



Yegor Gaidar and Anatoly Chubais

Crossroads in Modern Russian History

Duncker & Humblot · Berlin

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By

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Translated by Antonina W. Bouis



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Bibliografische Information der Deutschen Nationalbibliothek

Die Deutsche Nationalbibliothek verzeichnet diese Publikation in
der Deutschen Nationalbibliografie; detaillierte bibliografische Daten
sind im Internet über <http://dnb.d-nb.de> abrufbar.

First published in Russian by Egor Gaydar Foundation under the title
„Razvilki Noveishey Istorii Rossii“ by Yegor Gaidar and Anatoly Chubais.
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© 2016 Duncker & Humblot GmbH, Berlin
Druck: buchbücher.de gmbh, Birkach
Printed in Germany

Umschlagbild: Moskau, Luftaufnahme, © Pavel Burchenko – Fotolia.com

ISBN 978-3-428-14853-0 (Print)
ISBN 978-3-428-54853-8 (E-Book)
ISBN 978-3-428-84853-9 (Print & E-Book)

Gedruckt auf alterungsbeständigem (säurefreiem) Papier
entsprechend ISO 9706 ☺

Internet: <http://www.duncker-humblot.de>

Foreword

This is a small book about big historical issues by two great men. Apart from Boris Yeltsin, nobody has done more to the benefit of modern Russia than late Yegor Gaidar and Anatoly Chubais. Both have written several books about Russia's transition to a market economy, in which they were both strategists and executives, but this book has several advantages. The authors take on many of the big controversial issues of Russia's transition. They give their critics clear answers with ample statistical evidence and convincing arguments. For a supporter of a market economy, it is difficult to disagree with them. The brevity of this book has rendered it lucid and easy to read.

Gaidar and Chubais were the leaders of the Russian economic reforms. Regardless of their specific positions, they consulted each other closely before and after the reforms. While both were outstanding intellectuals, Gaidar was the foremost economic strategist and Chubais the preeminent executive who knew how to get anything done. I first met Chubais in September 1990 and Gaidar in June 1991. Already then, they were striking personalities. After you had met them, you knew that they were the leaders of the future and we kept in touch ever since. In June 1991, I took two Swedish colleagues to see Gaidar at his new Institute of Economic Policy. When we left, I told them that I thought Gaidar would be Russia's next prime minister. They looked at me with surprise, but they were all the more impressed when he was appointed in November 1991. Gaidar and Chubais and their team were simply superior to any competitors. It shows Yeltsin's greatness that he realized that.

In this book, Gaidar and Chubais discuss the big contentious issues of their government. I shall only illuminate a few of them. In his book *Collapse of an Empire*, Gaidar discussed in considerable detail the implosion of the Soviet Union. Here the authors concentrate on the main points, rendering them all the more evident. The key insight is that the Soviet Union collapsed in a profound and multifaceted fashion. The only responsible course of action was to separate the Soviet republics as fast and cleanly as possible. Yeltsin, Gaidar and Chubais all understood that, and Yeltsin and Gaidar effectuated it. They also comprehended the importance of maintaining the existing borders however odd they might have appeared.

They but few others realized that the alternative could all too easily have been a prolonged and bloody civil war as Yugoslavia went through in the 1990s because of a Serb desire to hold that untenable state together. This insight has gained new relevance with the recent wars in Georgia and Ukraine. Yeltsin's wise actions might still be undone.

Nobody understood better than Gaidar and Chubais that nature abhors vacuum. The old system had to be abandoned and a new one built as soon as possible. They realized the importance of speed. In hindsight, it appears rather absurd that they were accused of being “Bolsheviks” for their desire to solve vital national problems quickly. Why should people suffer for longer than necessary? Moreover, any delay would be exploited by the old communist elite to recover their hold on the state. As Estonian reformist Prime Minister Mart Laar put it: “To wait means to fail.” The problem with Russia’s reforms was not that they were too fast but too slow. Only in 1999 were they sufficiently complete to return Russia to economic growth. The tardiness of the Russian reforms, which Gaidar and Chubais opposed so vehemently, facilitated the return of so many members of the old regime to power and to transform that power into wealth. The rupture with the old system and elite should have been much sharper, as Gaidar and Chubais argued.

