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POLITICAL DEVELOPMENTS IN PROVINCIAL RUSSIA: THE DECEMBER 1993 DUMA ELECTIONS IN PENZA

EXECUTIVE SUMMARY

By Peter Fraunholtz and Roberta T. Manning

Our paper discusses the reasons for the landslide victory of the hard-core opposition to President Yeltsin in the December 1993 parliamentary elections in Penza, a center of machine building and the defense industry, with a population of approximately 400,000, located in the Russian grain belt of the Middle Volga, to the southeast of Moscow. Here, anti-government parties won 60% of the popular vote, compared to 43% nationwide, and only 10% of Penza voters made the pro-Yeltsin Russia’s Choice Party their choice, compared to 15.4% of the electorate throughout the nation. In Penza, Zhirinovskii’s nationalistic Liberal Democratic Party received 30% of the vote (compared to 23% nationwide), the Russian Federation Communist Party, 15% (compared to 12.4%), and the pro-Communist Agrarian Party, 14% (compared to 7.9% in all Russia).

We attribute the strong showing of opposition forces in the elections in the Penza region to the structure of the local economy, which rests mainly on the defense industry and grain farming, both areas of the economy particularly hard hit by Yeltsin’s reforms. Under Yeltsin, government orders for the production of military goods were slashed by two thirds, resulting in a 58% drop in defense production and a major drop in the real wages of defense workers and engineers, once the most skilled, best paid part of the Soviet labor force, who now make a third less than their counterparts in civilian industry. Yet the government up until now has failed to provide the defense industry with any funds for conversion to civilian production.

Yeltsin’s freeing of prices in January 1992 has hit agriculture particularly hard, since prices of agricultural produce, particularly grain, have continued to be controlled by the government, while other prices, including vital inputs needed by farmers to grow crops, were allowed to rise on the market. A dearth of credit, created by the lack of an adequate banking system and tight money policies, forced on the government by international financial institutions, has deprived farmers of the necessary fertilizer, fuel, tractors, spare parts, and feed for livestock. As a result, the amount of land under cultivation in Russia has declined by ten million hectares last year alone, while livestock herds were reduced by 40% under Yeltsin.
and Gorbachev, an amount not much inferior to the 50% losses of livestock incurred during forced collectivization under Stalin. Penza experienced a major crop failure in 1993, due to drought, with harvest yields falling 18-59% below 1992 levels, depending on the crop. The decline is likely to continue into 1994, because, deprived of funds for vital inputs, local farms planted 48% less land in winter crops than they had in 1992, and 28% less land was prepared for spring sowing in 1994.

The rudimentary campaign skills of the reformist candidates, who proved to be especially inept in their use of television, also figure into the outcome of the elections in Penza as elsewhere. Reformers were unable to project a vision of Russia's future or make ordinary citizens believe they had the interests of the average man or woman at heart. Reform candidates were also hurt by the misguided manner in which Yeltsin and his chief economic advisor, Gaidar, the leader of the main reform party, Russia's Choice, have sought to create a market economy. Under Yeltsin and Gaidar, the Russian government has freed prices, made the ruble convertible and allowed it to float with the dollar. Privatization of government owned industry through a complex system of vouchers and auctions has begun and has come to affect about a quarter of Russia's industries. But Yeltsin and Gaidar have plunged Russia into a market economy without creating the kind of infrastructure that a market economy requires, like a social safety net and a banking system capable of providing businesses with the operational and investment credit that businesses anywhere cannot dispense with. Yeltsin and Gaidar have also left the complex maze of overly onerous business taxes, business regulations and regulatory agencies, created by the former Communist regime, intact.

As a result, Russian businesses in the past two years have enjoyed the worse of both worlds. They have had to adjust to a new market economy and drastic efforts to pare the defense budget in an economy in which defense production figures more prominently than anywhere else. Businesses have had to do this amid runaway inflation and tight monetary policies that have resulted in usurious 210% interest rates. At the same time, businesses of all kinds in Russia, private, state, native and foreign, continue to face all the restrictions, regulations, and red-tape, designed by the former Communist regime to prevent or impede the operations of the kind of private businesses Yeltsin and Gaidar have been seeking to create. Moreover, business profits of all firms continue to be taxed at a rate of 80%, as they were under the Communists. Under these conditions, production, already declining under Gorbachev, has continued to slip, by 18.8% in 1992 and 16% in 1993.

By the end of last year, the economy tittered on the verge of total collapse, as the government, under pressure from international financial institutions, sought to curb inflation by
draconian means, cutting off funds to the nation's bank system and refusing to pay its debts to Russian firms and businesses, including most of the nation's farmers, who in turn were unable to pay their suppliers and creditors. The result was a nonpayments crisis of major proportions, which paralyzed the operations of the economy and resulted in the withholding of wages from large numbers of the nation's workers for three months before the elections. Agriculture and the defense industry, the mainstays of the Penza economy, were the areas of the economy most affected by the nonpayments crisis. The failures of the government were held against all reform candidates, even those critical of government policies (like Yavlinskii, Shakhrai, and Sobchak), for the latter never managed to convey effectively to the electorate their differences with Yeltsin and Gaidar. As a result, Zhirinovskii and the neo-Communists (the mainstream Russian Federation Communist Party and their allies the Agrarians) ironically could and did present themselves as more pro-business than the reformers, alleging that the reformers had imposed abstract, alien, controversial and untested economic theories (like "shock therapy") upon Russia in order to bankrupt Russian businesses and allow foreign companies to take over the Russian economy at bargain basement prices.

