

254

State Building in Post-Soviet Russia:

The Chicago Boys and the Decline of Administrative Capacity

by Peter J. Stavrakis

Peter J. Stavrakis is Associate Professor of Political Science at the University of Vermont. This paper was written while he was a Research Scholar at the Kennan Institute in 1992–1993. Dr. Stavrakis is the author of *Moscow and Greek Communism 1944–1949* (Cornell, New York: Cornell University Press, 1989), as well as numerous articles on Russian and Soviet politics and foreign policy.

Copyright August 1993 (updated October 1993) by the Woodrow Wilson International Center for Scholars

Edited by Peggy McNerny

**The Kennan Institute for Advanced Russian Studies
The Woodrow Wilson International Center for Scholars**

The Kennan Institute for Advanced Russian Studies is a division of the Woodrow Wilson International Center for Scholars. Through its programs of fellowships, meetings, and publications, the Institute encourages scholarship on Russia and the former Soviet Union, embracing a broad range of fields in the social sciences and humanities. The Kennan Institute is supported by contributions from foundations, corporations, individuals, and the United States Government.

Kennan Institute Occasional Papers

The Kennan Institute makes Occasional Papers available to all those interested in Russian studies. Occasional Papers are submitted by Kennan Institute scholars and visiting speakers, particularly those who wish to receive timely feedback on their work. Copies of Occasional Papers and a list of papers currently available can be obtained free of charge by contacting:

**Occasional Papers
Kennan Institute for Advanced Russian Studies
370 L'Enfant Promenade, SW, Suite 704
Washington, D.C. 20024-2518
(202) 287-3400**

This Occasional Paper has been produced with support provided by the Russian, Eurasian, and East European Research and Training Program of the U.S. Department of State (funded by the Soviet and East European Research and Training Act of 1983, or Title VIII). We are most grateful to this sponsor.

The views expressed in Kennan Institute Occasional Papers are those of the authors.

**STATE-BUILDING IN POST-SOVIET RUSSIA:
THE CHICAGO BOYS
AND THE DECLINE OF ADMINISTRATIVE CAPACITY
by Peter J. Stavrakis**

There is no greater necessity for men who live in communities than that they be governed, self-governed if possible, well-governed if they are fortunate, but in any event, governed.

Walter Lippmann*

*As quoted by Samuel Huntington in *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 2.

INTRODUCTION

The collapse of the Soviet Union in 1991 focused the world's attention on the problems of economic reform, yet it required the virtual disintegration of Russia's central government in the following year to draw attention to the underlying political factors that are shaping President Boris Yeltsin's effort to transform the largest of the successor states. This came as a surprise only to those Western scholars and Russian reformers who relied exclusively on free-market reforms as the engine of post-Soviet transformation, for economic considerations have always been secondary to the persistent unwillingness of ruling elites to develop governmental institutions capable of responding effectively—and humanely—to dramatic social change. Regardless of the desire of reformers to develop a free market in Russia, an orderly exit from the Russian and Soviet past first necessitates the development of a state capable of effective governance.

In this respect, Russia confronts problems similar to the newly independent states of a generation ago. Samuel Huntington argued persuasively that in societies where political institutions cannot cope with the rapid mobilization of new groups into society, political decay will result. More importantly, western aid to developing societies failed because it was grounded in the "erroneous dogma" that economic assistance promoted political stability.¹ According to Huntington, America proved unable to grasp the centrality of effective government for modernization because of its own "happy history" and "belief that political stability would be the natural and inevitable result of the achievement of...economic reform."² In addition, because the United States never had to worry about creating a government, it failed to comprehend the difficulties involved in the consolidation of authority. The western philosophical commitment to limited government directed

1. Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 4–6.

2. Ibid., 5–6.

Americans to think not about "the creation and the accumulation of power but rather to the limitation of authority and the division of power."³ Although he was speaking of the developing world, Huntington's analysis applies equally well to the surprising demise of Russia's government in 1992 and the negligible, and often negative, impact of Western economic assistance.

It might appear odd to be concerned with enhancing the capacity of state institutions in what was once the world's most powerful polity. But the truth is that Soviet elites developed neither the administrative structures nor the professional ethos characteristic of a modern state. The nature of Communist Party rule was such that key policy and personnel decisions were taken within the organizational structure of the Party, making state structures institutional dependencies within a larger Party-state. When the Party disappeared as the formal expression of political power in 1991, it left a mass of unconnected, functionally incomplete, bureaucratic structures in its wake. Stalinism's legacy was a society in which the command economy was hopelessly and destructively entwined with politics and administration. Consequently, state rebuilding was essential in Russia not merely to undo the distortions stemming from seven decades of Communist misrule, but to prevent state institutions from disintegrating along with communism itself.⁴

Another feature of post-Soviet Russia not apparent in Huntington's earlier sample of modernizing states adds urgency to the task of state construction. Nation-states born three decades ago out of

3. Ibid., 7. Ironically, Huntington's characterization of American policy is even more accurate now than in the past: the aid experience of the 1960s and 1970s was specifically concerned with enhancing state capacity and perfecting public administration as engines of third world development. For more on the efforts to ground development on state administrative institutions, see Ferrel Heady, *Public Administration: A Comparative Perspective*, 3d ed. (New York: Marcel Dekker Inc., 1984), 1–57.

4. The relation between state survival and new institution-building has been either ignored or mishandled by Sovietologists. Timothy Colton, for example, assessing Yeltsin's first year as president, credited him with doing a good job at reinforcing the Russian state, yet faulted him for doing "little if anything to build the authority and coherence" of state institutions ("One Year After the Collapse of the USSR: A Panel of Specialists," *Post-Soviet Affairs* 8, no. 4 [October–December 1992]: 315–18). Inasmuch as Russia's survival rests on its ability to develop new institutions, it is difficult to make sense of Colton's assessment: if Yeltsin is doing a poor job at institution-building, he is undermining, not reinforcing, state integrity.

British and French colonialism inherited the bureaucratic structures, organizational practices, and legalism of the colonizing states—all of which became critical components of the civic cultures of post-colonial societies. But Communist rule failed to bestow even this favorable legacy on the remnants of its own imperium. Both the decolonized nations and Russia confronted the challenge of creating non-governmental political institutions, but Russia had no extensive experience of working governmental institutions in the first place, nor knowledge of how to coordinate the actions of state agencies in pursuit of a common goal.

All Soviet successor states confront a triple burden of administrative reconstruction, political institutionalization, and economic reform; each is necessary for the successful transformation of Russian society, yet neither alone is sufficient, which explains the dismal failure of a strategy based solely on economic criteria. Early on in Egor Gaidar's "shock therapy," some commentators stressed that economic reform could not succeed without creating new state structures to replace the command bureaucracy and training a new generation of professional civil servants to supplant the old Party nomenklatura.⁵ Despite this early awareness of the importance of state (re)building for Russian reform, Yeltsin, the Gaidar "team," and legions of foreign "advisers" (individual and institutional) fixated throughout 1992 on the narrow dimension of macroeconomic reform. This obsession was embodied in a succession of phrases that transformed reasonable economic criteria into slogans reflecting the defining essence of one's political orientation: price liberalization, credit emission, hyperinflation. Astonishingly, the Russian government manifested no interest in the equally important political objectives of elections, civil service training, organizational efficiency, etc.⁶ It was as if the West's central philosophical commitment to limited government was extirpated by a crude economic determinism that

5. *Nezavisimaia gazeta*, 24 January 1992, 1.

6. This is not to say that progress was not made in these areas; but Moscow's abdication of a leading role in the process of state building meant that most of the momentum devolved to the regions. Tendencies toward regionalism in Russia were thus exacerbated by the Gaidar reforms, further undermining state cohesion.

insisted on *no* government in Russia.⁷ Evidently, only the market could rescue society from the excesses of the plan, with the harmonious evolution of state, politics, and society following spontaneously from the market.

The central thesis of this study is that the Gaidar government's concentration on economic reform to the exclusion of political and administrative reconstruction promoted a rapid recurrence of the pathologies of Soviet governance, undermining Yeltsin's capacity to consolidate state authority. One of the most serious dysfunctions of the Soviet system to reappear was ministerial feudalism: instead of an integrated and cooperative bureaucratic environment, individual ministries sought to augment their power at the expense of potential bureaucratic rivals, with the result that government policies reflected political conflict within the executive and failed to address the problems afflicting Russian society.

Structural disintegration was further exacerbated by a new political elite's inability to avoid the seductive charms of an ideology based on economic determinism. No sooner had Marxism-Leninism been vanquished than Russia's young reformers, eschewing more pragmatic reform strategies, replaced it with the doctrinaire application of Western monetarism. Like its Soviet predecessors, the Gaidar government regarded fidelity to its own interpretation of the principles of "macroeconomic stabilization" a more important criterion for government service than administrative competence. Yeltsin's reform "team" also attempted to concentrate political power amongst themselves and arrogantly rejected compromise in a manner strikingly similar to their Bolshevik predecessors.

"Crisis management" was transformed during 1992 from an unpleasant, though necessary, short-term strategy into a permanent style of government which augmented the extraordinary powers of selected

7. One the closest confidants of the Gaidar team and a supporter of its doctrinaire free-market views was Marek Dabrowski, former First Deputy Minister of Finance of Poland, whose views reflected the desire to eliminate the state from any aspect of economic policy. See Marek Dabrowski, "Interventionist Pressures on a Policy Maker During the Transition to Economic Freedom (Personal Experience)," *Communist Economies and Economic Transformation* 4, no. 1 (1992): 59-71 *passim*. While seeing no role for government in the economy, Dabrowski had no qualms about occupying a government post charged with implementing economic reform.

ministers while stifling the development of a more normal policy-making environment. Ideological hubris also destroyed prospects for the kind of political compromise vital to a new government's ability to build social support and co-opt a broad spectrum of political elites. The Gaidar government's inattention to the process of co-optation was further encouraged by the near-obsessive urging of key western economists to reject any form of compromise.⁸ Macroeconomics and structural adjustment triumphed in 1992 over the fallen gods of socialism, but the Gaidar government's failure to prevent the return of Soviet-style politics catalyzed the consequent disintegration of the Russian state.