Gaidar’s outstanding achievement was that he formulated, the “Gaidar program,” a clear strategy for Russia’s transition to a market economy. He did so in a frightfully difficult economic and political situation. It is easy to criticize a strategy because no strategy is perfect, but as Poland’s great reformer Leszek Balcerowicz has pointed out: “A risky strategy is always better than a hopeless strategy.” Worst of all is no strategy, which was characteristic of most of the Russian critics of radical market reform.

Chubais is the father of private enterprise in Russia. Without his ingenuity and skills, privatization could hardly have been possible. Chubais tried all kinds of different privatization schemes with a clear understanding that capitalism does require private enterprises. The book displays the accomplishments that arose with privatization. Without the loans-for-shares privatization in 1995 it is doubtful that the stellar recovery of the Russian oil industry would have been possible.

Gaidar and Chubais do not condone all the practices of private businessmen. They also depict their battles with Russia’s big businessmen, notably in 1997, when they lost. Their ideal is a well-functioning competitive market economy with predominantly private enterprises and based on the rule of law.

Leadership matters especially in a transition between two systems when old institutions are on the wane and few new institutions have taken shape. Many countries transition from socialist economies to market economies, with varying success depending on preconditions and policy. Each successful reform country, however, had its heroes, its reform leaders.

A sobering thought is that if Yeltsin, Gaidar and Chubais had not been there, Russia might have ended up like a post-communist state economy, such as Belarus, Turkmenistan or Uzbekistan. The success of the market economy and privatization was never a given, and without these three true leaders, it might never have happened. Russians need to learn who their true heroes are. Therefore, this handy book by two of them is a nice and worthwhile read.

Anders Åslund
Advisor to the Russian government, 1991–94

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Eyewitness to History

Yevgeny Yasin

What is this book's greatest plus? It explains in clear and simple terms the decisions taken in those fateful years, at which crossroads of history the need for such decisions occurred, and what limitations forced one action rather than another, even if the other was preferred by the authors. Let me stress a factor known to us all: the authors are not historians but the people who elaborated and made those fateful decisions and took full responsibility for them. It is a rare case in our history: they had all the qualities necessary to execute their lofty mission. In other cases, the majority of them, the most serious decisions with far-reaching consequences were made by people who had an extremely distorted idea of reality and were guided by dubious, often petty, and avaricious interests. Such decisions inevitably led the country onto marginal, if not dead-end, trajectories from which we had to return with losses.

The book is divided into chapters devoted to certain periods of our twentieth-century history, the shortest of which is just two years (1992–93), the one in which they worked. Chubais worked in government later as well, until March 1998, but that was already another time. Their main accomplishments belong to the period 1992–93. In no other period during that century was the scale of the challenges facing Russia any greater or more demanding of immediate answers. People might say to me, what about the war, or industrialization? Yes, those were also tough. But in those cases the issues on an intellectual level were simpler, it seems to me.

As far as I know, historians today are divided into conceptualists and positivists. The former use facts to build theories that they believe can predict the future. Thus, Marx came to the conclusion that capitalism in the monopolist stage destroys market economy and leads to a socialist planned economy. Lenin and Stalin decided that the management of such an economy must be modeled on a large factory and tried to realize this scheme in Russia. Their experience armed the positivists against similar theories and prompted them to conclude that theories must be abandoned completely: they would rely on facts, events, short connections between those, but not on guesses.

But the human desire to understand the road that leads to the future is inextinguishable. There will be new attempts, I'm sure, to build concepts arising from earlier institutions and the analysis of the possibilities of transforming them in changing circumstances. As an example, I will mention *Violence and*

Social Orders by North, Wallis, and Weingast, published in translation by the Gaidar Institute in 2011. Modern liberal democracy (or, in their terminology, the order of open access) is a complex of institutions that results from the desire of elites to reduce violence. Their ideas are supported by historical examples.

