienced by privatizing enterprises was a result of nomenklatura resistance to restructuring that would diminish their power. "But these people are also the chief beneficiaries of privatization," he added, "along with directors and criminal groups. All except ordinary people are now taking advantage of privatization to grab state property for themselves." A Voronezh business leader was just one of many who made the same points. "Newly privatized enterprises are having problems because they have been 'captured' by racketeers and mafia members," he maintained. "All the power remains in Party nomenklatura hands." There was widespread agreement among our sample of officials and other leaders that, in privatization, Russia was getting the worst of two worlds--inequitable property distribution, and ownership by people who, in a large proportion of cases, were poorly suited to their new roles.

Gaidar wants to pin the blame for these developments on the partial implementation of his monetarist reform plans," but ironically, Gaidar's 1994 critique of the current role of Russian state bureaucrats in reform highlights an outcome to which his program importantly contributed. His retrospective analysis fails to confront the inevitable consequences of a reform strategy which was, from the beginning, highly centralized--consistent with Yeltsin's overall executive approach. Rather than formulating a reform plan aimed at trimming bureaucratic structures, the Russian political and economic reformers, collectively, chose instead to expand them, in keeping with the traditions of their Soviet and Russian past. They had a reason beyond mere habit. A monolithic bureaucracy was required, they believed, to pursue the dominating political objectives of their economic program--to solidify executive power which was being justified by the government's stated commitment to radical reform, and to quickly destroy what remained of the Soviet-era economic control system that had begun to unravel conspicuously as early as 1988.

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"We are ready to unveil Big Privatization," Anatolii Chubais declared with the beginning of price liberalization in January 1992. "We have worked out the required tasks for privatization in regions, oblasts, Moscow and St. Petersburg." The first task was to assemble the 50,000-plus government personnel who would be required to implement the program. As political scientist Lev Timofeev described this transfer from one set of hands to another of the reins of Russia's bureaucracy, "All the managerial strings for property, including the process of privatization, . . . remained in the apparatchiks' corporation." Political analysts Yurii Burtin and Grigorii Vodolazov characterize this reconstituted economic arrangement as one of "nomenklatura capitalism." Not only did most of the players remain the same, but Gaidar's reformers were also soon replicating the decision errors that had been a hallmark of Soviet planning--mistakes that were often directly attributable to excessive centralization. Elsewhere, we have highlighted some of the dysfunctional consequences of the tight centralized control that Chubais's State Property Management Committee established over the privatization process.

A Truncated but Hardy Hierarchical Structure. What has been lost in Russian bureaucracy is the firm and extensive control from the top which, in the Soviet system, coordinated all lower-level structures. Under Yeltsin, the state apparatus was not systematically transformed or downsized. Rather, piecemeal procedures were undertaken to patch together vital connections that were imperiled by the sudden demise of the Politburo-headed command system. The Central Bank of Russia partly filled the shoes of Gosbank. Along with the elimination of Gosplan and Gossnab, the system of branch ministries was abolished as the Yeltsin-Gaidar reforms began, but a number of departments soon began to emerge which replicated the organizational form and functions of the old branch ministries in important details. The State Property Management Committee, however, developed a rigidly-centralized structure, whose directives were enforced from the federal to local levels.

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But for the most part, the Yeltsin-Gaidar attack on the Soviet command system only eliminated the highest level of control, leaving lower level hierarchical structures—the regional and local bureaucracies—solidly in place and fully functioning. The reformers mistakenly believed that they were breaking with the familiar Soviet order through their focused assault on federal-level control and coordination mechanisms. This control system was already beleaguered in 1990, and it was further undermined by Yeltsin and other politicians who were fanning separatist sentiments at the republic level in 1991. Finally, it was decimated in accordance with the government’s economic program under Gaidar’s leadership. As David Lipton and Sachs approvingly summarize these developments in 1992, “Within a short period of eight months, almost all centralized operations of the command economy ceased.”

We will address the narrowly-economic aspects of Gaidar’s strategy to rapidly destroy the Soviet coordination and control system in our next report. Here, we are concerned with the non-economic structural and social implications of these developments. In their 1992 report, Lipton and Sachs suggest encouragingly that, in the wake of the dissolution of the command economy’s centralized operations, “new commercial structures are developing rapidly,” and “spontaneous market activity is evident.” Gaidar’s assessment of early 1992 trends is similar. “In the first months of 1992, a serious step was taken,” he states. “Especially important was a methodologically new advance in Russia’s history. The state did not spur people as it had in the past, but rather slackened the reins. And the invisible hand of the market began pulling the wagon out of the mud.”

Interestingly, however, Gaidar recognizes that loosening the state’s grip over economic transactions would not in itself create an environment in which markets could flourish in an orderly fashion. In an August 1992 article, Gaidar conceded that, when the reforms started, “there was no developed and stable private sector, and there were no clear rules to regulate [economic] relations.” He continued, “There was not a competitive, demonopolized market environment. There was no system of financial institutions to provide efficient distribution of

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50 Ibid.

51 Gaidar, "Novyi kurs." Emphasis added.
resources. There was no developed labor market. Labor mobility was limited by traditions and residues of administrative regulations. "52

Thus, Gaidar underscores our point. The necessary structural preconditions for the Russian reform program had not been met at the time that the program was launched. "But there was no . . . time to sit around and wait for these preconditions to appear," Gaidar insisted.53 Gaidar was correct that Russia's economy was near collapse when he joined the Yeltsin government in November 1991, and immediate measures were necessary in response to the loss of coordinating mechanisms that had resulted from the demise of the Council for Mutual Economic Assistance, the dramatic weakening of Union structures, and the centrifugal tendencies within Russia and other republics that had been stimulated by the moves of Yeltsin and other republic leaders against the center. Even before the events of late 1991 which wreaked havoc with Russia's production and distribution networks, Russia's economic crisis had become so urgent that, as Graham Allison and Grigori Yavlinsky emphasize in their Window of Opportunity proposal which was prepared several months earlier, it was by that time clear that "the reforms must be rapid and comprehensive to have a chance of success."54 Unfortunately, under Gaidar the emphasis shifted almost entirely to speed, while comprehensiveness in planning was conspicuously neglected.

Gaidar's first mistakes in this situation, as we have noted elsewhere,55 were in encouraging Yeltsin's singleminded effort to grab power from Gorbachev through his unilateral October 28 announcement of an independent radical reform course for Russia, in direct violation of the terms of the Treaty on an Economic Community that Yeltsin had signed just 10


53Ibid.

54Graham Allison and Grigory Yavlinsky, Window of Opportunity: The Grand Bargain for Democracy in the Soviet Union (New York: Pantheon Books, 1991), 34. RFE/RL Daily Report, no. 88 (9 May 1994). In this report, when citing published material, we follow the transliteration conventions of the authors/editors we are citing (e.g., "Yavlinsky"), even though they may deviate from the transliteration "rules" we use in the narrative (e.g., "Yavlinskii"). Of course, if we were adhering precisely to Library of Congress transliteration conventions in this example, we would write "Yavlinskii."

days earlier, and in supporting a series of additional moves by Yeltsin in the following weeks to eliminate the Union structures which he did not take over. It was not only Gaidar, of course, who recognized the severity of this autumn 1991 crisis. Yavlinskii, for example, was warning at the time that the country’s management mechanism was in danger of being "totally destroyed by the year’s end." and Yavlinskii’s concern was widespread among Russian economists.