While many recent studies focus on legislative institutions and the sphere of civil society in Russia, this study will focus specifically on the executive agencies of the central government.⁹ Yeltsin's professed desire to create a presidential system in Russia, together with the relative weakness of alternative political institutions, makes the state the logical choice to bear the responsibility for reform in the country. More importantly, key issues of societal transformation in Russia were first confronted by the executive, making it the center of policymaking and implementation. The ascendance of Gaidar's team of "Chicago Boys"¹⁰ and its centrally-based strategy for economic transition added impetus to the concentration of power in Moscow. Finally, state rebuilding and civil

8. See Part II, pp. 36–37 and accompanying note 66 for an example of such arguments.

9. One of the first works to call for greater attention to the role of the state in post-Soviet society was Eugene Huskey, ed., *Executive Power and Soviet Politics: The Rise and Decline of the Soviet State* (Armonk, N.Y.: M.E. Sharpe Inc., 1992). See especially Huskey's contribution to the volume: "The Rebirth of the Russian State," *ibid.*, 259.

Although the role of civil society in the former Soviet Union has been the object of recent analyses, it has yet to receive sufficiently serious scholarly examination. Given the regionalization of Russian political life, Robert D. Putnam's recent work on civic traditions in modern Italy and their contribution to the stability of democracy serves as a useful comparative model for a similar study concerning the former Soviet Union. See Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993).

10. "Chicago Boys" is the rubric acquired by adherents of the neoclassical monetarist economic school of Milton Friedman (and the University of Chicago) in Latin America and Asia, where strikingly similar efforts to achieve reform via macroeconomic stabilization were carried out with decidedly mixed results. The policies of these elites were typically needlessly painful and widely unpopular, earning the followers of the Chicago School considerable criticism, scorn, and opposition. Despite the negative connotations, however, Egor Gaidar and his team were happy to be associated with the global fraternity of neoclassical economists. See, for example, *Nezavisimaia gazeta*, 9 November 1991, 1.

service training can only be implemented by a central government, for which there was no short-term substitute in Russian society.

The examination of executive government is followed by a case study detailing how Russia's foreign economic bureaucracies disintegrated as a result of unremedied bureaucratic pathologies and ideologically-driven obstinacy. These bureaucracies are especially important both for the successor states to the USSR and the West. Russia today must simultaneously redefine its conception of national interest, stabilize and encourage processes of national identity-formation, and integrate itself into the international economy. Since Soviet elites never confronted such tasks, Russian administrative capacities are weakest in these areas. State-building in this area should therefore receive highest priority, yet will most likely exhibit the greatest strain in Russia's adjustment to a new world.

PART I.

ADMINISTRATION IN THE MODERN STATE

The success of the Gaidar reforms in addressing administrative transformation can be gauged by examining the extent to which Russia succeeded in developing the basic elements of a modern state. This would require promoting new institutional capacities and moving toward more rational and pragmatic linkages between formal administrative agencies and functions, e.g., breaking with the chronic bureaucratic pathologies of the Soviet system.¹¹ The following list indicates those administrative features that must be created, eliminated, or transformed in order to achieve a modern Russian state, providing a set of evaluative criteria with which to gauge the young government's performance in state construction.

The Architecture of Government

Devolution of administrative authority, delineation of ministerial resources and authority, and promotion of a cooperative bureaucratic environment are central features of civil bureaucracy. Moreover, modern government in Russia entails developing the functional specialization of executive agencies, elaborating rational organizational structures, and implementing merit-based personnel policies. Yet these most fundamental aspects of government bureaucracy may well elude Russian reformers, as communist rule neglected them for over seventy-four years.

Ethnic Identity and Performance-Based Legitimacy

Integrating myths are central to the consolidation of ethnic identity and the legitimization of ruling elites. What will replace the defunct

11. There is, of course, great variability among societies in their institutional arrangements; the present study does not aspire to elaborate those which would be most appropriate for Russia. The goal here is to determine what movement, if any, there has been to break with the institutions and attitudes of the Soviet past. In looking at the construction of new institutions, however, one must recall that the Weberian ideal is an impossibility for any social system and may produce its own pathologies. See Heady, *Public Administration*, 62–64.

communist vision is at the heart of the post-Soviet future, yet there is no consensus as to what kind of ethnic identity will emerge in Russia.¹² Myths, however, cannot stand alone; it is the state's capacity to deliver promised goods and respond to specific demands of the population which sustains the credibility of unifying and legitimating symbols. In Russia, the performance-based legitimacy essential for medium-term stability would best be achieved by competent public sector management, effective government assistance for private sector development, and stimulation of foreign trade and investment.

Yet the state's claim to sovereignty in Russia makes it the inheritor of sensitive ethnic and territorial questions the resolution of which affect far more than the new Russian diaspora of twenty-five million people. Russian governing elites here confront a dilemma: an overly aggressive policy toward neighboring states will be seen as Great Russian "revanchism," while a more lenient stand risks domestic instability by providing Russian nationalists with "proof" of government incompetence. Similarly, a cautious approach to economic reform may provoke the loss of western support, while a dramatic opening to the international economy is liable to provoke conservative attacks on the government for selling the country to foreign interests.

Administrative Decentralization

Strong centrifugal forces—regional and ethnic—pull at the Russian republic and have been exacerbated by months of political paralysis in Moscow. Absent the Communist Party and its coercive institutions, the viability of any Russian government depends on central agencies devolving considerable decision-making authority to the provinces and localities. Unfortunately, tsarist Russian and Soviet experience has left Russia poorly-equipped for the challenge of decentralization, as both elite and popular sentiment views strong central guidance as the antidote to social and economic ills.

12. For a pessimistic analysis that concentrates on the rise of extreme nationalism and further disintegration in Russia, see Peter Reddaway, "Russia on the Brink?" *The New York Review of Books*, 28 January 1993.

Competent Private Sector-Public Sector Interaction

Despite the obstacles to privatization, development of a private sector in Russia is less difficult than establishing a practical distinction between the public and private spheres, between the state and civil society.¹³ Contemporary western governments (and even certain governments of developing states) have acknowledged the vital economic role played by entrepreneurial strata and have exchanged their efforts to control the private sector for a cooperative role in which state power is used to facilitate private enterprise and alter market-driven incentive structures toward socially beneficial ends. In order to consolidate the nascent private sector, Russia thus needs to create an administrative system that *actively encourages* its growth. In a radical departure from Soviet managerial practice, ministries must divest themselves of direct control over production and concentrate instead on setting broad policy objectives, ensuring the fairness of competitive bidding structures, and developing a system of public procurement that stimulates the growth of non-state enterprises.

But if the Soviet state operated at one extreme of total control over the economy, prevailing western and Russian economic analysis threatens to move to the other extreme by factoring the state out of the reform equation entirely.¹⁴ Successful reform, however, lies not in eliminating the state, but in transforming hegemonic Soviet bureaucracies into institutions similar to their western counterparts.

Civil Service Development

Restructuring public institutions and delimiting their powers are only one part of administrative reform. Inculcating the attributes of a

13. *Russian Economic Reform: Crossing the Threshold of Structural Reform*, World Bank Country Study (Washington, D.C.: The World Bank, 1992), 73. Hereafter cited as *World Bank Report*.

14. The World Bank neglects its own recent research along these lines. See Arturo Israel, "The Changing Role of the State: Institutional Dimensions," The World Bank, Working Papers, Public Sector Management and Private Sector Development, Country Economics Department, WPS 495, August 1990, especially 2–6. Contrary to the recent Russian dash towards the free market, Israel notes that a rapid "dismantling of the state is inadequate as a policy prescription, even for laissez-faire strategies" (*ibid.*, 3).

civil service—a public service ethic, legal institutions, and a neutral, professional bureaucracy linking the political and administrative dimensions of government—is also crucial for the creation of a modern state in Russia.

Recent attention to the development of civil society in Russia obscures the abusive legacy of the state in Soviet and Russian history. Indeed, professionalizing administrative personnel was so inconsequential to the communist elite that the Soviet Union never developed a civil service or the basic elements of a well-ordered public bureaucracy.¹⁵ Administrative decentralization makes this goal even more difficult to achieve: bureaucrats emerging from Russia's legacy of autocratic rule will find it difficult to appreciate the need for compromise, power-sharing, and local initiative. Russian elites, whether older *apparatchiki* or young economists, all emerged from a centralized command system that operated without concern for, or understanding of, the "public good."

No society can long sustain civilized institutions if state power is arbitrary and bureaucrats are selected without regard to merit. Yet in the former Soviet Union, technical competence was second in importance to one's position on the Party's *nomenklatura* lists. Indeed, what distinguished the Soviet regime from non-communist systems was the degree to which ideological considerations penetrated into the selection process for positions that normally require objectively verifiable skills.

15. For a description of some fundamental aspects of civil bureaucracy, see Heady, *Public Administration*, 61.

The Public Management Division and program for Support for Improvement in Governance and Management (SIGMA) of the Organization for Economic Cooperation and Development (OECD) stresses the centrality of these elements in successful state building and consolidation of democratic institutions in former Soviet bloc states. SIGMA presently assists East European states in institutional development and has been approached by Roskadry, the new Russian civil service agency, for similar support. Regrettably, the OECD has not allocated funds to support reform of state structures and public management in Russia. See "Mission Statement," SIGMA Central and Eastern European Countries, OECD, 2-4. (Information concerning OECD funding priorities comes from a conversation with Robert Bonwitt, Head, OECD Program on Public Management, 5 January 1993.)

Ministerial Interdependence

Government institutions in modern states typically lack direct control over basic resources, coordinating with other government agencies and the private sector to implement policy. Soviet experience is unique in that government ministers controlled entire branches of the production and distribution system, thus minimizing the incentive for ministries to cooperate in the formulation or implementation of policy. The dire political consequences of failing to fulfill the plan enhanced administrators' desire for autarky,¹⁶ undermined the coherence of the executive branch, and contributed to a type of institutional pluralism.¹⁷

Balance of Administrative and Political Roles

Although a complete separation between administration and politics is impossible,¹⁸ it remains true that administrators' shared commitment to basic public values restrains the fractious potential of this tension. In the absence of a common, if diffuse, public commitment, excessive politicization of government operations inevitably strains the integrity of the state. Partisan and bureaucratic rivalries have their place within society, but there must remain space for dispassionate administration, as "an administration ...*excessively* bound to politics and ideology is no less inimical to public interest than the one that is excessively detached from them."¹⁹

16. Paul R. Gregory, "The Soviet Bureaucracy and Perestroika," *Comparative Economic Studies* 31 (Spring 1989): 12–13.

17. For a more detailed discussion of the concept of institutional pluralism, see Jerry Hough, *The Soviet Union and Social Science Theory* (Cambridge: Harvard University Press, 1977), 22–24, 46–49, 69–79.

