TITLE: SHORTCOMINGS OF THE "WESTERN APPROACH" TO RUSSIAN ECONOMIC REFORM:

I. The Political Requirements of Effective Reform

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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 first of which, "The Political Requirements of Effective Reform" is attached. The remaining three 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.

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 which will follow, we will 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 studied 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." 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. We suggest in this series of papers, however, that the formula Sachs and other prominent Western advisers offered for

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1 NCSEER Note
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.

And 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 the larger culture. It is in these contexts, for example, that organized crime can reach epidemic

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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.

We discuss implications of this point in another paper. For now, it may be enough to note that 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.

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" places 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.

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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 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."
Shortcomings of the "Western Approach" to Russian Economic Reform, I: The Political Requirements of Effective Reform

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SHORTCOMINGS OF THE "WESTERN APPROACH" TO RUSSIAN ECONOMIC REFORM, I: THE POLITICAL REQUIREMENTS OF EFFECTIVE REFORM

Introduction

This is the first in a series of four papers which will examine inadequacies of the "Western approach" to economic reform in Russia—an approach which has been urged by advisers to the Russian government and endorsed by a number of leaders in the West. The approach was partially implemented beginning in January 1992, but it was modified importantly over the course of the year. Some of these changes diluted the thrust of the "Western approach," certainly. But only in a rigidly authoritarian context can "pure theory" hope to survive, intact, the pressures of divergent interests. Inevitably, then, the "Western approach" has experienced a series of setbacks since late 1991, as well as repeated attempts by some Russian officials to bring Russian economic reforms more in line with fundamental tenets of the approach. Throughout this period, Western leaders, and especially representatives of the United States government and international financial organizations, have continued to argue that Russian policymakers should more unreservedly embrace reform strategies that are consistent with the "Western approach."

In this paper, we will focus on the first of four inadequacies of the "Western approach" which we will discuss in separate papers. A flaw of the "Western approach" which inevitably produced negative effects in the economic, political and cultural spheres, we will suggest here, has been its conscious strategy of attempting to force implementation of a narrowly-conceived economic vision on Russia, to the neglect of fundamental requirements for the kind of institution-building that is necessary if pluralist democratic processes are to be nurtured and optimum reform strategies are to be formulated. Rather than attending carefully to the legitimate, and sometimes conflicting, interests of different "stakeholders" in Russian reform, followers of the "Western approach" attempted to "coopt" affected individuals and groups—and in that way to buy time for the rapid privatization initiative which the reformers had developed. But the reformers’ emphasis on rapid privatization was itself misplaced, we will argue, and predictably led to its own series of undesirable consequences.

First Principles

There are two practical reasons why governmental programs for sweeping institutional change should be worked out in a context of open deliberation among diverse interest groups. In a general discussion of the "governability" of democracies, Ralph Dahrendorf, then-director
of the London School of Economics, follows Seymour Martin Lipset\(^1\) in identifying these factors as **effectiveness** and **legitimacy**. First, workable governments must be **effective**; that is, they must be "able to do things which they claim they can do, as well as those which they are expected to do." And, unless the political context is avowedly authoritarian, they must be **legitimate**. Governments are legitimate when what they do is judged by the citizenry to be right—or at least, not seriously unacceptable.\(^2\)

The criterion of effectiveness is elaborated by Peter Hall, who points out that "economic policy [and he means effective economic policy] is invariably a collective endeavor," because it "is the output, not of individuals, but of organizations which aggregate the endeavor of many individuals in particular ways." Hall continues, "It is an ‘organizational intelligence’ rather than the intelligence of individuals which ultimately determines such factors as the capacity of the state for strategic thinking or the quality of policy."\(^3\) Put differently, economic policymaking is a complicated undertaking, in which a huge number of factors must be considered and a wide variety of societal locations (or roles) taken into account (those of consumer, producer, manager, worker, wholesaler, supplier, regulator, creditor and politician, for example). The job is much too complex to be capably carried out by a handful of economists, political scientists, or politicians. Systematic deliberation which includes participation by representatives from the most critical categories of economic actors are required if the **effectiveness** criterion is to be adequately satisfied.

"Legitimacy," Lipset observes, "involves the capacity of the system to engender and maintain the belief that the existing political institutions are the most appropriate ones for the society."\(^4\) Legitimacy is acquired differently in democratic and in authoritarian regimes. Authoritarian control depends heavily on propaganda. Democratic governance, on the other hand, depends more on deliberation and compromise among interest groups with divergent perspectives and priorities. When the subject is economic policy, legitimacy emerges when, in


\(^4\)Ibid.
Hall’s rendering, "broad coalitions of economic interests . . . converge around specific policy alternatives."  

Lipset states that crises of legitimacy develop during a transition to a new social structure "if . . . all the major groups in the society do not have access to the political system in the transitional period, or at least as soon as they develop political demands."  

John Schaar explains that legitimacy involves a great deal more than assent or acquiescence. "Legitimacy," he notes, "is that aspect of authority which refers to entitlement."  

And in the domain of economic policy, entitlement is a two-pronged concept. On the one hand, the legitimacy of political officials depends on, among other things, their having "the right or title to rule."  

And also, because democracy involves the "processing and terminating [of] intergroup conflicts," the legitimacy of economic arrangements and proposals is critically dependent on the success that "stakeholders" in an economic system have in realizing their economic claims.  

The problem here for reformers is that, as Przeworski suggests, "Outcomes of democratic conflicts . . . are uncertain."  

But against that uncertainty must be balanced two certainties—first, the operational certainty that insufficiently-studied, and inadequately debated, proposals for complex reforms cannot possibly take into account all, or even most, critically relevant contingencies, and second, the political certainty that a closed process of policy formulation will produce a strong and potentially disabling backlash if interest groups are free to mobilize and articulate their discontent through voting and other political actions. The key to making "democratic conflicts" both productive and civil is the building of robust and resilient institutions which can function effectively in an environment characterized by "crosscutting bases of cleavage."  

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6 Lipset, Political Man, 65.  
10 Ibid., 57.  
11 Lipset, Political Man, 80.
Of course, under conditions of democratic pluralism, not only are the outcomes of deliberation uncertain, but, when the issues are important to a diverse set of stakeholders, initial proposals are unlikely to survive the process of review and debate entirely intact. It did not happen with President Clinton's health care reform proposal, and it will not happen with his welfare reform proposal. Certainly, it could not have happened with Egor Gaidar's economic reform proposal, either. Further, as Robert Dahl acknowledges, the unequal resources of different interest groups may enable the most powerful ones "to exercise unequal influence in determining what alternatives are seriously considered" and adopted. In short, there are both advantages and disadvantages of the democratic approach to policy formulation. A closed approach, however, offers even more disadvantages and fewer positive features, as the record of the Bolshevik planning system demonstrates.

Is there a middle way? Marx wrote of temporary dictatorship, of course, and the Bolsheviks carried out nationwide elections to a Constituent Assembly. And Lenin did not promulgate his landmark decrees on peace and land without submitting them for discussion and approval by the Second Soviet Congress. Historian Adam Ulam writes that after Lenin read the "decree on peace" to an "exultant Congress" on the night of October 26, 1917, there was long applause, and then the Congress "broke into the 'International.'" One delegate even voted against the land decree, after an intermission in the proceedings that was intended "to give the delegates a few minutes to discuss the measure."

But authoritarian power which is proclaimed as necessary for "emergency situations" has a way of shutting out dissenting voices over time--and often very quickly. After only one session, on January 5, 1918 (January 18 by the Western calendar) Lenin dissolved the Constituent Assembly. Yet former adviser to the Russian government Anders Åslund contends that "the most important issue by far is to pass through the doldrums of the transitory period as fast as possible in order to reach the firm shore of capitalism and stable democracy." Russia has already known one prolonged "transitory period" this century, and the "firm shore" of democracy became ever remote as power was increasingly consolidated by the Bolsheviks. History offers scant support to those who would extol authoritarianism as a viable route to yet another vision of a "radiant future" for Russia.

There is no question, however, but that Russia faced the daunting problem, at the end of 1991, of lacking both a mature civil society, which could facilitate institution building, and an established legal system, which could protect political rights and ownership rights. And, as Paul Boreham, et al., have pointed out, "Law is the intermediary between civil society, the economy and the state." A critical question for economic policymaking in a country such as Russia which literally needed to "do everything at once," is, Which should be the first priority-political and legal development that can support interest-group articulation in the economic sphere, or radical economic reform? And the answer is obvious, if the goals are democratic outcomes and economic improvement. Without the diversity of input that comes from open deliberation and debate among different constituencies, economic reform proposals are certain to be inadequate, with the likely result that reforms will soon be derailed as economic conditions worsen and deficiencies of the reform initiative become increasingly obvious. Open deliberation in the context of crosscutting interests is the only way to both subject policy proposals to the scrutiny of divergent interests which can make them better, and build coalitions that will have solid reasons to support the program that emerges at the end. Economic reform planners, and a country, pay a huge cost in ignoring the primacy of political stabilization and institution building; because the alternative leads to inferior policy initiatives and a necessity of authoritarian control to force on economic stakeholders a reform program that was developed without adequate consideration of divergent interests.

That is why, in the "Window of Opportunity" proposal developed by a Joint Working Group of Soviet and US scholars, headed by Graham Allison and Grigori Yavlinski, strong emphasis was placed on comprehensive political reform, institution building, and the creation of a legal framework for a market economy at the beginning of the reforms they proposed.