But what was unique about Gaidar’s position was his conviction that the best way out of this emergency was to precipitously abolish coordination structures at the federal level without first developing policies to smooth the transition. In advocating this neo-liberal strategy, Gaidar and his team stood virtually alone among Russian economists. "The ideology of the reform that we started in 1991," Gaidar wrote later, was "to raise the country, not through strengthening the muscles of the state, but just the opposite—by weakening the state bridle, reducing the power of state structures. The withdrawal of the state must open up space for organic development of the economy." Predictably, what Gaidar’s strategy actually opened up was space for regional and local bureaucracies to consolidate power below the federal level, space for further disintegration of the economy, and, as we will indicate below, space for the "organic development" of organized crime.

German Diligenskii, of the Institute of the World Economy and International Relations of the Russian Academy of Sciences, describes this development pointedly. "The political situation which appeared in Russia after the disbanding of the Soviet Union led to a strengthening of the role of the apparatus in the system of power---furthering its 'sovereignty,'" Diligenskii observes. "Bureaucrats at all levels now feel themselves

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58Gaidar’s Program for Deepening Reform, which was presented to the Council of Ministers in June 1992, outlined features of a three-year transition period, but it failed to adequately consider the types of structural and processual features of the existing system that would need to have been taken into account by a potentially-effective reform proposal. The Supreme Soviet considered the program that October but did not adopt it. It was at this time that Yeltsin began to distance himself from the Gaidar strategy, declaring to the Supreme Soviet that the "big jump" had been a mistake from the beginning. See Anatolii Kostiukov. "Boris El’tsin povernul telegu. Budet li meniat’ konei?" Megapolis-express, no. 41 (14 October 1992), 20.

59Gaidar, "Novyi kurs." Emphasis added.
increasingly independent from any kind of supervision. The Communist Party, which had been the authority to which members of the apparatus were accountable, finally left the stage. As a result of the conflict between the highest executive and legislative powers, . . . the apparatus received an unprecedented ‘free hand’--the possibility of acting according to their own will."60

Aleksei Demichev was a regional Communist Party boss until the August 1991 coup. Disillusioned, he left his position and is now the general director of a joint stock agricultural company. In an April 1994 article, Demichev argues, "We need laws to regulate relations between production and bureaucrats in the state apparatus—bureaucrats who were never before so numerous and powerful. . . . Those former ‘administrative command’ bureaucrats we are cursing at now were better than today’s ‘democratic’ ones."61

"Let’s give up democratic illusions," Timofeev insists. "The ‘corporation of apparatchiks’ remains in charge of the life and future of the country, . . . and are using reforms in their corporate interest."62 Why have there not been more start-up businesses, headed by entrepreneurs, to compete with privatized enterprises still run by their pre-privatization directors? The apparatchiks "are supporting initiatives and creativity only in their own circle, only for their own people, and only within the framework of their bureaucratic organization," Timofeev maintains.63 We will examine this problem in more detail in our next report.

In October 1993 Yeltsin, after having thrown off legislative-branch checks on executive power at the federal level, furthered the reconstruction of the Soviet-style system of executive authority at the regional and local levels, also. First, he called on the soviets (elected legislative bodies) at all levels to cease their activities voluntarily, blaming them for the slowdowns of executive initiative that inevitably result from a separation of executive and legislative powers--"dual power," in his words. A series of decrees followed, which granted regional and local executives the authority to develop procedures for elections to new representative bodies at their levels. These representative organizations, however, would have

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60German Diligenskii, "Rossiiskie al’ternativy," Mirovaia ekonomika i mezhdunarodnye otnosheniiia, no. 9 (1993), 8.

61Aleksei Demichev, "Gosudarstvu tozhe nado popotet’," Moskovskie novosti, no. 17 (24 April-1 May 1994), A5.

62Timofeev, "Tenevaia privatizatsiiia."

63Ibid.
substantially reduced powers. Thus, Yeltsin reinstituted the Bolshevik system of giving executive officials control over elected bodies of "people's representatives." High-ranking regional executives were made accountable directly to Yeltsin.

In light of these developments, Gavriil Popov, former Moscow mayor and chair of the Russian Movement for Democratic Reform, writes in May 1994 that "Everything we see now, we remember from our past. It was a fundamental feature of the Soviet system to merge, to fuse together, executive power and representative power. . . . Before our eyes is now appearing the prospect of a regime in which bureaucrats, without the help of the CPSU [Communist Party of the Soviet Union] and without a 'front' of Communist slogans, will hold all the power."64

The Continuing Appeal of Dialectical Change. If the Russian government's administrative structures are continuing the traditions of Bolshevism and the tsarist system that preceded it, the reformer's fixation on cataclysmic societal transformation—this time, guided by a monetarist vision—also repeats a familiar Russian theme. This refrain, sounded loudly in eighteenth century France, became a staple of Russian radicalism in the nineteenth century and, of course, of Communist revolutionaries throughout the world. "We shall now proceed to construct the socialist order!" Lenin proclaimed triumphantly as he addressed the Congress of Soviets the day after the Bolsheviks took power.65 Then, after Lenin read his new "decree on peace," the Congress came alive with a long round of applause and spontaneously began singing the "International": "We'll raze to the ground the world of violence, and then we'll build our world—a new world . . .!" The militarism, despotism and deprivation that followed were predictable. "Bombard the Headquarters!" a Chinese poster urged in 1966, as the Great Proletarian Cultural Revolution was launched. And the French revolutionaries were likewise unable two centuries ago to establish a new social order with any semblance of orderliness. Fewer people died in the French Terror than in Stalin's, but in both cases the objective was to assure the survival of revolutions which had sought to achieve lightning-quick societal transformations. For Yeltsin, as for Lenin and Stalin before him, the lever of choice was economic restructuring.

Only before the twentieth century could a writer such as Tocqueville have argued that "France alone could have given birth to revolution so sudden, so frantic, and so

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thoroughgoing." Yet, Tocqueville observes, the Revolution failed to achieve its most fundamental goals. "And the nation, at a loss where to turn, began to cast round for a master." David Landes points out that "the series of upheavals and wars that began with the French Revolution . . . brought with them capital destruction and losses of manpower; political instability and a widespread social anxiety; . . . all manner of interruptions to trade; violent inflations and alterations of currency." France, Landes continues, "lost ground in the long run." Thus Theda Skocpol concludes that "France provides poor material indeed for substantiating the notion of a bourgeois revolution that supposedly suddenly breaks fetters on capitalist development." People's minds, even in the intense heat of a French Revolution, "do not change overnight." With all its terror and disruptiveness, Tocqueville insists, the Revolution failed to break with the old order.

From State Planning and Corruption to an Explosion of Organized Crime

A study of crime in Russia that was prepared under the direction of Yeltsin aide Petr Filippov and released in early 1994 concluded that by 1994 at least 70 percent of privatized enterprises and commercial banks had some type of connections with organized crime. The study found that, unlike Western Europe and the United States, where the activities of organized crime are generally restricted to certain types of products and services, "In Russia, organized crime controls all kinds of activity." A report of the Ministry of Internal Affairs to the Russian parliament in May 1994, noting that thousands of joint stock companies and


67Ibid., 209.