18. See, for example, Fred W. Riggs, "Bureaucratic Links Between Administration and Politics," in *Handbook of Comparative and Development Public Administration*, ed. Ali Farazmand, (New York: Marcel Dekker Inc., 1990), 485–488.

19. Stanley Vanagunas, "The USSR: Some Thoughts on the Decline of the Ultimate Administrative State," *Public Productivity and Management Review* 15, no. 3 (Spring 1992): 284–85 [emphasis added].

The common values guiding Soviet society were supposedly derived from Marxism-Leninism, but the latter quickly degenerated into a false consciousness designed to legitimize the actions of the ruling Communist Party. Political power was restricted to a self-selecting elite which initiated new personnel (cadres) less for their technical skills than their willingness to embrace Communist ideology or their relationship to powerful party elites. Of course, affective ties have always been important in the selection of political leaders, but effective governance requires that clientelistic networks be offset in a broader context by a professional civil service.²⁰ Soviet elites, however, were unable to resist the temptation to reach deep down into the state bureaucracy to purge opponents and reward clients.²¹

Rule-following and Application

In western systems, public bureaucracies implement decisions handed down by political leaders and are limited in their ability to intervene directly in the policy-making process. Permissible limits of state intervention vary among and within societies and change in response to popular sentiment (in democratic systems) and elite preferences. Bureaucracies will attempt either to preserve or to augment their influence over the policy process, but once political elites delegate responsibilities within the government apparatus, bureaucrats cannot openly challenge decisions that diminish their influence. If a new government mandates a retreat from spheres of social or economic life previously managed by the state (e.g., privatization), the civil bureaucracy must either accept the new orientation or attempt to reverse or amend the new policy via informal means.

20. Some West African systems have successfully blended clientelistic/patrimonial structures with merit criteria, an experience which may bear closer examination for the former Soviet Union. The merits of comparing African experience to that of post-Soviet states are considered in Peter J. Stavrakis, "Post-Soviet Politics and Society: Democratization or Decolonization?" presented at the Mid-Atlantic Slavic Studies Conference, Newark, Delaware, 20 March 1993.

21. Ideology also diminishes the importance of administration by deflecting attention from the *means* of achieving desired objectives. Moreover, state agencies constructed on the basis of ideological considerations perform poorly when dealing with unanticipated events; the rigidity created by such agencies' conformity to core ideological values can be overcome only by debasing the very principles which justify the governing elite's hold on power.

The Soviet experience, by contrast, reflects what Kalman Kulczar has termed "deviant" bureaucracies: a *rule-creating*, instead of rule-observing, bureaucracy.²² Party rule obviated a strict division of governmental powers that, combined with the autarky of Soviet ministries, allowed executive agencies to acquire many of the legislative functions of the state. Major policy changes met greater resistance from the entrenched Soviet bureaucracy than would have been the case in a western state, leading to protracted political conflict within the ruling elite.

Finally, the long absence of a private sector in Russia created in state bureaucracies a sense of entitlement to economic resources, an attitude which even the new market reformers have found difficult to abandon. Capitalism enshrines the private sphere as a legitimate and defensible sector of society, but Soviet proclivities towards ministerial self-aggrandizement and rule-creating risk making the nascent private sector an undefended space which, if not acquired by one ministry, will be absorbed by another. Thus privatization *per se* will not succeed in Russia unless accompanied by the transformation of state institutions and administrative behavior.

22. Kalman Kulczar, "Deviant Bureaucracy: Public Administration in Eastern Europe and the Developing Countries," in *Handbook of Comparative and Public Development Administration*, 595.

PART II.

BOLSHEVIST MONETARISM

The experience of the Russian government following the bungled August 1991 putsch demonstrates the failure of the new political elite to recognize the need for building new state institutions. Structural and behavioral pathologies embedded in Soviet bureaucratic experience remained untouched and quickly reappeared in the executive institutions, inhibiting the reform process and ultimately destroying the central government. Russia made no progress toward creating a normal government in 1992–93, this in turn eroded the state's ability to address core issues whose resolution would have helped to consolidate the transformation of Russian society.

The major cause of this outcome was that Yeltsin was surrounded by several groups of individuals who shared few common values. Consequently, Russia's executive never acquired the unanimity of purpose or detached professionalism essential for effective governance. The "Sverdlovsk group" consisted of Yeltsin's colleagues from the Sverdlovsk party organization. Predominantly older than any other group in the government, they had developed ties to one another during their years in CPSU structures. By contrast, the "Chicago Boys" were young, vigorous supporters of economic reform drawn overwhelmingly from the ranks of academia. A third group deriving its support from Civic Union and enterprise managers emerged later in 1992. Finally, a number of independent political actors of various origins in the Yeltsin government tended to side with one of the preceding groups. A partial listing of these groups reveal striking differences in age and government or party experience (see following page):

KEY POLICY-MAKING GROUPS IN THE YELTSIN GOVERNMENT, 1992

| Chicago Boys | Civic Union | Other | Sverdlovsk |
|--|---|--|---|
| Egor Timurevich Gaidar b. 1956 (12/92) ^a | Viktor Stepanovich Chernomyrdin ^b b. 1938 | Anatolii Borisovich Chubais b. 1955 | Iurii Vladimirovich Petrov ^b b. 1938 (1/93) |
| Aleksandr Nikolaevich Shokhin ^c b. 1951 | Aleksandr Vladimirovich Rutskoi b. 1947 (10/93) | Andrei Vladimirovich Kozyrev ^c b. 1951 | Iurii Vladimirovich Skokov b. 1938 (5/93) |
| Andrei Alekseevich Nechaev b. 1953 (3/93) | Vladimir Filippovich Shumeiko ^c b. 1945 | Fëdor Vladimirovich Shelov-Kovadiaev ^c b. 1956 | Oleg Ivanovich Lobov b. 1938 (9/93) |
| Pëtr Olegovich Aven b. 1955 (12/92) | Georgii Stepanovich Khizha b. 1938 | Vladimir Mikhailovich Chibyrëv ^b b. 1941 | Mikhail Nikiforovich Poltoranin ^b b. 1939 (11/92) |
| Boris Grigor'evich Fëdorov b. 1958 | | Leonid Markovich Grigor'ev ^c b. 1947 | |
| Kirill Nikolaevich Ivanov ^b b. 1949 | Mikhail Dmitrievich Malei b. (?) | | |
| Sergei Mikhailovich Shakhrai ^c b. 1956 | | | |
| Konstantin Grigor'evich Kagalovskii b. 1957 | | Sergei Borisovich Stankevich ^d b. 1946 | Gennadii Eduardovich Burbulis ^d b. 1946 (5/92) |
| Sergei Iurievich Glaziev b. 1956 | | | |
| Nikolai Vasil'evich Fëdorov ^c b. 1958 | | | |
| Vasilii Vasil'evich Barchuk ^b b. 1941 (3/93) | | | |
| Aleksei Golovkov b. 1947 (?) (12/92) | | | |

^a Indicates month in which officeholder was removed or resigned from official post. This did not necessarily imply their removal from political power, as many were reassigned to advisory positions. Many, such as Skokov, Petrov, Poltoranin, Lobov—to name but a few—landed in new bureaucratic posts from which they continued to exercise considerable political influence.

^b Denotes extensive experience or training prior to 1990 in All-Union or republic-level government institutions or Communist Party organs.

^c Denotes moderate experience in All-Union or republic-level government institutions (no more than two years since 1990).

^d Stankevich and Burbulis cannot reliably be classified in any single column. The former's political affiliations vacillated, while Burbulis played an important bridging role between the "Chicago Boys" and more conservative elites.

The striking features of the Gaidar reformers were their youth and their shared experience as students at Moscow State University during the 1970s.²³ But these strong affective ties proved to be a mixed blessing. On the positive side, the level of in-group trust was high and the team acquired a remarkable unanimity of purpose. Every one of the academic economists believed that the road to successful reform lay through emulation of the Polish "shock therapy" of macroeconomic stabilization. The basic elements of their solution to Russia's problems, as explained by Deputy Prime Minister Aleksandr Shokhin in October 1991, was a straightforward application of the Chicago School strategy that had been implemented in Poland, Brazil, Chile, Argentina and Bolivia:²⁴ 1) Freeing of prices on all goods, accompanied by the fiscal austerity required to achieve a zero-deficit budget. The initial "shock" would create short-term inflation, followed fairly quickly by price stabilization. 2) A complete liberalization of foreign trade and investment. Foreign enterprises would theoretically serve as market competitors for Russian producers, who would otherwise charge monopoly prices. 3) Mass privatization of state resources based on meaningful prices, making the economic transition irreversible. 4) The final step, ruble convertibility, would be made possible by the ensuing price stability, emerging private sector, and foreign competition. Shokhin was careful to stress, however, that a basket of consumer staples would remain regulated throughout the transition as a hedge against social instability.²⁵

23. Kirill Ivanov and Vasilii Barchuk do not quite fit this mold: while formally allied with the Chicago Boys, they were too old to have been at MGU with their younger colleagues. Sergei Shakhrai, by contrast, was studying law at MGU at the same time the others were studying economics.

24. This neoclassical economic strategy is derived from University of Chicago economists who stressed monetarism, macroeconomic stabilization, and (allegedly) minimal state intervention as the solution to virtually all economic *and social* problems confronting states.

Poland is almost always cited as the model for Russia by Gaidar and his team of economic reformers. However, shock therapy (or its equivalent) has had its greatest application in Latin America. The Gaidar team rarely alludes to these cases, perhaps because they often failed (Brazil, Argentina) or were intimately linked to authoritarian regimes (Chile, Brazil, Argentina). The absence of a clear empirical link between democratization and macroeconomic stabilization casts doubt on shock therapy's ability to promote institutions supportive of civil society in Russia.