American policy makers would not have been surprised by the outcome of the December 1993 elections if they had not tended to view Russian developments through the perspective of Yeltsin and Gaidar, who tend to dismiss all their many critics as holdovers from the Old Regime, bent on the restoration of Communism, when the actual situation is actually much more complex. As this paper indicates, there are major deficiencies in the way Yeltsin and Gaidar have gone about introducing a market economy and free enterprise in Russia, since they have concentrated on macro-economic reforms and have failed to formulate a program of micro-economic reforms, geared to the real-life needs of Russian businesses. A less partisan approach to Russian politics is mandatory in the future on the part of the American government and press. Otherwise it is unlikely that democracy will survive in Russia. Moves towards authoritarianism and attempts on the part of President Yeltsin to rule without a legislature should be firmly discouraged. We should applaud Yeltsin's recent moves in the wake of the elections to disassociate himself from the now totally discredited Gaidar and to revise the government's approach towards economic reform along the lines suggested by his parliamentary critics and this paper.¹

We have to realize that Yeltsin-Gaidar style macro-economic reforms that fail to address the problems and dilemmas facing Russian businesses (private or otherwise) have

¹For this, see the account of Yeltsin's speech of February 24, 1994 reported in The Boston Globe Feb. 25, 1994 p. 2.
outlived their day and their appeal to the more politically experienced electorate. As a result, younger voters, the segment of the population most supportive of moves to create a free enterprise market economy in all the opinion polls, stayed away from the polls in large numbers during the December 1993 Duma elections. Evidently they were unwilling to endorse the current course of the reformers but unable to bring themselves to support the opposition. The failure of reform candidates with younger voters indicates the urgent need for the emergence of new, pragmatic, less ideological, more businesslike and business-oriented politicians and the realignment of the reform program to address the real life needs of Russian businesses instead of focusing on abstract macro-issues. Continuation of the current course, coupled with more social welfare alone, will not enable Russia to emerge from its current economic and political crisis with a stable democracy and market economy, although Russia does need a strong social safety net, like other market economies. Western economic aid to Russia should include help in creating viable welfare and banking systems, since business of any kind cannot possibly be expected to function without long and short-term credit and the Russian population clearly won’t tolerate anything else. Privatization should possibly be slowed down until Communist era business taxes and regulations have been discarded and an infrastructure capable of supporting private business activity is in place, along with programs to address the specific needs of the mammoth Russian defense industry, where so much of the nation’s skilled labor force and scientific and engineering talent is currently concentrated. Otherwise, mass bankruptcies of privatized firms are inevitable, resulting in social suffering on such a scale that free enterprise and a market economy will be discredited in Russia forevermore.

We need to recognize that Russia is experiencing a number of major upheavals at one and the same time, any one of which would challenge the capacity of a long established democracy to endure. Russians not only have to create a market economy and dismantle the old command system that existed for seven decades and has become embedded in the mentality and mores of the population. Russia has to do this while adjusting to the loss of empire and, hence, the loss of long established markets and suppliers in Eastern Europe and the successor states, which cannot be reestablished or replaced overnight. Russia also faces the problem of military conversion on a scale not yet contemplated in the West. Nowhere else have military procurements been slashed by two-thirds, save perhaps in some Eastern European nations.

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whose economies were far less militarized than Russia’s to begin with. Models derived from our own or Eastern European experiences cannot therefore be applied to Russia unaltered.

International credit institutions and Western political leaders, who do not want to go down in history as having "lost Russia" for the second time in this century, have to give the Russians time to address their multitude of problems piecemeal, in a manner that is politically tolerable to them, and not insist on instantaneous, simplistic solutions to complex problems that have accumulated over decades and even centuries and cannot possibly be resolved overnight.\(^3\) A moratorium on the repayment of Russia’s existing debts should be imposed for a period of five to ten years to allow the Russian economy to adjust to the multitude of changes that it is experiencing. If we insist on payment or extend new credits to pay the charges on old loans, we make Russia’s transition to a new economic system more difficult and create the real risk that the Russian debt will sooner or later be repudiated by the likes of Zhirinovskii, following the example set by Lenin seventy-seven years ago.

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\(^3\)Former Ambassador to the Soviet Union, George F. Kennan’s classic study, *Russia and the West Under Lenin and Stalin* (New York, 1960) attributes the outcome of the Russian Revolution to the West’s (particularly the United States’) misguided insistence that Russia remain in the First World War instead of recognizing the Russians’ need to withdraw from that conflict to deal with their own problems and internal divisions. Perhaps it is time to re-read Kennan lest we repeat our errors of 1917-21 and once again try to force our own agenda on Russia without regard for Russia’s needs.
POLITICAL DEVELOPMENTS IN PROVINCIAL RUSSIA:

THE DECEMBER 1993 DUMA ELECTIONS IN PENZA

by Peter Fraunholtz and Roberta T. Manning

In the recent elections to the State Duma, the new Russian parliament, the hard-core opposition to President Yeltsin's economic reforms won a landslide victory in Penza, a metallurgical and machine building center, with a population of approximately 400,000, located in the Russian grain belt of the Middle Volga, to the southeast of Moscow. Here, 60% of the popular vote (compared to 43% nationwide) went to the Communists, Agrarians and Zhirinovskii's party combined, while the pro-Yeltsin Russia's Choice Party received the support of only 10% of the electorate. In Penza, as elsewhere in provincial Russia, the results of the December 1993 elections were heralded by the outcome of the earlier April 1993 Referendum. The Referendum, widely portrayed in the American mass media as a decisive victory for the President, was anything but that in many localities in provincial Russia, which took advantage of the April elections to replace their Yeltsin-appointed provincial chiefs (glava administratsii) with political leaders more to their liking. In Penza, a former member of the Communist Party Central Committee, Anatolyi Fedorovich Kovliagin, was elected province chief or governor on a platform that supported the Supreme Soviet in its struggle against President Yeltsin and advocated a slower, less humanly costly pace of economic reform. Local political commentators attributed the outcome of the April 1993 elections to the sudden, sharp rise in food prices in Penza in spring of 1993, a development that had occurred in Moscow and St. Petersburg much earlier.

1NOTE: this paper is based in the main on the national and local press and television and Peter Fraunholtz's experiences in Penza for the last year and a half, where he has been undertaking research for his dissertation. We have also occasionally made references to easily accessible English language materials that elaborate on the points we are making or indicate that developments in Penza are not atypical for Russia.

