The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

The U.S., Not Gaidar, Killed Yeltsin's Reforms

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August 23, 2011



The 20-year commemoration of the abortive August 1991 coup is an opportune time to contemplate what has been accomplished and what has failed in Russia. The putsch showed that the old Communist political establishment was moribund, the Soviet Union was finished, and the Soviet economic system had stopped functioning. They all had to be replaced. Russia had one single institution of real authority: Boris Yeltsin, president of the Soviet Russian Republic. Fortunately, he understood two of the three tasks.

Yeltsin had gained his democratic mandate after being elected president of the Soviet Russian Republic in a free and fair election with 57 percent of the vote on June 12, 1991. Everybody looked to Yeltsin for leadership. He made a few decisions instantly, banning the Communist Party and dividing and reducing the KGB. But unfortunately, he stopped short of banning it as well.

On Oct. 28, 1991, Yeltsin declared his commitment to radical market economic reform in an

important speech to the parliament. He laid out his economic policy priorities: deregulation of prices and trade, together with macroeconomic stabilization and entrepreneurial freedom. “We have a unique opportunity to stabilize the economy within several months and to start the process of recovery,” he said. “We have defended political freedom. Now we have to give the people economic [freedom], remove all barriers to the freedom of enterprises and entrepreneurship, offer the people possibilities to work and receive as much as they can earn once they are freed of bureaucratic barriers.”

Cleverly, Yeltsin put his programmatic speech to a parliamentary vote, and the overwhelmed deputies voted 876-16 in favor. A week later, he appointed a new government comprised of the best of Russia’s young economists who had assembled around Yegor Gaidar.

As Yeltsin later wrote in his 1994 memoirs: “It was high time to bring in an economist with his own original concept, possibly with his own team of people. Determined action was long overdue in the economy, not just in politics.”

The new government worked night and day to prepare reform decrees, which were implemented in January 1992.

Yeltsin’s greatest accomplishment was the peaceful dissolution of the Soviet Union. He understood that the union was no longer tenable, but he had to dissolve it in a fashion that was politically acceptable to Russians. The decisive moment was Dec. 1, 1991, when Ukraine held a referendum on its independence. Ukrainians voted overwhelmingly — 90 percent — in support of independence from Moscow. Without Ukraine, the Soviet Union was not viable.

After the Ukrainian referendum, Yeltsin acted instantly, organizing a meeting one week later with the newly elected Ukrainian President Leonid Kravchuk and the reformist speaker of the Belarusian parliament, Stanislav Shushkevich, in a state hunting resort in Beloveshskaya Pushcha, 340 kilometers southwest of Minsk. He presented the union dissolution as a positive choice.

“In signing this agreement, Russia was choosing a different path, a path of internal development rather than an imperial one,” Yeltsin wrote in his memoirs. He also insisted on “a lawful alteration of the existing order” because it “was a revision of the Union Treaty among [the] three major republics of that union.”

Despite grumbling from Russian nationalists, Yeltsin’s early and decisive dissolution saved the Soviet Union from a bloody war. He sanctified all existing borders, and they remain largely accepted. As London School of Economics professor Dominic Lieven has pointed out, no empire has been dissolved with less loss of life than the Soviet Union.

But Yeltsin left political reform for later. In his memoirs, Yeltsin contemplated his decision. “Maybe I was in fact mistaken in choosing an attack on the economic front as the chief direction, leaving government reorganization to perpetual compromises and political games,” he wrote. “I did not disperse the Congress. … Out of inertia, I continued to perceive the Supreme Soviet as a legislative body that was developing the legal basis for reform. I did not note that the very Congress was being co-opted. The deputies suddenly realized their omnipotence, and an endless bargaining process ensued. … But the painful measures proposed by Gaidar, as I saw it, required calm — not new social upheavals.”

Unfortunately, Yeltsin did not alter this decision until September 1993, when it was too late. This was a major mistake, arguably the greatest of Yeltsin's career. As a consequence, his government's economic reforms suffered. "Without political backup, Gaidar's reforms were left hanging in midair," Yeltsin wrote.

Alas, the reformers never got control over the Central Bank, which made macroeconomic stabilization impossible. As early as Nov. 22, 1991, the reformers were defeated in their quest for control over the Central Bank once Ruslan Khasbulatov, speaker of the parliament, turned sharply against market reform and Yeltsin's economic course and deprived Yeltsin of his parliamentary majority. The Central Bank increased credit massively. As a result, in summer 1992 all monetary discipline fell apart, bringing Russia close to hyperinflation, for which the reformers were unfairly blamed. Yeltsin should have dissolved this pseudo-parliament while he still had the legal authority to do so, which was only in fall 1991.

The biggest sin of omission, however, rests with the West, in particular U.S. President George H.W. Bush. In October 1991, Yeltsin exhorted Western governments publicly and at length to help Russia with technical and financial support, but they ignored his call. Only five months later, Yeltsin received an answer of sorts from Bush and German Chancellor Helmut Kohl, but it was never substantiated, and the Russian reformers were already battered by the parliament's relentless attacks, led by Khasbulatov and Vice President Alexander Rutskoi. The demonstrative absence of Western support contributed to the fall of the Russian reform government and the failure to control inflation.

This was a key difference between the former Soviet Union and Central Europe. Poland received the necessary financial support early on and a large debt reduction. It was offered excellent access to the European market, and it was given European membership perspectives. Poland was the forerunner for the rest of Central Europe, which received necessary Western support and entered the right track from the outset. Russia, however, was offered nothing but kind words that soon turned out to be empty. The other former Soviet republics, witnessing how the West ignored Russia, lost all hope for successful early reform.

In hindsight, it is impressive how much Yeltsin got right and accomplished during the six months after the August coup. Without him, the Soviet Union could have ended up in a civil war like Yugoslavia and with a rudderless economic policy.

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