69Theda Skocpol, States and Social Revolutions: A Comparative Analysis of France, Russia, and China (New York: Cambridge University Press, 1979), 177.


hundreds of banks were under the control of organized crime, concluded that entrepreneurship in Russia had become a haven for criminal operations.\textsuperscript{72}

Viktor Iliukhin, the chair of the State Duma Security Committee, examines the political as well as economic dimensions of this problem in a May 1994 report. In the economic sphere, Iliukhin states (citing a Russian Academy of Sciences study), "55 percent of capital and 80 percent of voting shares [of enterprises] are in criminal hands, Russian and foreign." (Iliukhin's reference to foreign criminal investment highlights a trend in which foreign money is increasingly being "laundered" through Russian businesses.) "Crime has become a national disaster in Russia," Iliukhin continues. "It is also politicized, and aims to seize leading positions of power. Today, crime groups influence executive decision-making at all levels, and they are trying to influence the legislative process as well."\textsuperscript{73}

And in a May 1994 US Senate committee hearing, Louis Freeh, director of the Federal Bureau of Investigation, broadened this sketch, noting that Russian organized crime is involved with international crime groups in drug trafficking, has been found involved in illegal activity in the United States in cooperation with La Cosa Nostra, and, it is feared, might at some future time participate in the arming of terrorist groups with nuclear weapons or weapons-grade nuclear materials.\textsuperscript{74}

Stephen Handelman, a visiting scholar at Columbia University's Harriman Institute, notes that "the mixture of unbridled capitalism, organized crime and official chicanery has produced a crisis of governance" in Russia.\textsuperscript{75} Handelman recognizes that "Russian policymakers committed a fundamental mistake" in trying "to develop a free market before constructing a civil society in which such a market could safely operate."\textsuperscript{76} Yet, he is unwilling to pointedly confront the implications of this enormous planning error, but instead dilutes the plain message of his observation by objecting that "A reversal or slowdown of reforms is the goal of the former Soviet establishment"--thus shifting his focus away from the obvious fact that the rapid


\textsuperscript{75}Stephen Handelman, "The Russian 'Mafiya,'" \textit{Foreign Affairs} 73 (March-April 1994), 88.

\textsuperscript{76}Ibid., 89.
pace of reforms is heavily implicated in the problem he is highlighting. Handelman appropriately traces important historical roots of organized crime in Russia today to the behavior of Communist authorities in the Soviet period. But corruption in the Soviet command system was just one of the features of Russian society that Gaidar's Western advisers urged the government to largely ignore in formulating their proposals, in favor of a hurry-up transition scheme based on "strict and orthodox" monetarist ideology, floating free of Russian structural and cultural realities.

The inevitable difficulties that would attend Russia's move toward a market economy in the context of a corruption-riddled bureaucratic control system were well-recognized in Russia and the USSR long before the Gaidar reforms began. Russia's more thoughtful analysts had emphasized the necessity of providing for mechanisms to work against the spread of corruption and crime in the transition. The Shatalin-Yavlinskii "500 Days" proposal, for example, devoted explicit attention to "the criminal economy," and after observing that it was "built into the official economy" as well as involving "clandestine economic activity," the program proposed explicit actions to face the problem head-on as reforms were pursued. 77 Similarly, the Allison-Yavlinskii "Program for an Organized Return to the World Economy" ("Windows of Opportunity") called for systematic but urgent institution building which would provide the legal and societal foundations necessary for "a normal market economy." 78

But Gaidar's approach, in contrast, was to largely ignore this tangled web, and even to clear a path for criminal involvement in reforms, as we noted in an earlier report 79 --hoping, perhaps, that the new business class he wanted to create, composed in significant measure of nomenklatura and crime groups that he had already recognized to be participating in various forms of corruption and extortion, would somehow automatically be bathed in "right reason" by the "invisible hand" of the market. And the reformation of these new business leaders would occur once state controls over their behavior were lifted--controls whose inadequacies were a major factor in the then-existing levels of criminal economic behavior.


79Nelson and Kuzes, "Shortcomings of the "Western Approach" to Russian Economic Reform, I: The Political Requirements of Effective Reform."
Such reasoning is wishful thinking, when the subject is economic reform planning for post-USSR Russia. Mark Masarskii, a prominent Moscow business leader, describes the predictable result of this approach among state bureaucrats. Today, he argues. "bureaucrats are preoccupied with the idea of exchanging power for property," adding that until the state "stops behaving criminally in the business sphere, the whole of Russia's economy will remain criminal." It was in that light that Vasilii Lipitskii, then-chair of the executive committee of the Civic Union, observed in 1993 that "there were real alternatives [to the government program] which could have produced better results and reduced the possibilities for abuse. Perhaps the opportunity for abuse [afforded by the Gaidar program] caused them not to select another alternative," Lipitskii added.

Chubais's interpretation was softer, as reported by Leonid Abalkin when, having been reminded that the new owners in the privatization program, as it was structured, would "mostly be criminally oriented people," he responded, "But there are no others now. ... And without real entrepreneurs and owners, Russia will never get out of the hole."

Yet, with the widespread awareness that we have found, among Russian political and business leaders and analysts, of the inevitable invitation to crime that was offered by the Gaidar-Chubais program, we wonder what reasoning led the reformers to believe that their approach could have any effect other than to make Chubais's "hole" even deeper. After studying a large volume of both primary and secondary material on this subject, the only interpretation that we find plausible is that the Russian planners were operating under an "illusion of invulnerability," as social psychologist Irving Janis describes this symptom of the "groupthink" syndrome: "the illusion of being invulnerable to the main dangers that might arise from a risky action in which the group is strongly tempted to engage." (We discuss a different interpretation of the Western advisers' position in a later section of this report.) As Janis describes such situations, which, as he shows, can be features of policy decisions at the highest governmental levels, this tendency "can operate like a low-level noise that prevents warning signals from being heeded. Everyone becomes somewhat biased in the direction of

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attending to the messages that feed into the members’ shared feelings of confidence and optimism, disregarding those that do not.”84 Even in long-range planning situations, Janis continues, when the invulnerability illusion influences group deliberation, “The members of a cohesive group become very reluctant to carry out the unpleasant task of critically assessing the limits of their power and the real losses that could arise if their luck does not hold. They tend to examine each risk in black and white terms.”85 The warnings were abundant as the reforms took shape, from all points on the political spectrum. But the Gaidar team chose to discount them.

Vladimir Ovchinskii, a lawyer and analyst for the Ministry of Internal Affairs, summarizes the consequences of the Gaidar team’s approach. As the strict system of state control disappeared, Ovchinskii suggests, “the system fell apart, and criminal authoritarian structures filled the vacuum.”86 . . . We are on the brink, after which we may become a criminal state. The situation is critical, because the leadership in the economy is virtually in the hands of organized crime.”87 And Nikolai Petrakov, one of Russia’s most prominent economists, insists, “we have not created a market. Instead, a monopoly criminal economy emerged from our totalitarian one. The ‘new rich’ appeared—as I identify them, ‘the capitalists of Gaidar's conscription’—people who do not need a civilized market at all. They don’t want competition, . . . and they love weak [political] power.”88 Consistent with this perspective, among our general population sample an overwhelming 82 percent thought that mafia and crime groups were benefiting from the privatization program. Variation by city was not large (Table 1).

