THE PERIODICAL OBSERVER

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Why Did Reform in Russia Fail?

A Survey of Recent Articles

Though Russia's economy has not completely disintegrated since the financial crash last summer, the failure of market reform is no longer in dispute. Even before the U.S.-led intervention in Kosovo antagonized Russian public opinion further, "democracy" and "reform" had become dirty words. What went wrong? ask the editors of *Journal of Democracy* (Apr. 1999). The answer, it seems, is simple: too much reform—or not enough.

Several of the 10 contributors blame the reformers' ideological zealotry. The disaster in Russia, says Alexander Lukin, a political scientist at the Moscow State Institute for Foreign Affairs, resulted from a "ruthless" effort by "fanatical 'democratic' ideologues to impose their abstract ideal" on a country lacking "the necessary cultural preconditions." Instead of first changing the culture, President Boris Yeltsin (and before him, Soviet leader Mikhail Gorbachev), egged on by "their shortsighted Western advisors, pushed the country toward democratization 'here and now.' "

"In retrospect," writes Charles H. Fairbanks, Jr., a professor of international relations at Johns Hopkins University's Nitze School, "the most questionable aspect of Yeltsin's economic reform was the quick privatization of banking and of the vast extractive industries—oil, gas, aluminum smelting, and the like." Privatization, which rewarded "favored courtiers" with the equivalent of medieval fiefs and took place in "the atmosphere of a going-out-of-business sale," encouraged corruption and weakened the state—and, more than any other single factor, was "probably responsible" for democracy's fall from popular favor.

Since the demise of the Soviet Union, Fairbanks says, the West has viewed Russia through "the lens of ideology," repeatedly recommending a failed strategy of economic reform. "Where 'shock therapy' was tried," he says, "it has had disastrous effects on the lives of most people in all the former Soviet republics except the Baltic states." The "clear superiority of the free market to socialism" is not in doubt, he writes, but more attention needs to be paid to "the relationship of the market economy to civil society and politics."

Don't blame Russia's democrats for the disaster, argue Dmitri Glinski, a Russian scholar and a research associate at George Washington University, and Peter Reddaway, a professor of political science there. "In fact," they say, "the program of economic reforms designed and implemented by Boris Yeltsin, Yegor Gaidar, Anatoly Chubais, and their Western advisers ran counter to the most basic aspirations and tenets of the democratic movement that had ensured Yeltsin's success in the 1989, 1990, and 1991 elections." Though that movement, which had emerged from the underground during the Soviet regime's final years, had "few clearly defined programmatic goals," and its members subscribed to various "creeds . . . from communitarian traditionalism to liberal Marxism," they shared "broadly conceived democratic values" and a "quintessentially Russian 'populist' vision." But they lost—and the "radical marketeers," backed by the International Monetary Fund (IMF) and others in the West, won.

Yeltsin and his associates, assert Glinski and Reddaway, have been like the Bolsheviks of 1917, with the "self-confident, almost messianic vanguard mentality of a self-anointed elite" imposing its own views on "the 'backward' majority." Instead of promoting inde-

pendent democratic institutions, they established an authoritarian regime and implemented "market Bolshevism." The result: "the destruction of Russia's industrial base . . . a decline in its population, and the danger of an irreversible criminalization and privatization of the Russian state."

Martin Malia, a historian at the University of California, Berkeley, traces the current woes to the radical deformation of society caused by seven decades of communism. "Shock therapy" worked very well in Poland, which "had a far lighter communist structural heritage to overcome," he notes, while Ukraine, which "did virtually no reforming at all . . . is now in worse shape than Russia."

In Soviet Russia, Malia points out, there was "a party-state military-industrial complex, based on a now antiquated plant of heavy industry constituting some 70–80 percent of the 'economy' and employing a comparable proportion of the labor force. Most of this plant is still there, though now in private hands, often those of the *nomenklatura*, and operating nominally through the market. Briefly put, the problem this heritage creates is that such a plant produces [few] goods that anyone will buy on the free market. Yet closing down this mastodon and dismissing its workers would be tantamount to closing down the country." Alongside this "virtual economy," observes Malia, is a much smaller "real" one, producing goods of genuine value, mostly raw materials such as oil, gas, and timber. The "ferocious" struggle over these resources has produced "much of the corruption with which Russian government is riddled."

In the *Brookings Review* (Winter 1999), Clifford G. Gaddy, a Fellow at the Brookings Institution, and Barry W. Ickes, an economist at Pennsylvania State University, argue that today's "virtual economy" arose not from economic reform but from the avoidance of it. "Enterprises make pretty much the same products they made under the Soviet system and in pretty much the same way," they report. "The enterprises can continue to produce these goods because they have a guaranteed set of 'buyers' . . . and because they avoid the use of money. Avoiding money, through barter and other forms of nonmonetary exchange, allows the goods to be overpriced, giving the appearance of more value being produced than is the case. These overpriced goods are then delivered to the government in lieu of taxes, or to value-adders, mainly energy suppliers such as the natural gas monopoly *Gazprom*, in lieu of payment. . . . As much as 70 percent of transactions among industrial enterprises involve no money." Only when this virtual economy is eliminated, Gaddy and Ickes maintain, "can real reform begin."

The Russian privatization program, they say, was "essentially a giveaway to insiders—that is, the directors and workers." The manufacturing enterprises most in need of change thus were turned over to those who had the most to lose if they were changed. "Meanwhile, government shares in valuable enterprises went to the large banks and other political insiders."

Such transfers "benefited the government budget only temporarily and inadequately," James R. Millar, a professor of economics and international affairs at George Washington University, notes in *Journal of Democracy*. The immediate cause of last August's financial crisis was the government's inability to staunch the continuing, massive flow of red ink. "Financing the deficit eventually ran the government into the ground." A 1996 IMF loan, which apparently was made under U.S. pressure and "helped ensure Yeltsin's reelection," had only put off the reckoning.

Though some specialists, such as Anders Åslund, a senior associate at the Carnegie Endowment for International Peace and a former adviser to the Russian government, insist that Russia needs to cut government spending and urge the West to "resist the temptation to throw any more money at the problem," their advice is going unheeded. The IMF in April announced it will provide $4.5 billion in new loans to Russia. This, notes the *Economist* (May 1, 1999), may "unlock $3 billion in loans from Japan and the World Bank. . . . So Russia should not fall further into bankruptcy before its forthcoming elections (parliamentary in December, presidential next year)."

It is too soon to compose an obituary for Russian democracy, declares Michael McFaul, a political scientist at Stanford University, in *Journal of Democracy*. Despite the "economic meltdown," Russia's nascent electoral democracy survives. And in that there is hope, he says. But an economic turnaround clearly is needed.