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Executive Summary

Russia's twentieth-century experience with radical economic change has shown that the costs of reform can be high when existing economic and societal constraints are not adequately taken into account. Not only have the reforms under Yeltsin failed to achieve the results that had been anticipated by this time, but the consolidation of executive power that was justified on the basis of Russia's economic reform agenda has already proven to be seriously problematic, as recent developments in Chechnya demonstrate. The low levels of Western assistance, relative to what had been expected by the reformers as the transition program took shape, have been implicated in the negative outcomes of Russian reform by some analysts, but a more balanced interpretation would seem to indicate that the reformers erred in planning for an unrealistic level of Western aid in light of the political realities of the 1990s.

Both in Lenin's day and under Yeltsin, Russia hoped to establish a robust economic system through plans developed and administered by an elite cadre of planners, and in both situations hasty improvisations were required to implement directives whose theoretical assumptions did not mesh well with prevailing social and economic conditions. In the 1990s, the State Property Management Committee sought to quickly reverse the effects of the Bolsheviks' rapid nationalization program, and privatization results from 1992 through 1994 were no less striking, in terms of numbers, than the results of nationalization between 1918 and 1920, when 80 percent of large-scale enterprises were nationalized. (By July 1994, 70 percent of Russia's industrial enterprises had been transformed into joint stock companies, and 74 percent of small businesses had been privatized.)

In both the 1920s and 1990s, however, radical economic restructuring resulted in sharply declining production--outcomes that were viewed by Trotsky, and by Gaidar seven decades later, as necessary to their governments' long-term plans, because, as Trotsky had argued, "Having mounted the saddle, the rider is obliged to guide the horse--in peril of breaking his neck." Gaidar's rationale was similar, but by the end of 1994 the economy was still in such disarray that personal hardship was widespread, and political stability was threatened.

Defenders of Russia's reform course have often employed economic data regarding the Russian economy so selectively that advocacy is more plainly visible in their works than dispassionate analysis. The best evidence indicates that Russian production declines have.
indeed, been precipitous—in the civilian sector as well as in military production. Contrary to Anders Åslund’s assertion that much of Russia’s reported production decline is “not real,” a close reading of data that go beyond Goskomstat figures compel a different conclusion. And whereas Goskomstat’s incomplete data related to output would sometimes support too negative a portrayal, sometimes just the reverse is true. On the consumption side, the expansion of retail sales must be interpreted in light of sharply increased income inequality, if well-being among the population is to be studied. It is clear in early 1995 that, for a large proportion of Russian citizens, not only does no new television set or automobile seem to be in their near-term future, but there may not even be money for a replacement pair of shoes. Further, it has been noted that the dilapidation of capital stock, which is a factor in the current robustness of aggregate consumption, is not a positive sign for future economic growth.

Overall, a substantial proportion of Russia’s population were living decidedly less well at the end of 1994 than they had been before the Soviet Union was dissolved, and the structure of Russian production was changing in ways that were not encouraging. Erosion in the educational system and in science offered additional reasons for skepticism about Russia’s likely long-term economic dynamism. Even before the assault on Chechnya began, the prospects for post-voucher privatization were uncertain, and with the political climate of early 1995, foreign investment is nearly certain to fall well below the level that had been hoped for. Political and economic policies were proving to be difficult to influence outside the executive branch, however—a development in which the Yeltsin constitution played a decisive role. There is arguably little reason to expect that Russia will soon overcome the negative results that are associated with the program the Yeltsin planners implemented for economic reform.
CONTINUING ISSUES AND DILEMMAS IN RUSSIAN REFORM

Lynn D. Nelson
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Introductory Note

This report was completed as the conflict continued in Chechnya which erupted in December 1994. The analysis which follows does not consider in detail the implications for political and economic development of recent Russian military actions there. However, the trends emphasized below can inform interpretations of these recent events.