In our interviews with Russian government officials and other leaders, we found that the distinction between legal elites (nomenklatura) and criminal elites was widely becoming blurred, as was differentiation between "legal" and "illegal" business activities. "There are hardly any honest people in business today," a privatization specialist told us. A nationally-prominent policymaker emphasized, "Industrialists and mafia groups are connected now. Honest people have been pushed out of business just as democrats have been pushed out of

84Ibid., 36.
85Ibid., 36.
86Aleinik, "Chernyi rynok kak polititcheskaia sistema Rossii."
88Boris Aleksandrov, "'My sozdali ne rynok, a monopol'no-kriminal'nuui ekonomiku,'" Delovoi mir, no. 33 (16 February 1994), 1.
politics." And an okrug soviet deputy in Moscow said, "Everything is in the hands of corrupt bureaucrats and the mafia." The chair of the board of directors of a large Moscow bank told us that the chief obstacles to effective privatization were "ineffectiveness of the legal system and corruption."

"What groups are benefiting the most from privatization?" we asked.

His reply was unhesitating and, by the time of that midsummer interview, one that we had come to expect: "The mafia and 'shadow' groups." Such perspectives were not the exceptions but rather were predominant among the officials and business and opinion leaders we interviewed. As a Smolensk privatization official put it, "New ownership arrangements are springing up everywhere, interlaced with criminal structures."

The Socialist Culture of Work and Transition to the Market

The Problem. The tendency of rigidly hierarchical systems to inhibit organizational learning within administrative bureaucracies has a counterpart in socialist work organizations, where, as Hungarian economist János Kornai observes, the paternalistic relations that exist between the enterprise and the state reinforce values of solidarity, security, the priority of collective interests over individual interests, and the distribution of income according to work. Sociologist Tat'iana Zaslavskaya writes of the same phenomenon in Russia, but with a harder edge: "Long years of a passive alienated existence have undoubtedly left their mark not only on the present behavior of people as regards the economy but also on their habits and values—in other words on their social quality as workers. Once they had become accustomed to an irresponsible attitude to their jobs, workers gradually lost all their professionalism and habits of intensive, purposeful work and became used to being idle and showing no initiative. Alienation and indifference, irresponsibility and sluggishness, scepticism and cynicism became the norms of social conduct and were accepted as received standards of behavior."  

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Survey research data collected by the Russian Center for Public Opinion Research (VCIOM) supports the main directions of Zaslavskaia's indictment. VCIOM analyst Zoia V. Kuprianova summarizes the results of an August 1993 study of the work force in Russia, stating that the general pattern she found reflects a "passive orientation toward success" in which hard work and honesty are not highly valued and work motivation is low and seems to be declining.91 And a study by Liudmila Khakhulina and Aleksandr Golov, which compared data sets collected by VCIOM in 1989 and 1993, found that most 1989 respondents did not expect hard work to generate success, and that this expectation had declined further by 1993.92 The surest route to success, most people believed, was through special connections or questionable behavior. In the study, responses of individuals who had experienced substantial recent improvement in their material well-being were separated from the overall sample for part of the analysis, and indeed the most prevalent avenues for success, among these self-reports, had been consistent with prevailing public stereotypes.93 Similarly, a comparative study carried out at the University of Michigan with data from 1991 and 1993 found that, whereas 67 percent of United States respondents believed that hard work leads to economic improvement, only 21 percent of Russians had that opinion.94 

"A mass psychology of people as robots has been created" through seven decades of totalitarian administration, economist Yuri Shishkov argues. These people "are ready to do what they have been ordered to do, but they have not been able to think independently, to make decisions, or to take the risk of responsibility. . . . Most people in the society have forgotten how to think and act independently, and they can neither harness the winds of competition nor endure a continuing struggle to improve their well-being--preferring instead a meager but dependable existence on the rolls of the state."95
Our four-city research has repeatedly provided evidence consistent with Zaslavskaia's and Shishkov's assessments—even outside the state enterprise system. Respondents we have interviewed who manage joint ventures, joint stock companies, foreign firms, and private Russian businesses, as well as directors in state enterprises, have repeatedly echoed the complaint of Yakov Vartanian, the managing director of a Moscow joint venture. After describing a chronic accounting problem in his company, Vartanian continued. "Accounting is a minor frustration, though, compared to managing the work force in our production facilities. Our workers can't make decisions on their own. It's the result of more than seven decades of 'Don't do this..." [96]

The persistence of such patterns does not create a societal straitjacket which would prevent the development of a market economy, certainly. The general characteristics of a country do not describe traits of its exceptional members, and to even identify a coherent set of closely held general features of a society is no simple matter. Anthropologist Victor Turner states the problem well in noting that "the culture of any society at any moment is more like the debris, or 'fall-out,' of past ideological systems, than it is itself a system, a coherent whole." [97] Yet, national experiences and organizational arrangements clearly do result in a number of orientations and behavior patterns that characterize substantial proportions of a country's population, and if a reform program is to secure the level of public support necessary for its survival, it must appeal to the values and strengths of more than a few exceptional individuals. In matters of politically viable economic reforms, which must satisfy diverse constituencies in a reasonably short time period, "a little leaven" does not go far. Rather, it is likely to give unrealistic encouragement to policy dead-ends. Even if the organizational linkages of command economic systems could be severed quickly or recast, the behavior patterns, values and norms which were adaptive under the former economic conditions would not thereby be automatically realigned to fit the changed environment. It is a long way, culturally, from the kinds of paternalistic relations Kornai identifies to societal arrangements that effectively nourish the values of competitiveness, risk-taking and entrepreneurship that are basic to capitalist economic organization. [98]

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[98] See, for example, Child, "Society and Enterprise between Hierarchy and Market," 216.
And having a desire to adapt to new economic arrangements, as was clearly the situation among a large proportion of the Russian population at the end of 1991, does not provide the tools or means for shaking free from patterns in which most citizens have long been immersed. Policy-oriented economists who ignore this fundamental fact can expect to see their reform plans quickly founder on shoals that have already been clearly mapped by a number of researchers. "The problem lies not in assuming that human actors are rational, in some reasonable sense of that word," Farmer and Matthews point out, "but in the assumption that all rational actors are the same." Of course they are not, and differences among human populations in the structural arrangements and historically-shaped behavior patterns that characterize their accustomed ways of life are an important reason. We know too much about the workings of culture for Gaidar's narrowly-directed faith in the "fundamental laws of economic behavior of Homo sapiens" to be the guiding principle for radical economic reform. Gaidar and his advisers did not understand that the "fundamental laws" which they would apply to relatively stable systems offer scant direction for confronting the vastly different processes that are called into play, and considerations that must be taken into account, when the task is radical economic change.

Further Considerations

We stated in the introduction that our objective in this report is not to provide a comprehensive enumeration of critical noneconomic factors which should be taken into account in Russian reform planning. This is a task for a multidisciplinary collaborative team—and is the kind of preliminary, detailed analysis that the Gaidar planners should have commissioned at the beginning of their work. Our more modest goal has been to identify examples of


101Gaidar, "Novyi kurs."
noneconomic factors which are so basic and important as to confirm our contention that the Russian reformers quite clearly neglected even the most fundamental building-blocks for effective reform planning in a world where economic relations are embedded in other societal structures and processes.

A more detailed analysis of this problem would also focus on Russian ethnic diversity, for example. There are a number of distinct cultural traditions within Russia—several of which illustrate the varieties of orientations toward economic relations that are culturally shaped. And the cultural diversity in Russia is partially reflected in political divisions. Within the Russian Federation are 21 ethnic republics and 11 additional political entities organized around ethnic lines. Yet, these political units are not ethnically homogeneous. Russians constitute a majority in 10 of the 21 ethnic republics, for example. Russia’s cultural diversity has important implications for economic reform, and calls for a large measure of flexibility from the center in encouraging and facilitating regional variations on a general reform plan.