25. *Rossiiskaia gazeta*, 30 October 1991, 1, 6.

There were several serious disadvantages to such a tightly-knit group leading reform. First, Yeltsin was initially unwilling to embrace a radical reform strategy, for he shared neither the educational experience nor the understanding of market economics of Gaidar and his colleagues. In fact, those closest to the Russian President in 1991 were either from Sverdlovsk or the military-industrial complex,²⁶ two groups that evinced little enthusiasm for economic shock therapy. Second, since the new cohort of leaders controlled only part of the executive, the likelihood of bureaucratic conflict stemming from generational and philosophical differences was high. Finally, the dominance of affective ties among the elite risked making further recruitment impossible; no newcomer could possibly possess the unique formative experiences of the MGU colleagues. Broadening the base of pro-reform elites, indispensable for consolidating the Russian government, would prove difficult.

The first two of these obstacles were overcome by late fall of 1991. The key figure in getting Yeltsin to turn to his young economic advisors was Gennadii Burbulis, a colleague of Yeltsin's from Sverdlovsk.²⁷ Burbulis was one of only two in the Sverdlovsk group who wished to see the Gaidar team directing reform (the other was Mikhail Poltoranin). He became, in effect, the connecting link that allowed economists to replicate in Russia the neoclassical economic experiments implemented with mixed results throughout the world. The opportunity came with the failed August 1991 putsch: according to Andrei Nechaev, the Gaidar team contacted the Russian leadership in the Parliament building (*Belii dom*) during the attempted coup. Yeltsin was not yet ready to adopt a radical economic reform program, but the failure of Communist bureaucrats and industrialists to develop a credible alternative, combined

26. Alexander Rahr, "Russia's 'Young Turks' in Power," *Report on the USSR*, 22 November 1991, 20. Rahr's "Young Turks" are essentially equivalent to the Chicago Boys; the latter rubric is explicitly intended to highlight their economic views.

27. See Pilar Bonet, "The New Political Elite in Russia," Kennan Institute Meeting Report IX, no. 5 (6 December 1991).

with Burbulis's and Gaidar's lobbying, left him with little choice but the new reform team.²⁸

The Return of Ministerial Feudalism

The Russian Government named on 6 November 1991 represented important victories for Gaidar and his reformers, yet reflected no effort to fill the organizational void left by the collapse of the Soviet state or attenuate the deep divisions within the executive branch. The failure to confront these issues promoted a rapid reversion to ministerial feudalism: each executive agency sought to maximize the resources under its direct control in anticipation of the political struggle ahead, thereby replicating the ministerial autarky of the communist era. A proliferation of executive agencies created serious overlap of administrative authority, enlarging the sphere of potential bureaucratic conflict and enhancing the tendency of government institutions to view executive policymaking as wholly conflictual.²⁹

Institutional fragmentation and open political conflict even prompted the reappearance of administrative structures and practices that had been formally abolished. The branch ministerial structure, for example, was theoretically liquidated during the first wave of reform in 1992, but the imperatives of bureaucratic politics led to a reconcentration of resources and lines of authority, albeit under new names. Industrial ministries, never fully under the control of the Gaidar government, were especially prone to this type of behavior. However, ministries controlled by avid reformers *also* underwent a similar experience. The Ministry of Foreign Economic Relations, as will be seen, rapidly concluded that a substantial portion of the former Soviet Foreign Trade Organizations should remain in government hands.

28. *Rossiiskie vesti*, no. 27 (November 1991): 3. According to Rahr, several efforts were made by elements less eager for radical reform to install more conservative personnel in economic posts. See Rahr, "Russia's 'Young Turks' in Power," 19–20.

29. *World Bank Report*, 70.

The Gaidar team did initially establish a rudimentary organizational structure for the governance of reform. Executive ministries and state committees for economics, social policy, and foreign policy were grouped into sections, each of which was overseen by either First Deputy Premier Burbulis, Deputy Premier Gaidar, or Deputy Premier Shokhin.³⁰ This reflected personal rather than institutional success and left executive power divided: the new reformers controlled economic, but not military or security policy. The Gaidar team embraced a vision of government as a field of battle between alleged "reformers" and "anti-reformers." Andrei Nechaev described the situation as one of "two blocs in the government:" the economic bloc and the political bloc, adding that his group was totally in control of the former.³¹ From its inception, Russia's executive was thus divided into opposing politico-ideological camps, effectively destroying the possibility of professional government activity.

The Chicago Boys' willingness to sacrifice government coherence for the sake of economic reform remained a distinguishing characteristic of their political style even after the departure of Gaidar. Boris Fëdorov, a Gaidar loyalist installed as Deputy Prime Minister for Economics and Finance in the wake of the December 1992 Congress of Peoples' Deputies, continued to stress the conflict theme. Fëdorov criticized the price controls reimposed by Prime Minister Viktor Chernomyrdin in early January 1993, maintaining that "we will fight to neutralize it or repeal it for good."³² That Fëdorov was not dismissed for publicly declaring war on his superior reflects the low value assigned to structural reform of government agencies. More important was that Fëdorov was from the Gaidar team and Chernomyrdin was supported by the Civic Union and the Sverdlovsk group.

30. *Vedomosti s'ezda narodnykh deputatov RSFSR i Verkhovnogo soveta RSFSR* (hereafter *Vedomosti*), no. 46 (1991): article 1580.

31. *Rossiiskie vesti*, no. 27 (November 1991): 3. Nechaev did not hold a ministerial post until April 1992, when he became Minister of Economy in the wake of Gaidar's resignation as Minister of Finance and Economy, a ministry which was then split in two. Vasilii Barchuk then became Minister of Finance. Both lost their posts in March 1993.

32. *Financial Times*, 13 January 1993, 2.

The subsequent reification of this division into "supporters" and "opponents" of reform—with no common ground—was reminiscent of the ideologically-charged environment of Soviet politics. Political elites generally attenuate conflict through compromise and the co-optation of potential opposition, but the Chicago Boys arrogantly excluded from their circle of macroeconomists everyone except their academic colleagues. An unbridgeable, mutually exclusive division emerged, setting the stage for a self-destructive outcome: an allegedly successful monetarist policy paralleled by the state's disintegration.

In response to the reformers' control of economic ministries, members of the Sverdlovsk group (later joined by the Civic Union) captured or created agencies within the president's "administration," swelling it to the point where it became difficult to ascribe specific administrative functions to many offices. By July 1992 the Presidential administration included more key officeholders (201) than did the ministries and chairmen of state committees combined (182). A partial list of administrative posts included:

- Manager of the Administration of the President
- Presidential Aides
- Chancellery of the President
- Chancellery of the State Secretary of the President
- State Counselors
- Group of Experts of the President
- Secretariat of the Chairman of Council of Experts
- State-Legal Directorate
- Directorate of Recordkeeping
- Directorate of Personnel
- Management of the Government Apparatus
- Departments of the Government Apparatus
- Government Advisors³³

Presidential systems commonly expand in response to greater complexity of the functions of the state, but in Russia such expansion reflected a serious bureaucratic pathology: competent administrative

33. *Vedomosti*, no. 29 (1992): article 1766.

control was ignored in favor of a proliferation of executive positions designed to provide advantages to participants in the intra-executive struggle. Members of the Sverdlovsk group, excluded from ministries associated with foreign affairs and economics, took advantage of the organizational vacuum by occupying "administrative" posts from which they attempted to expand their personal bureaucratic base and control policy. Iurii Skokov, State Counselor on Security Affairs and later Secretary of the Security Council, established a powerful base largely due to his connection to the military-industrial ministries which were beyond the control of the Gaidar team. Iurii Petrov, former First Secretary of the Sverdlovsk party organization, became the head of Yeltsin's administration. As the official responsible for personnel recruitment, he was quickly attacked for attempting to bring the Party *nomenklatura* back to power. Petrov battled for his post throughout 1992, ultimately resigning the position in January 1993, only to resurface a month later as head of the newly-created State Investment Corporation.³⁴

How did the young reformers justify the emerging administrative nightmare? Deputy Prime Minister Sergei Shakhrai provided an explanation which no doubt constitutes a new perspective in administrative theory. While acknowledging that there were (as of early 1992) more than *twenty* law-making structures in Russia in the defense, security, and enforcement sectors operating without any coordination, Yeltsin's young legal adviser maintained this was probably a positive development, as the competitive struggle would allow the more competent institutions to prevail.³⁵

Shakhrai's justification of governmental chaos is ludicrous, but illustrative of why the academic economist leading reform ignored the development of state capacity. Gaidar's team proceeded from the mistaken assumption that macroeconomic reform would automatically

34. On the problems with Petrov, see *Nezavisimaia gazeta*, 24 January 1992, 2; *Izvestiia*, 9 October 1991, 2; *Nezavisimaia gazeta*, 14 February 1992, 1-2; *Izvestiia*, 19 February 1992, 2. For more on Petrov and the State Investment Corporation, see Part III, pp. 54-55. Both are described in more detail by Andrei Shmarov, Vadim Bardin, and Aleksandr Sukhotin, "U nas zapliashut les i gory...", *Commerzant*, 8-14 February 1993, 13.

35. *Izvestiia*, 6 February 1992, 2.

replace the managerial relics of the old system as the market performed the re-educative function normally reserved for non-market actors. Russia's monetarists apparently believed that state structures were everywhere inferior to market forces—everywhere, that is, save for the ministries they controlled. Not until January 1993 did there begin to emerge an appreciation of the government's educative role in transforming peoples' perceptions about the public and private sectors of Russian society.³⁶ Furthermore, the principles of financial accountability introduced in 1992 *coexisted* with Soviet production criteria. Enterprise managers were confronted with a double burden: new financial constraints plus the old plan structures. This sustained a strong—and rational—temptation to ignore the new in favor of the more familiar, thereby retaining the fusion of the state with the economy.