Thesis, Antithesis and Continuity

In January 1992, for the second time this century a new Russian government that was determined to radically restructure the economy launched a program of reforms based on an economic vision imported from the West. In both cases, Russia hoped to establish a robust economic system through plans developed and administered by an elite cadre of planners who worked to insulate themselves from close public scrutiny. And in the 1990s, as well as after the October Revolution, hasty improvisations were required to implement directives whose theoretical assumptions did not mesh well with prevailing social and economic conditions in Russia. In addition to being required to confront problems inherent in the nature of the Soviet system which was Russia's legacy, the Yeltsin reformers were forced to operate with a substantially lower level of Western assistance than they had assumed would be forthcoming when their program took shape. Again, as in the seventeenth and eighteenth centuries, the rising tide of Western influences in Russia, and the resulting social dislocations, were seen as both welcome and intrusive--both promising and alarming. And as under Lenin, early results fell notably short of expectations, which threatened to fundamentally reorient the program and foster political destabilization.

The Privatization Campaign

At the same time that Yeltsin proclaimed the onset of price liberalization in October 1991, he vowed to "seize the initiative" in enterprise privatization--thus reversing the process of rapid collectivization of enterprises under the Bolsheviks. And on December 29, only four days after Gorbachev resigned as president of the USSR, Yeltsin issued a decree On Accelerating the Privatization of State and Municipal Enterprises.

Whereas Lenin's VSNKh had moved quickly in 1918 to set up regional organizations which were intended to check unauthorized nationalization, privatization head Anatolii Chubais
emphasized that the vast network of local property management committees that was quickly organized under the supervision of his State Committee in Moscow would curb unauthorized privatization. Reminiscent of VSNKh's stance seven decades earlier, Chubais maintained, as the property management committee network began taking shape. "Now the legal basis for privatization is being established to catch up with the spontaneous process."4

And as under Lenin, the Russian reforms implemented by Yeltsin’s planners and directed by a central agency achieved dramatic results in a short period of time. In July 1994, Russia’s State Property Management Committee (GKI) reported that 70 percent of Russian industrial enterprises had been privatized. According to GKI, 21,000 of these larger enterprises had been transformed into joint stock companies through voucher privatization in the "large privatization" ("bol’shaia" privatizatsiia) program.5 (The State Statistics Committee stated in October 1994 that 14,659 had "actually been privatized" by August 1—with shares having actually been distributed.)6 More than 90 percent of production remained "more or less" under state control, however, when enterprise shares retained by the state were taken into account.7 Further, GKI data indicated that more than 84,000 small enterprises (those with fewer than 200 employees) had been privatized before July 1 in the "small privatization" ("malaia" privatizatsiia) program, totaling 74 percent of Russian small businesses.8

Former economic adviser to the Russian government Anders Åslund, citing the GKI report that 70 percent of Russia’s industrial enterprises had been privatized by mid-1994, labels this achievement "astounding."9 Indeed, measured by the yardstick of how many enterprises went through a change in ownership status from 1992 through June 1994, when the voucher privatization period ended, the Yeltsin reformers’ success was no less striking, in many ways, than was that of the Bolsheviks from 1918 through 1920, when 80 percent of large-scale enterprises were nationalized. But neither Lenin’s 80 percent nationalization achievement nor Chubais’s 70 percent privatization milestone signify actual reform success. of course—a fact that Lenin and the Bolsheviks soon learned in the course of their restructuring drive. Existing structures can be dismantled in a variety of ways and quickly refashioned according to a different plan. But what bureaucracies destroy and reorganize, a country’s citizenry must accept and be able to manage if the restructuring is to register more than superficial success.