Russia’s regional economic diversity also presents formidable challenges to reform planners. Some regions, because of their mix of economic activities, had more to lose from a decline in state subsidies than did others at the time the Gaidar reforms began, and some were better suited than others to the type of privatization program that was instituted under Chubais’s direction—a program which offered more regional discretion in selecting specific enterprises to be privatized than in determining the extent of privatization that should be carried out in a region during a specified time period. We will return to the regional question in our next report, where we will consider the implications of regional specialization and concentration for reform planning.

Additionally, such work force characteristics as sex ratios and age distributions in different sectors of economic activity would have to be studied if suitable preparations were to be made for retraining and other "social safety net" programs. A 1991 study of the Soviet economy which was prepared by the staffs of four international financial institutions emphasized that a transition to the market would "require putting in place effective labor market and social policies to both support the transition process and sustain the political consensus in favor of reform." The report discusses a series of needs which should be addressed through state programs. Labor market policies, for example, should include measures to facilitate "professional orientation" and to encourage self-employment initiatives, the creation of a nation-wide employment service, the institution of retraining programs, and the creation of a
variety of other policies critical to facilitating the transition process. But in the Gaidar reform program, the schedule for economic restructuring badly outpaced the inadequate efforts that were undertaken in these directions.

Conclusions and Policy Implications:
Toward Appropriate Reform Strategies in a Non-ideological Key

The "Chicago School" on Social Adaptation. Questions about the "ideal" role of the state in economic affairs are irrelevant to our main argument in this report. We are not concerned here with the normative question of how far an authoritarian state should ultimately go in divesting itself of control over the economic or any other sphere of a society, but rather with the practical subject of what it must do, along the way, to insure that its divestment goals are not derailed because of a failure to lay the necessary tracks, after adequately preparing the roadbed, so that the journey may be successfully completed. The two considerations are logically and empirically separable, and we want to keep them unentangled in assessing the Russian government's economic change initiatives.

Our question is how the state can best facilitate adaptation to a market environment. Gaidar's approach, as we have shown, was to favor swift elimination of state control over economic relations, in keeping with "Chicago school" dictates. Åslund and Sachs followed Milton Friedman scrupulously in decrying gradual economic transformation in cases such as the one Russia presented in 1991. Friedman hopes for a world characterized by "voluntary co-operation among individuals in which each man is free to use his own capacities and resources as he wills in accordance with his own values so long as he does not interfere with the right of others to do likewise." But he is unwilling to recognize that purpose and planning are required for reformers to move inadequate and inefficient economic systems toward that goal—that monetarism does not itself furnish a useful blueprint for pursuing radical societal change. Unwilling to shed a narrow view of social relations which is thoroughly dominated by economic considerations even under conditions of massive societal restructuring,

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104 Ibid., 141.
"Chicago school" proponents tend to simply assume, along with Friedman, that the state of nature to which humans and their organizations will quickly revert when released from the fetters of authoritarian state domination will predictably be consistent with the neo-classical ideal.

Columbia University economist and Harriman Institute director Richard Ericson acknowledges more pointedly than several "Chicago school" proponents that a country's economy cannot be entirely restructured without grave implications for its larger system of values, customs and institutional arrangements. Unwilling to dilute the "Chicago school's" prescription for swift change, no matter what the cost, he argues that "Only the wholesale complete replacement" of these features "opens room for an alternative, market-based system to begin to function. Thus, the primary implication for reform arising out of the nature of the traditional economic system is that any reform must be disruptive on a historically unprecedented scale. An entire world must be discarded, including all of its economic and most of its social and political institutions, and concluding with its physical structure of production, capital, and technology."105

On the positive side, Ericson at least acknowledges that the kind of rapid transformation that Åsland and Sachs have urged for Russia would have momentous and sinister consequences for the country's social institutions, its production system, and its technological position in the world. On the other hand, Ericson's proposal to purposefully discard "an entire world" is a millenarian idea which has never led to the kind of result he hopes for. When, in 1992, the societally disruptive forces of the Gaidar program were unleashed in Russia, along with "echo" price reforms in most other CIS republics, Ericson identified some of their first effects: a high inflation rate, the severing of trade relations, an "ongoing collapse of production," "regional semi-autarchy," and a weak ("but hearty") nonstate sector.106 These outcomes had a positive side, in Ericson's view. "[G]rowing disruption has, at least to a point, a positive role to play," he argues, adding, "indeed, for systemic transition it is probably good that the prospects for an early recovery are poor. There is much that must be destroyed in the physical structure of capital, production, and interaction before market oriented activity becomes viable and self-


sustaining . . . A Schumpeterian ‘whirlwind of creative destruction’ is necessary,” Ericson continues.107

Ericson’s appeal to Schumpeter is misplaced. The "creative destruction" which for Schumpeter is "the essential fact about capitalism" bears no relationship to the assault that has been waged on Russia’s societal institutions in the name of economic reform. The process that "incessantly revolutionizes the economic structure," was, for Schumpeter, one which, "from within incessantly destroy[s] the old one, incessantly creat[es] a new one."108 Nothing in Schumpeter’s writing reflects a taste for the kind of willful political destruction of major societal institutions in pursuit of a theoretical idea that is central to Ericson’s perspective. "The essential point to grasp," Schumpeter emphasizes, is that in dealing with capitalism we are dealing with an evolutionary process.109 And Schumpeter’s discussion of economic "transitions"--from capitalism to socialism, for example---in no way resembles the "creative destruction" idea highlighted by Ericson.

It is only ideological faith that leads Ericson to believe that, under the circumstances of massive societal dislocation that he wants to see develop, markets would somehow "naturally arise in response to the needs of economically autonomous actors."110 The historical record tells us that what is likely to naturally arise under such circumstances is not markets responding "to the needs of economically autonomous actors" at all, but rather demagogues cultivating soil that has been made fully ready for authoritarianism.

An Alternative Perspective. Kornai’s perspective about the necessary path to "a free economy" differs sharply from that of "Chicago school" proponents—and is strikingly more consistent with our knowledge about the prerequisites for effective change in the real world. In writing about privatization, Kornai maintains that the state "apparatus is obliged to handle the

107Ibid., 61. Åslund got this part right. He states that "private ownership is necessary for the creative destruction, entrepreneurship and innovation that Joseph Schumpeter cherished. In neither practice nor theory, can these properties develop under predominant state ownership." Thus Åslund, unlike Ericson, correctly applies the "creative destruction" idea to the post-structuring stage of economic development. See Anders Åslund, "Principles of Privatisation for Formerly Socialist Countries." Working paper no. 18, Stockholm Institute of [Soviet and] East European Economics (January 1991), 4.