2At the time of his election as province chief, Kovliagin (b. 1938) was serving as both a member of the Supreme Soviet and the chairman of the Penza Oblast Soviet Executive Committee, which had earlier been embroiled in considerable conflict with the old provincial chief over budgetary matters, a common phenomenon throughout the Russian provinces. Biographical information on Kovliagin was derived from Leonard Geron and Alex Pravda (eds), Who's Who in Russia and the New States, New York/London, 1993.
Penza is a city whose economy has been based heavily on military production, like many other Russian communities. As a result, the population consists predominantly of high tech engineers, who were formerly among the best provided for Soviet citizens; a large, once secure academic and research community employed by various local engineering and technical institutes; and an even larger working class, many of whom left nearby villages over the course of the last half century for factory jobs in the ever-expanding defense plants. Needless to say, the city has suffered from sharp cutbacks in the Russian military budget under Yeltsin. Government orders placed with military industry were slashed by two thirds in 1992, resulting in a 48% decline in military production in the last two years. Average wages in the defense plants, once the best paid area of the Soviet economy, now run one-third less than in civilian industry. Yet the government up until now has failed to provide the defense industry with any funds for conversion to civilian production, although this branch of industry employs over four million persons, including 60% of the nation's scientists and engineers.

In Penza, as elsewhere, conversion of defense plants is complicated by the structure of the former military industrial complex, which resulted in the subdivision of industrial tasks and technologies among different factories and ministries and renders conversion to profitable production very difficult. Conversion requires coordination between different localities and different firms formerly subordinated to different administrative entities. Even the collection of information about local productive resources and potential business opportunities has consequently proven difficult. Moreover, economic ties between regions and firms within Russia have deteriorated drastically since the onset of economic reform. For the center no longer provides firms with their customers and suppliers; rather, firms have to enter relationships with one another on their own. The collapse of trade with East Europe that set in at the end of 1989 and the demise of the Soviet Union two years later has made matters worse by depriving local enterprises of traditional sources of vital supplies and customers of long duration.

No adequate banking system exists in Russia today to provide enterprises with the credit necessary to meet routine operating expenses, much less the kinds of investment

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4Sevodnya December 25, 1993 p. 2 and Izvestiia December 30, 1993 p. 4. Parts of these articles have been translated in English in CDPSP, vol. XLV, no. 52 (January 26, 1994) p. 23.

5At present the Russian military-industrial complex consists of 2,000 large-scale industries and 660 research institutes. Current Digest of the Post-Soviet Press, vol. XLV, No. 52 (January 26, 1994) pp. 23-24. Henceforth cited as CDPSP.
capital necessary for conversion from military to civilian output. What credit is available can only be had at usurious rates, currently running as high as 210%. Foreign investment, often promoted as a panacea by the Gaidar-Yeltsin reformers, has failed to materialize. To be sure, some joint-ventures have been set up in Penza with foreign firms, but the flurry of interest in such arrangements peaked in 1990-91 and has faded since then. Likewise, hopes for the success of private farming have also eroded, as private farmers (fermery), too, have nowhere to turn for much needed operational and investment credit. No wonder firms freed from central control continue to look to the central government in Moscow to bail them out for want of other alternatives.

As a result of its social composition and economic difficulties, Penza's response to the Yeltsin-led reform movement has been mixed. Well trained engineers have seen their standard of living decline drastically, since few opportunities to improve their situation have materialized, contrary to earlier expectations. Those who are relatively close to retirement age are in the worst shape. The younger engineers and academics are among those who are most willing to explore new options, including trying their hand at private business, even retailing, in order to maintain or improve their standard of living. Because the older group of engineers considers themselves among the city's intelligentsia, they have tended to support moves towards democracy, but their declining material well-being

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6 The news organ Sevodnya (Dec. 25, 1993 p. 2) has estimated that there are at most 60-70 commercial banks in Russia that are capable of evaluating investment proposals in a competent manner and providing credit to enterprises. CDPSP, vol. XLV, no. 52 (Jan. 26, 1994) pp. 23.

7 Agriculture, both private and "cooperative," as the destatized collective farms are now called, has suffered grievously under Yeltsin. Prices for agricultural products (particularly grain) have remained regulated by the government, while the prices of most agricultural inputs were allowed to float on the market, making it impossible for farmers to operate in the black. The dearth of agricultural credits for the purchase of fertilizer, fuel, farm machinery, spare parts and feed has resulted in the sudden reduction of the amount of land under cultivation in Russia by 9.1 million hectares at the end of last year, while livestock herds have been cut back by 40% under Yeltsin and Gorbachev. These latter losses are comparable to those caused by forced collectivization under Stalin in the early 1930s, when the numbers of livestock in the USSR were reduced by half. See CDPSP, vol. XLV, no. 47 (December 22, 1993) p. 20. Penza experienced a major crop failure in 1993, due to drought, aggravated by the lack of funds and credits for vital inputs. Here output fell by 18-59% below 1992 levels, depending on the crop. This decline is likely to continue into 1994, because, deprived of necessary inputs, local farms planted 48% less land in winter crops in 1993 than they had planted in 1992, and 28% less land was prepared for sowing in the spring of 1994.
makes them wary of the economic program of the democrats. The younger group is more likely to favor economic reform but finds themselves hampered by high taxes--now running approximately 85%--on production and on the resale of imported goods, alcohol, food, clothing and cars, while spiraling inflation has curtailed investment in the private sector by eradicating the value of savings of would-be entrepreneurs, along with those of other citizens.

The fall in production has threatened the working class with the prospect of future unemployment and with less work, income, and lower purchasing power in the present, as inflation has eroded periodic pay increases. As a result, Russians have already experienced a significant decline in living standards, although mass unemployment has yet to materialize, because workers have been kept on the payrolls and simply given less work, which translates into less income under Russia's system of payment by piecework. At present the average Russian consumes 25% less meat, milk and fish than he or she did in 1975, while the percentage of family income spent on food has increased from 38 to 70% in the last two years alone. Today the Russian diet now contains 20% less protein and 50% less vitamins than it did under Brezhnev, and the death rate has risen 20%.