The Gaidar team also erred, as have Chicago School economic reformers throughout the world, in failing to address several other factors affecting enterprise managers' calculations. First, increased productivity *really was* an important political goal which could not be easily ignored to concentrate solely on balancing the budget. Second, those enterprises able to do so had to continue producing for the export market, which generated the hard currency necessary to satisfy the government's new policy. Third, enterprise managers had to contend with the high short-term cost of retaining their work force in anticipation of a quick rebound in production following the anticipated stabilization. A further incentive not to lay off workers was the destabilizing social impact of high unemployment. Iurii Skokov aptly summed up the position of the conservatives and enterprise managers, who were soon to become a powerful opposition, when he observed that the Gaidar government had chosen its macroeconomic course, but objected that "we are all stuck in microeconomics and are perishing in it."³⁷

36. *Financial Times*, 22 February 1993, 2.

37. *Rossiiskaia gazeta*, 6 February 1992, 1; as cited in *Current Digest of the Soviet Press* 44, no. 5 (1992): 25.

The Negative Impact of Extraordinary Powers

The December 1991 decision of the Congress of Peoples' Deputies to grant the Russian president extraordinary powers accelerated organizational disintegration of the state by eliminating any incentive to develop stable policy-making structures. The most compelling argument for extraordinary powers was to circumvent the fractious, hostile, and overwhelmingly conservative Russian parliament. This strategy would only work, however, if the executive possessed the competence and unity of purpose needed to take advantage of its freedom from legislative intervention. But the return of Soviet-style ministerial feudalism dictated that the outcome would be quite different. Instead of obviating intra-elite conflict, the grant of extraordinary powers simply transferred it into the heart of the executive, where it proliferated rapidly.

Yeltsin's inclination to "resolve" intra-executive conflicts by decree, in addition to Gaidar's habit of granting his (closest) colleagues considerable administrative autonomy,³⁸ only made matters worse. The result was an *ad hoc* approach to policymaking which obscured, rather than clarified, institutional accountability. The Gaidar team's exceptional *personal* latitude in economic policy produced an unusual and unique result: political elites were unconcerned with the legal or administrative responsibilities of government institutions and chose instead to define their roles without reference to the formal duties of their offices. If such existed, they could be rewritten by decree.

The dominance of personality in economic policy precluded the possibility of even beginning to develop the institutional capacities of the Russian state. Other areas of legislation, by contrast, revealed the emergence of post-Soviet structures, even as the struggle over specific policies continued. The Supreme Soviet in 1992 dealt with such important issues as local self-government; the duties and powers of State Counselors, the Minister of Defense, and the Secretary of the Security Council; etc. Yet it was impossible to find any such treatment of an economic agency; the government was free to combine, separate, prune,

38. This was noted in the Central intelligence Agency's biography of former Minister of Foreign Economic Relations Pëtr O. Aven: Pëtr Olegovich Aven, *CIA Biographies*, 6 June 1992.

slice, chop, and compress executive economic institutions as it saw fit. The more this occurred in response to bureaucratic struggles within the government, the greater was the deterioration of state capacity.

The erosion of the Russian government need not have occurred. Certain individuals were aware of the need to reconstruct a new Russian state and create the civil service the communists had never cultivated. Early in 1992, several Russian experts spoke out on the need for immediate bureaucratic reform. Vladimir Varov, Chairman of the Supreme Soviet's subcommittee on political reform, and Aleksandr Sobianin and Dmitrii Iuriev of the RF-Politika research center, shared the Gaidar government's professed concern about the prevalence of the old *nomenklatura* within preexisting Soviet structures. In particular, they asserted that Party control in the regions remained largely untouched, threatening the political integrity of Russia.³⁹ Unlike the Yeltsin government, however, they stressed the urgent need for "renewal" of personnel and structural reform of the bureaucracy. According to Iuriev, it was absurd to suppose that reforms relying on old Party functionaries could succeed;⁴⁰ the government had to attack the problem by wresting the new civil service organs (Roskadry) from the Presidential administration (then run by Petrov) and amend plans to build civil service institutes in former Communist Party schools. They also suggested reducing the number of organizations within the presidency capable of either making or obstructing policy.⁴¹

In sum, RF-Politika saw the only route for success as the streamlining of administrative structures within the executive and their staffing with civil servants. The government, however, rejected advice to enhance institutional capacity and chose to concentrate on the macroeconomic picture in the expectation that economic stabilization

39. *Rossiiskaia gazeta*, 4 March 1992, 2.

40. *Ibid.*

41. *Nezavisimaia gazeta*, 22 February 1992, 2.

would generate the political capital necessary to defeat internal opposition.⁴²

While the reappearance of ministerial feudalism and the negative effects of extraordinary presidential powers largely explain why the Russian government disintegrated in 1992, they do not provide an answer to a more fundamental question: How is it that a group of young and intelligent individuals committed to the reform of their society failed so dismally to grasp the importance of transforming state structures and inculcating bureaucratic values conducive to coherent governance? Alas, the ideology of macroeconomic stabilization assiduously replicated much of the political style of its Marxist-Leninist predecessor and proved as intellectually blind to the importance of non-economic factors in politics. The following sections will illustrate the stylistic and substantive pathologies of the Soviet system that reappeared under Gaidar as a consequence of this ideological approach to government.

"Crisis Management" and the Reconcentration of Power

The initial reform strategy of the Gaidar government treated economic reform as a crisis, the intensity and urgency of which called for the exercise of power by a small group of reformers freed from the normal constraints of government. "Crisis management" was approved by Yeltsin, the Gaidar team, the World Bank, the International Monetary Fund, and even the Russian Parliament as a short-term measure necessitated by the exceptional gravity of the economic situation. Once in power, however, reformers transformed crisis management into a style of rule, abandoning any effort to establish "normal" government. The character of the crisis was, naturally, defined in a self-serving manner: the solution to the "crisis" was shown to require immediate application of precisely the kind of macroeconomic shock therapy recommended by Chicago School economists. Not coincidentally, this characterization

42. One of the principal deficiencies of neoclassical arguments is that, having taken great pains to eliminate political variables from the reform equation, they are unable to account for the impact of political and bureaucratic variables. Yet this intentional ignorance does not prevent its adherents from explaining precisely how prescribed macroeconomic reforms translate into democratic consolidation.

proved *politically* useful, conveniently legitimizing the restriction of policymaking and its implementation to a narrow circle consisting of Gaidar and his intimates. This constriction, however, retarded the development of administrative capacities in the areas essential for stable governance—the personal and exclusive nature of crisis management meant personnel came from within informal groups, not from a professional civil service. Even the World Bank, a key supporter of macroeconomic reforms, noted this problem in its study of the Russian economy:

The crisis management approach was entirely understandable, given the urgency of the Russian government's reform objectives in late 1991....Institutionalizing the market system, however, now requires a strong program to develop capacity in the core institutions and functions of economic management....Russian administrative capacity is presently weak in precisely those areas vital to accountable economic governance in a market economy.⁴³

In addition, the Gaidar government exhibited many of the psychologically reinforcing behaviors common to groups described by Irving Janis in his study of American foreign policy fiascoes: overwork, stress on the gravity of the task, feeling the burden of being the only ones capable of saving the situation, and so on. While empirically dubious, these attitudes perform an important self-legitimizing role and boost group morale, even as policy heads for catastrophe.⁴⁴ Russian reformers, like their monetarist counterparts in other countries, perceived themselves as taking on the onerous burden of governing Russia in a spirit of self-sacrifice.⁴⁵ The group's shared sense of struggle

43. *World Bank Report*, 74. The World Bank reached this conclusion based on its assessment of the Russian economy in March–April 1992.

44. See Irving L. Janis, *Victims of Groupthink: A Psychological Study of Foreign Policy Decisions and Fiascoes* (Boston: Houghton Mifflin, 1972) and *Groupthink: Psychological Studies of Policy Decisions and Fiascoes* (Boston: Houghton Mifflin, 1982).

45. For an excellent parallel, see Julie M. Taylor's description of the self-perception of Argentine Chicago Boys under the military dictatorship in that nation: Julie M. Taylor, "Technocracy and National Identity: Attitudes Toward Economic Policy," in *From Military Rule to Liberal Democracy in Argentina*, ed. Monica Peralta Ramos and Carlos Waisman (Boulder, Colorado: Westview Press, 1987), 131–45 *passim*.

undoubtedly bolstered their own convictions about the urgency of reform. However, they chose not to suffer in silence and made sure everyone knew how difficult their task was. Nechaev lamented his long working hours, but justified his schedule by arguing that the "flywheel" of reform had to be set in motion.⁴⁶ Aven likewise complained that working twenty hours a day on economic reform left him no time to explain his actions adequately to the public.⁴⁷ Ironically, the general reluctance to develop state administrative capacities and preference for retaining policy within a tight "crisis management" circle only increased the burden of reform borne by the macroeconomic elect.

Regrettably, Russian political elites proved unable to resist the fatal attraction of crisis management. The January 1993 "crisis program" adopted by the government of Prime Minister Viktor Chernomyrdin and Deputy Prime Minister Fëdorov confirmed that Russia had fallen into a debilitating pattern of ruling from crisis to crisis, making it impossible to concentrate on institutional development.⁴⁸ The proclivity for crisis management also had a profound negative effect on the center's ability both to retain control of policy outside Moscow and sustain its interest in doing so. Since the number of individuals responsible for making policy was small, the number of issues they addressed was correspondingly small as well. In the best tradition of Leninist rule, the Gaidar team jettisoned all but the commanding heights of Russia's economy, the control of which, they believed, would be sufficient to navigate society through the treacherous shoals of transition. Instead, the rapid, unplanned retreat of the central state from the periphery created a new set of economic and social obstacles that threatened to deprive the center of even minimal political control over Russia's regions.

46. Foreign Broadcast Information Service, *Daily Report: Central Eurasia* (hereinafter FBIS, *Daily Report*), 24 April 1993, 29.

47. FBIS, *Daily Report*, 20 March 1992, 45. Speaking during an interview, Aven went on to remark that initially, he did not even think it necessary to explain his actions to the public.

48. *Financial Times*, 21 and 28 January 1993, 2. The more recent [August 1993] "crisis" regarding the Central Bank's order to recall old rubles also falls into the crisis pattern. While Central Bank Chairman Viktor Gerashchenko is blamed for the financial crisis, the tragedy of political elites incapable of operating in a "normal" (i.e., non-crisis) environment is overlooked.