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15"Civil society" is defined by Dietrich Rueschmeyer, et al., as "the totality of social institutions and associations, both formal and informal, that are not strictly production-related nor governmental or familial in character." See Dietrich Rueschemeyer, Evelyne Huber Stephens and John D. Stephens, Capitalist Development and Democracy (Chicago: University of Chicago Press, 1992), 49.


17Graham Allison and Grigory Yavlinsky, Window of Opportunity: The Grand Bargain for Democracy in the Soviet Union (New York: Pantheon Books, 1991). In this report, when citing published material, we follow the transliteration conventions of the authors/editors we are quoting (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
This critical sequencing was neglected in the Gaidar reform program, following the priorities of the "Western approach." Because they were pursuing an agenda more to destroy a discredited command system than to improve the Russian economy, the reform planners gave insufficient thought to the critically important process of laying a solid political and legal foundation for economic reform initiatives.

The Forgotten "Bottom Line" of Political Viability in the "Western Approach"

The writings of Jeffery Sachs and Åslund, both advisers to the Russian government until after the December 1993 elections, demonstrate a consistent and pronounced inability to recognize, except in an almost purely theoretical sense, the political requirements for successful economic reform. These advisers pay lip service to democratic processes, and then proceed to advocate decidedly undemocratic actions in carrying out reforms—as we noted above in the case of Åslund. In other places Åslund appears, at first reading, to favor democratic processes even during "the doldrums of the transitory period."18 In one paper he asks, for example, "Why is democracy so important for the change of economic system in a formerly socialist state?" And his answer could be a page from Lipset or Dahrendorf. "[I]t is a question of credibility," he answers, and also of legitimacy and of stakeholder interests.19 He emphasizes that "Neither market relations nor property rights will be of much significance without the development of the rule of law," and he adds that "A civil society of a multitude of independent organizations needs to evolve ... based on grass-roots initiative."20

But these caveats are forgotten when Åslund gets down to the real business of economic reform policy. "To create credibility and break inflationary expectations, it is necessary to introduce radical changes," he insists in a 1992 volume (Post-Communist Economic Revolutions),21 and he continues, "... experience shows that people, if they have been properly informed, will accept a democratically adopted harsh stabilization with surprising ease."22 The hollowness of Åslund's brief nod to democratic processes is soon apparent from

transliteration conventions in this example, we would write "Iavlinskii."

18 Åslund, "Principles of Privatisation."
21 Åslund, Post-Communist Economic Revolutions, 29.
22 Ibid., 29-30.
his own words. In the next paragraph of that work he declares, "A command economy and a
market economy are completely alien to each other and no convergence has proved possible.
Any intermediate position contains serious contradictions. . . . Little can be done but a full
liberalization," he adds.\(^23\) Of course, deliberation and compromise always dilutes a theoretical
ideal. But Åslund should know that the alternative to democratic deliberation produces its own
set of undesirable problems. A few pages later, writing about the advantages of a rapid pace
for reforms he states, "[I]t is politically easier to have severe measures adopted as a big
package. Greater speed implies less time for discussion."\(^24\) Thus Åslund states the principal
advantage of rapid reform. It keeps at bay the consideration of alternatives and compromise.

Nowhere in Åslund’s writing have we found any recognition that his neo-liberal
monetarist formula might benefit by input from groups which represent divergent economic
interests, or by taking into account the structure of a nation’s economy at the inception of
reforms, or by considering the cultural particularities of a country that is about to be subjected
to the "Western approach" to post-Communist reform. Rather, as we will show in a later
section of this paper, the strategy Åslund prefers is to coopt interest groups so that a narrowly-
conceived "reform" steamroller can proceed full-tilt with a minimum of interference from the
actual beneficiaries, or victims, of reforms.

This perspective has been successful in dominating reformers’ thinking in Russia partially
because the reformers largely insulated themselves from Russian political realities as their
plans were being developed. (We have discussed this situation elsewhere.\(^25\)) This helps to
account for the reform planners’ striking misjudgments about the political standing of their
reform initiatives among the electorate. Åslund, for example, stresses the need for rapid
democratization because he believes that an electorate long-smarting under the privations of
Communist rule will quickly embrace his monetarist theory of reform without strong dissent
or, apparently, even prolonged discussion. Writing about the Polish experience, he argues that
the transition process there "suffered from Poland being the last country in Eastern Europe
carrying out democratic parliamentary elections," adding, "Compromises with a communis
dominated parliament delayed and weakened the reform program."\(^26\) Åslund believes that "the

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\(^{23}\)Ibid.

\(^{24}\)Ibid., 32. Emphasis added.

\(^{25}\)Lynn D. Nelson and Irina Y. Kuzes, "The Demise of the Soviet Union and the Pursuit of
to the National Council for Soviet and East European Research, Washington, DC (May 1994).

\(^{26}\)Anders Åslund, "Prospects for a Successful Change of Economic System in Russia."
people" would accede to the "Western approach" more readily than did the Russian parliament. 

"[Most] of the deputies have no chance of being reelected and they are badly out of touch with public opinion," he insists, "which is also reflected in the low popular view of both the Supreme Soviet and the Congress of People's Deputies. Thus, the parliament is more important as a source of confusion and distortions of laws than as a source of legitimacy. It badly needs to be replaced by a newly-elected parliament," Åslund adds. And in late November 1993, just before the elections to Russia's new State Duma, Åslund was continuing to emphasize the importance of parliamentary elections as a means of tipping the scales of legislative support in favor of Yeltsin and his reforms.

It is well understood among analysts of political behavior that indicators of confidence in both executive and legislative government officials are characteristically volatile, and often low, not only in Russia but also in the West. The General Social Surveys (GSS) which have been periodically conducted by the University of Chicago's National Opinion Research Center since 1972 gauge the public's confidence in "the people running" both the executive branch of the federal government and the Congress. Early in the Carter administration (1977), 28 percent expressed "a great deal" of confidence in the executive branch, but that level did not hold for long. By the next year, such confidence was voiced by only 12.5 percent of respondents. Public confidence in the US Congress was lower in 1977 than it was in the executive branch (as in Yeltsin's Russia), with 19 percent saying that they had "a great deal" of confidence in United States lawmakers. And a year later the corresponding percentage for the US Congress had dropped to 12.9. At the time of the Persian Gulf War in 1991, both the executive branch and Congress had high ratings (37 and 34 percent, respectively), but both branches experienced sharp confidence declines not long thereafter. In 1993, strong confidence in the executive branch was voiced

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by only 11.7 percent of GSS respondents, and the US Congress had an even lower rating of 6.9 percent.\footnote{From 1993 GSS diskette data file.}

The Russian Center for Public Opinion Research (VCIOM) has tracked public support for the Russian Supreme Soviet since early 1992. A question they asked repeatedly among large national samples was, "Does the activity of the Russian Supreme Soviet contribute to the way out of the current crisis?" March 1993 marked the low point of support for the Supreme Soviet until that time, and then, at the time of Yeltsin's first attempt to shut down the parliament, 6.1 percent answered that the parliament's contribution was positive.\footnote{"Informatsiia," \textit{Ekonomicheskie i sotsial'nye peremeny}, no. 6 (October 1993), 39.} This question is not directly comparable to the GSS item, of course. But the VCIOM and GSS results, considered together, indicate that caution is needed in inferring legitimacy from approval ratings. And it is even less clear, from overall approval ratings of legislatures, how those judgments would affect the results of future elections.

But even Åslund makes selective use of public opinion measures as determinants of officeholders' legitimacy. It is both instructive and telling that the Supreme Soviet's rating was almost identical to that of the Russian executive branch at the time Åslund penned his charge against the Russian parliament.\footnote{See Vladimir Shokarev, "Reiting Federal'nogo sobrania prevysil reiting pravitel'stva," \textit{Segodnia}, no. 4 (11 January 1994), 2.} We have shown elsewhere that, as Gaidar's reforms moved forward in mid-1992, his approval rating was very close to that of the Supreme Soviet among the Russian public.\footnote{Lynn D. Nelson and Irina Y. Kuzes, \textit{Property to the People: The Struggle for Radical Economic Reform in Russia} (Armonk, NY: M.E. Sharpe, 1994), 69.} But Åslund was a fervent supporter of Gaidar until the end--in spite of the low level of public confidence in him.

In our interviews with a broad cross-section of Russian officials and opinion leaders in the summer of 1993, the prediction was consistently repeated to us--from the "left," "center" and "right" of Russia's political spectrum--that any newly-elected parliament was almost certain to be a more conservative one.\footnote{In our 1993 research, which we have discussed in earlier papers submitted to the National Council for Soviet and East European Research, we identified and interviewed leaders in the city and oblast governments of our target sites who were especially influential, and in Moscow we interviewed a number of additional opinion leaders who were not officials but were key participants political and economic decision-making at the national level. We also took into account diversity of views, trying to gather data from as broad a spectrum as possible on the conservative-to-liberal ideological continuum. Both the executive and legislative branches are represented in the
point, Zhirinovsky’s campaign was not yet underway. The chief factor in these predictions was the government’s reform program, which was being widely blamed for Russia’s economic crisis. And these summer predictions were correct.