Beginning in 1993, the Moscow and St. Petersburg press, like the American mass media which draws heavily upon the media of the two capitals, has tended to view the struggle between Yeltsin and the now defunct Russian parliament through the eyes of the President and his supporters. The capital press followed the President in portraying the Supreme Soviet and Congress of People's Deputies as holdovers from the Old Regime, interested in blocking economic reform in order to hold on to their own waning power, although these were the same legislative chambers that had backed Yeltsin in his rise to power in 1990-1991 and supported him in resisting the August 1991 coup d'état of the genuine hard-liners. The Chairman of the Russian Parliament, Ruslan Kasbulatov, was similarly cast by Yeltsin and the pro-government press as a cunning and ambitious non-Russian, willing to do anything to assure the survival of his power base, the Congress, and the Brezhnev Constitution, on which the power of the legislature rested. Khasbulatov's ambition and ultimate poor judgment can not be denied, but his criticisms of Yeltsin's

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8 Russian scientists and technical specialists now earn in real terms only 20 to 40% of what they used to make in the pre-reform era. Ibid., vol. XLVI, no. 3 (Feb. 16, 1994) p. 13. The result is the outflux of technical talent into more lucrative occupations, most of which require little or no education. For example, one of the authors recently encountered a scientist formerly employed by the Russian space program, selling sodas in a Moscow park!

attempts to accumulate more power in the hands of the President won him a certain amount of political capital among supporters of the political left and right.

In focusing almost exclusively on the Congress and Kasbulatov as the center of opposition to reform, Yeltsin and his reformers seemed to have erroneously concluded that the dissolution of the Parliament and new elections would solve once and for all their political problems and put an end to opposition to their approach to creating a free enterprise market economy. The inability of the President and the Parliament to agree upon a compromise constitution in June, 1993, and the growing pressure from the West to stabilize the economy, control inflation and put an end to the continued collapse of the ruble before long-promised loans would be released escalated the level of confrontation between the executive and legislative branches of government.

Predictably each side held firm, when Yeltsin recalled Yegor Gaidar to political power to resume his harsh monetary policies, then unilaterally dissolved the Supreme Soviet and called for new parliamentary elections on September 21, 1993. Those interested in pressing ahead with economic reform believed that a new constitution, issued by Presidential fiat, and new parliamentary elections were the keys to providing necessary political stability for the implementation of their economic reforms. They maintained that Soviet citizens had never had a chance to live under a democratic constitution and the chance to do so was now at hand, although that chance rested on Yeltsin’s unconstitutional discarding of the existing constitution and a period of rule by executive decree, unfettered by law or constitution. Other reformers agreed that a new constitution was needed, but that was no justification for dissolving the legislature and declaring a referendum on a new constitution. Still other Russians found in the Supreme Soviet their only defense against a rapidly declining standard of living. This is not to say that they supported or had any illusions about Khasbulatov. Rather, they felt the Russian parliament was the only hope of limiting the growing powers of the President and slowing down a confused, ill-conceived, and often contradictory reform process that had already created an unrecognizable present and unknowable future and seemed to many to threaten Russia with economic collapse and disaster.

The Moscow Insurrection of October 3-4, 1993 that followed Yeltsin’s dissolution of the parliament resulted in 900 deaths and the detainment of 66,947 persons, including parliamentary leaders.10 This denouement was the culmination of the government’s insistence on perceiving its critics in the Supreme Soviet as reactionaries who wanted to turn back the clock and stifle further reforms. Yet none of the President’s main parliamentary opponents, including many of those who still called themselves Communists,

wanted a reversion to Communist dictatorship; they, too, tended to favor the development of a destatized market economy, only disagreeing with the President and his advisors over the means by which to do this and the pacing and order of the reforms. Yet Yegor Gaidar referred to the insurgents who took to the streets in defense of the Russian parliament as counter-revolutionaries who wanted to turn Russia back into a concentration camp. The choice for Gaidar was clear: freedom and unhindered market reform along the monetarist lines that he pursued, or the Communists and the GULAG. There were also nasty authoritarian and racist aspects to the re-establishment of order by Yeltsin and Gaidar: the suspension of constitutional rights, the increased power of the police to detain people, and the deportation of "outsiders," mainly Caucasians from Moscow. Similarly, in Penza, the Moscow insurrection and the government's military assault on the White House, the seat of the Russian Parliament and symbol of democratic resistance to the August 1991 coup d'état, was accompanied by a much greater than usual police presence in the streets in the form of elite OMON units, who were mainly employed here as elsewhere in the checking of documents, particularly those of Caucasians.

The events of October 1993 set the stage for the ensuing December 12 Duma elections. Voters in Penza, like others throughout the nation, followed the elections mainly through television coverage of the campaign. Among the tangible features of the election campaign was a crackdown on the political forces that had taken to the streets to support the old parliament and now found themselves outlawed and barred from running in the elections. The banning of political groups deemed extremist was accompanied paradoxically by greater freedom for the groups remaining in the political spectrum to discuss social programs. With the most visible 'anti-reformist' elements removed from the scene, other parties and groups rushed to fill the role of defender of the needy, left vacant by the dissolution of the parliament. This was especially true of the pro-Yeltsin Russia's Choice Party, which was given considerable additional TV coverage denied its rivals by the central, government-controlled television networks, a situation rendered more serious by the dearth of local programming in much of provincial Russia. The campaign itself marked

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11This point is based on broad reading of the Russian press and on conversations of the authors with a parliamentary delegation that visited the US. in February 1993 and participated at a three day conference on Russia at Northeastern University.

12Six nationalist and Communist groups, mainly extremist splinter organizations involved in the October 3-4 Moscow Uprising, were outright banned as "terrorist organizations"--the National Salvation Front, the Russian Communist Workers Party, the military officers' Union Social Club, the Shield Union for the Social and Legal Protection of Servicemen, the Russian Young Communist League, and the Russian National Unity.
the first fledgling attempts on the part of reformers to develop a new program that combined economic reforms with protection for ordinary citizens.