A Closer Look at Restructuring under Lenin and Yeltsin

Fruits of Rapid Nationalization under Lenin

Predictably, in the wake of the Bolsheviks’ hurry-up nationalization program, production plunged. In 1920, industrial production had fallen to 20 percent of its prewar level, and agricultural output was only 64 percent of that which Russia had achieved in 1913.10
Deprivation was widespread during this period, and there was an explosion of crime—often born out of hunger. Angela Balabanoff provides a poignant glimpse of the suffering of these times, the fatalities of which numbered in the millions: "Day by day I could see how material need transformed and deformed human beings and clipped the wings of the young social revolution itself. Here I saw men and women who had lived all their lives for ideas, who had voluntarily renounced material advantages, liberty, happiness, and family affection for the realization of their ideals—completely absorbed by the problem of hunger and cold. . . . I saw individuals who had devoted their entire lives to the struggle against private property, running home with a parcel of flour or a herring, eager to conceal it beneath their coats from the envious eyes of a hungry comrade. The women who owed to the Revolution all their new rights and dignities became suddenly old and worn, physically deformed by their own suffering and incessant worry for their children."12

It is impossible to disentangle the diverse causes of Russia's economic chaos in the early days of Bolshevik power. A devastating world war and a protracted civil war had contributed importantly to the economic hardship in which the country was painfully mired by 1920, as had the radical economic restructuring that Lenin had undertaken.

Trotsky had recognized the hazards of aggressively pursuing a radical economic course at that time, but he saw no alternative. Writing in 1920, he argued, "Once having taken power . . . the proletariat is obliged to resort to socialization, independently of whether this is beneficial or otherwise at the given moment. And, once having taken over production, the proletariat is obliged, under the pressure of iron necessity, to learn by its own experience a most difficult art—that of organizing a socialist economy. Having mounted the saddle, the rider is obliged to guide the horse—in peril of breaking his neck."13

The Yeltsin Reformers' Imperative

Seventy two years later, Gaidar repeated Trotsky's rationale, insisting in an August 1992 article, "When it is pointed out what Russia was lacking at the end of last year that was needed to create an effective market economy. I want to, not disagree, but add to the list. No, there was no developed, settled private sector, and there were no clear rules for relations between state enterprises and their owners. There was not an adequate environment for competitive, demonopolized market relations. There were no financial institutions to provide efficient redistribution of resources. A labor market was not developed, and labor mobility was constrained by traditions and residues of administrative limitations. Russia did not have its own banking and monetary system, or its own boundaries and customs arrangements. But there was
no--absolutely no--time to sit around and wait while all of these preconditions were created.
The choice was very clear."\textsuperscript{14}

Overall, the disruptions to the Russian economy that surrounded and followed the
dissolution of the Soviet Union resulted in a reported production decline from December 1991
through May 1994 of 53 percent.\textsuperscript{15} (We will discuss inadequacies of Russian official
economic data below.) Specialists from the Ministry of the Economy suggested in October that
the 1994 fall in industrial output, relative to 1993, was expected to be 25 percent, and that
GDP (gross domestic product) would drop another 15 percent from the previous year.\textsuperscript{16} This
steep and continuing decline is not as sharp as the rapid plunge under the Bolsheviks from late
1917 until 1920, certainly; but Yeltsin's reformers did not have to contend with the aftershocks
and dislocations of a world war and a protracted civil war. By any measure, the rapid
worsening of Russia's economy that is indicated by these figures for late 1991 onward can only
be considered catastrophic.

And 1994 would probably not see the decline "bottom out." according to projections of the
Ministry of the Economy. In the ministry's "best case" scenario, industrial production would
reach its lowest point in late 1994 or early 1995; but in the "worst case" scenario, the
economy would not begin to improve until the year 2000. According to the intermediate "likely
case" scenario identified in the study, economic improvement would be delayed until 1996 or
1997.\textsuperscript{17} These projections did not take into account, of course, effects on the economy of
policy decisions such as the one which resulted in the Chechnya conflict.

Advocacy and Analysis in Assessments of Russia's Reform Course

Introduction

Defenders of radical reforms, in trying to justify Russia's experiment with the short-lived
shock therapy initiative and with rapid privatization, often use data bearing on the reforms so
selectively that advocacy is more plainly visible than dispassionate analysis. We will illustrate
this tendency below.