Rapid fiscal decentralization and imposition of local financial autonomy placed enterprises in the untenable position of no longer receiving revenues from the central authorities, yet remaining responsible for a level of social expenditures that dwarfed the obligations of their western counterparts. These conditions established the basis for a natural alliance between enterprises and municipal governments (the latter are substantially dependent on enterprise largesse).⁴⁹ Simultaneous disruption of regional trade ties provided still greater opportunities for production enterprises to consolidate their control over local politics, leaving them well-positioned to exploit future privatization. In many cases *de facto* privatization, such as managerial buyouts, had occurred long before legislation on the process was complete. Increasingly preoccupied with defending crisis management from attacks from within, the central government could scarcely develop the administrative capacity for, much less pay attention to, the problems of local government. Skokov's earlier assessment was largely correct: the center fixated on macroeconomics and engaged in an increasingly sterile political conflict while the regions concentrated on micropolitics.

Bolshevist Monetarism: Ideological Hubris and Intransigence Return

The ideologically-driven behavior of the new reformers bore a striking resemblance to that of Soviet leaders of times past. One expected such behavior from the remnants of the communist *ancien régime*, but not from those guiding Russia through its post-Soviet transition. Although socialization typically reinforces continuity in behavior, the reformers' youth, isolation from the political process, and access to the West, together with the demise of the Soviet system, led one to expect minimal congruence between the new government and the Soviet regime. Yet the evidence indicates precisely the opposite: the members of the Gaidar team resemble—in zeal, style of thought, and attitude—their Bolshevik predecessors.

49. *World Bank Report*, 71.

One significant difference between the two regimes was that the new Russian reformers built upon the experience and knowledge of other "shock therapists" in Latin America, Africa, and Eastern Europe. Alas, this turned out to be a case of pouring new wine into old bottles. Russia's Chicago Boys infused an internationally recognizable economic model with the ideological fervor of their communist predecessors, creating a kind of Bolshevik monetarism. This admixture yielded an ardent, passionate, uncompromising pursuit of shock therapy based on the firm belief that macroeconomic stabilization was the key which would unlock all of Russia's other social problems. Pursuit of this exceedingly narrow economic goal reactivated communist behaviors and replicated the politics of the past, as seen in the government's comfortable embrace of extraordinary powers; the polarization of political groups caused by the conviction that "he who is not with us is against us;" the desire to reconcentrate political power in Moscow; and the seemingly insatiable hankering for an economic explanation of all social existence. Russia may have moved forward in the direction of civil society, but its state elites have yet to grasp the complexity of civilized governance.

Since the Gaidar government neglected the need for organizational reform of state institutions, it became a relatively easy matter for new ministers to slip into preexisting patterns of behavior.⁵⁰ Ideological rhetoric and reality collided head on when in September 1992 Gaidar noted that one of the principal mistakes of reformers in former socialist countries had been their use of governments with weak institutions to implement reform.⁵¹ It was apparently of little import to the acting prime minister that his reform strategy explicitly factored the state out of the reform equation.

Ten months earlier, Justice Minister Nikolai Fëdorov hit upon the same theme when asked how the government planned to deal with the social consequences of shock therapy. Fëdorov replied that they would "make people carry out the laws and obey the decisions" of the

50. It remains unclear whether this reassumption of Soviet behaviors occurred self-consciously.

51. FBIS, *Daily Report*, 9 September 1992, 21.

government even if it meant using unpopular, coercive measures.⁵² Almost a year later, Shokhin stated that it might be necessary to have an authoritarian regime in order to implement reforms.⁵³ These comments concede the necessity of a strong state to implement economic reforms, despite the fact that a principal reform objective was the elimination of the government's role in the economy! Such glaring contradictions were, however, only marginally important to those determined to change reality in light of their ideas. As Fëdorov explained (with reasoning hauntingly reminiscent of experiments in Soviet history), coercion was necessary to "save society."⁵⁴

The hubris and arrogance characteristic of the ideologically secure was not absent among the Russian reformers. Indeed, it appeared that no one was their equal. The standard rejoinder to numerous criticisms of their program by other, respected, academics was to dismiss them out of hand. Ivan Silaev and his team, according to Nikolai Fëdorov, turned out to be bad choices to lead reform, as their views were "rather poor."⁵⁵ When Nikolai Petrakov and a group of academic economists criticized the government's reform program in April 1992, Nechaev's response that thwarted personal ambitions had led them to take up arms against the reforms reflected the prevalent attitude among the Chicago Boys. Petrakov, Grigorii Iavlinsky, Leonid Abalkin, and others were classified as dilettantes who had exchanged their opportunity to implement reform "for chatter and a cushy job."⁵⁶ The Gaidar team considered its course completely correct and interpreted all criticism as motivated by resentment—who needed to entertain, let alone compromise with, dilettantes?

52. *Rossiiskie vesti* no. 26, (November 1991): 11.

53. *RFE/RL Daily Report*, 29 October 1992, 1.

54. Nikolai Fëdorov is in good company—almost every Latin American state that implemented "shock therapy" did so under an authoritarian government. Bolivia appears to be the lone exception.

55. *Rossiiskie vesti*, no. 26 (November 1991): 11.

56. FBIS, *Daily Report*, 24 April 1992, 32.

The categorical rejection of criticism and constructive compromise stemmed from supreme self-confidence. Where did such confidence come from? Here we discover the Gaidar team's most striking similarity to the early Bolsheviks: an arrogant intransigence emanating from the belief that they possessed knowledge to which only the privileged few—the elect—had access. In one interview, after deriding his critics and complaining about the difficulty of explaining the government's program to the population "in simple terms," Pëtr Aven proceeded to describe the essence of the Chicago Boys' knowledge:

Economics is a science. It is a serious pursuit which includes a great deal of mathematics rather than just words....You write equations for hours in order to grasp what can really happen. All kinds of curves are drawn....I can relate to soccer coaches who always berate amateurs.⁵⁷

Seemingly tired of explaining the infinitely complex to the hopelessly ignorant, Aven then concluded: "This is a multifactored professional problem which is hard to discuss with amateurs." Russia, sadly, was once again guided by a "science" with "laws" that only the self-anointed could comprehend.

The young reformers' confidence was bolstered by the conviction that they had inherited the mantle of earlier pathbreaking economists. Aven stressed that the Gaidar team consisted of "some of the best and favorite academicians of ours—the best and the favorite!"⁵⁸ That they derided their former teachers for being petty, venal amateurs appeared irrelevant.

A final area of congruence between the Gaidar team and their communist predecessors was their astonishingly immature conception as to what constitutes governance and the responsibilities of those who implement policy. In the same interview, Aven maintained that he was

57. This and subsequent quotes from the interview are cited from FBIS, *Daily Report*, 20 March 1992, 45–51.

58. His expression prompts one to recall the fortunes of America's "best and brightest" who were supposed to win the war in Vietnam in the early 1960s.

guided by universally-applicable economic principles that stood apart from politics. When asked what impact political considerations had on his policy, the Minister of Foreign Economic Relations responded that these were questions of "pure politics" beyond his control. Politics, he implied, "like the weather getting bad or the sun rising and setting," was a constant which could not be influenced. The interviewer, taken aback that a politician professed to have no interest in politics, then posed the central question:

...one charge remains which you have not cleared...It is likely that brilliant professionals are now installed in Old Square. However, they cannot understand that great masses of live people, i.e., the object of politics, are the material for their brilliant experiment. They do not wish to understand that, *having moved from the positions of research associates to these ministerial chairs, they have actually changed their professions rather than their places of employment.* They do not wish to learn to navigate in the laws which relate to processes underway "among the masses" or those...among the "leaders."⁵⁹

What was Aven's response to the charge that his government was not doing its job, that is, failing to deal with the political and administrative aspects of governance? "We do not intend to do this."

This did not bode well for the Russian future. The reformers who had taken control of government took pride in the fact that they addressed only economic questions, leaving a vacuum in the political arena and the state bureaucracy. Just as in an earlier episode of Soviet history, they intended to dispense with government and merely relocate their offices. But the vacuum would soon have to be filled, if not by the Gaidar government, then by other actors. It was only a matter of time before the "best and brightest" economists would accumulate the ministerial powers of the old regime.

59. FBIS, *Daily Report*, 20 March 1992, 45-51 [emphasis added.]

The New Economic Determinism: Leaving the State Out

If the only similarities between the new Russian government and past Soviet experience concerned ideological style, reform might still have had a chance to proceed without catalyzing the simultaneous disintegration of the state bureaucracy. Unfortunately, neoclassical economic ideology and the policies derived from it—shock therapy (or macroeconomic stabilization, structural adjustment, monetarism, etc.)—proved intellectually too narrow and politically too barren to serve as a doctrinal basis on which to rest a philosophy of government. In their explanation of the motives of human behavior, Russian adherents of the Chicago School proved exceptionally naive: *homo economicus* was presumably an infinitely rational being always seeking to maximize his expected utility. Once non-economic impediments were removed, humans would go happily about, calculating only the expected *economic* benefits of their actions.

At the heart of this neoclassical economic approach was the presumption that once government and society—known as "exogenous variables" in clinical parlance—are subtracted from the picture and macroeconomic variables brought into order, individual human behavior *does not matter*, for people will behave as predicted in economic models. Since neither government structure nor human behavior matter, all that was needed in Russia was an economic program managed by a small group of economists who understood the economic dimension of the situation. In the Russian context this meant leaving the Gaidar team in place to manage the crisis. State institutions and a civil service did not merit immediate attention, nor did political compromise that would dilute the technical expertise at the center seem conceivable.

Nowhere was the weakness of this logic more apparent than in Gaidar's failure to find a constructive role for the state in the transition. The Russian government's estimation of state institutions in 1992 resembled in many respects earlier communist assessments of nationalism—relics of a previous social system that would disappear once a new socioeconomic system was put into place. Too late did Soviet communism learn that nationalism was an irreducible element of social

existence; Russian reformers must come to comprehend the parallel indispensability of the state lest they suffer the same fate as their precursors.