The curtailed time-frame of the campaign and the frantic stepped-up pace of reform by the Yeltsin government, now freed from legislative constraint, however, undermined or rendered implausible efforts on the part of reformers to present a vision of reforms that did not entail massive human suffering. In particular, Anatoli Chubais' claims that privatization would be completed in 1994 created considerable fears for the survival of these newly privatized businesses in the absence of a proper infrastructure for a market economy, particularly a banking system able to provide businesses with credit at acceptable interest rates. The lack of an adequate social safety net in Russia, not tied to the economic fate of one's employers, which could temper the impact of mass bankruptcies of privatized companies, heightened the population's fears for their own future. The draconian, tight monetary policies of Gaidar upon his return to power in September, undertaken in response to international pressures, managed progressively to paralyze almost completely the operations of the economy by the end of the year. Under Gaidar, the government balanced its budget by increasingly failing to pay its debts, leaving its creditors--other institutions and enterprises--in turn unable to pay their suppliers or creditors. This resulted in a nonpayments crisis of major proportions that continues to plague the operations of the Russian economy today\(^\text{13}\) and made many people think total economic collapse was at hand. By the end of 1993, the Russian GNP fell another 12%, after having declined by 19% the previous year.\(^\text{14}\)

The increasingly poor performance of the economy after Gaidar's return to power and his simplistic approach to economic reform undermined the credibility of other reformers and accounts for the poor showing of reform candidates in the elections. Gaidar and his associates concentrated on macro-economic reforms, particularly monetary policies, in their efforts to reform Russia. Prices were freed, the ruble was made convertible and allowed to float with the dollar, and privatization through vouchers and auctions was initiated and had come to affect about a quarter of Russia’s industries. But inflation, unleashed by these policies, wiped out individual savings on which private investment could have been based. Gaidar also left the maze of onerous business taxes, government regulations, and regulatory agencies, created under Communism, intact, to the distress of many businessmen, since businesses, both in the private and public sectors,

\(^\text{13}\)The government is said to owe industry and agriculture by the end of January 1993 ten trillion rubles! CDPSP, vol XLVI, no.4 (Feb. 23, 1994) p. 6.

were still compelled to pay 80% of their profits to the government as taxes and continued
to find their operations constantly obstructed and plagued by red tape. Little or no
effort was made to create the kind of economic infrastructure that a market economy
required (like an adequate banking system, a social safety net, or a Russian equivalent of
the Federal Reserve).

As a result, the number of small private businesses in Russia declined under Yeltsin
and Gaidar until the wave of privatization in 1993 covered up this distressing phenomenon
in so far as government statistics were concerned. By the end of 1993, the number of
private farmers, hitherto growing as the result of Yeltsin's agrarian reforms, also began to
decline, under the impact of the nonpayments crisis, as Gaidar, acting under the pressure
of international financial institutions, cut off funds to the nation's banking system and the
government ceased to pay farmers for their produce. When the farmers' creditors, hard
pressed by Gaidar's policies, persisted in pressing their claims, growing numbers of private
farmers had no choice but to declare bankruptcy, lacking the resources possessed by the
large collective farms, now largely destatized and reorganized as agricultural
cooperatives.

Lacking business experience of any kind, the 34 year old Gaidar appeared in the eyes
of many people to be an impractical academic, overly enamored with abstract macro-
economic theories, particularly monetarism and the "shock therapy theories" of Harvard
Professor Jeffrey Sachs, who maintained that ex-Communist nations had no choice but to
marketize their operations and bring their financial and business practices in line with
international norms as rapidly as possible, without any transition or adjustment period. In
any case, Gaidar, focusing on macro issues, failed to devise a micro-economic policy that

\[15\]The head of Mosfilm recently pointed out that businesses currently require state subsidies
to pay such outrageous tax rates and continue to survive, and that the reduction and
elimination of excessive business taxes would eliminate the need for such subsidies. See

\[16\]Lynn D. Nelson and Irina Y. Kuzes, *Property to the People: the Struggle for Radical Economic

\[17\]It has been estimated that as many as 3-4% of private farmers in some regions declared
bankruptcy and went out of business towards the end of 1993, as the government's
nonpayment crisis grew to critical proportions, with the return of Gaidar. *CDPSP*, vol. XLVI,
no. 2 (Feb. 9, 1994) p. 23. In Penza, in 1993 there were 450 bankruptcies among the province's 2720 private
farmers (as of the start of the year), but since an additional 490 private farms were organized
in the course of the year, the province ended the year with 2760 private farmers, a gain of
40.
addressed the concerns and difficulties of Russia’s businessmen, private or otherwise. These failures account for the many splits within the reformist camp. Some political reformers went so far as to talk of Gaidar’s “pseudo-reforms.”¹⁸ Political cynics began to recall Gaidar’s not so distant past as the editor of the Communist theoretical journal Kommunist, and some suggested that “Bolsheviks of the left,” i.e., Russia’s Choice, might be as overly ideological and divorced from economic realities as the old guard “Bolsheviks of the right,” whom they had supplanted in the wake of the August 1991 coup d’état. Others privately characterized the recent confrontation between the President and the old parliament as a power struggle within “the old [Communist] nomenklatura,” in which the Yeltsinites as well as their opponents had begun their political careers. Many expressed hopes that the new elections would bring a new, more businesslike political elite to the fore, less enamored with theory and ideologies and more attuned to the real life needs of actual businesses.

Another feature of the campaign, particularly among the would-be centrist parties, and to some extend Gaidar as well, was the assumption that their good intentions would outweigh their lack of a clear and directly communicated message to the electorate. This assumption proved false, since public opinion over the course of the past year had become fed up with politicians’ broken promises, the political struggle and gridlock between the President and the Parliament, and the “ambition” that the populace increasingly concluded lay behind these two obviously inter-related phenomena. Those parties who attempted to occupy the centrist niche did not face up to the extent of the electorate’s cynicism about politics. They used their television time for rather vague and mild-mannered appeals—they would look out for the less fortunate; they would bring Russians together again; they wouldn’t change the current course but there would be more honesty and less corruption in pursuing economic reforms in the future. Since differences within the reformist camp between Gaidar and his many reformist critics (like Yavlinskii, Sovchak and Shakrai) were ineffectively presented and not at all perceived by much of the electorate, other reformers were tainted by Gaidar’s failings in the eyes of ordinary Russians. As a result, Zhironovskii and the neo-Communists (the Russian Federation Communist Party and their associates, the Agrarians) ironically could and did present themselves as more pro-business than the reformers, charging reformers of all stripes with the imposition of abstract, alien, controversial, untested theories (like “shock therapy”) upon Russia in order to bankrupt

¹⁸Such views are also expressed in an article by Professor Larisa Piyasheva in Nezavisimaya gazeta November 25, 1993, which appeared in translation in CDPSP, vol. XLV, no. 48 (Dec. 29, 1993) p. 9-11.
Russian businesses and allow foreign companies to take over much of the Russian economy at bargain basement prices.

