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DIFFICULT CHOICES: SCENARIO'S FOR RUSSIA'S FUTURE

*Summary of Remarks by the Honorable Yegor Gaidar, Former Deputy Prime Minister of Russia; Member, Russian Parliament; and Chair, Russia's Choice. Introduction by Robert Donaldson, President, The University of Tulsa.**

Summary of Remarks by Robert Donaldson

Welcoming the audience to the Global Perspectives Lecture, the final presentation of the conference, Robert Donaldson introduced Yegor Gaidar, former Deputy Prime Minister to Boris Yeltsin.

President Donaldson compared Gaidar to Alexander Yakovlev who was featured in the previous year's international conference: both, he said, were "heroes of the struggle to transform Russia in the late twentieth century." Donaldson described Gaidar as "the man who has done the most in the effort to build a new democratic Russia with a vibrant free market economy integrated into the global economic system."

Yegor Gaidar served as Boris Yeltsin's Economic Minister and Deputy Prime Minister in 1991, was the Acting Prime Minister in 1992, and again Deputy Prime Minister in 1993. During that time, Gaidar assembled a group of young reformers to tackle the task of economic reform, a task Donaldson described as "not only noble, but even suicidal." Donaldson described it as a struggle between "the old and the new in Russia; between those who wanted to preserve state and bureaucratic control and those who wanted to release the forces of the market and private enterprise."

Gaidar's grandfather, a regimental commander in the civil war, later became "one of the most honored children's writers in the Soviet period," Donaldson recounted. Using the pen name Gaidar, meaning in the Turkish language of central Asia "a horseman riding ahead of the rest," he wrote his most famous novel, "Tamur and His Team," a story of a selfless young hero who inspired a generation of Soviet young people. His son, Tamur, Yegor's father, was a naval

* ENERGY, THE ENVIRONMENT, AND GLOBAL ECONOMIC GROWTH 152 (1994). Reprinted with permission. Copyright © 1994 by the University of Tulsa.

commander and later a military correspondent for the Soviet news service, Pravda. Yegor, born in 1956, the year of the Soviet invasion of Hungary, lived with his father in Cuba in the early 1960s during the Cuban [sic] missile crisis. In the later 1960s they lived in Yugoslavia during what Donaldson referred to as "the time of a daring effort to revitalize the socialist economy."

In 1978, at the age of 22, Yegor Gaidar received his Ph.D. from Moscow State University. He was recruited by his former professor, who later authored Gorbachev's 500 day plan, to join the Institute of National Economic Forecasting and Scientific Technical Progress. Gaidar subsequently became Economic Editor for the Communist Party journal and then for Pravda. In 1991, he began the Institute of Economic Policy, affectionately known as "Yegor and His Team."

After the August 1991 coup, Donaldson related, Gaidar was asked to draft the reform plan for the new Government. As Acting Prime Minister, he made rapid progress in privatization, in the freeing of prices, and in the opening of markets. Donaldson noted, however, that in the later half of 1992 "the forces of resistance and reaction gathered strength behind the Parliament and the industrialist lobby." Responding to this pressure, "Yeltsin compromised the reform effort, diluting it with conflicting actions," Donaldson asserted, and, unable to persuade Parliament to make Gaidar the Prime Minister, Yeltsin chose instead a conservative reformer. In 1993, amid Parliament-inspired instability, Gaidar became Deputy Prime Minister.

Following the October 3rd and 4th insurrections, while Yeltsin was ruling by decree, Gaidar was again able to make headway with bold reforms, recounted Donaldson. Moving squarely into the political arena, Gaidar formed the pro-Yeltsin party known as "Russia's Choice." The results of the December elections, with the surprisingly large vote of the Communists, appeared to be a blow against reform, however. Unfortunately, Donaldson noted, people had not had an opportunity to experience the reform that Gaidar would have produced had he enjoyed a more politically stable environment.