Given the willingness of West European and developing societies to use powerful state institutions to modify the market, the failure to integrate the development of state capacity into Russia's reform strategy is even more puzzling. There was no logical reason to deny the Russian state a similar function in shaping the nation's domestic and international economic interests. After the Second World War, for example, the United States accepted and even encouraged German and Japanese protection of infant industries and intrinsically valuable sectors of their respective economies—a fact overlooked by Gaidar, his colleagues, and their foreign advisers. Similarly, the Airbus enterprise would never have been economically viable without initial subsidies of approximately twenty-seven billion dollars provided by West European states.⁶⁰ Russian historical experience, moreover, makes this type of active role for the state a more likely possibility than the Anglo-American model of minimal government intervention.

In mid-1992, it appeared that growing opposition to the doctrinaire neoclassical economic strategy of the Gaidar team would compel the government to modify its policy in the direction of a mercantilist position that harmonized reform with state interests. This course was reflected in the appointments of Vladimir Shumeiko, Viktor Chernomyrdin, and Georgii Khizha to the Russian government in May and June. Unfortunately, these appointments turned out to be only a superficial step towards the development of a constructive role for the state in the reform process.

Yeltsin had decided to bring the industrial sector and its political expression, the Civic Union, into the political process in response to the latter's growing influence. This was good politics on the part of the

60. If this figure is translated into rubles at the July 1993 rate of exchange, then the Europeans funneled in excess of twenty-seven trillion rubles to support *one* industry that would not have survived the initial start-up costs of a competitive global market economy. Russians can rightly wonder why they should not be permitted the same opportunity.

president; Arkadii Vol'skii's strength was in forging political alliances,⁶¹ especially among industrialists who were in fact far more diverse than they appeared. To counter Vol'skii, the government either had to forge its own alliances with industrial managers or bring Vol'skii himself into the government. In late summer 1992, as rumors swirled that Gaidar would be replaced by Vol'skii as Prime Minister, Yeltsin openly courted the now "centrist" Civic Union.⁶² Fears of Gaidar's demise proved exaggerated; Yeltsin at long last was simply moving to co-opt opposition elites into the ruling coalition and stabilize the disintegrative spiral of Russian politics.⁶³

Genuine compromise with the new "mercantilist" ministers would create a broader base for reform and produce an interregnum in the political conflict, permitting the Russian government to concentrate on establishing internal coherence and delineate the structure of executive agencies. Such a compromise naturally implied a blunting of the economic goals of the Gaidar team. In August 1992 Shumeiko commented that it was no longer possible to wait for the market to regulate all economic processes and claimed that state protection of key enterprises (a taboo for the Gaidar team) could halt Russia's industrial slump.⁶⁴ The recently-installed First Deputy Premier also argued that Russia should pursue an economic policy similar to that of Japan after

61. *The Washington Post*, 6 September 1992, 35.

62. On the rumors of Gaidar's demise, see *The New York Times*, 20 September 1992, 14; and *The Washington Post*, 6 September 1992, 33. On Yeltsin's switch to the Civic Union, see Reddaway, "Russia on the Brink?," 33 [Introduction, p. 8, note 12].

63. Similar elite compromise has proven successful in Sub-Saharan African. Senegal, Ivory Coast, and Botswana (among the most successful African states) have sustained political stability and economic growth in part because of political elites' skill in co-opting opposition groups into the governing coalition. This political skill, however, requires negotiation and compromise—tasks for which ideologues are ill-equipped—leaving Russian reformers unable to exploit opportunities to stabilize the political process.

64. FBIS, *Daily Report*, 26 August 1992.

the war, particularly because the Japanese had succeeded in developing a market unaided by foreign assistance.⁶⁵

The possibility of moving beyond economic dogma and internal conflict was, however, hampered by the intransigence of the Chicago Boys. They were supported in their resolve to implement their program by such foreign advisers as Jeffrey Sachs, who attempted to portray any compromise as something akin to an unnatural act.⁶⁶ This defense of shock therapy delegitimized the central method of resolving political disputes in contemporary society: compromise. The reform team clung steadfastly to its original ideals despite Yeltsin's overtures to the industrial sector in search of a workable compromise. Although Gaidar was charged with reaching an agreement with enterprise managers, he did not have substantive meetings with them until late October 1992. The government then made certain concessions, but they were too little, too late, and thus did not dilute substantially the Civic Union's constituency.⁶⁷

Other members of the Gaidar team were even more adamant about adhering to ideological principles. In September 1992, Nechaev declared that "talk of the possibility of an intermediate option between a market system and the administrative-edict system is demagoguery" and proceeded to launch into a long discourse on the impossibility of a middle road.⁶⁸ Once again, the tendency to polarize the question of reform by distinguishing between supporters and opponents of reform (i.e., between supporters of shock therapy and everyone else)

65. FBIS, *Daily Report*, 24 August 1992, 35. Shumeiko's analysis of Japanese economic success is too favorable. The United States granted the Japanese preferential terms of trade during its post-war reconstruction, a policy which became an important foundation for the development of Japan's new industrial base.

66. For a representative sample of this argument, see Jeffrey D. Sachs, "The Road to the Market," *The Washington Post*, 28 March 1993, Section C, 2.

67. *The Financial Times*, 26 October 1992, 3. Reflecting on the lateness of the government's co-optation effort, the *Times* noted: "The meeting provided a stark illustration of the government's failure until yesterday to cultivate leading managers or fully explain its decisions." For more on Yeltsin's move in the direction of the Civic Union, see *The Financial Times*, 30 October 1992, 2.

68. FBIS, *Daily Report*, 1 October 1992, 18.

exacerbated rather than moderated political tension within the executive. The fact that mixed systems are the rule in most societies failed to faze Nechaev.⁶⁹

As a result of the Gaidar team's unwillingness to involve themselves in the politics of compromise with the Civic Union, Yeltsin went to the Congress of Peoples' Deputies in December 1992 with a weaker political base than would have otherwise been the case, an unpopular Acting Prime Minister, and a desire to achieve a result which, while sacrificing certain individuals, would preserve the overall direction of the economic reforms. Perhaps most importantly, government hesitation had created the impression that Yeltsin was following, rather than leading events. The Congress ultimately rejected Gaidar's candidacy for Prime Minister, a move interpreted as a rejection of reform. The subsequent appointment of Chernomyrdin was similarly viewed in the West as a retreat from reform.

Nevertheless, Yeltsin was more successful than might have been expected. The vote on Gaidar indicated that he enjoyed substantial support among parts of the Civic Union, much of the Gaidar team remained in place, and Chernomyrdin did not "roll back" reform. Had the Acting Prime Minister and his supporters been less doctrinaire and unyielding in their prescriptions for reform, the process of co-optation might have begun substantially earlier, providing Yeltsin a much stronger political base for structural reform by December 1992.⁷⁰ Alas, such a

69. See, for example, the statement of Brazil's newly-appointed Minister for Planning, Yeda Cressius, that the free market is a "utopia" and that the state must play an important role in the economy (*The Financial Times*, 25 January 1993, 4). One wonders, albeit not for long, why Brazil can assert a positive role for the state when Russia cannot be permitted to do so? Political, not economic, considerations govern Russia's economic policy.

70. The appointment and subsequent actions of Chernomyrdin, as reported to the west via "pro-reform" sources, are a textbook case of symbolic manipulation in order to sustain conflict. Chernomyrdin was portrayed as someone thrust upon Yeltsin, whom he reluctantly accepted. In fact, Yeltsin had on several occasions praised Chernomyrdin's work as minister in charge of the gas complex. Similarly, the widespread portrayal of Chernomyrdin's decree in early January 1993 as a "reimposition" of price controls was incorrect—prices on a substantial basket of products had remained controlled from the start of price liberalization. The 2 January 1992 decree freeing prices contained a list of goods whose price range remained restricted; Chernomyrdin merely augmented the list somewhat and called at the same time for restrictions on the percentage of profit, a policy impossible to implement in practice. See *The Financial Times*, 7 January 1993, 2.

tactic would have required breaking through economists' ignorance of politics and ideological intransigence much earlier.

***Further Defects of Economism:
The Vanishing National Interest***

Even if the Gaidar team's antipathy to compromise could have been overcome and a mercantilist strategy integrating state interests with economic policy formulated, the entire effort would nevertheless have collapsed due to the government's failure to articulate a clear national interest for post-Soviet Russia. Clearly, the reformers and the economic ideology they espoused were incapable of projecting a vision of the Russian national interest that assuaged the anxieties of those who feared the complete disintegration of Russia. The lack of a clear and defensible conception of state interest had been pointed out as far back as December 1991, when Sergei Stankevich complained about this crucial weakness of government policy.⁷¹

This aspect of Russia's foreign policy might have been less pressing had Gaidar's reform program not assigned the international economic system and foreign assistance a crucial role in the transformation of Russia. Once price stabilization had been attained, it was assumed that foreign investors, governments, and international lending institutions would achieve the final breakthrough to a competitive market by pumping hard currency into the economy, providing technical assistance for privatization, competing with domestic producers, and stabilizing the value of the ruble. There was therefore no substitute for an effective Russian state pursuing precisely-defined national objectives—foreign firms were unlikely to invest in the economy unless the state was able to guarantee the legal and political climate; the IMF and World Bank work only with national governments; and, for political as well as economic reasons, western states prefer to deal with national bureaucracies.

71. *Megalopolis-Express*, 12 December 1991, 20; as cited in *Current Digest of the Soviet Press* 43, no. 50 (1991): 22, 32.