Similar ideas are expressed in this book by Gaidar and Chubais. But here the basis is historical material, as they examine the most important crossroads in Russian history between 1929 and 2009 and the circumstances of their passage—the choice of political decisions and the consequences, including institutions, that result. The result of the political decisions made in the late 1920s and early 1930s was the Soviet planned-administrative economy and the growing crisis that led to the crossroads of the 1990s. The decisions made in 1992–93 led to the creation of the market economy in Russia, a new stage in the country’s development.

Let me give you an example from the book—the liberalization of prices. Critics maintain that it was done to suit a liberal scheme, the “Washington consensus,” and that it caused great harm to the country. The actual situation in the country was that the supply of grain in the major cities would last only until February or March 1992, and the harvest in Russia begins in July. There was no hard currency for buying food abroad. Currency circulation had been disrupted over the previous years, and after the GKChP (State Committee on the State of Emergency, which tried to take control of the country away from Gorbachev) putsch a number of republics that had declared their independence printed money without permission of the central bank. But there was grain in the country. This crossroads presented two situations which required a choice:

1. Either take wheat away from kolkhozes by force and retain state prices, or liberalize prices, making it profitable to sell wheat to the state. (I should add that the government had little force and even less desire to use it, as the Bolsheviks had done in 1919.)
2. Address the disruption in currency circulation by introducing a national currency and putting off liberalization of prices to prevent high inflation, or liberalize prices as soon as possible and then take measures on financial stabilization.

There was no real choice. Prices were liberalized on 2 January 1992. There was a high price to pay in the form of inflation, which reached 2,600 percent. It was not until March that correspondent accounts could be set up for the central banks of union republics, treating their new currency emissions as technical credits. A national currency was introduced in August 1993. But here is the important part: the liberalization of prices in foreign trade together with the introduction of freedom of domestic trade in Russia removed the acuteness of the goods shortage, first of all. And second, we acquired a most important institution of market economy, free prices. Other necessary complementary institutions came a bit later.

Much later, in 2010, I had occasion to ask Leszek Balcerowicz, the author of the Polish market reforms, whether he had known about the Washington consensus in 1990. He said he had not.

I do not intend to retell the contents of the book in my preface. The episode I described is one of the most vivid and edifying in that brief time span in which were concentrated the most significant events and the authors' major acts. In that short time, around five hundred days, the institutional bases of a market economy were created in Russia. I can say this with assurance, because by mid-1993 the biggest part of the path to mass privatization, the great work of Anatoly Chubais, had been achieved. His other major work—financial stabilization—was accomplished in the next period, 1995–97, but it was less involved in the formation of institutions of a market economy. In sum, however, liberalization, privatization, and financial stabilization were the vital nucleus. That is the most important accomplishment of the two marvelous men who have written this book. Those who still consider them at fault for almost all the woes of our country must read it. As they do, they should consider that immediate impressions and lightweight judgments must make way for balanced reflection, in particular about the fact that the true significance of important political decisions is usually seen not instantly but over a long time and gradually. The flowering of the Russian market economy is yet to come—I believe that.

The more time that elapses between an event and the description of it, the less significant the event itself becomes and the greater the influence of the current political reality on how we perceive the event. The authors no longer took direct part in setting state policy after 1999. Their opinions are still extremely interesting, but there are more issues that I would like to discuss with them. The authors write about the crossroads encountered by the new leadership after Boris Yeltsin left: (1) whether to implement the economic reforms elaborated for Yeltsin's second term but not yet accomplished, or reject them; (2) after the end of the transformational crisis and transition to restored growth, whether to create instruments that could solve financial problems in unfavorable conditions, or use the resources coming from the rapid rise in oil prices to solve current problems. The third crossroads they describe is agreement or conflict between the state and big business, an issue with which Chubais had to deal starting in 1997, when he made his second appearance in the government. Here the problem is presented as "victory at Svyazinvest," while actually it was only one battle in a war that was just beginning.

In my view, these tightly interconnected crossroads objectively signaled the transition from the stage of market reforms and transformational crisis to the stage of liberalization of the Russian economy on market principles. Here the main question was what would be the main motive forces of modernization. Would it be high business activity, a maximal use of the opportunities of entrepreneurship awakened by the reforms? Or would it be the initiatives and re-