Soon after the elections, Yeltsin again chose a more conservative Prime Minister and Gaidar resigned from the reformist cabinet. He has since formed the Institute for an Economy in Transition and leads Russia's Choice, now the largest faction of the new Parliament. Donaldson described Gaidar as a supporter of Yeltsin and reform, and noted his readiness to return to political leadership. Donaldson asserted that "Gaidar represents the only real vision for Russia's future among the present leaders." Responding to a journalist's observation that Gaidar was not cynical enough to be a politician, Donaldson said that he hoped that "the people will tire of cynicism and opt instead for vision." He concluded his remarks with a recitation of a song inspired by the novel of "Tamur and his Team:"

Do you see the parade of characters who left the pages and became heroes?
 Look how many Tamurs are marching.
 Gaidar is marching at the vanguard.
 Comrade, can you see the dawn rising?
 People are back to work again where it is harder and steeper.
 Gaidar is marching at the vanguard.

Concluded Donaldson: "Yegor, I believe, is the vanguard."

Summary of Remarks by Yegor Gaidar

Recent events in Russia mark the beginning of a new era in that country's history. "It is evident now that it will be a difficult chapter, a chapter full of struggle and instability," Yegor Gaidar began. Events with profound consequences are happening faster than their importance can be assessed, making it impossible to predict the ultimate direction the new Russia will take.

To even have hope of predicting the future, Gaidar continued, one must first understand the immediately preceding chapter of Russia's history, beginning with the aborted coup of August 1991. Following the failure of the coup, the young Russian democracy found itself in a difficult position. The Soviet Union's ancien regime provided more than just political leadership - it was the essence of the society's organization and the sole support of the economic system. Because of the strength of Soviet totalitarianism, there was no need for a market system. Part of the fallout of the August coup was the eradication of the old structure in a period of two days.

Unfortunately, Gaidar continued, there was no system ready to take the Soviet system's place. Inadequate food supplies in the big cities provided the first crisis. Without the iron hand of Soviet rule, it was no longer possible to simply order grain-producing areas to send food to the cities. Those newly autonomous regions could not be persuaded to sell their grain to the cities, either, because the currency was basically worthless.

The new democracy found itself with two choices: Return to order by force, or make markets work immediately. And the choice had to be made within weeks or else the people would have no food at all. "The end of the year 1991 was a terrible time in my life," Gaidar recalled. "It was a time when it was evident to us that we were using all the possible reserves. It was a time when I had to sign the orders to withdraw the food from the military reserves. It was a time when the minimal amount of food strongly depended on humanitarian assistance."

If you want a blueprint for how difficult the transition from socialism to a market society can be, Gaidar suggested, look at the difficulties Germany has experienced integrating the former East Germany into its economy. Multiply by some factor to get an idea of the problems Russia faces in making that transition, he added. The problems faced by the former Soviet Union are greater than those of any other post-socialist country. The government in the Union Soviet Socialist Republics held power for 75 years, about three decades longer than other socialist regimes in Europe. "The difference is more than just numbers," Gaidar explained. "It means that it was not just one generation; it was three generations that had not seen a market in their lives." For three generations, there had been no private property or entrepreneurship. In addition to having no private sector, Russia's transformation was further burdened by the most militarized economy in the world. Russia had no hard currency reserves, and its gold reserves had been cut five times during the Gorbachev years. The country had built up an enormous foreign debt that could not be repaid and a budget deficit that was 30 percent of gross domestic product at the end of 1991.

Russia is only now beginning to see the first results of the economic reforms, Gaidar said. Institution of market mechanisms solved the initial crisis of supplying goods and food to the major cities. Gaidar set a simple standard for gauging the success of that first stage of development: Success would come when criticism of the government came not from people unable to find products, but from farmers unable to sell into an oversupplied market. Naturally, he was pleasantly surprised upon returning to the government after a six-month absence that the biggest problem under discussion was the glut of agricultural goods in Russia.

The reforms created a big and rapidly expanding private sector. "To tell you the truth, we were really nervous about whether it would be possible after 75 years to find enough energy and enough entrepreneurship in our economy to create a dynamic private sector," Gaidar said. The concern was unfounded. Gaidar had expected it would take three or four weeks for the effects of one of the government's first initiatives - the legalization of private-sector trade - to have any effect on daily life. However, the morning after the decree was announced, people filled the streets of Moscow, holding the decree in one hand while buying and selling whatever they had with the other.