Aslund and Jeffrey Sachs are just two of several analysts who have repeatedly cast Russia's
economic nosedive in what we believe to be an unjustifiably positive light, or (particularly in
the case of Sachs) have directed blame for Russia's economic woes away from the radical
reform prescription to other causes. "Data are incomplete and misleading," David Lipton and
Sachs stated in September 1992, "and easily misinterpreted to give an overly bleak account" of
the costs of reforms. Illustrating a pattern of defense for the radical reform approach that
would continue through 1994, they conclude, "In our view, these costs are exaggerated."\textsuperscript{18}
In Russia also, supporters of Yeltsin’s policies have often tried to downplay negative effects of the reforms. Moscow University economist Roza Malakhinova suggests that this fact should be taken into account when Russian government officials offer their interpretations of economic developments, because their assessments often "seem to depend to a great degree, not on the authenticity of statistical information, but rather on the intent of its users—economists from the executive branch—to cast macroeconomic dynamics in an unrealistically positive light."  

When the question is political implications of the reforms, Sachs does a better job than Åslund of identifying problems deriving from reform developments under Yeltsin. In contrast to Åslund, who announced triumphantly in 1994 that "A market economy has been successfully created" in Russia, and that "Russia has at last become a relatively predictable country," Sachs continued to worry that "the collapse of Russian reforms" is "a serious possibility." Why? Clinton failed Russia. Sachs insists.  

Sachs fails, however, to confront the fact that the "Western approach" which he and other advisers promoted placed too much emphasis on Western aid as integral to Russian reforms. Substantial Western help was assumed, without adequate assurances, as the program took shape; and 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 recent developments in Russia underscore the danger for the West. Also, in a Russian reform program which was too conspicuously influenced by unrealized Western inducements. It seems possible that the political instability resulting from Russia’s rapidly deteriorating economic conditions might become the most enduring legacy of radical reforms in the Yeltsin period.

Advocacy Illustrated: The Production Side

Writing in July 1994 of Russia’s production tailspin, Wall Street Journal reporter Claudia Rosett contends that "One point on which market economists largely agree is that Goskomstat’s [the State Statistics Committee] reports of falling industrial production are no cause for alarm, but a sign of economic health." Her rationale is that the Soviet government had historically "poured the nation’s resources into producing things for which there was little demand." And in a September 1994 Foreign Affairs article, Åslund explains his basis for arguing that "much of the [reported] decline in Russian production is not real." First, he notes, tax evasion
leads to underreporting of both profits and production.\textsuperscript{25} Åslund is correct, as numerous Russian analysts have repeatedly observed, that tax evasion, which was widespread in the Russia of 1994, leads to an underreporting of production. The question is, How much does tax evasion distort actual production levels? Evgenii Yasin, head of the Analytic Center in the presidential administration, points out that "Shadow business is especially active in the consumer market"--accounting for as much as 42 percent of all goods and services in 1993. "But," Yasin continues, "a part of production, as well, is leaving into the shadow." He does not know how much.\textsuperscript{26}

Even if official statistical data were entirely disregarded in favor of more conservative estimates of production declines, the picture of Russia's recent economic performance would still be grim. For example, Yasin states that the shadow portion of the production sphere is smaller, relative to the total, than is the case in the consumer market. (We know of no evidence that this interpretation is incorrect.) But even if shadow production should match the 42 percent figure that Yasin gives for shadow interactions in the consumer market in 1993, the production drop since the Yeltsin reforms began would nevertheless be alarming. And Yasin's estimate is that the shadow economy's share of the overall economy was, in 1992, only half of its 1993 level.