Yegor Gaidar in his TV appearances made matters worse, since he avoided making any promises that the economy would improve in the near future. Instead he insisted that the worst was over and that now the country needed stability, legality and the continued pursuit of privatization, along the lines outlined by the Yeltsin government. While Gaidar's message seemed to be directed at business interests and the intelligentsia, he made no attempt to broaden his base of support. Given Yeltsin's success at playing the part of "muzhik," among Russian politicians, it was surprising that Gaidar made no attempt to counter the widely accepted image of the aloof intellectual. For factory and agricultural workers, miners, and other groups, Gaidar remains an alien, unknown, and suspicious figure, who was responsible for the escalating price rises of the last two years and the tight money policies that curtailed inflation by periodically withholding pay from large segments of the nation's workers. Indeed, many workers, including the traditionally highly volatile miners, received no pay for the last three months of 1993 leading up to the elections! Though untainted by allegations of corruption, unlike other "politicians" in the then current government (such as Shumeikin, Poltoranin and others connected with the implementation of privatization), Gaidar lacked the political instincts necessary to transcend the complications of the moment by making some kind of tangible, personal appeal to common people. From a public relations standpoint, he had nothing to offer.

The Party of Russian Unity and Accord, led by Sergei Shakrai, a former member of Yeltsin's government, who had broken with Yeltsin and Gaidar over economic policy, used radio time for a discussion among several of its lesser known members. The program turned out to be more of an academic roundtable in which all participants were free to debate and disagree, rather than attempt to present a coherent program. This party seemed to operate under the assumption that the public was reasonable and understood that many of the questions raised have no single answer. Their reading of the public mood seemed to conclude that honesty was more in demand among the electorate than answers to the difficult questions plaguing the nation, like some sense of how Russia could ward off continued economic collapse and stop the decline in production that had first set in in 1989, escalated sharply under Yeltsin and Gaidar, and was approaching critical proportions by the time of the elections.

Among the educated middle strata of society there is the expectation that "democratic" politicians should be honest and trustworthy. However, in trying be portray themselves unlike other politicians, Shakrai's group seemed to have ventured too far into the realm of the impractical. During his own television appearances, Shakrai was featured as a soft-spoken, thoughtful and somewhat compassionate man; he expressed nothing
forcefully; he showed nothing that could be construed as ambition. Shakrai's regionalist platform, which emphasized a greater role in policy making for provincial and local government, was clearly designed to appeal to the growing disaffection in the provinces toward both Yeltsin and the impact of his economic reforms, which are perceived as designed to benefit only Moscow and St. Petersburg. Not surprisingly Shakrai's appeals did not strike a cord in Penza, a city whose defense-oriented economy has been for so long closely tied to central ministries in Moscow.

Petersburg Mayor Anatoli Sobchak's electoral effort, admittedly hampered by his limited geographical appeal, similarly featured an attempt to appear academic and intellectual rather than political. Utilizing a kitchen table conversation format with a well known pop music singer, Sobchak, a former university professor, emphasized the efforts made under his leadership in St. Petersburg to provide social assistance to the elderly, children and other groups most adversely affected by the economic crisis. While also focusing on the need to push ahead with economic reform, the mayor was keen to point out the difficulties and expense of improving and renovating the basic infrastructure of the city after seventy-five years of Communist neglect. Rarely if at all did Sobchak speak directly to the electorate with a message about where Russia was headed. To the same degree, but to a greater extent than Shakrai's, Sobchak's campaign suffered from very little variety in the use of his government allotted television time. The conversation piece mentioned above was repeated several times, indicating a lack of funding with which to develop a variety of appeals.

While the format of Vladimir Zhirinovskii's appearances was not varied either, the content was. He used each of his twenty minute time slots to deliver a forceful speech aimed at a particular social group and its specific concerns: pensioners, soldiers, students, women etc. Zhirinovskii, of course, did not attempt to demonstrate a command of the details involved in remediating the plight of these and other groups. His approach was to make different groups of Russians feel as if someone had them in mind and would fight for them. He spoke directly, clearly, and forcefully. And among the leading candidates he alone seemed to schedule public meetings frequently at metro stops in Moscow and elsewhere and to promise the much suffering population swift relief.

On the national level, when the election results were in, Zhirinovskii's Liberal Democratic Party (23%) outpaced Yeltsin and Gaidar's Russia's Choice (15.4%), followed by the Communist Party (12.4%) and Agrarian Party (7.9%). In Penza, the Liberal Democrats collected nearly 30% of the vote, followed by the Communist Party, the Agrarian Party and then Russia's Choice, with approximately 15, 14 and 10% of the ballots cast respectively. Thus, in Penza, about 60% of the electorate backed parties strongly opposed to the President's economic reforms, compared to 43% of the electorate
nationwide. Only 10% of Penza voters made Russia’s Choice their choice; and Vladimir Ilykhin, a former USSR Deputy Prosecutor, was elected to serve as the individual candidate to the Duma from the Penza region. 19