Russia-watchers tend to point with dismay at the drastic drop in production in the aftermath of socialism's collapse. Gaidar noted that this view does not take into account the fact that the drop is mainly related to the reduction of the military. Because military production was so great in the Soviet Union, the subsequent cutbacks have resulted in severe depressions in the world's nickel and aluminum markets. Despite its adverse impact on local economies throughout the former Soviet Union, downsizing of the military is a necessary, painful stage in Russia's structural transformation, Gaidar insisted.

One major goal that Russia has not yet been able to achieve is the stabilization of the national currency. "It is a very long and sad story of our attempts to promote stabilization policy in Russia," Gaidar said. "I would need two hours probably to try to explain the different stages of this difficult battle." After the dissolution of the Soviet Union, Russia found itself faced with a difficult financial situation: The 15 banks of the newly formed republics were all printing the same currency. In the beginning of 1992, the smaller economies opted for the quick fix for their moneyproblems — instead of exporting to Russia and improving their economic efficiency, they simply printed more rubles and used them to pay off debts. Russia found itself caught between the possibility of hyperinflation and the need to carefully untangle the various economies that had been so forcefully woven together. The government reduced military expenditures drastically, cut back on subsidies and increased taxation as well as taking other measures, all for the purpose of avoiding immediate hyperinflation.

Unfortunately, the creation of the necessary financial institutions coincided with a shift in the political situation, which prevented the government from continuing to move forward with its economic reforms.

Gaidar said that there were two possible explanations for the poor showing of the reform-oriented parties in the election of 1993. The vote was a protest against policies that allowed or did not mitigate high inflation, one school of thought had it, and the resulting tax hikes made private saving and investment

difficult. Resolving this problem is simple: Stabilize the financial situation now. The second explanation said that voters were rebelling against the reformers for insisting on changes viewed by many as too rapid and too drastic. Of course, resolution of this problem is also simple: Make the economic change more gradual. Gaidar promoted the first explanation and solution. Eventually, the second became the accepted path, leading to Gaidar's resignation from the government. The problem with economic gradualism — particularly the part that says certain industries should continue to be heavily subsidized by the state — is that now all of the various sectors feel they should get money from the government. Of course, the situation is untenable, particularly for an economy as unstable as Russia's.

The conflicting pressures and confused economic policy insure that Russia's future will remain very uncertain, Gaidar said. One scenario is that the government will yield to the interest-group lobbying and grant money to all the industries it can. Such a path will lead to a drastic change in the exchange rate, resulting in government attempts to freeze both the currency and commodity prices, Gaidar predicted glumly. The downward spiral will continue with price controls and more administrative interference. Eventually, the result will be a complete breakdown of the mechanisms created by the reforms and a return to a central, totalitarian government.

On a more optimistic note, Gaidar gave assurances that he did not think this scenario was very probable. Instead, he believes that the government will attempt to hedge on its promises in order to keep the economy moving in the right direction. Ultimately, Gaidar insisted that the main conflict in Russia is not economic, but political: become a democracy or return to totalitarianism. "Our enemies, of course, will try to do everything they can to explain to the population that the present difficulties are the results of the economic reforms," Gaidar said. Any restructuring creates winners and losers, and anti-transformation parties find a ready audience in those who feel they have suffered because of the reforms.

Although Russia's economic situation is similar to the other former Socialist nations and republics, it lacks the extra sense of national freedom that drives the other countries to overcome their troubles. While other countries accept the difficulties as a part of emerging independent from behind the Iron Curtain, Russia has watched its empire crumble and its superpower status fade away. That longing for a sense of status on the world stage is a powerful force, Gaidar warned, and it is potent enough to attract many Russians to embrace the Communist and nationalist forces in his country. Again, Gaidar said, the triumph of these dark forces is not a foregone conclusion.

One hopeful sign is the population's unwillingness to return to Soviet-style governance after having experienced the benefits of budding democracy. "The people have many things to lose if the process is reversed," Gaidar said. The democratic parties have been extremely efficient in crucial moments over the past few years, but they have not grasped opportunities during their moments of victory, such as the time leading up to the latest election, Gaidar said. Overconfidence led to infighting among various reform parties. This lack of unity contributed to the surprising gains of the Communists and radical

nationalists. Gaidar said he hopes that the shock of the election will lead to the creation of an efficient political machine for the democratic forces.