Evgenii Gavrilenkov, first deputy director of the Russian government's Center for Economic Analysis, also emphasizes that underreporting to avoid taxation meant that the actual levels of production in Russian industries was not known. "Unfortunately, no one has the necessary data" to calculate the level of underreporting, Gavrilenkov observes in September 1994, and adds, "but I would say that our GDP decline is not 17 or 18 percent but 12 to 13 percent."\textsuperscript{27} These are not encouraging statistics--either in magnitude or trajectory--for a country whose reported 1993 decline was 12 percent. And Yavlinskii makes the point only slightly differently. "The idea that there is a second economy--that statistics do not take everything into account---is correct." But unfortunately, he continues, even if we knew how to take everything into account, "the decline is still very large."\textsuperscript{28}

Åslund also argues, in suggesting that much of Russia's reported production decline is "not real," that electricity consumption figures indicate that the GDP drop from late 1991 through 1993 was overstated. "Universally," he insists in this regard, "electricity consumption is closely correlated to real GDP."\textsuperscript{29} That contention is inconsistent, however, with data from the USSR between 1950 and 1980--a period during which the growth in electrical power output and in national income were not closely correlated at all.\textsuperscript{30} And other analysts have pointed out that electricity consumption is not a good indicator of production for a number of reasons, including the fact that industrial electricity consumption is more a function of the number of
people on the shop floor than of output.\textsuperscript{31} International Monetary Fund analyst Vincent Koen
and Gavrilenkov provide a better interpretation than Åslund of the significance of electricity
production. "The year-on-year elasticity of electricity consumption with respect to actual output
may be quite volatile," these researchers note, "and depends on parameters that are hard to
quantify."\textsuperscript{32}

Both Russian government officials and Western proponents of radical reform in Russia are
correct, certainly, in noting that Goskomstat figures do not "tell the truth about the Russian
economy."\textsuperscript{33} And production statistics do not identify consumption trends--a point to
which we will return below.

Focus on Income Inequality, Well-Being and Aggregate Household Consumption

Whereas Goskomstat's incomplete data related to output would sometimes support too
negative a portrayal, sometimes just the reverse is true. This means, of course, that careful
analysis and balanced interpretations are needed. Several analysts using data periodically
collected by the Russian Center for Public Opinion Research (VTsIOM) have charged that
Russian government statistics sometimes distort the economic situation in a way that
understates negative outcomes for Russia's citizens at the level of well-being and household
consumption.\textsuperscript{34} For example, government figures are based on a poverty threshold which has
been set at an inordinately low level, relative to world standards.\textsuperscript{35} Further, the Russian
government also has consistently underestimated the overall growth in prices. For example,
numerous services which were previously available without charge now have to be paid for.
The effects of this change on family budgets are usually neglected in official reporting.\textsuperscript{36}
Additionally, actual prices of goods in stores are often markedly higher than officially reported
average prices.\textsuperscript{37} Also, frequent delays in wage payments to workers---sometimes as long as
several months---substantially reduce the purchasing power of incomes, due to a rate of inflation
so high that it is reported in terms of monthly rather than annual increase. VTsIOM national
data indicate that, in March 1993, 62 percent of respondents received salaries for the previous
month "on time and in full." And by May 1994 this percentage had dropped to 40.\textsuperscript{38}

A critical point which is typically ignored by radical reform proponents is that average
personal income figures do not take into account the rapidly widening gap between Russia's
most and least affluent population segments--and that toward the bottom of the income
distribution, purchasing power was substantially lower following the end of the voucher
privatization period, relative to the average, than it was at the beginning of the reforms.\textsuperscript{39}
And the tax evasion which makes production and personal income seem to be more modest
than they actually are means also that the income differential between those at the top and the bottom of the income ladder is markedly greater than official income figures indicate.

In support of an upbeat interpretation of consumption data, Åslund cites the widely-circulated statement that "real income rose by no less than nine percent last year [1993]." The editors of the "Economic Newsletter" of Harvard University's Russian Research Center do better--as do a number of analysts in Russia. "How real income can go up when inflation exceeds the increase in wages is hard to understand," a March report of the "Newsletter" points out. Sergei Glaz'ev, chair of the State Duma Committee on Economic Policy, accounts for this discrepancy. The growth of income is entirely due to entrepreneurial activity, Glaziev finds. "That means," he writes in August 1994, "that the growth of income is occurring in the most well-off social groups."