109Ibid., 82. Emphasis added.

wealth it was entrusted with carefully until a new owner appears who can guarantee a safer and more efficient guardianship. The point now is not to hand out the property, but rather to place it into the hands of a really better owner. A precondition to this is that genuine private entrepreneurial motivation should gain ground and take hold." Sociologists Robert Hamblin, et al., state this principle in broader strokes: "When mastering new tasks, organizations and collectivities gradually acquire expertise that is fundamental to social adaptation."112

Consistent with this reasoning, John Friedmann identifies three major forms of planning, which correspond in general to three different states of political systems. Allocative planning is oriented toward system maintenance. Innovative planning is directed toward evolutionary change. Radical planning aims for structural transformation.113 But radical planning--the variant that the Gaidar team wanted and needed to carry out in Russia--does not connote single-minded pursuit of an ideological vision that is blind to surrounding social forces. Rather, its "radical" nature derives, Friedmann emphasizes, from the scope and ambition of the aim to set aside and replace "the existing structures of domination and dependence."114

Åslund responds to Kornai's position by arguing, "Our assessment is that state management is in far more precarious shape; the financial proceeds are less important than macroeconomic performance; our requirement of a critical mass of private enterprises casts doubt on the possibility of breeding good entrepreneurs before privatisation. Strong owners are desired, but is it realistic to believe that they will surface in a relatively distorted market?"115 This is faint justification, we suggest, for a headlong and sketchily-planned rush into an initiative which even its advocates recognized as entailing potentially devastating societal consequences. If state management was inadequate, current management in Russia with privatization is no better and, overall, is arguably much worse. Further, macroeconomic stabilization was not achievable according to the program undertaken by the Gaidar team, with

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113Friedmann, Planning in the Public Domain, 47.

114Ibid., 223.

the political and structural realities that it neglected. And Åslund's fear that good owners
would not surface if they were sought deliberately could certainly not be quelled by
the hasty ownership transfer program that he favored. In sum, then, the Russian experience from 1992
onward provides compelling support for Kornai's perspective over Åslund's.

The complex system of bureaucratic authoritarianism created by the Communists has been
transformed, under Yeltsin, into a new variant which lacks the controlling influence and accountability
requirements of recent Communist leadership in the Soviet Union. 116 A number of players can be
held accountable for this development. Yeltsin has repeatedly demonstrated his preference for
authoritarian control, and Western leaders have supported him in those tendencies—perhaps thinking
that a Yeltsin firmly ensconsed in Russia's presidency would be in the West's near-term interest, but
inexplicably ignoring the enormous danger to both Russia and the world of a reinvigorated system of
nomenklatura control freed from the constraints of Communist Party domination—even (or perhaps
especially) one professing democracy and scrambling to take advantage of opportunities for private
ownership. Such a development, in a country largely unschooled in democratic governance, not only
ensures that equity concerns will have no firm standing and that a reform program will be likely to
work against national economic improvement, but also discredits both the prevailing power structure
and the idea of democracy among a large number of citizens, while raising worrisome questions about
future foreign policy directions of a government largely driven by opportunism.

The economists, also, who believed that their theories could be applied without thoughtful
reference to Russia's existing institutional arrangements and cultural traditions, share major
responsibility for the creation of an economic reform program which facilitated the strengthening of
bureaucratic authoritarianism. Unless reform planners learn the clear lessons of these recent
developments, their reforms initiatives will continue to be inadequate at best and often, as has been the
case in Yeltsin's Russia, doomed to be fundamentally compromised or rejected by interests outside the
reach of Smith's "invisible hand."

Why the "Western Approach"? We find evidence for two distinctly different interpretations of
why the "Western approach" has been so inattentive to structural and historical-cultural factors which
could have given the reforms a better chance to succeed in Russia. One possible interpretation is that
such analysts as Sachs, Åslund and Ericson have actually believed that it was in Russia's economic
interest to carry out the rapid reform program they advocated—that they simply did not appreciate the
complexity of societal structures and societal change processes. On the other hand, these analysts have

116 Roeder suggests that this type of bureaucratic authoritarianism "seems to produce policy dysfunction and
institutional stagnation far earlier" than the party-controlled variant. See Philip G. Roeder, Red Sunset: The Failure
left suggestive indications in their writings that they may have understood the societal implications of their proposed reform strategy more fully than they wanted to say during the time that they were initially trying to gain acceptance for their reform ideas in Russia.

Our analysis has largely assumed, to this point, that the first of these two interpretations is plausible, without examining the alternative highlighted above. This report would be incomplete, however, without addressing this second interpretation--that the monetarists' agenda for Russia is not revealed by the more optimistic statements they have made about the advantages of macroeconomic stabilization.

Only three years before Ericson began advocating a massive demolition strategy for Russia's social institutions and production system, his assessment of the potential for less extreme approaches to reform had been decisively more positive. In 1988 Ericson was suggesting, in a RAND Corporation report, that "changes and reforms (perestroika) under Gorbachev" might have a chance to "change the nature of the system" in which the military dominated the country's "priority-driven command economy." Ericson did not consider that likely "to happen in the near future, if only because of 'brakes' on reforms (e.g., state orders [goszakazy] and ceilings [limity] in place for the transition period."117 But at that time he identified no insurmountable barriers to constructive, market oriented change in the Soviet economy. Similarly, in a 1989 article which appeared in the Journal of International Affairs, Ericson urged that the Soviet economic reform initiative "must become much more radical in conception . . . in order to provide a consistent framework" for entrepreneurship and economic improvement.118 But he concluded that, although ekonomicheskaia perestroika was a risky undertaking, "as Gorbachev and his associates have argued, the most effective Soviet foreign and security policy consists of a program of domestic renewal and economic reform."119

Ericson made no mention, in these analyses in the late 1980s, of his conviction in 1991 that "An entire world must be discarded." That was clearly not Gorbachev's ekonomicheskaia perestroika plan, which Ericson had highlighted approvingly in 1989. And as recently as 1990, Ericson was maintaining that "[N]obody, in East or West" knew how to undertake reform of the then-Soviet economy. "There is no experience, there is not even a theory," Ericson acknowledged, "of the successful transition from


119Ibid., 331.
a command economy to a market economy." But a year later, Ericson not only had a theory, but had also acquired such confidence in his new-found perspective that he was willing to advocate discarding most of Russia's social institutions and structures of production and technology, in pursuit of his suddenly-acquired vision.

Yet in 1991, before the "Western approach" caught hold among Russia's policymakers, Ericson was attempting to put the most favorable possible face on his call for cataclysmic disruption in every sphere of Russian society, suggesting that, although "A period of serious economic deterioration seems inevitable, . . . it might be cushioned by aid from the West." And, he insisted, although "the ultimate configuration of institutions and interactions is unknowable" in the wake of the reform-induced societal chaos he envisioned, the preferred orientation at the edge of the abyss "is to abandon the Faustian urge to control, to know in advance, and thus to allow economic outcomes to arise naturally as the unpredictable consequences of market interaction."

A year later, however, Ericson's prognosis was both firmer and more grim. Now, Ericson was predicting that a likely consequence of the Gaidar reforms was "the formation of a set of semi-autarkic regional economies." This development "would undoubtedly involve the economic breakup of Russia," Ericson continues. Then he describes an "optimistic" scenario in which Russia might recover to its 1987-88 level of output by the year 2002, but adds, "it may be too optimistic to assume that the federation will hold together peacefully, even in the more optimistic scenarios." His conclusion? Russia could disintegrate "into a stagnant, quarrelsome economic morass." This outcome is what "Western policy must seek to avert through deep interaction, not thoughtless money, even if the former proves to be an impossible dream," Ericson maintains. With this "impossible dream" ending, Ericson transparently clarifies the political significance of his economic solution for Russia. A very possible outcome of reforms in a neo-liberal mode, Ericson suggests plainly, is not the creation of a market society in Russia at all, but rather the dissolution of Russia itself.