As he prepares for yet another difficult battle in what seems to be a never-ending cycle of Russian crises, Gaidar concluded by saying that because of his faith in human nature and the Russian spirit, he believes the reformers will eventually win again.

QUESTIONS AND ANSWERS

- Q:** Given the scenario that you've just given us, what do you see as the role for yourself as leader of the opposition?
- A:** My role is more or less clear. I am the leader of the Russia's Choice faction of the parliament. We are the biggest faction of the parliament, but of course the coalitions of the nationalists and the Communists outnumber us. As a practical matter, we could stop the parliament from adopting laws that contradict the position of the president. We can support the presidential veto. They cannot overrule a presidential veto without our support. The previous Supreme Soviet was especially dangerous because it could always overcome the presidential veto. Of course, it will be very difficult for us to promote any sensible legislation because of the simple fact that we will not have a majority. Outside of the parliament we are now trying to create a more stable political structure, really the first big party of the democrats in Russia. Probably the congress of the party will be in the late spring of 1994. We hope that we can integrate the efforts of many people who were previously unprepared to participate in politics, just because now they really see the danger.
- Q:** You have been a proponent of tight fiscal control, of tight monetary control, for the sake of controlling inflation, yet Russia itself is comprised of many, many cities with people whose lives depend on depressed industries, like the military. The paradox I see is that tight control of inflation destroys the livelihood of these people as these industries flounder. How do you reconcile that?
- A:** You cannot promote any sensible financial policy in Russia if you go on supporting the big industries. All the money you have and even some you don't have will be spent in this way, because there are a lot of industries that want a handout. My choice is that we should first of all support people and not inefficient industries. It's always more efficient and logical to help people be retrained, to help people who are unemployed, to help people who are poor, than to help keep up with the enormous demand of military production. It is a difficult choice. It is an unpleasant choice. But, it is the only possible choice from my point of view.
- Q:** Yes, but to follow up: How do you balance that against the welfare of the people?

A: Until recently, the balance was in favor of keeping inefficient industries going. You cannot keep that up forever, and the people wind up worse off than before you wasted all that money on subsidies. How much better if these industries could convert themselves and be efficient at the new tasks they set themselves. They could produce competitive goods. The labor force is rather qualified. Energy is cheap. A lot of Russian industry could be competitive. A lot of the cities that depend on one factory are prospering when that enterprise proved able to rapidly change its structure and enter new markets. But some of them are just sitting there waiting for subsidies from the state. If you seriously analyze the military situation, you find that the worst problems are in those areas that received state subsidies in 1992. Instead of the difficult restructuring, they were just hoping that once again they would get state money. As for the social safety net, we have tried to increase the efficiency of various social programs. For instance in the autumn of 1993, we reformed the system of family subsidies. Our surveys show that it was not the elderly that suffered under the reforms; it was first of all the young families with children. That's why we increased the family subsidies. Another serious problem was that people who had been receiving the maximum pension suddenly began to get the minimum. This was unjust. We have started to readjust pensions as of this January. We are also working very rapidly to expand the system of unemployment benefits. So, we are working on the safety-net problems and we understand the extent of the problem that we'll have to deal with.

Q: What is the Russian parliament's reaction to the declaration of Crimean independence? What do you think is the future of Russian relations with the Ukraine?

A: The Russian parliament has not yet reacted to the election of a new president of Crimea. I hope that the Russian authorities will be very cautious on this question. Our relationship with Ukraine, from my point of view, is more important to Russia than our relationship with any other country in the world. I think that if we don't use any drastic measures, if we control the wording of our statement so that it is not insulting to the Ukrainian people, then it will be good for our relationship. Of course, there is the difficult historical problem of Crimea, and we cannot ignore the will of the Crimean people. I hope that this will not undermine the relationship between the Ukraine and Russia.

Q: When I was in Russia, it seemed to me that much of the problem was not in production but in transportation, moving the food to the cities and other processing points. Has any progress been made in this area, and what do you see in the near future?