VTsIOM national survey data add detail to this conclusion---suggesting that for most Russians, purchasing power was not improving by mid-1994 relative to the previous year. According to several VTsIOM national surveys, 80 percent of respondents had to spend more than two-thirds of their family income to buy food--a pattern which was not more favorable than a year earlier. In a June 1994 study, only five percent reported that their material conditions had improved during the previous six months, but 55 percent stated that their living standards had declined during the period. And 1993, also, had been a year of steep income decline for most Russian people.

Whereas Åslund bolsters his consumption argument by noting the expansion of retail sales ("Previously unavailable consumer goods, such as stainless cutlery, are now in ample supply" and the recent surge in sales of television sets and cars, closer analysis reveals that, for a large proportion of Russian citizens, not only does no new television set seem to be in their future, but there may not even be money for a replacement pair of shoes. And if Western advisers had not grasped the dimensions of Russia's consumption crisis by late 1994, most Russians clearly had. Political analyst Nikita Gololobov reflects the predominant conclusion of those close to Russian public opinion in maintaining that, among "voters and taxpayers . . . nearly everything is viewed as going badly." This public sentiment has been formed "in spite of the government's attempt to manipulate" public opinion. Gololobov continues.

Finally, consumption trends are not adequately captured by cross-sectional data. Koen and Gavrilenkov observe in November 1994, "It could be argued . . . that the current dynamism of aggregate consumption is not sustainable because it is being paid for by the dilapidation of the capital stock" and "the deterioration of important segments of the infrastructure" which provide the engine for economic growth.
Further Considerations

The questions of how severe the production drop actually was in Russia through the conclusion of voucher privatization, and of how personal well-being was affected by the reforms, had not been settled by the end of 1994. Official figures, self reports, and tax evasion estimates were manifestly not reliable. For our purposes, however, aggregate figures are less important than two less debatable conclusions.

First, a substantial proportion of Russia’s population were living decidedly less well at the end of 1994 than they had been before the reforms began. Additionally, the immediate effects of the reforms on both production and consumption did not tell the whole story—and perhaps not the most important part. The structure of Russian production was changing as overall production declined. Output volume in the energy sector declined much less than in other sectors, and declines in civilian goods production exceeded declines in military production. There were severe distortions in the structure of production, certainly, as the reforms began, but the reform course was amplifying these problems.48

Further, a profound weakening was visible of the societal infrastructure on which future production and consumption levels depend. The magnitude of these effects will be clarified only after the losses in Russia’s human capital potential—brought on by erosion in the educational system and in science, for example—are better clarified. It was apparent in late 1994, however, that these losses were already substantial. That their ultimate implications may not be measurable for some time to come is illustrated by the course of scientific production from the Stalin era onward. Writing of Soviet science under Stalin, whose record was notable, and of the subsequent declines in a number of specialties, Loren Graham points out that the intellectual costs of Stalinism became pronounced only in the 1970s.49 And rather than correcting the inadequacies of this inefficient but still formidable system, the first three years of Yeltsin’s reforms further crippled it. The production declines of the 1991-94 period, whose magnitude is now a subject of careful scrutiny and debate, may eventually be seen as a less important development than the long-term consequences of the Yeltsin reforms for education, science and the larger culture.

Post-Voucher Privatization

In April 1994, GKI released a paper describing the committee’s "Conception of Post-Voucher Privatization," which would begin after the voucher stage ended on June 30.50 The principal shift in emphasis signaled by GKI’s new strategy would be toward the improvement of enterprise operation. The overriding goal would be to attract "efficient owners"51 willing to invest money in order to acquire enterprise shares.
Thirty percent of Russia's large and medium-sized enterprises were still state owned at the end of June, according to GKI. It was expected that two-thirds of these enterprises would be privatized, and that the other one-third would remain in the state sector. Of the enterprises remaining to be privatized after the end of voucher privatization, a large number were in the military-industrial complex, transportation and energy. Many other enterprises which were not privatized earlier for a variety of reasons were now slated for privatization.