In retrospect, it must be obvious to even the Russian government’s Western advisers that electing a new parliament was a mistaken way to attempt to rescue the “Western approach.” Their hope, following the December elections, was now in the new constitution that gave Yeltsin a degree of power that has rightly been termed “authoritarian.” On the eve of the December 1993 elections, Åslund was decrying the dilution of state power “even before the demise of Communism,” and maintaining that “One reason President Gorbachev failed to reform the Soviet Union was that so few obeyed him. The state as a policy-making center had simply withered away . . . The critical difference between failure and success is the re-creation of a state policy apparatus,” Åslund continues.36

And at an April 1994 World Bank conference, Sachs suggested that “The recent adoption of the new Russian constitution can provide a foundation to achieve” the political goal of “a democratic regime.” The inadequacy of this argument can be readily demonstrated from the text of the new constitution itself and through reflection on the course of political events during Soviet period. As Robert Sharlet, coordinator of the Institution Building Rule of Law Program at ARD/Checchi under the auspices of the US Agency for International Development, observes, the powers granted the Russian president in the constitution can be compared to the concentration of powers enjoyed by the Communist Party of the Soviet Union in Article 6 of the 1977 USSR Constitution. The new constitution suggests, Sharlet continues, that the executive seems to be moving in the direction of usurping both legislative and judicial power.37

Sachs also neglects other key features of effective policymaking. In 1992 he was hoping for a “legitimate democratic force that can resist the paralysis inherent in the legislative sample of officials. We interviewed 127 officials and opinion leaders in Moscow, 41 officials in Ekaterinburg, 39 officials in Voronezh and 36 officials in Smolensk.


37 Kennan Institute for Advanced Russian Studies, “New Round of Russian Constitutional Reform Begins,” Meeting Report 21, no. 11 (1994). Sharlet goes on to hope that “workable politics” will be possible in Russia, in spite of the constitution’s deficiencies, but neither his reasoning nor any analysis known to us offers much more than a heartfelt wish that the most likely result here will not, in fact, be realized.
stalemate" which had resulted from objections in the parliament to elements of Gaidar's reform strategy. But constructive compromise among competing interest groups is no solution for Sachs. He deplores the fact that "Market liberalization is still far from complete" in Russia, and that, although "the reasons for the easing up of the monetary policy are unconvincing," the "macroeconomic authorities" were pushed "into unsatisfactory compromises by midyear [1992]." Sachs's solution? "One obvious way forward is through new elections," he suggested in 1992; and after reviewing Yeltsin's hesitation, until that point, to take that step, Sachs warns (still in 1992) that a delay in reconstituting the Russian legislature "set[s] up the very dangerous possibility, however, that the reforms can still be hijacked by conservatives given vastly greater influence through flawed legislative institutions." Sachser and Åslund erred in their assessments of voter sentiment in two ways. First, they failed to identify the large shift in public opinion from the time of the April 1993 referendum, when Yeltsin did better than had been expected, until the following December. Further, and perhaps as significantly, they assumed that the April referendum's traditionally-Soviet way of offering voters a choice between Yeltsin and a "no"--with no alternative candidates or programs available for selection--would be an accurate indicator of how voters would respond when offered actual candidates with divergent positions that they were able to explain to the electorate.

Sachs's post-election statements show that he has not yet acknowledged the importance of open deliberation and constituency building in the reform process. Nor has he recognized the dysfunctional results of the "Western approach" to Russian economic reform. Instead, in the wake of the December 1993 elections, he has sought to focus blame on the IMF for bad economic advice to Russia. "While pundits debated the relative merits of shock therapy versus gradualism, the real issue was far simpler," Sachs claimed. "Would reformers have the political strength and Western financial backing to pursue a sensible and consistent financial policy, or would they be done in by a bitter and corrupt Communist opposition?" And Sachs reproached the IMF for "this debacle," insisting that the Fund's managing director should step

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39 Ibid., 232, 244-45.
40 Ibid., 256.
down. "The I.M.F. needs new management at the top and a new direction." Sachs maintains.42 The same could be said for Western economic advice to Russia, more generally.

A Toe-Hold for the "Western Approach" . . .

Sachs's early-1994 assessment of Russian reforms underscores the unprecedented opening to US influence over Russian internal policy that was made possible by Gaidar and his reform team. "Now that [the reformers] are no longer heading the key ministries, there is little the U.S. can do,"43 Sachs laments, remembering, no doubt, how very different the situation was when the Gaidar reforms began. Åslund spoke of those halcyon days for neo-liberal monetarism in Russia during August 1993 interview, recalling that, "Back in September 1991, we came to an agreement with Jeffrey Sachs and other specialists that if this team [the Gaidar team] should come to power, we would help. And Gaidar's government invited us."44

The introduction to the "Economic Strategy of the Russian Government," which was issued by the Gaidar team in March 1992, notes that "by mid-November 1991, a new government was formed in which many professional economists participated--people who had already had experience in developing the kind of reforms which were necessary for transformation of Russia's economy."45 In his August 1993 interview, Åslund elaborated on this point. The correspondent who interviewed Åslund reminded him of Ruslan Khasbulatov's charge that "There has never been a single country, either developed or developing, where a desirable economic effect was achieved with the help of monetaristic models." When asked if he could name such a country, Åslund responded, "Sure, and not just one. Bolivia, Chile . . . It is a little early to talk about Argentina . . ., Poland, the Czech Republic, Mexico, and finally, Estonia and Latvia."46

The "Groupthink" Phenomenon. We will suggest in another paper that Åslund and Sachs's Bolivia and Chile emphasis pushed Russian reforms in the wrong direction more decisively, even, than their inadequate comparisons of the Russian economy with the economies of Poland and other East European countries. Our point here is that these advisers were united in perspective and purpose. As Andrei Nechaev, an economist who became

42 Ibid.
43 Ibid.
45 "Ekonomicheskaia strategiia pravitel'stva Rossii" (part 1), Biznes, Banki, Birzha, no. 12 (1992), 1.
46 Lopatnikov, "Al'ternativa."
Russia's First Deputy Minister of Economics and Finance when Gaidar was chosen to head the reform program, described Gaidar's planning group in an interview shortly after his appointment, "[T]his team is that rare case in which people had known one another and worked together for many years. We did have our disputes of course," Nechaev continued, "but there was complete mutual understanding on the key questions."47 Then Nechaev repeated some of the same bases of understanding that Åslund mentioned, adding that "there has been practical experience in reforms--in Poland, Chile, Hungary. We have long-standing relations with the people who conducted and devised these reforms--Leszek Balcerowicz, Klaus, Jeff Sachs, and others."48 In short, Nechaev was describing the ideal conditions for "groupthink," as studied and elaborated by Yale University social psychologist Irving Janis.

Janis examines commonalities in the policymaking processes which resulted in a number of policy blunders, including the Bay of Pigs invasion, the decision to escalate the Korean War in the fall of 1950, and the US military's failure to prepare for the 1941 Pearl Harbor attack. He compares the decision-making process that predominated in such situations as these with that which has characterized successful policy planning efforts, such as the deliberations that produced the Marshall Plan and the decisions of US officials surrounding the Cuban Missile Crisis in October 1962. A critical difference between the policy failures and the policy successes that Janis studied was the degree of cohesiveness in the policy-making group--a finding that underscores the emphasis among analysts of organizations and politics more generally that open deliberation and interest-group participation are vital to effective policy decisions. As Janis states the point, "The more amiability and esprit de corps among the members of an in-group of policy-makers, the greater is the danger that independent critical thinking will be replaced by groupthink."49

Janus also observes that high group cohesiveness is conducive to "groupthink" only in the presence of additional antecedent administrative or structural conditions. Especially important in this regard are "insulation of the policy-making group," and the "lack of a tradition of impartial leadership."50 If "the leader does not feel constrained by any organizational tradition to avoid pushing for his own preferred policies and, instead, to encourage open, unbiased

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48 Ibid.
50 Ibid., 176.
inquiry into the available alternatives," Janis finds, the chances of "groupthink" are increased.  

When "groupthink" prevails in a planning group, Janis finds, the group tends to overestimate its power to achieve its goals, to discount information that might lead group members to reconsider their assumptions, and to minimize the importance of doubts about the appropriateness of the group's policy direction.  

In August 1992, Gaidar revealed the strong hold that this orientation had on his planning team. In an article he wrote for Izvestiia, Gaidar stated, "Over the course of several months, I tried as much as possible to avoid public discussion. But now is the time for clarification." Gaidar would soon learn that the time for clarification had already passed, and in the December 1993 elections, the Yeltsin reformers would pay a heavy price for their isolationist approach to economic policymaking. Attempting to account for the December election defeat, privatization head Anatolii Chubais explained that the reformers had worked hard in developing the program, and that they simply had not had the time to explain to people what the government was trying to do.  

Defective decision-making predictably follows from "groupthink," Janis concludes. Particularly likely consequences are an incomplete analysis of alternatives, a failure to examine the disadvantages of policy choices that are developed, and selective bias in processing information available to the planning group.  

Janis emphasizes that "the groupthink syndrome" can be "only a contributing cause that augments the influence of other sources of error," or that it can be one of the primary causes of mistaken policy decisions. The relative importance of this social psychological phenomenon in the case of Russian economic reforms is not our primary concern. We have observed elsewhere that the "Western approach" was in the clear interest of certain
stakeholders in Russian reform, both within Russia and abroad.\textsuperscript{57} Thus, no "groupthink" process was required to provide a reason for the "Western approach" to be put on the table as a proposal. Our point here is that the context of reform planning and implementation from late 1991 until April 1992, at least, presented an ideal situation for the "Western approach" to find fuller support, and to encounter less critical scrutiny, among the relatively small number of individuals involved directly in these deliberations than would have been the case if discussions has been more open. The "complete mutual understanding on the key questions" which Nechaev described as a feature of Gaidar's planning team was no advantage, if the goal was to develop an effective reform program.