The turning point from upbeat to pessimistic forecasts among foreign advocates of the "Western approach" seems to have come in the aftermath of Gaidar's appointment to direct Russian economic

120Richard E. Ericson, "What is to Be Done?" The New Republic 202 (5 March 1990), 38.
122Ibid.
123Ibid., 78. Emphasis added.
124Ibid., 82.
reforms. Åslund had applauded Gaidar's monetarist perspective in June 1991.\textsuperscript{125} and in Gaidar, Yeltsin adviser and State Secretary Gennady Burbulis found an economic planner who was willing to push the "Russia first" political stance that was the defining characteristic among the so-called Young Turks being assembled for Yeltsin's team.\textsuperscript{126} Thus the "crusading phase" for neo-liberal monetarism had ended in victory--thanks largely to the country's reflex-like revulsion, following the August putsch, against the already-weakened Soviet command system.

Whereas in June 1991, Åslund was hoping that his version of radical economic change could somehow be initiated by co-opting, persuading, or defeating (in his words) the Soviet policy apparatus and military,\textsuperscript{127} with the ill-conceived putsch the Soviet apparatus and military had unexpectedly defeated themselves. Back in June, Åslund had made several negative remarks about Gorbachev, and suggested that "He could stay on only as President with limited powers . . . and for a short period," but Åslund quite obviously had no clear notion of how a transition might be realized to a political situation that would be more to his liking.\textsuperscript{128} And in the wake of the failed coup, Gorbachev had hurt his own cause as the country's center of gravity. Whereas Åslund was worrying in June that "the government is stuck in populism" and needed "a source of legitimacy to overcome this tendency,"\textsuperscript{129} Yeltsin's defiance of the putsch perpetrators gave him a virtual carte blanche to spearhead radical change. Now Yeltsin needed a vehicle--and one compatible with his flair for daring and dramatic moves. Both Yeltsin's political agenda and Russian cultural tendencies meshed well with the scenario for the "shock therapy" approach that was being advanced by Åslund and Sachs.

With Gaidar at the helm of economic planning, price liberalization was quickly launched in January 1992, accompanied a hastily-devised program to initiate widespread privatization. And after overnight price liberalization had become an historical fact and the economy was in free-fall, and with massive privatization underway shortly afterward, proponents of the "Western approach" lost little time in shedding their earlier veneer of optimism about the larger implications of their strategy for Russian society.

\textsuperscript{125}Ibid., 169.


\textsuperscript{128}Ibid., 178.

\textsuperscript{129}Ibid., 177.
Back in 1991, while still in search of a reform torchbearer in the Soviet (or the Russian) government, Åslund, for example, had recognized that the measures he advocated would entail "huge social costs," but he continued, "it is an open question how large these costs will be."\(^{130}\) Tempering the severity of this prediction, he quickly added that the Polish and Czechoslovak citizenry "accepted the consequences [of the 'shock'] with surprising calm," and emphasized, "Poland offers an illuminating example of how fast the necessary transition can be."\(^{131}\)

A rapid transition from the hardships imposed by monetarist strictures to the market economy prize that awaited was the scenario Åslund consistently promoted during 1991’s "crusading phase" for the "Western approach." "The main issue is to cross the rousing river as fast as possible in order to reach the other shore and establish a firm foundation for the construction of a new market economic system," Åslund stressed in a January 1991 paper—drafts of which were presented at two Russian institutes. "Hence, speed and scale are far more important than, for instance, revenues from privatization," he urged at that time.\(^{132}\) But in mid-1992, with Russia’s economy now reeling from Gaidar’s January 1992 shock, the notion of a rapid transformation that Åslund had so pointedly advertised only a few months earlier seemed to have been forgotten. Now, Åslund had decided that "economics in Russia will need a complete change of generations, if market-oriented economies is to take over."\(^{133}\) At the same time, he took comfort in observing that "there is little doubt that [Russia’s] high inflation will sweep away most of the command economy institutions," and that "the failure of stabilization" can thus "hardly stop the liberalization"\(^{134}\) —presumably for the benefit of future generations, if all should go well. But, Åslund now conceded, "a long period of restructuring is necessary."\(^{135}\) And Åslund’s "rousing river" of transition had become, in 1992, decidedly more tumultuous. "Russia today is to be compared with Weimar Germany in 1922," Åslund warned. "There are frightening parallels."\(^{136}\)


\(^{131}\)Ibid., 177. Emphasis added.

\(^{132}\)Åslund, "Principles of Privatisation for Formerly Socialist Countries," 22.

\(^{133}\)Åslund, "The Gradual Nature of Economic Change in Russia," 17. Emphasis added.

\(^{134}\)Ibid., 8.


\(^{136}\)Ibid., 22.
What gains could Russia realize if these hazards were successfully navigated? "If Russia becomes really successful," Åslund was suggesting by 1992, "it might come to resemble the United States near the end of the 19th century."\(^{137}\) But Russia could not be confident, from Åslund's 1992 vantage point, of actually being able to achieve this sharply scaled-down vision of a "radiant future." "It would be wrong," Åslund stated, "to imply that Russia's relations with the outside world would follow a predictable course if only it undertook a proper change of economic system, because financing "is far from predictable . . . Financial flows are by no means given, and they can be very small or palpable."\(^{138}\) In the same vein, Sachs continued to warn of a Russian calamity unless "large-scale Western assistance" is forthcoming--assistance which, we will argue in another report, is not likely to be offered. And we think that Sachs should also have recognized this rather obvious political reality.\(^{139}\)

In this second, "settling-in" phase of Russian reforms, then, "Western approach" proponents began preparing the ground for a possibly-disastrous Russian reform ending, culminating in a Weimar Germany-like devolution or even the demise of the Russian state. The Russian federation "is not sustainable as a state," Jessica Eve Stern suggests in a 1994 article.\(^{140}\) She discusses a series of explanations for the "centrifugal forces" which are now evident in Russia. Economic regionalism is a key factor--a process which has been strengthened "by the extreme divergence in the effects of the market reforms implemented beginning in 1992 on wages and prices in different parts of Russia."\(^{141}\) Further, Stern argues, the rapid pace of change in Russia, combined with "incessant fighting among branches of power" (a condition encouraged by the belligerent and uncompromising stance of Yeltsin, Gaidar, and prominent Western advisers), has produced a "cohesiveness vacuum," and "little is left to hold the country together."\(^{142}\) For Stern, Russia's chaotic economic and political situation offers a singular opportunity for the United States to press for "projects that affect the West's vital interests."

\(^{137}\)Ibid., 21.

\(^{138}\)Anders Åslund, "Adapting to the World Economy: Interests and Obstacles," in Rethinking Russia's National Interests, ed. Stephen Sestanovich (Washington, DC: Center for Strategic and International Studies, 1994), 93. Åslund also made this statement, with only cosmetically different wording, in a 1992 version of this article (Working paper no. 58, Stockholm Institute of East European Economics, 10).

\(^{139}\)Sachs, "Russia's Struggle with Stabilization," 46.


\(^{141}\)Ibid., 46.

\(^{142}\)Ibid., 54.
such as cementing the fragmentation of former USSR republics, realizing the "destruction of chemical weapons" and securing the deactivation of weapons "located in politically volatile regions." Yes, the West should provide economic assistance. Stern insists, "but assistance should be made conditional on behavior that the West finds acceptable." Thus Russia’s economic and societal malaise, and even the country’s "inevitable" dissolution, can be turned to the West’s advantage, Stern believes.