Enterprises that were already joint stock companies after June 1994 were also to be objects of ongoing attention from GKI. Privatization planners hoped that workers who owned enterprise shares but needed money would sell their shares in the secondary market. Investors would be eager to buy, they believed, if the state would, at the same time, sell a substantial proportion of joint stock company shares that were still in its hands—thus making it possible for an investor to acquire enough shares in a particular firm to influence the enterprise's operation. GKI anticipated that this opportunity would draw in both Russian and foreign investors. GKI also hoped to attract outside investors with the promise of being able to purchase both buildings and the land on which enterprises were located.

On July 21, 1994, the post-voucher privatization bill was defeated by 12 votes in the State Duma, but the next day Yeltsin issued a decree which promulgated basic features (although not all) of the bill that had been submitted to the Duma.

It is too early, as we write, to evaluate outcomes of post-voucher privatization. But it is already clear that planning mistakes which impeded the effectiveness of "malaia" and "bol'shaia" privatization are again being repeated. Rather than seeking input and ideas from groups that will be affected by their initiatives, and attempting to build a broad-based political constituency, GKI's strategy continues to be one of working behind closed doors as much as possible. The principal justification for this stance is that GKI planners believe that they do not need to seek extensive input from affected groups within Russia in developing and carrying out their program. Aside from the large philosophical and procedural questions that are raised by this position, GKI's record since 1992 does not lend strong support to this point of view. While Chubais remained GKI head he thought, for example, that his post-voucher program, with its incentives for land acquisition and the purchase of large quantities of state-owned stocks, would bring in substantial foreign investment. The foreign investment component of the post-voucher program is a critical factor. GKI planners recognize, because they acknowledge that there is inadequate investment money in Russia to provide strong demand in the secondary market for the volume of shares that will be available. But back in 1992, Chubais also thought that his original privatization program would attract foreign capital. "Particular attention should be paid to foreign investment." Chubais and Maria Vishnevskaya wrote that
June. "The government is supplementing the legal structure, know-how, and practical mechanisms for receiving foreign investments." The State Investment Corporation was established in February 1993 by a Yeltsin decree with the objective of ensuring foreign investments against political instability, and other initiatives followed later. But the results of these initiatives were disappointing. Further, recent statements by GKI's new head Vladimir Polevanov, and the political infighting that has surfaced among officials regarding the direction of post-voucher privatization, are not encouraging signs.

Conclusion

On October 27, 1994 a no-confidence vote in the Chernomyrdin government fell just 32 votes short of passage in the State Duma. Only 54 of the 450 deputies voted against the initiative. (Fifty-five abstained and 146 did not vote.) A number of deputies, who were sharply critical of government policies and abstained from the voting, maintained that Russia's best hope now did not lie in replacing one set of ministers with others who might be no better. And to persist in a vote of "no confidence" could have spelled the dissolution of the State Duma itself, according to the new constitution. It was plainly evident, however, that both Chernomyrdin and Yeltsin were losing support across a broad spectrum of political interests as 1994 drew to a close—a trend which accelerated with the outbreak of hostilities in Chechnya. And again, the Yeltsin constitution was implicated in the legislative branch's limited ability to respond to the course being set for the country.

Overall, the price of Russia's radical reform experiment, and the consolidation of political power under Yeltsin that was largely justified as being necessary to ensure continuation of the reforms, has been high. Russia's economic slide has been markedly steeper and more rapid than the reformers had predicted. The structure of Russian industry has not been improved, and public confidence in Russia's leaders is at an all-time low. Yeltsin remains Russia's most durable symbol of reform, but his ability to galvanize public opinion seems to be exhausted. More than three years after Yeltsin announced his radical reform campaign, Russia's economic crisis is decidedly more acute and the society more fragmented than before. Democratic institution building has suffered a crippling setback, as has the credibility of market reforms among a substantial proportion of the population. Russia's cultural and scientific spheres have been put at grave risk, as the economic life blood of Russia has been drained rapidly. As the pall of oppressive authoritarianism at the federal level continues to intensify in early 1995, and as the economy continues to worsen, there are few signs that Russia might soon recover from its recent experiment with economic reform. With the military actions in Chechnya, further political turmoil seems likely in Russia, along with additional economic deterioration, a
growing foreign relations crisis, and further loss of confidence among potential Western investors.