"... this is not a race." We are not suggesting that the reforms began in an atmosphere of obvious secrecy. Rather, the Gaidar team justified their relative autonomy and isolation from the critical eye of analysts and interests groups by claiming that haste was necessary in initiating reforms—a claim that was not effectively challenged within Russia. In late 1991, Russia's citizenry and its legislators were weary of the economic indecision that had prevailed at the end of the Gorbachev era. They were exhausted with talk about reform that did not produce reform. They were, in short, primed for radical change. Gaidar, Yeltsin and the parliament all had a sense of urgency that reform was overdue and needed to begin quickly. The "Western approach" was presented under conditions that were ideal for relatively uncritical acceptance of its principal tenets among the Gaidar planners. Neo-liberal monetarism offered a ready economic "solution" for Russia's economic troubles. And, the West's advisers insisted, the solution must be implemented swiftly.

Åslund illustrates this emphasis on haste in a June 1991 conference attended by several Russian economic planners. Åslund decried "gradualism" as an outmoded type of economic thinking, insisting that "the dominant current of economic theory suggest[s] that a swift and comprehensive change, comprising as many simultaneous measures as possible, is most likely to minimize the social costs of transition."\textsuperscript{58} (Elsewhere, Åslund admits that his argument for "fast privatization... is probably a minority view" among economists.\textsuperscript{59}) In his June presentation, Åslund tried to discredit a more gradual approach to economic reform by linking it with the discredited "old establishment" and "lingering notions of central planning."\textsuperscript{60} In

\textsuperscript{57} Nelson and Kuzes, "Coordinating the Russian Privatization Program."
\textsuperscript{58} Åslund, "A Critique of Soviet Reform Plans," 172.
\textsuperscript{59} Åslund, "Principles of Privatisation for Formerly Socialist Countries," 9.
\textsuperscript{60} Åslund, "A Critique of Soviet Reform Plans," 172-73.
another work, he states. "Galbraith's resistance to quick privatization may be discarded as social democratic nostalgia based on poor understanding of socialist economies."61

The only qualification Åslund offers that could check the pace of privatization is that "true property rights must obtain."62 Property rights are certainly not the only prerequisite to effective privatization in a highly-centralized system. Other factors, such as training executive personnel in principles of economic management, establishing dependable supply networks, and creating a competitive economic environment, are also critical. Yet, for most analysts, Åslund's attention to just this one precondition, the establishment of property rights, might seem to be a formidable obstacle to a rapid privatization pace in a country such as Russia with a weak legal system—but not for Åslund. After mentioning questions of restoring former property rights, establishing a "rule of law" and developing procedures to "sanctify" property rights at the outset of privatization, he continues, "These questions must be solved fast, and legal procedures should be facilitated by unequivocal and irrevocable political decisions."63 But the legal preconditions to which Åslund refers cannot be established in a day, and political decisions are never "irrevocable." Further, developing a credible "rule of law" involves more than building strong executive power capable of issuing a torrent of decrees that are intended to institutionalize reformers' plans almost as soon as they have been verbalized.

As the Allison-Yavlinskii proposal lost its centerpiece status with events that followed the August putsch, Sachs, also, began to strongly advocate rapid restructuring, and in 1992 Sachs was applauding the "remarkable dispatch" of the Gaidar reformers.64 "There was no time to sit around while 'preconditions' were being established," Gaidar insisted later, in tones reminiscent of Lenin's justification for bypassing the capitalist stage in introducing his variety of economic reforms. "There was no time" for deliberations, Gaidar argued. "In that situation, there was no choice remaining for Russia's government. It had to initiate the transformation."65

An Obscure Reform Path. The first document that the Yeltsin government released which provided even an outline sketch of the government's overall economic reform plans was not issued until February 1992—the economic Policy Memorandum that had been prepared for the IMF. Aleksei Mozhin, head of the Department for Interaction with International Financial

61 Åslund, Post-Communist Economic Revolutions: How Big a Bang?, 75.
62 Ibid., 74.
63 Ibid.
64 Lipton and Sachs, "Prospects for Russia's Economic Reforms," 213.
65 Gaidar, "Rossii i reformy."
Institutions of the Russian Council of Ministers, states that "The new Russian Government began cooperation with the IMF immediately after coming to office in November," adding, "Negotiations over the Economic Policy Memorandum allowed the Russian side to gain valuable experience which would be useful in the stand-by program negotiations that still lay ahead." Thus, during the four-month period of planning for negotiations with the IMF, "the Russian side" became Gaidar's team alone, and the negotiations for which Gaidar was steeling himself were not with Russia's lawmakers and Russian interest groups, but with the IMF. Mozhin describes the Gaidar team's strategy here. The Memorandum "helped increase international support for the Russian Government's economic policy," he states, which "helped the Russian Government to strengthen its position at home and to survive a tough political battle in April." We will discuss April's political battle, which continued for several months, below—noting here that the coalition-building which was going on as the Russian reforms were being developed was almost exclusively between the Gaidar planning team and groups outside Russia.

The "Economic Strategy of the Russian Government" cited above, which was released in March 1992, further illustrates the sketchy nature of the reformers' public descriptions of the critically important policy initiatives they were planning among themselves. The document briefly outlines a monetarist approach to reform, emphasizing the objectives of liberalization, stabilization, and privatization. It does not identify concrete procedures for promoting realization of these objectives, however, providing instead such general statements as, "After prices have been corrected (increased), our goal will be price stability," and "As quickly as possible we must transfer a large proportion of efficient production resources and housing into private hands." The document is more suitable as an "open letter" to reassure Western governments and financial institutions than as a vehicle for either providing useful information to the public or provoking constructive deliberation within Russia.

In the privatization sphere, the Yeltsin government released a series of decrees and policy proposals beginning in November 1991 which identified aspects of a privatization plan

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66 Akexei V. Mozhin, "Russia's Negotiations with the IMF," in Changing the Economic System in Russia, 65.
67 Ibid., 71.
68 Ibid.
69 "Ekonomicheskaia strategiia pravitel'stva Rossii" (part 1), 1.
that the government intended to fashion. But the public proposal did not match the reformers' actual plan. This outcome did not result from mere indecision, as we will indicate below.

The predominately closed nature of Russian reform planning during its critical early months was emphasized by Yavlinskii in October 1992, when he charged that it was not possible to even criticize the government's economic program adequately until July 1992--more than eight months after Yeltsin's announcement that there would be drastic reforms and six months after the introduction of price liberalization. "There were guesses concerning the inappropriateness of the [government's] proposed economic path... but the government did not announce [the main features of its] program until July. How could one judge what they were going to do?"70

But, Yavlinskii maintained at the time that the Allison-Yavlinskii proposal was being developed in 1991, society's only chance for constructive economic reform was through "negotiations among the [country's] principal political forces."71 This perspective is fully consistent with our knowledge of how policy change can be effectively carried out in open societies. The achievement of societal consensus "is a long, term, gradual process," Yavlinskii states. "The search for mutually acceptable compromises... is not a sporting event--not a race, in which the one who starts first will be able to finish first."72 There is no doubt but that the Russian economy was in crisis at the end of 1991. But the radical shift in the direction of Russian reform planning that was called for by the "Western approach"--sharply away from key features of Supreme Soviet legislation earlier in the year and also of subsequent reform initiatives, such as the Allison-Yavlinskii proposal, could only exacerbate Russia's economic difficulties. The toe-hold that the "Western approach" established in the Russian economic planning process under Gaidar prepared the way for the old Party nomenklatura and organized crime to develop a stranglehold over the economy from 1992 onward, as we will show below.

The Reformers' Early Public Agenda

On November 25, Yeltsin decreed that, by the end of 1991, executives who managed the supply and distribution networks of retail, public catering and consumer services enterprises

72Ibid.
throughout Russia were required to reorganize to extricate the enterprises from the system of obligatory relations that had long characterized the USSR's command system.\textsuperscript{73} These enterprises were required to obtain a license specifying that they were "juridical persons." But all that the enterprises received was a license. There was no significant amount of training for the alien economic conditions that were being set up by this decree, and there was no plan for facilitating a shift from highly-structured relations among suppliers, producers, and distributors to one in which relations could be independently established.

This was the first step toward privatization, according to the government's new plan. Thousands of enterprise directors suddenly had a new "opportunity." Retailers gained the opportunity to buy goods from suppliers of their own choosing, and producers were granted the opportunity to find their own markets. But of course, established systems of economic relationships are not transformed through the issuing of licenses. Opportunities are created through the granting of such instant "freedoms"--primarily, opportunities for established members of the nomenklatura, who are well-placed to expand their domain of control as former barriers are suddenly removed, and for those who are not constrained by personal ethical standards from improper self-aggrandizement. As Aleksandr Bykov, an official of the Economic Crime Division of the Ministry of Internal Affairs, described this new situation, "Privatization pushed many formerly honest people into questionable activity. . . . A person who managed to figure out, earlier than others, that 'deals' involving state property would not be punished, could make out very well."\textsuperscript{74} Economist Larisa Piiasheva characterizes the situation that was created by this Yeltsin decree in similar terms. "Everyone probably remembers what was started at that time. Actually, it was the right to steal."\textsuperscript{75}

On December 29, Yeltsin approved, by decree, the Basic Provisions of the State Program for Privatization in 1992.\textsuperscript{76} According to this document, small-scale privatization, involving retail, public catering and consumer services enterprises, was to be started in the first stage, which would occupy the first three quarters of 1992. Approximately ninety percent

\textsuperscript{73}"O kommertsializatsii deiatel'nosti predpriiatii torgovli v RSFSR," Vse o privatizatsii v torgovle (Moscow: Torgovlia, 1992), 44-45.
\textsuperscript{74}Aleksandr Bykov (ed. Ol'ga Osetrova), "Bol'shaia, malaia, kriminal'naia," Delovoi mir, no. 26 (7-13 February 1994), 18.
\textsuperscript{75}Lora Velikanova, "Larisa Piiasheva: 'Vaucher--eto eshche ne sobstvennost'," Literaturnai a gazeta, no. 20 (18 May 1994), 10.
\textsuperscript{76}"Osnovnye polozheniiia programmy privatizatsii gosudarstvennykh i munitsip'al'nykh predpriiatii v Rossiiskoi Federatsii na 1992 god," in Vse o privatizatsii v torgovle (Moscow: Torgovlia, 1992), 48.
of these enterprises would be sold through auctions or competition\textsuperscript{77}--a major policy deviation from the privatization legislation which had been passed the previous July, as we will indicate below, but consistent with the general direction that Åslund had endorsed in 1991, when he argued that "sales [of small enterprises] at auctions are natural, favouring the most efficient allocation of the small enterprises."\textsuperscript{78} This policy shift was announced without any opportunity for public discussion and debate.