A number of other analysts, also, have suggested that the Russian center might not hold. In a January 1993 article, for example, political scientist Peter Reddaway argued that "Russia is on the brink of coming apart," and in September 1993, C. Fred Bergsten, director of the Institute for International Economics, speculated that "over the next century or so" the world might see a major global reconfiguration, including a "Northeastasia" economic unit "encompassing parts of former Russia and China, but centered on unified Korea." This development, Bergsten suggests, could result from the former Soviet Union’s recent status as a "drop-out from the higher-income club."

When Lynn Nelson spoke to Bergsten about the basis for his "world without Russia" scenario, Bergsten responded that he had "just thought it up." Some other Washington, DC-based economic and defense analysts we spoke with during the first half of 1994, however, had developed similar ideas. The president of one institute devoted to the study of strategic questions told Nelson, for example, that the Bergsten scenario "is completely consistent with our thinking, too."

A Brief Assessment. To summarize our discussion, Ericson, in a turnaround from 1990 when he argued that "there is not even a theory of the successful transition from a command economy to a market economy" now wants to lay to waste Russian social institutions and the nation’s in-place structures of technological research and production for the sake of his newly-acquired solution—recognizing, however, that it may be an "impossible dream" to hope that Russia will not, in the process, disintegrate "into a stagnant, quarrelsome economic morass." And Áslund relishes the

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143Ibid., 64-65.

144Ibid., 64.


147Ibid.

148Personal communication.
consequences of high inflation for Russia's command institutions, showing scant concern for the bitter consequences of this inflation firestorm for the lives of Russian people. Nor does he hesitate to insist that even more stringent macroeconomic stabilization measures should be applied in the face of a crumbling economy and the very real threat of a destructive societal backlash against the inevitable tidal wave of plant closings and unemployment that would accompany the policy he advocates—even though he predicts that market-oriented economics will not succeed with the present generation, in spite of (or perhaps because of) these dislocations and deprivations. Sachs persistently decries the West's poor Russian aid performance, and continues to clamor for a commitment to massive aid, without which, he believes, Russia could be consumed in "a spiral of self-reinforcing destructive behaviors." And Stern is only one of several Western analysts who believes that it is already too late for Russia to recover from the debilitating economic and political situation in which it now finds itself.

The onset of these now-frequent Western prophecies of worsening economic, political and social conditions in Russia cannot be attributed to an unanticipated and unwanted demise of the Soviet Union, for as we have noted elsewhere, the Gaidar reformers sought this outcome. Western advisers also supported this policy direction, and to our knowledge, no advocate of the "Western approach" has spoken against it.

But Åslund and Sachs have ready answers to the question of why Russia has fallen so precipitously from commanding the center of the USSR's superpower status to having arrived, only a short time later, at the brink of national ruin. "[T]he problems are not so much caused by swift change as by the tardiness of the transition," Åslund believes. "The insufficient price liberalization contributed to the survival of the actual command economic functioning for several months." For Åslund, the political requirements of constituency building and the negative social consequences of a lightning-quick turn to rigid monetarism should be ignored for the sake of "strict and orthodox" application of his macroeconomic stabilization ideas. And Sachs, after noting in April 1994 that "Russia is in such a deep state of crisis that its new democracy and social stability are at risk,"

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149 Sachs, "Russia's Struggle with Stabilization."


151 Åslund, "The Gradual Nature of Economic Change in Russia," 16.

concluded "To overcome these risks, the Russian Government should embark on a policy of rapid stabilization."\textsuperscript{153}

A principal theme of this report is that Sachs's and Åslund's priorities are misplaced. A more harmful failing than "insufficient price liberalization" was inadequate planning for liberalization--and for privatization. The "deep state of crisis" to which Sachs refers, and the inability of Gaidar to "stay the course" with a reform program that ignored critical political, structural and cultural factors which were integral to the reform process, should have come as no surprise.

Some analysts, such as Reddaway, contemplate Russian disintegration with alarm and apprehension. But others reveal, through their projections, a great deal about the lengths to which they would have Russia go in pursuit of the neo-liberal policy direction they have advocated. We submit that Russia's strengths tend to be underestimated in these analyses. We do not anticipate a breakup of the Russian federation--a subject which is outside the focus of this paper. What we do expect is heightened nationalism, and growing hostility within Russia toward those in the West who would knowingly see a nation dismembered in the pursuit of a controversial economic vision.

\textsuperscript{153}Sachs, "Russia's Struggle with Stabilization," 46.
Table 1: Percent Who Believed that Selected Groups Were Benefiting "A Great Deal" or "Somewhat" from the Voucher Program,\(^a\) by City and Employment Status (Percentages in Parentheses for Employed Respondents are Standardized on Moscow, with Controls for Age, Sex, Education and Enterprise Type [State, Privatized, Private]).\(^b\) Students, Military Personnel, and Individuals Under 50 Years of Age without Employment Outside the Home Are Excluded.

<table>
<thead>
<tr>
<th>Group Benefiting/Respondents' Employment Status</th>
<th>Moscow</th>
<th>Ekaterinburg</th>
<th>Voronezh</th>
<th>Smolensk</th>
<th>Sig.?(^c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The general population</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed respondents</td>
<td>29.3</td>
<td>12.4</td>
<td>18.9</td>
<td>16.3</td>
<td>yes</td>
</tr>
<tr>
<td>Retired/homemak., 50+</td>
<td>28.2</td>
<td>20.0</td>
<td>29.5</td>
<td>20.4</td>
<td>no</td>
</tr>
<tr>
<td>Enterprise directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed respondents</td>
<td>79.0</td>
<td>78.3</td>
<td>76.7</td>
<td>77.4</td>
<td>no</td>
</tr>
<tr>
<td>Retired/homemak., 50+</td>
<td>68.8</td>
<td>81.6</td>
<td>76.8</td>
<td>75.3</td>
<td>no</td>
</tr>
<tr>
<td>Former &quot;nomenklatura&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed respondents</td>
<td>70.5</td>
<td>73.7</td>
<td>64.3</td>
<td>59.6</td>
<td>yes</td>
</tr>
<tr>
<td>Retired/homemak., 50+</td>
<td>66.7</td>
<td>81.1</td>
<td>58.8</td>
<td>55.2</td>
<td>yes</td>
</tr>
<tr>
<td>Mafia and crime groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed respondents</td>
<td>79.3</td>
<td>84.3</td>
<td>82.0</td>
<td>86.9</td>
<td>yes</td>
</tr>
<tr>
<td>Retired/homemak., 50+</td>
<td>77.8</td>
<td>86.6</td>
<td>79.0</td>
<td>79.5</td>
<td>no</td>
</tr>
<tr>
<td>Current officials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed respondents</td>
<td>81.1</td>
<td>78.6</td>
<td>75.8</td>
<td>75.0</td>
<td>yes</td>
</tr>
<tr>
<td>Retired/homemak., 50+</td>
<td>77.2</td>
<td>82.9</td>
<td>68.9</td>
<td>68.3</td>
<td>no</td>
</tr>
</tbody>
</table>

\(^a\)Other choices were "Not much," "Not at all," and "Uncertain."


\(^c\)Chi-square \(p < .05\).