Under the Bolsheviks and the tsars, Russia had been master of its own political and economic house. But with Yeltsin’s rapid and sweeping reforms, it no longer was. Nor had it forgotten its former glory, as recent events clearly showed, from the December 1993 elections onward. A key question had now become. What would be the ultimate price of Russia’s economic disarray?
Notes


3. "Ob uskorenii privatizatsii gosudarstvennykh i munitsipal'nykh predpriiatii," in Vse o privatizatsii v torgovle (Moscow: Torgovlia, 1992), 47-60. The program authorized by this decree deviated on several points from the one that had been outlined in the July 3 legislation of the RSFSR Supreme Soviet. See Lynn D. Nelson and Irina Y. Kuzes, Property to the People: The Struggle for Radical Economic Reform in Russia (Armonk, N.Y.: M.E. Sharpe, 1994), 44.


8. Boiko, "Gosduma podygrala GKI."


12. Angelica Balabanoff, My Life as a Rebel (Bloomington: Indiana University Press, 1938), 204. Parts of the above are quoted in Ball, Russia’s Last Capitalists, 9. Nicholas Riasanovskv estimates that about 20 million people had died by 1921, in the wake of the October Revolution, because of “epidemics, starvation, fighting, executions, and the general breakdown of the economy and society” (Nicholas V. Riasanovsky, A History of Russia, 2nd ed. [New York: Oxford University Press, 1969], 540).


20. Åslund, "Russia's Success Story," 70, 71.


23. Sachs, "Russia's Struggle with Stabilization"; and Jeffrey Sachs, "Testimony to the Committee on Banking, Housing, and Urban Affairs: United States Senate" (5 February 1994; photocopy), 8.


25. Åslund, "Russia's Success Story," 66.


29. Åslund, "Russia's Success Story," 66.


33. Rosett, "Figures Never Lie..."

40. Åslund, "Russia’s Success Story," 66.


42. Formerly a deputy minister--then minister--under both Gaidar and Chernomyrdin.


44. Natal’ia Kovaleva, "Potrebitel’skie ustanovki i otsenki naseleniia," Ekonomicheskie i sotsial’nye peremeny, no. 5 (September-October 1994), 48; and "Informatsiia," Ekonomicheskie i sotsial’nye peremeny, no. 5 (September-October 1994), 56.

45. Åslund, "Russia’s Success Story," 65.


47. Koen and Gavrilenkov. "How Large Was the Output Collapse in Russia?", 15.

48. See Sergei Glaz’ev, "Nesostoiavsheesia vystuplenie na rasshirennom Sovmine," 1, 4; and Koen and Gavrilenkov, "How Large Was the Output Collapse in Russia?", 9-10.


51. See, for example, Elena Kotel’nikova, "Goskomimushchestvo ozhidaet sotszakaz," Komsmerant-daily, no. 67 (14 April 1994), 3; and Elena Rubleva, "Vozrozhdeniu komandnoi ekonomiki prepiatstvuet privatizatsiia," Finansovye izvestiia, no. 4 (3-9 February 1994), 1-2.

52. Igor’ Karpenko, "12 000 predpriiatii v Rossii stali chastnymi. Ezhednevno na auktsiony postupaet 1 000 000 chekov," Izvestia, no 109 (10 June 1994), 1.


54. See, for example, Julia Wishnevsky, "Yeltsin: Yes to Privatization," OMRI Daily Digest 1, no. 15. part 1 (20 January 1995).