In the July initiative of the Supreme Soviet which Yeltsin's action replaced, the predominant concerns had been, first, that privatization should effectively address the specific requirements for improved economic performance within each economic sector and, second, that privatization should be equitable. But Yeltsin's December 29 decree did not allow enough time to seriously prepare for the coordination that would be necessary to facilitate economic improvement, and the price liberalization scheme which was scheduled to take effect on January 2 would wipe out most citizens' savings--thus making it impossible for most of them to participate in this first stage of privatization, which would include many of the more desirable enterprises that were to be privatized.

The prevailing idea among Russian economists at the time that Yeltsin became president was that privatization would lead to improved economic performance, by promoting competition and bringing new owners into enterprises. There were a number of different perspectives, however, about who these new owners should be. It was widely accepted that the privatization initiative should take advantage of the money overhang that had resulted from shortages of goods. Citizens with money in the bank that had been accumulated through years of work in a context of shortages could use that money to purchase state property or start new businesses. This idea was seen as a way to compensate the Russian citizenry for forced collectivization and decades of privation during Communist rule. The concept was incorporated into the "500 Days" proposal that had been developed in 1990. And in May 1991 a detailed privatization proposal had been prepared under the direction of the newly-appointed chair of the State Property Management Committee Mikhail Malei. Analysis had convinced Malei's planners that many smaller state enterprises could be bought with then-existing personal savings, but Malei's analysis convinced him that most state property could not be privatized for

\textsuperscript{77} Introductory summary to "Ob uskorenii privatizatsii gosudarstvennykh i munitsipal'nykh predpriiatii," \textit{Vse o privatizatsii v torgovle} (Moscow: Torgovlia, 1992), 47.

\textsuperscript{78} Åslund, "Principles of Privatisation of Formerly Socialist Countries," 14.
money.\textsuperscript{79} One reason was that savings among Russia's citizens were inadequate to purchase such a large volume of property, and the amount that would come from foreign investors was uncertain. A second problem was that public opinion surveys had shown that many citizens did not want to use their savings to buy shares of privatizing enterprises. (Yavlinskii and Stanislav Shatalin had also recognized, in the "500 Days" proposal, that personal savings were not sufficient to purchase most property to be privatized, but they proposed that people be allowed to borrow money for property purchases. They had no firm evidence, however, about how many citizens would, in fact, be willing to take out loans for that purpose.)

If privatization could not be accomplished primarily by selling state property, then some other method for property distribution would have to be developed. It was in this context that the Russian Supreme Soviet issued the law On Registered Privatization Checks and Accounts on July 3, 1991.\textsuperscript{80} This law specified that privatization "investment accounts" would be made available in state banks for all citizens. With these accounts, people could "buy" state property. It was expected that 70 percent of the state property which was to be privatized would be claimed by investment account holders.\textsuperscript{81}

Yeltsin had signed the July law which stated that privatization accounts would be established at the beginning of 1992. But five months later, on December 29, now-President Yeltsin used his special powers to decree that privatization investment accounts would not be set up until 1993--not until after a large number of desirable enterprises had been otherwise privatized. The focus of the December 29 decree, and the new privatization plan that the decree approved, were to quicken the pace of privatization--and not in 1993, when privatization investment accounts were to be available for citizens, but beginning in three days' time--on January 1. By January 29 local administrations throughout Russia would be required to have identified enterprises that would be privatized according to the Basic Provisions of the State Program for Privatization in 1992 and to have started the privatization process--without the benefit privatization investment accounts, and under conditions in which most citizens had just seen their savings largely disappear because of price liberalization.

\textsuperscript{79}Mikhail Malei, "Tri perioda privatizatsii," \textit{Nezavisimaja gazeta}, no. 172 (10 September 1993), 2.
\textsuperscript{80}"Annotatsiia osnovnykh zakonodatel'nykh i normativnykh aktov, reguliruiushchikh otnosheniia sobstvennosti i privatizatsiiu gosudarstvennykh i munitsipal'nykh predpriiatii v Rossiiskoi Federatsii," \textit{Delovoi mir}, no. 131 (10 July 1992), 7. This was the same day that the Russian Supreme Soviet approved the law On Privatization of State and Municipal Enterprises.
\textsuperscript{81}Malei, "Tri perioda privatizatsii."
But how could the first stage of privatization, according to Yeltsin's December 29 decree, emphasize the sale of enterprises when savings among the citizenry were about to be largely wiped out with the onset of price liberalization? Chubais answered that question in January 1992. When asked how the government could be sure that the people would have the money to buy enterprises in privatization's first stage, Chubais responded that the savings among the general population would, indeed, be inadequate. But, Chubais continued, "[w]e are taking into account the demand from representatives of the 'second economy'—that is, demand from people with money which has been, in most cases, illegally acquired.

Privatization investment accounts, as conceived in Russian legislative action from July 1991 through June 11, 1992 were intended to both create equity in the destatization of property and to facilitate economic improvement through the creation of markets and measures designed to dampen the inflationary pressures that could accompany the introduction of a new medium of exchange that was not carefully regulated. A critical feature of privatization accounts, which were to be made available to all Russian citizens, was that they could be used only to acquire shares of state property. They would be registered to named citizens, and only the person named would be able to use an account to acquire privatizing property.

Only after shareholders had acquired stocks through privatization accounts, and after the enterprise could be evaluated on the basis of market demand, would shareholders be permitted to sell their stocks at their market value, if they so desired, after a period of three years. The three-year holding period was intended to help forestall inflationary pressure that would result from a sudden availability of stocks for which no money had been paid. (Enterprise shares bought for money would not carry that restriction.) And requiring that shares of enterprises not be sold before their market value could be determined was intended to provide a sound basis for investment decisions, as money increasingly came into the market for shares of privatized enterprises. This would have systematically built confidence among the citizenry in a market system, by creating market conditions in a deliberate, stepwise manner.

It is significant that both Gaidar and Chubais had opposed the idea of privatization accounts from the beginning, according to Petr Filippov, who, before joining the Yeltsin administration, had chaired the Subcommittee on Privatization of the Russian Supreme Soviet.83 Their view was consistent with Åslund's perspective at that time. In 1991, Åslund...

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had discussed several advantages and disadvantages of voucher distribution of state property, and had concluded that "voucher schemes do not appear viable." They would require an assessment of enterprises, which could not be accurate before markets have emerged, he argued, and they would create political backlash as many newly-privatized companies went bankrupt. Åslund also suggested that if property were "given for free" it might not be valued. Chubais adopted the same stance, maintaining, "What blows in with the wind will fly with the wind."

But at some point in 1992, the wind shifted among the privatization planners. By the time that Åslund penned a revision of his 1991 article quoted above, he had decided that "The best option that has emerged in the debate [over optimal privatization procedures] is the distribution of vouchers to most citizens." Voucher distribution, Åslund notes in this revision, had been decided upon by the Russian government. Perhaps Åslund's judgment about the desirability of voucher distribution was influenced by Richard Layard, an economic adviser to the Russian government from the London School of Economics. In 1990, Layard, along with other members of the World Economy Group of the World Institute for Development Economics Research, prepared a report on the subject of Eastern European economic reform. In the study, they contrast two approaches to privatization—the sale of state property and free distribution of "at least a substantial part of state enterprises." They conclude, "Most of the arguments against distributing shares strike us as ill thought-out." But these disagreements among foreign advisers were largely confined to closed-door meetings. It should not be surprising that analysts in Russia such as Yavlinskii voiced dismay that it was impossible to understand the Russian government's early-1992 reform policy. The planners themselves did not know what to do. And, as we will show below, when they did decide among themselves about a plan, they did not want its full details to be publicly discussed even in the parliament, which was charged with overseeing the privatization program.