Who is to blame for this strong showing of the opposition in the December 1993 elections? As the election results became clearer and more certain, Russian airwaves were filled with discussion of the outcome of the elections. The threat of fascism had reared its head in Russia. Zhirinovskii was accused, quite correctly, of being irresponsible, belligerent, and a populist demagogue. The media's role was also questioned. Why had Zhirinovskii gotten so much television time? Who was responsible for this? The integrity of the Russian people was questioned. Is Russia really ready for democracy after all? Perhaps some sort of enlightened authoritarianism is needed? Most of the discussion was centered in Moscow and St. Petersburg, to the exclusion of the provinces. In the two capitals, it seemed that the Communist menace embodied in Khasbulatov was replaced almost overnight by the fascist menace embodied in Zhirinovskii. Yeltsin within weeks of the elections declared the outcome a protest vote, promised aid to those suffering from the economic reforms, and moved to disassociate himself from Gaidar and to revise the government's economic program along the lines of Gaidar's critics in the new Duma. 20

These moves of Yeltsin's should be supported abroad by those who favor economic reform and political democracy in Russia. While Zhirinovskii's election success is indeed a painful and frightful event, the election results are no less a measure of the reform movement's inability to broaden its political base of support or to disassociate itself clearly from the muddleheaded Gaidar approach to economic reform that seemed to have paralyzed the operations of the Russian economy by the end of 1993. Zhirinovskii also benefited more than the others from the low voter turn-out. Younger voters most inclined to be offended by Zhirinovskii-style nationalism, -- or worse, not even take it seriously, -- tended not to vote, while the elderly, those most hurt by the current economic crisis, and not indifferent to the collapse of the Soviet Union, turned out en masse. The indifference of younger voters is perhaps the greatest reflection of the failed appeals of the reformers and the failure of Yeltsin-Gaidar style economic reform, since this segment of the population has strongly and consistently favored a market economy and free enterprise in

19 Under the electoral system created by Yeltsin, half the seats in the new legislature, the State Duma went to political parties on the basis of proportional representation and the other half of the seats were reserved for candidates elected individually in geographic-based electoral districts.

opinion polling. Just as important, the splintering of the reformers into various parties and blocks left them to compete with each other for the small reformist vote, leaving Zhirinovskii well placed to collect a solid percentage of the larger opposition vote. Zhirinovskii was also helped by the fact that the Communist Party and the Agrarian Party were neither particularly visible nor aggressive in their campaigns and proved no more adept than the reformers at using television.

Finally, by western standards, the political campaigns of each of the reformist parties and blocks were lackluster at best. None of them developed an effective means of "inclusion," of selling the reform process to those who have yet to benefit and, more importantly, see no prospect of benefiting from further privatization and expansion of the market economy. Providing a safety net through wage adjustments, bread price subsidies and increased pensions are necessary but insufficient for the successful creation of stability through political consensus. Safety net policies are helpful in the short run but preserve and, indeed, codify the divisions between those people with hope and those without hope which have plagued Russian political and economic reform and will doubtless continue to do so.

The reformers also have to develop an effective micro-economic program that seriously addresses the real life problems of operating a business in today's Russia. This program should concentrate on dismantling the maze of outmoded government regulations and overly onerous taxes on business activity left over from the old Communist regime, which hinder the operation of businesses and facilitate the growth of organized crime. Reformers also have to create a proper economic infrastructure, including desperately needed financial and banking institutions that can provide businesses with the operational and investment credit without which no properly functioning market economy can long survive. More attention has to be rendered to the problems of military conversion, since it is in the military industries where much of Russia's skilled labor and intellectual capital is currently concentrated. Perhaps such a revamping of the reformers' economic platform would encourage more businesses to make contributions to reform candidates so they might compete effectively with Zhirinovskii's well-funded party, which allegedly received considerable donations from industry, especially the declining defense industry.21 Such a recasting of the reform program might also lure younger, generally pro-market voters back to the polls and provide reformers with some means to appeal to Russia's workers and

21See, for example, CDPSP vol. XLVI, no. 1 (February 2, 1994) p. 5.
peasants who are now in the process of becoming through privatization co-owners and shareholders in their own farms and factories.22

American policy makers can encourage such a revamping of the reformers' economic program and political style by ceasing to view Russian developments so much from the perspective of Yeltsin and Gaidar, neither of whom has proven capable in recent months of gauging public opinion and predicting political developments with any accuracy whatsoever. It is clear that their confrontation with the parliament and calling of new elections merely resulted in a new legislative chamber even less favorably disposed towards their sort of reforms than the old Supreme Soviet. This outcome of the December 1993 elections would have come as less of a surprise to American policy makers had we listened more objectively to Yeltsin's parliamentary critics and undertaken an in-depth analysis of the results of the April 1993 Referendum and accompanying elections instead of accepting without question Yeltsin's official explanations of what had transpired. A less partisan approach to Russian politics is mandatory in the future on the part of the American government and press.

We have to realize that Yeltsin-Gaidar style macro-economic reforms that fail to address the dilemmas facing Russian businesses (private or otherwise) have outlived their day and their appeal to the more politically experienced electorate. The emergence of new, less ideological, more businesslike and business-oriented politicians is long overdue in Russia and could well unite the divided reform camp and bring younger voters back to the polls. Continuation of the current course, coupled with more social welfare alone, will not enable Russia to emerge from its current economic and political crisis with a stable democracy and market economy, although Russia does needs a strong social safety net like other market economies. Western economic aid to Russia should include help in creating viable welfare and banking systems, since business of any kind cannot possibly be expected to function without long and short-term credit and the Russian population clearly won't tolerate anything else. Privatization should possibly be slowed down until Communist era business taxes and regulations have been discarded and an infrastructure

22Recently Gaidar himself has recognized the need for the revamping of the reform platform on similar grounds. In a recent interview, he declared "Enormous masses of people and the majority of the population have adapted to the reforms, but they do not constitute a political aktiv for a reformist policy....It is not just a matter of the standard of living. People often attribute their successes to themselves personally (and rightly so!), while they attribute their defeats to the system—for example, to excessively high taxes on medium and small-scale entrepreneurs."

"In other words, what is needed today is a powerful new integrative political idea. A political idea from the liberal and democratic camp, not from Zhirinovsky's so-called Liberal-Democratic Party." CDPSP vol. XLVI, no. 3 (Feb. 16, 1994) p. 8.
capable of supporting private business activity is in place. Otherwise, mass bankruptcies of privatized firms are inevitable, resulting in social suffering on a scale that will discredit forevermore the idea of free enterprise and a market economy in Russia.