A: Yes, that was a problem in which we have had quite substantial progress. It can be easily expressed by statistics. Usually, the Soviet Union at the end of the 1980s would import something like 35 to 45 million tons of grain. Even so, grain was in short supply in Russia. In 1993, we

practically do not need any grain imports. In this situation, we have a quite impressive oversupply of grain in the internal market. What is the reason for this? Just what you mentioned. When the market started to work, it was evident that an enormous amount of grain was being lost, used inefficiently. Changes in feeding livestock and producing grain were put into practice. So, we are having the more or less average harvest as in the 1980s, yet Russia no longer depends on grain imports.

Q: You are very famous in China. Also a socialist country, China is undergoing a transitional period. There is also an internal struggle going on in China. How can the government in China learn from the reform movement in your country?

A: As to the Chinese and Russian experiences, I would be very careful in the direct use of Chinese experience in Russia or vice versa. The two have very different economies and very different backgrounds in terms of economic development and its stages. China started the economic reforms as a country in the process of industrialization. It has an enormous surplus labor force in the countryside, which could and should be used during the formation of the new branches of the economy. It is easier to compare the Chinese development in the 1980s with the Russian development in the 1940s and 1950s. We started the economic transformation with an over-industrialized country and inefficient industries that were unable to adjust to the new environment of internal needs and international markets. So, it is a very different starting point, and very different strategies are required in the two countries. The second difference is that in Russia we began reforms after the political structures of totalitarian control were broken. We had a young, emerging democracy. In China, this process of political transformation and liberalization lies ahead. So, I think that the two countries should understand the experiences of the other, but I would strongly advise that it never be transferred directly.

Q: I see so many similarities between the former Soviet Union and the former Yugoslavia. Do you think that there is any chance that what is happening in Yugoslavia could happen in Russia?

A: I think that it depends on the development of the internal situation in Russia. For a Russian to say we will defend Russian citizens outside of our borders is by itself neither wrong nor right. In my view, America is right to try to defend its citizens around the world when they might be involved in difficult social or national conflicts. On the other hand, Hitler was terribly wrong when he used the slogan of defense of Germans outside the Fatherland as the ideological foundation for World War Two. So by itself the idea is not right or wrong. The right or wrong comes through the means by which this goal is achieved. If we are using the instruments at our disposal to ensure the human rights of Russian citizens in the different republics, then I think we are defending the rights that should be defended in all the world. If we are trying to use Russian nationalism as an excuse

to impose political domination wherever Russians happen to live in large numbers abroad, it would be a very dangerous move that will lead to difficult social, and possibly military, conflict. I think that the current government realizes this distinction.

Q: In the recent past, many in the West have tried to become involved in Russia's struggle. What can those outside of Russia do that will be constructive?

A: First of all, the possibilities of the West's directly influencing Russia are rather limited. It is our internal struggle, and the fate of it will be determined in Russia. The direct attempts to influence Russian development, such as financial assistance dependent on this or that behavior, usually have had results that were the opposite of what was intended. When Western leaders try to support Russian leaders, they often cause major problems for those they are supporting. If we were to analyze how the West can be helpful, I would mention a few directions. First of all, the foreign policy of the Western nations toward Russia needs to form a real partnership. At the beginning of the democratic reforms in Russia, we went through a romantic period with the United States. It was more characteristic of lovers than countries. It was a relationship in which we tried to avoid any mention of difference of opinion, any contradictions; everything is just splendid. This could not last for life. America has its problems with Japan. America has its problems with Germany. America has its problems with France and England. It would be very difficult to understand how America would always have no problems with Russia. Russia has its own national interests, and it has to defend those interests. It would like to defend its national interests together with the United States and with constant dialogue with the United States and with the Western democracies, trying to form a very close partnership. The other thing that is important is the real opening of Western markets to Russian goods.

Now, it somehow became the common view in Russia that the West is trying to compensate for their unwillingness to let Russia compete on the world markets with small-scale financial subsidies. This affects the internal situation in Russia unfavorably. Anything that could be done to create the potential for Russian success in the American market would be positive. It would provide hard currency. It would create ties between Russian industry and the Western world. And it would undermine the position of the Russian nationalists. The third direction in which the West could be helpful is, of course, programs that address the social problems that are most urgent. Not a huge amount of money or large scale programs. Instead, small investments in key areas would be helpful.