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86 Åslund, Post-Communist Economic Revolutions, 87-88.
The Voucher Stratagem

Maxim Boycko and Andrei Shleifer wrote a paper about the Russian voucher program which appeared in a 1993 book edited by two other prominent advisers to the Russian government, Åslund and Richard Layard. Both Boycko and Shleifer have served as economic advisers to the Russian government. Shleifer is a Harvard economist, and Boycko is director of the Russian Center for Privatization, an agency of the Russian government under the State Property Management committee headed by Chubais. Their paper begins by stating that, “In accordance with the Decree of the President of the Russian Federation of April 2, 1992 vouchers will be introduced in Russia in the fourth quarter of 1992.” But the April 2, 1992 decree to which they refer calls for the creation of “registered privatization accounts in the fourth quarter of 1992”—not the kind of vouchers they describe which could be sold for cash. The negotiability modification was a significant change, as our discussion will indicate. But this idea was not present in Yeltsin’s April 2 decree. Nor was such a voucher distribution plan suggested in the revisions to the July 3, 1991 law On Privatization of State and Municipal Enterprises in the RSFSR that the Supreme Soviet had approved on June 5, 1992. And when the Supreme Soviet approved the State Program of Privatization of State and Municipal Enterprises in the Russian Federation for 1992, on June 11, the law they passed stated that “a system of registered privatization accounts (privatization checks) will be introduced no later than November 1, 1992.” The phrase "registered privatization accounts" (imennye privatizatsionnye scheta) has an unambiguously clear meaning in Russian. "With the owner’s name," "cheque payable to the person named," is integral to the meaning of the phrase, and this denotation is fully consistent with the July 1991 legislation. This owner identification was a critical feature of the privatization accounts plan, because it made the accounts (or "privatization checks") non-negotiable. They could only be used to buy shares of enterprises,

90The Oxford Russian-English Dictionary, 2nd ed., s.v. "imennoi." The reformers added the parenthetical phrase (privatizatsionnye cheki) after "imennye privatizatsionnye scheta," but that phrase could not reasonably have been taken to alter the meaning of the non-parenthetical part of the description. The stated intent of the reformers in adding "privatizatsionnye cheki" was to simplify the privatization procedure by taking banks out of the process. There was no suggestion at this point that the checks would not have been issued in people’s names, or that they would become negotiable.
which meant that actual privatization would have to precede speculation in future privatization. Pre-privatization speculation was certain to create a buyers' market for negotiable privatization checks--a system which could only work against the interests of most Russian citizens, to the benefit of a small number of well-placed and monied interests. And in the aftermath of price liberalization, people with substantial liquidity were in no way typical Russian citizens.

The same day that the Supreme Soviet was approving the 1992 privatization program which had been submitted by the reformers for its consideration, the Yeltsin government's Council of Ministers was hearing the State Property Management Committee's proposal for the different system of privatization that was later implemented. This new proposal, which was presented to the Council by Chubais, made three significant changes in the program being approved that day by the Supreme Soviet. It would remove the recipients' names from the privatization checks. Additionally, it would make it possible for privatization check holders to sell their checks, rather than investing them in enterprises. Finally, it would limit the term during which privatization checks could be used--adding further impetus for rapid use of the checks. The Council approved Chubais's proposal, and it was decided that, since the parliament was about to begin a summer recess, the new program would be implemented by presidential decree. Kommersant later noted, "[T]he introduction of vouchers is the most radical decision the Russian government has made in creating market structures in the economy." 92

The idea of issuing unregistered vouchers had been floated as a "trial balloon" before mid-1992 by Dmitrii Vasil’ev, a deputy chair of the State Property Management Committee, when we interviewed him in May. In discussing various methods of privatization, Vasil’ev suggested that "people should not be forced to buy a certain piece of property," adding that more "freedom of choice" would be possible through a procedure in which vouchers were unregistered. Then, "poor people could sell their vouchers to richer ones, and rush to the market to buy sausage." That month he repeated this notion in a Delovoi mir interview, saying that "accounts" would be "just a piece of paper," and that "each Russian [could] decide" what to do with it--to "either purchase shares" of an enterprise, "or just sell it to another person." 93

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91Gaidar became acting prime minister on June 15.

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But this scheme did not become a part of the legislation adopted by the Supreme Soviet on June 11.

"Miraculously," Filippov remembered in February 1994, "we managed to squeeze through ('protashchit') the Supreme Soviet the first privatization program." But Filippov's memory was faulty. The privatization program that Russia's lawmakers approved was not the one the Russian people got. In July 1993, then-chairman of the Commission on Economic Reform of the Russian Supreme Soviet, Vladimir Mazaev, gave us his perspective on the breakdown of coordination between the executive and legislative branches with the inauguration of voucher privatization. "The parliament was deceived," Mazaev stated. "We approved one privatization program, and Chubais with his foreign advisers created voucher privatization using Yeltsin's emergency powers. The Parliament was on holiday, and Yeltsin's people took advantage of that."

The parliamentary discussions which preceded the June 11 approval had been lengthy and detailed. A number of critical issues were debated—as is the case in any parliament, when major policy proposals are being reviewed. Gaidar had initially presented the privatization proposal to the Supreme Soviet in March. It had been rejected by the Congress in April, but at the same time the Congress approved a resolution affirming its commitment to the government's course of economic reform. A revision of the program was submitted in May and was approved "in principle." Further discussion followed, and additional modifications were made before June approval. But with Chubais's presentation of a new privatization scheme to Yeltsin's Council, the reformers' disregard was made obvious for the "principles of joint subordination" to which Yeltsin had offered allegiance the previous October, when he had asked for special reform powers.

Our purpose here is not to evaluate these two approaches to the distribution of state property. We have evaluated the voucher privatization program elsewhere, and found it largely to have been a failure. Our more basic point in this report is that the privatization planners had a responsibility to discuss the variant they favored with the Supreme Soviet at the time that it was considering the 1992 privatization proposal. The reformers' strategy of seeking approval for one procedure while simultaneously preparing to implement a different one was obviously

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94 Petr Filippov, "Kuda poshel protsess?"
95 CDSP 43 (4 December 1991), 7; from Izvestiia (30 October 1991), 2.
inappropriate. This was just one of a number of deliberate maneuvers by the Yeltsin government to neutralize the Russian parliament’s authority during 1992 and 1993. Yeltsin revealed the kind of thinking that produced this belligerent strategy, just as voucher distribution was beginning in Russia. "A presidential decree," Yeltsin declared, "is nothing like Supreme Soviet regulations. It’s higher." This perspective was not only approved by foreign advisers who were promoting the "Western approach" among Russia’s reformers, but also recast in a different light, as is illustrated by the version of this page of history that has been offered by Boycko and Shleifer.

The reformers could not openly discuss the actual objective behind their voucher distribution proposal, because they were telling the public one thing while very clearly pursuing an entirely different goal. Such inconsistency can only be sustained when there are mass audiences—not when issues are brought into the open for detailed discussion. "We don’t need a few millionaires," Yeltsin proclaimed after the voucher program was unveiled. "We need millions of owners." And whereas in the previous winter Chubais had expressed concern that "what blows in with the wind" would depart just as effortlessly, now he defended the government’s new voucher idea by suggesting, "The politics of the State Property Management Committee is not to further the stratification of society but to let everyone take part in people-oriented privatization." Åslund described the Russian government’s true emphasis more accurately in 1994 Congressional testimony in a section of his prepared statement entitled "The coopting of Stakeholders," where he stated approvingly, "The whole design of the privatization program was based on considerations of how these stakeholders could be satisfied or placated, he observed, and continued, "At least people have got something."

After Yeltsin signed a decree authorizing the new voucher idea on August 14, the Supreme Economic Council of the Russian Supreme Soviet prepared an analysis of this new

98Aleksandr Borisov, "... plius sploshnaia vaucherizatsiia vsei strany," Megapolis-Express, no. 35 (2 September 1992), 3.
101He announced the action in an August 19 television address. The decree was published August 21. See "O vvedenii v deistvie sistemy privatizatsionnykh chekov v Rossiiskoi Federatsii."
approach, which the Supreme Soviet had not been given an opportunity to consider. Theirs was a careful study, which inquired into likely implications of Chubais's plan. The Council's report on the voucher program was released September 22, 1992. "Before any decision was made about the program," the report stated, "detailed evaluation was needed of its organizational implications and legal basis. But it seems that the initiators of this program (the State Property Management Committee of the Russian Federation) did not do either. Legally, the [new] program . . . contradicts the RSFSR law On Registered Privatization Accounts and Deposits." 102 Organizationally, the report concluded, the voucher auction plan showed no promise of improving economic performance and promised to offer fertile ground for criminal activity. 103

An Open "Door of Opportunity" for Crime

It is clear that the reformers knew that their program would be attractive to criminal elements in Russia. It is not inconsequential that, with the onset of voucher distribution, the legal requirement was nullified that citizens who wanted to use large personal cash reserves demonstrate that their money was acquired legally before buying property being privatized. 104

The implication of the new voucher plan for criminal involvement in Russian privatization was obvious to both the reformers and critics of the privatization program. As Leonid Abalkin, an economic adviser to the Gorbachev government, put it, "I discussed [this situation] with Anatolii Borisovich Chubais, and he himself said that the task is to create a modest number of real owners. Chubais realizes," Abalkin continued, "that the owners will mostly be criminally-oriented people. But, he said, there are no others now. . . . And without real entrepreneurs and owners, Russia will never get out of the hole. That's why," Abalkin continued, "the model with unregistered checks was chosen." 105

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103 Ibid.
104 "Zakon Rossiiskoi Federatsii ‘O privatizatsii gosudarstvennykh i munitsipal’nykh predpriiatii’ ot 3 iul’ya 1991 goda s izmeneniami i dopolneniami, prinятymi 5 iun’ya 1992 goda" (chap. 11, par. 3), Delovoi mir, no 138 (21 July 1992), 7. If such personal purchases involved the payment of more than 500 times the minimum monthly salary, the source of the funds had to be documented.
But there had been others with money before price liberalization, and there were still
many Russian stakeholders besides "criminally-oriented people" who could have participated in
this giveaway of a significant portion of "the people's property." The voucher scheme was
devised to coopt most of Russia's citizens whose work was honest, as the reformers themselves
state without hesitation (discussed below).