We have to recognize that Russia is experiencing a number of major upheavals at one and the same time, any one of which would challenge the capacity of a long established democracy to endure. Russians not only have to create a market economy and dismantle the old command system that existed for seven decades and has become embedded in the mentality and mores of the population. Russia has to do this while adjusting to the loss of empire and, hence, the loss of long established markets and suppliers in Eastern Europe and the successor states, which cannot be reestablished or replaced overnight. Russia also faces the problem of military conversion on a scale not yet contemplated in the West. Nowhere else have military procurements been slashed by two-thirds, save perhaps in some East European nations whose economies were far less militarized than Russia’s to begin with. Besides, the Russian economy was already overly militarized under the tsars and became even more so under the Communists and the pressures of the twentieth century World Wars and Cold War, so Russia has more major structural problems to overcome in converting its military industry to civilian production than other former Communist (or non Communist) nations. Models derived from our own or Eastern European experiences cannot therefore be applied to Russia unaltered.

International credit institutions and Western political leaders who do not want to go down in history as having “lost Russia” for the second time in this century have to give the Russians time to address their multitude of problems piecemeal, in a manner that is politically tolerable to them, and not insist on instantaneous, simplistic solutions to complex problems that have accumulated over decades and even centuries and cannot possibly be resolved overnight. A moratorium on the repayment of Russia’s existing debts should be imposed for a period of five to ten years to allow the Russian economy to adjust to the multitude of changes it is experiencing. If we insist on payment or extend new credits to pay the charges on old loans, we make Russia’s transition to a new

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23This argument is made by Lynn D. Nelson and Irina Y. Kuzes, Property to the People: the Struggle for Radical Economic Reform in Russia, London/New York, M. E. Sharpe, 1994.

24Former Ambassador to the Soviet Union, George F. Kennan’s classic study, Russia and the West Under Lenin and Stalin (New York, 1960) attributes the outcome of the Russian Revolution to the West’s (particularly the United States’) misguided insistence that Russia remain in the First World War instead of recognizing the Russians’ need to withdraw from that conflict to deal with their own problems and internal divisions. Perhaps it is time to re-read Kennan lest we repeat our errors of 1917-21 and once again try to force our own agenda on Russia without regard for Russia’s needs.
economic system more difficult. We also encourage dumping by the Russians on a scale that will hurt our own—and other countries'—businesses and create the real risk that the Russian debt will sooner or later be repudiated by the likes of Zhirinovskii, following the example set by Lenin over seventy years ago.

Perhaps instead of extending new credits, accompanied by pressures from international financial institutions for the repayment of old loans and the imposition of policies we would not like to see imposed upon our own nation, we should share with the Russians our experiences in erecting a social safety net and in establishing and operating the Federal Reserve, FDIC, federal farm programs administered by the Agricultural Stabilization and Conservation Service, and the new federal defense conversion matching grants program, designed to help our military industry convert to civilian production now that the Cold War is over. All these agencies and programs were created to deal with problems currently plaguing the Russian economy. We should help Russia develop programs to retrain their managers to operate under what is for them radically different conditions and to identify concretely which government regulations, taxes, and regulatory agencies should be dismantled for the good of the economy. Advice and aid in combating organized crime preying on business and the population is imperative. Such help is more effective and fair than simply rounding up people who look Caucasian, as was done in the wake of Yeltsin's attack on the parliament. Ways by which our government could encourage private businesses to invest in Russia should be explored. Perhaps Americans on a voluntary basis could be allowed to allocate $5.00 to $10.00 from their federal income taxes to a "Russia Fund" to help build a new Russia and check off these donations on their tax forms the way they can presently do with campaign contributions. Such donations could be utilized for projects like establishing a commercial bank for small businesses or a program of defense conversion grants like our own. None of the above requires massive spending on the part of our government. Such policies could be administered by existing agencies, like the Peace Corps and various quasi-government exchange programs that have been dealing with Russia for years. Policies like these would demonstrate American concern for Russia and win us considerable good will, without aggravating our own budgetary problems. In this way, we could undercut the appeal of extreme chauvinists, like Zhirinovskii.

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25One of the authors of this report is currently involved in a research project with Russian colleagues, funded by American grants. Efforts to transfer these funds (in dollars) to Russian colleagues has been impeded by taxes of 40% levied on transfers of foreign currency to Russians via the banking system. Such taxes on the importing of dollars are obviously dysfunctional in an economy in which foreign currency is in short supply!
Moves towards authoritarianism and attempts on the part of President Yeltsin to rule without a legislature should be firmly discouraged. A democratic polity requires leaders with the ability to compromise and negotiate and this needs to be permanently impressed on President Yeltsin, who after all began his political career as one of Leonid Brezhnev's regional bosses and tends to revert to his old habits of governing in times of crisis. We should applaud, not criticize, the recent amnesty for those involved in the 1991 and 1993 abortive coups, as an effort on the part of Russians to put their past behind them once and for all and create a more tolerant, less vindictive political atmosphere in a country, where defeated leaders have traditionally been persecuted and excluded from political life. We should begin to listen to reformers other than President Yeltsin and the now totally discredited Gaidar and even sound out the mainstream neo-communists, like the Russian Federation Communist Party and the Agrarians or Farm Bloc, who are the main political opponents of Zhirinovskii in much of provincial Russia. If we begin to listen to a broader cross section of Russian leaders, in an unbiased manner, without letting our preconceived notions prevail, we would learn that totalitarian dictatorship and a command economy are favored today in Russia only on the lunatic fringes and that in order to win votes, Zhirinovskii has had to tone down his extremism considerably and appear as a moderate in his television appeals.

We should realize that government has a role to play in the economy even in this country, and this is even more true of Russia, with its pre-revolutionary and Soviet experiences of massive government intervention. Economic laws may be universal, but they rest ultimately on human psychology and behavior, which is rendered different by different traditions, experiences and values. Besides, politics is the art of the possible, and history repeatedly demonstrates that overly rapid and drastic change rarely endures. To deny these old axioms is to risk losing what we have always said we wanted--a democratic and functional Russia.