By early 1994, an analysis prepared by the Yeltsin government concluded, 70 to 80
percent of privatized enterprises and commercial banks were paying organized crime groups in
order to stay in business. The report estimated that between 10 and 20 percent of the working
capital of these businesses, which often comprises more than half of their profits, were being
spent for this purpose. "In Russia, organized crime controls all spheres of economic activity,"
the report continues. "In some spheres, independent entrepreneurs were completely eliminated,
as organized crime groups financed young people who were willing to work with them."106

Filippov supervised the government crime study. In a report discussing the relationship
between organized crime and privatization in Russia, Filippov acknowledged that "the word
'privatization' has acquired a very clear criminal connotation," but added, "We often have
been asked if we are uncomfortable with the fact that, in privatization, there is very active
'laundering' of money that was made through criminal activity. We not only are troubled about
this development but also indignant, but what is the answer? To slow down privatization would
be a step backward—an attempt to stop the train which has just started gaining momentum on
the way to the market."107

This alarming situation, which we will examine more fully in our next report, is, to a
substantial degree, a direct result of the "Western approach's" demand for hasty privatization
in the absence of adequate preparation in the political, legal and cultural spheres. Filippov's
"train" is, as a result, on the wrong track. Maintaining its momentum at this point will only
increase the remoteness of effective and legitimate reform.

Why So Fast?

The September 1992 report of the Supreme Economic Council had recommended that the
sale of vouchers for rubles be prohibited, consistent with the terms of the privatization
program which had been submitted by the State Property Management Committee and

106 "Rossiiskaia mafia sobiraet dos'e na krupnykh chinovnikov i politikov," Izvestiia, no. 15
107 Petr Filippov, "Korruptionsioner--drug mafiozi."
approved by the Supreme Soviet. Chubais responded several days later, in an appearance before the Supreme Soviet, "It cannot be done--either technically or organizationally. If 150 million people receive checks and want to sell them, it won't be possible to prevent it."108 The campaign was well underway to promote "people's privatization" through vouchers, and a number of radical democrats were attempting to brand detractors of the privatization program as "reactionary forces," who were actually opposing "the final collapse of the economic base of totalitarianism, socialist egalitarianism and communist bureaucracy."109 The reality of this situation was quite different. Our analysis indicates that Supreme Soviet, as a body, had undertaken reasoned deliberation on this crucially important issue for Russia's economic future, consistently with their responsibilities as lawmakers. And most of them were acting a great deal more responsibly than the reformers who carried out a deceptive end-run around the parliament and then launched a blistering propaganda campaign to justify their actions.

A fundamental objective of the new voucher procedure was to privatize as quickly as possible. As Filippov put it, "The most basic mistake of the variant with privatization accounts was that it attempted to force everyone to become owners of these accounts and prevent a rapid flow from hands-to-hands."110 The reformer's rationale for an overriding emphasis on rapid privatization, to the neglect of measures which could promote the realization of the stated objectives of the privatization program, is provided by advisers to the Russian government. This strategy of breakneck-speed privatization is at the heart of the "Western approach," as we have already noted. But there is a conspicuous contradiction between the valid and desirable objectives of privatization, as delineated by proponents of this approach, and the negative outcomes that can be expected when a rapid pace of privatization is made the top priority.

Åslund's arguments in Post-Communist Economic Revolutions illustrate well this fundamental disjunction. In discussing reasons for privatization, Åslund emphasizes the collapse in the legitimacy of market socialism as a viable economic system, the dysfunctionality of soft budget constraints, the value of competition, the need for rational criteria for the allocation of capital, the relationship between pluralist ownership and political democracy, the need for a well-functioning market comprising a large number of firms, the poor organization of state administrations in countries such as Russia, and the importance of

110 Petr Filippov, "Kuda poshel protsess?" Emphasis added.
good management for enterprises. "These arguments amount to a strong case for fast privatization," Åslund concludes.111

Our overall interpretation of these arguments, which we have detailed in a number of other places, is that the kind of rapid privatization that Åslund and others urged on Russia predictably worked against the realization of nearly all of the objectives Åslund highlights. In short, the legitimacy of socialism among the Russian population has, unfortunately, been increased as a direct result of a privatization program which most Russian citizens correctly evaluated, once they learned how it was actually structured, as not operating in their interests. The reformers' voucher scheme and accompanying propaganda gave them a near-term victory, but in the somewhat longer-term the idea of a market economy has suffered a serious setback. Further, soft budget constraints are problematic; but Russia’s economic health is dramatically worse than when the reforms began. Competition, rational criteria for allocating capital, pluralist ownership, a well-functioning market, and good enterprise management are all vital to a vibrant economy; and rapid privatization works against the realization of all these objectives. Rapid privatization has not facilitated the arrival of good enterprise management, for example. It has had just the opposite effect. Lightening-quick privatization can only be accomplished if people are intimidated or bought-off. And in buying off enterprise directors, the privatization program did anything but stimulate a drive for better management. We will return to this critical point in a later section of the report. In sum, there is only an illusion of an argument for rapid privatization in Åslund’s discussion.

Nothing about the course of reforms suggests to us that, when the turnaround comes (and, of course, it will), rapid privatization will have contributed positively to the reversal. Indeed, when the reversal comes, we submit that it will demonstrably be in spite of rapid privatization, and not because of it. Further, the reversal of Russia’s economic fortunes will come later, and with more ground to make up, than would have been the case with a more appropriate reform policy. The program of rapid privatization has so crippled Russia’s production capacity and potential that the costs of this policy error will continue to be felt for a long time to come.

The worry of Layard and the other members of the World Economy Group that methodical preparations for privatization can create a "legal no-man’s land" conducive to plundering by enterprise managers and bureaucrats is more persuasive than are Åslund’s points. But the rapid privatization that these analysts advocate offers a prescription for worse

111Åslund, Post-Communist Economic Revolutions, 70-74.

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outcomes than of the malady they want to prevent. Eastern Europe has known problems of the
types they describe, certainly—"spontaneous privatization" for self-aggrandizement and
dishonest "deals" of many types. But rapid privatization has solved none of these
problems. Rather, it has created a context for rapid fraud and profiteering, along with rapid
privatization. There can be no question but that a more deliberate approach to the transfer of
state property offers the most hospitable circumstances for limiting and rooting out illegal
activities associated with privatization.

The most elemental reason that the reform planners have emphasized a rapid pace above
all else is that they are fixated on irreversibly crippling the familiar command system, to the
neglect of alternatives which would facilitate constructive reform. The core issue here, then, is
not, as proponents of the Western approach want to suggest, between the relative merits of
gradual and rapid privatization, and economic reform more generally, for improving the
existing system of production and distribution. Rather, the critical question is whether it is
preferable to first destroy the command system, whatever the implications for production and
the economy, or to constructively transform the existing system in pursuit of a market
economy. Theirs is an almost exclusively political agenda, but one formulated without the
benefit of fundamental knowledge about the requirements of effective political work and
without systematic inquiry into the relative advantages and disadvantages of radical economic
dismantling versus systematic economic restructuring.

The Plan to Coopt Russia's Economic Stakeholders

The work of Shleifer and Boycko highlights the Russian government's approach to the
political component of policy implementation in the economic sphere. In a 1993 article, "The
Politics of Privatization," Shleifer and Boycko describe how "stakeholder" interests (interests
of people and groups with existing "control rights over assets") were addressed in the
rapid privatization initiative. The parts of the article that we consider below are included in the
authors' discussion of "The Government's Approach to Privatization." In this discussion,
Shleifer and Boycko reveal a glaring lack of knowledge about basic political prerequisites for
successful economic reform. This inadequacy is most clearly reflected in their apparent belief

112Blanchard, et al., Reform in Eastern Europe, 37.
113Andrei Shleifer and Maxim Boycko, "The Politics of Russian Privatization," in Post-
Communist Reform: Pain and Progress, ed. Olivier Blanchard, et al. (Cambridge, MA: MIT
Press, 1993), 38.
that a credible reform effort could be undertaken by cynically buying-off groups which have legitimate stakeholder interests, rather than working through the tedious but necessary process of developing meaningful responses to competing interests for the sake of not only equity but the constituency-building that is necessary if any large-scale change initiative is to have a chance at success. The policy that they describe facilitated the rapid status change of state enterprises into joint stock companies during 1993, certainly, but it also insured that the privatization program would fail to achieve its stated longer-term objectives.

The Russian stakeholders with whom Schleifer and Boycko are especially concerned are workers, local governments, managers, branch ministries, and the public. Early in the paper, Shleifer and Boycko underscore their basic perspective on "political" interaction: "Unless these stakeholders are appeased, bribed, or disenfranchised, privatization cannot proceed."\(^{114}\) Of course, Stalin found a fourth way to proceed with economic "reforms" in the face of stakeholder opposition. And democracies have found yet a fifth way—recognition that a variety of stakeholder claims, even overlapping ones, must be taken into account as policies are being developed.

But the "Western approach" held that reform ideas which diverged from their own should be ignored if possible, and that stakeholder resistance, whenever it appears, must somehow be overcome. Shleifer and Boycko quickly dispense with worker claims. "To avoid massive resistance to privatization, the government must pay off the workers," they note matter-of-factly.\(^{115}\) There is no discussion of optimality here, or of the improved economic performance that they hold up elsewhere as a basic reason for Russian privatization.\(^{116}\) In discussing the three privatization options that were developed in the privatization program, they speak only in terms of "a privatization sweetener" and a level of "generosity" that will provide hope of "getting the workers . . . to hop on the privatization bandwagon."\(^{117}\) Åslund's post-factum explanation was equally cynical. "The purpose of giving a substantial share of the ownership to workers in enterprises to be privatized was not based on any ideology or concept of justice, but on a desire to facilitate fast privatization."\(^{118}\)

\(^{114}\)Shleifer and Boycko, "The Politics of Russian Privatization," 39.

\(^{115}\)Ibid., 56.


\(^{117}\)Shleifer and Boycko, "The Politics of Russian Privatization," 57-58.

\(^{118}\)House Committee on Small Business, "The Privatization Experience: Strategies and Implications for Small Business Development" (testimony by Anders Åslund; mimeo), 7.
Shleifer and Boycko turn more heavy-handed when the stakeholders at issue are local governments. "The strategy toward local governments is to coopt them into supporting privatization and relinquishing their control rights over firms," they maintain--cautioning, "Given that their claims are often as strong as those of the workers, they will not be cheap to convince." As a way of "putting more pressure of the local governments to privatize," they recommend "starving the local government budgets by not allocating funds from the center." This is apparently their version of a kinder, gentler form of coercion--but one that is seamlessly unconcerned with cultivating the local support that is needed for any positive reform effort.

In describing their approach to buying off managers, Shleifer and Boycko hit the low point of their surprisingly candid narrative. Writing about how the Russian privatization program was worked out, they emphasize, "Any manager in Russia today can use the program to become rich and remain in control." It may be important to note that Shleifer and Boycko see this element of their program, not as a negative feature in any way, but as one of the program’s strengths. Their context is a discussion of how "enterprise managers were successfully enticed to cooperate in privatization." And we suspect that some observers still believe that the privatization program was intended to improve enterprise efficiency by, among other things, promoting the removal of ineffectual managers. (Some removal has taken place, but not much, in relative terms. And our point is that the privatization program was intentionally structured to bring about this result.)

Shleifer and Boycko worry about branch ministries, because they cannot figure out a failsafe way to neutralize their potential to interfere with the privatizers’ plans. "The ministries will get something [in the privatization process]," they conclude, "but hopefully not enough to stop privatization from going ahead."

Then, Shleifer and Boycko take up the Russian public. "Like every other privatizing country," they note, "Russia must give something to the public for privatization to succeed." They add, "Vouchers played a role in assuring the acceptance of corporatization, since the enterprises needed to offer shares to the public in exchange for vouchers. . . . Something,"

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120 Ibid., 63.
121 Ibid., 64. Emphasis added.
122 Ibid. Emphasis added.
123 Ibid., 67.
they continue, "had to be left to the public." 124 But most of the public have not been impressed with these remains, as we have shown elsewhere. 125

So Russian stakeholders are, according to Russia's privatization planners, groups to somehow be bought off as cheaply as possible, or "starved" into submission, or, in the case of managers, rewarded with a frequently undeserved and potentially obstructive pot of gold simply because of their considerable potential for interfering with the reformers' plans. According to the "Western approach," this is how economic reforms acquire political legitimacy. And this kind of reasoning passes as economic planning at the highest levels of government--both in Russia, where the program is being carried out, and in the West, where these untenable notions are being encouraged.

Åslund follows Shleifer and Boycko in failing to comprehend the political naivété of this approach. Writing specifically about the Shleifer and Boycko paper cited above, Åslund argues, "The perhaps most sophisticated part of the Russian privatization program has been its politics, how various stakeholders have been considered and coopted. The approach could either be described as pragmatic and shrewd or unprincipled. In any case, it has been deliberate and flexible." 126

But this strategy, which has been the operative approach in Russian privatization, is neither pragmatic nor shrewd. To satisfy these criteria, it would have to have a chance, at least, of being efficacious. We have shown elsewhere that the Russian government's privatization program has been highly ineffective according to this standard. It was evident, once the privatization of large enterprises was well underway, that voucher privatization was not being judged positively where its acceptance was the most pivotal--among enterprise personnel and the general public. The promise of fair property distribution among the population was not being realized, and most people knew it. The program's most fundamental stated objectives were not being achieved, in most cases. An important reason for these outcomes, we have concluded, has been the program's feature most often highlighted as its crowning achievement--the unrealistically rapid pace of privatization that was mandated by the program. 127
The Reformers Break Free

After mid-1992, the parliament became increasingly frustrated that the legislative branch was being excluded from review and oversight of the privatization process. The State Property Management Committee was largely shutting out the property funds from involvement in the privatization process, the Supreme Soviet charged. The implication of this perceived usurpation of authority was alarming to many legislators, particularly because the funds were specifically responsible for insuring "that the state's rights as an owner are represented," as the first chairman of the Federal Property Fund, Fikriat Tabeev summarized the Federal Fund's role.\(^{128}\) Tabeev continued, "... we are responsible, not just for the fact of privatization... the Fund is responsible for the economic activity of an enterprise, which means that besides insuring that the state's interests are realized, the Fund is responsible for the well-being of workers... and the competitiveness of an enterprise's output."\(^{129}\) But as the parliament attempted to review the procedures by which the State Property Management Committee was carrying out privatization, the Committee grew ever more reluctant to participate with the parliament in deliberations about privatization.

In the April 1993 referendum, the question that concerned the privatization program asked, "Do you approve the socio-economic policies carried out by the President of the Russian Federation and the government of the Russian Federation since 1992?" Fifty-three percent of the voters said "yes," and both Yeltsin and Chubais quickly turned this referendum result into justification for their growing defiance of Russia's parliament. Following the referendum vote, Chubais's revolt against participation by the parliament in the privatization process was unqualified. "Parliamentary evaluation of the State Property Management Committee is funny," Chubais stated. "There won't be any real influence [from the parliament] on the work of the State Property Management Committee."\(^{130}\)

Chubais knew, certainly, that the referendum was never intended to be a test of the legislators' authority to continue their lawmaking functions, which included oversight, review and approval of the government's privatization program, but by this time, the objective situation was beside the point. Russia's legislators had been effectively branded as

\(^{128}\)Fikriat Tabeev, "Vazhnoe zveno ekonomicheskoi reformy," *Ekonomika i zhizn',* no. 30 (July 1993), 14.

\(^{129}\)Fikriat Tabeev, "Rossiiiskii fond federal'nogo imushchestva," *Ekonomika i zhizn',* no. 26 (June 1992), 9; emphasis added.

\(^{130}\)Nikolai Zimin, "Deputaty popravliaiut narod," *Delovoi mir,* no. 81 (30 April 1993), 1.
obstructionist, both in Russia and the West. The parliament had partially painted themselves
into this corner, with a number of unwise and even sinister decisions. It did not matter that
much of this extremism had been born of frustration with the Yeltsin government’s combative
posture, policy blunders and illegal actions. Yeltsin and his reformers had won this battle, but
the war was hardly over.

Conclusions and Policy Implications for the United States Government

"Economic stabilization is like successful chess strategy," Sachs suggested in the wake of
Yeltsin’s fatal strike against the Russian parliament. "As in chess, speed is decisive. And now,
the reformers can take the offensive." But Sachs had it wrong. The reformers’ neglect of
the fundamental political requirements for negotiation and constituency building in a
democratic context would soon place them in the awkward position of having to answer
directly to Russia’s electorate for the failures of their hurry-up reforms.

At this point, neither the reform planners nor their Western supporters can be expected
to acknowledge that their reform strategy was fundamentally flawed from the beginning. The
damage inflicted by the "Western approach" has been too severe for its proponents to accept
responsibility for the undesirable consequences it has produced. Now, the choices remaining to
the reformers and their defenders are to either pointedly retreat from this mistaken course or to
doggedly continue pursuing and justifying it, while publicly casting the most favorable light
possible on the Russian economic situation. The latter response has been plainly evident in a
number of diverse forums in the West, from journalistic essays to congressional hearings.

For example, in a May 1994 Op-Ed article in The Wall Street Journal, Radek Sikorski,
former deputy defense minister of Poland, writes that "not only is Moscow not in its death
throes, the city appears to be in the midst of a boom," with "foreign cars," "bright posters
[that] advertise computers and cat food," and "well-stocked shops" in abundance. We do not
question Sikorski’s statement that many Western firms "have more than doubled their sales in
the last year," or that many rich Russians can afford to pay premium prices for the services of
"Moscow’s prettiest prostitutes." But such examples are, of course, entirely beside the point, if
the point is to consider the overall economic picture in Russia. And Sikorski does not stop with
unrepresentative illustrations. He continues, "As Bridgette Granville demonstrates in a
forthcoming Royal Institute of International Affairs study the Russian statistical office was,

until October 1993, still subordinated to the reactionary Supreme Soviet. Statistics relating to inflation were deliberately skewed to show that reforms were not working when, in fact, they were.\footnote{Ibid.}

Enough independent analysis of the reform's economic effects has been carried out, however, to convincingly discredit Sikorski’s argument. The macroeconomic indicators are bad enough. The microeconomic conditions of life, for an overwhelming majority of Russian citizens, are markedly more sobering. In reality, the fallout from the "Western approach" to Russian economic reform has been even more harmful than is indicated by straightforward interpretations of the reform program's purely economic results. The cultural and social consequences of this policy course have even more sinister long-term implications than do its immediate economic effects. (This will be a principal theme of our next report.) Many thoughtful Russians are already aware of these connections, and history will not fail to take note of the far-reaching negative outcomes of the Russian government's reform policies from late 1991 onward.

For this historical moment as well as others, in which the "groupthink" syndrome threatens to produce, or deepen, policy errors, it is vital that legislative review of foreign policy proposals be carried out with the benefit of information gathered from a diverse array of sources and reflecting a breadth of perspectives. Such a deliberately expansive approach would consistently acquire data, not only from those who have participated in framing policy directions of the United States government, but also from analysts who can bring independent perspectives to bear on critical policy issues.