Despite these compelling realities, foreign economic policy failed to embody a coherent national interest. Although this result can largely be attributed to an excessively economic understanding of social reality, other factors were also at work. On a personal level, Foreign Minister Andrei Kozyrev, while associated with the reformers, was neither an economist nor a Gaidar intimate. Consequently, he found himself in the unenviable position of espousing reform with only occasional political support from the Gaidar team. In fact, as the economists attempted to consolidate their hold on key ministries, Kozyrev soon had to defend his own administrative fiefdom from reformist ministers keen to augment their own bureaucratic bases.⁷²

The concern with Western-oriented policy and the domestic bureaucratic struggle absorbed so much of Kozyrev's energy in early 1992 that he was unable to develop a foreign policy toward the vital successor states of the "near abroad."⁷³ Only First Deputy Prime Minister Gennadii Burbulis made an effort to articulate the national interest: Russia was to remain a great power, similar to Britain after the collapse of the British empire, but all interrepublican administrative structures would be abolished.⁷⁴ The economic links that had bound the Union together were to be severed and replaced with a series of bilateral agreements between Russia and the former Soviet republics. Chairman of the Committee on Foreign Economic Relations Pëtr Aven echoed this economically logical, yet politically draconian, view by insisting that a common currency for the former Soviet Union was unworkable. Each republic, according to Aven, should adopt its own currency.⁷⁵ And what

72. See Part III on Kozyrev's struggle to preserve the integrity of the foreign affairs ministry.

73. Kozyrev consequently became subject to attacks by conservatives, who claimed he was too "western" for Russia. The charge was not without justification; the Foreign Minister in April 1992 admitted that he had no conception of Russia's national interest in the "near abroad." See *Nezavisimaia gazeta*, 1 April 1992, 1, 4.

74. Information on the views of Burbulis and the Gaidar team is taken from Rahr, "Russia's 'Young Turks' in Power," 22-23 [see p. 17, note 26].

75. *Nezavisimaia gazeta*, 12 November 1991, 4. Several months later, Aven stated this position with considerable severity. Asked if Yeltsin, when reminded by Commonwealth leaders of potential Russian refugees living in non-Russian republics, might be forced to moderate this attempt to abolish existing economic links, Aven replied that this was a problem of "pure politics" which "we

was to become of the expatriate Russian population? According to Burbulis and the radical reformers, Russia had no need to defend its nationals in Ukraine and Kazakhstan because they were capable of standing up for their own interests.⁷⁶

On the face of it, Burbulis's position was reasonable; but in the context of a collapsing empire and a divided central government, it suffered from several fatal weaknesses. First, the ministries responsible for defining and safeguarding the national interest were either not yet in existence (defense), not under the control of the reformers (internal affairs), or too politically weak to determine policy (foreign affairs). Articulating, let alone implementing, policy in these sectors was impossible. Second, a substantial portion of the Russian political elite and population considered the loss of the Union tantamount to the loss of great power status. The argument that a "rump" Russia could retain its position in the international system by breaking all links with the other former Soviet republics and inviting western investment was simply unacceptable. Aven dismissed the fear that "our country will be bought up" as "gibberish," but in reality, this view had powerful adherents.⁷⁷ Third, substantial Russian populations in other republics meant that Russian national and state interests did not exactly coincide and could not be aligned by Burbulis's naive effort to draw the line at Russia's territorial frontier. Given the instability of the successor states, it was doubtful that diaspora Russians could fend for themselves. Moreover, if they genuinely were a great power, did not Russians have the option of intervening to protect the welfare of their nationals, as did America and the European states?

Much to his credit, however, Burbulis was the only member of Yeltsin's cabinet to pay serious attention to the need for bureaucratic restructuring and the retraining of personnel. The Foreign Ministry in particular lacked personnel capable of providing policy advice on trade, foreign investment, and the newly independent states—the diplomatic

[presumably the Gaidar team] do not control" (FBIS, *Daily Report*, 20 March 1992, 47).

76. Rahr, "Russia's 'Young Turks' in Power," 23.

77. FBIS, *Daily Report*, 20 March 1992, 49.

corps were not prepared for these consequences of the Soviet collapse.⁷⁸ Burbulis took pains to stress the importance of professionalism and expertise in personnel policy, the former implying removal of holdovers from the communist regime.⁷⁹ He was also interested in restructuring the ministry in order to make it a more important player in the policy process.⁸⁰ Burbulis's support allowed Kozyrev to make a clean sweep of the highest posts in the ministry, leaving no holdovers from the old Union ministry,⁸¹ but escalating conflict over economic reform eventually diverted Burbulis's attention away from personnel and organizational matters in foreign affairs, leaving the task of administrative renovation incomplete. Without the strong personal support of key figures in the Yeltsin government, a full restructuring of the Foreign Ministry was unlikely; several months later, the ministry battled (unsuccessfully) to prevent the reversal of key appointments. Even this modest attempt at institutional reform was derailed by the growing internecine conflict within the executive, interrupting the task of incorporating Russia's foreign economic interests with its domestic reform agenda.

* * * * *

78. In July 1992, then First Deputy Foreign Minister Fëdor Shelov-Kovediaev responded to accusations of inattention to the near abroad, indirectly confirming that the government had lacked a policy toward these regions until March 1992. Shelov-Kovediaev maintained that a deficiency in personnel was at fault: in January 1992, the ministry had approximately ten specialists on the successor states at its disposal—not even one for each country. See FBIS, *Daily Report*, 10 August 1992, 30–31.

79. The definition of "professionalism" was subject to debate. In November 1991, then Deputy Minister of Foreign Affairs Boris Kolokolov expressed a more conservative view. Claiming that professionalism and not ideology had determined recruitment to the International Department of the CPSU Central Committee, Kolokolov maintained that former employees of this department were welcome at the Foreign Ministry. See *Izvestiia*, 1 November 1991, 1. Recruitment was further complicated by the abolition of the USSR, after which Yeltsin announced a radical reduction of approximately 800 staff members in the former All-Union, now Russian Federation, Foreign Ministry. See *Izvestiia*, 24 December 1991, 5.

80. Jeff Checkel, "Russian Foreign Policy: Back to the Future?" *RFE/RL Research Report*, 16 October 1992, 19–20. Burbulis was also a major promoter of new legislation creating civil service training institutes, as well as a draft law on a Russian civil service.

81. *Ibid.*, 24–25.

The ideology of Bolshevik monetarism and the specific strategy of economic shock therapy proved insufficient to sustain the basic institutions of government in Russia in 1992, much as had been the case seventy-five years earlier under a different brand of economic determinism. The Chicago Boys' political immaturity and unwillingness to compromise, combined with the perception that academic and governmental responsibilities were identical, blinded them to the need for state building. Moscow in 1992 never sought to address the critical need for developing modern institutions of government. Not unexpectedly, central institutions lost the capacity to implement policy and the presidential executive splintered rapidly, reverting to structural and behavioral pathologies of the Soviet past. Ironically, for the second time in this century, Russia was ruled by a small elite animated by an ideology that maintained economics was the basis of all social existence. Absent the massive Communist Party apparatus to coordinate policy, however, the state was destined to disintegrate. Lenin, too, was an ideologue, but he quickly came to appreciate the central importance of organization. His successors have not been as perceptive.

PART III.

THE FOREIGN ECONOMIC BUREAUCRACIES: A CASE STUDY

The dynamics of disintegration unleashed by the Gaidar reforms are best illustrated by focusing on a specific area of the Russian bureaucracy. Since much, if not all, of the government's economic reform strategy was based on the expectation that the global economy would provide investment revenue and competition for Russian producers, the foreign economic bureaucracy is the logical choice for a case study. The evidence reveals that far from experiencing bureaucratic metamorphosis, Russia's foreign economic agencies conformed to Soviet practice: intra-elite conflict degenerated into administrative fiefdoms, state resources were commandeered in the course of bureaucratic struggle, and institutional structures mirrored personal interests rather than public mission.

Russia's foreign policy was complex enough with the end of the comfortable geopolitical rivalry of the Cold War and the problem of elaborating policies toward the successor states of the "near abroad." Yet it was the bureaucratic legacy of the USSR that provided the major obstacle to reformulating Russia's foreign economic policy. In the final years of the Soviet Union's existence, this policy was directed not by the USSR Ministry of Foreign Affairs (MFA), but the USSR Ministry of Foreign Economic Relations (MFER). The various foreign trade organizations (FTOs) through which ministries and state-owned enterprises conducted their business in the international economy were housed within this second ministry. How could Russia conduct a coherent foreign policy as long as the principal arm of economic relations of the former USSR remained unclaimed? Equally important, who would acquire the substantial property assets of the FTOs? The solution which best served Russian interests was to incorporate these valuable assets into the newly-renamed Russian Federation Ministry of Foreign Affairs, which Yeltsin effected by creating a Committee on Foreign Economic Relations within the MFA on 11 November 1991.⁸²

82. *Vedomosti*, no. 46 (1991): article 1577.

Pëtr Aven was appointed its chairman. From the standpoint of the Ministry of Foreign Affairs, this was another bureaucratic headache. Qualified personnel for existing foreign affairs functions were not available in sufficient number, now the ministry was saddled with integrating a second entire ministerial structure with which it was unfamiliar into its everyday operations.

The Yeltsin government's plan for radical economic reform had no use for FTOs in their original, Soviet role; once price stability had been achieved, trade and investment were to be liberalized and state participation eliminated. On the other hand, incorporating the Union MFER into the Russian Ministry of Foreign Affairs provided the Yeltsin government the ability to dispose of valuable assets as it saw fit. This real estate—located throughout the world in major industrial centers as well as in Russia—became the heart of personal and bureaucratic tensions that quickly destroyed the unhappy MFA-MFER marriage.

Aven proved dissatisfied with his organization's subordination to the foreign ministry. The Chairman of the Committee on Foreign Economic Relations was an aggressive member of the Gaidar team intent on establishing his own autonomous base of operations. His shared commitment to macroeconomic stabilization and neoclassical economic philosophy permitted Gaidar to grant him considerable authority in making policy.⁸³ The prize of this autonomy was control of the assets of twenty-four all-Union FTOs and seven Russian FTOs, some of which had already been converted into joint-stock companies by January 1992, but many of which remained the property of the Russian MFA.⁸⁴

An alternate solution was not long in coming. On 22 February 1992, Aven was appointed Minister of the newly-created Russian Ministry of Foreign Economic Relations, which assumed the resources and functions of the committee he had chaired under the MFA. The merger of the two ministries had lasted less than three months; its

83. "Pëtr Olegovich Aven," *CIA Biographies*, 6 June 1992. The Central Intelligence Agency report spoke favorably of Aven's drive to develop his own institutional base.

84. *Rossiiskaia gazeta*, 17 January 1992, 5.

principal accomplishment had been the retention of overseas FTO facilities as Russian property.

Pëtr Aven's personal ambitions played an important role in the decision to separate the ministries and, in keeping with the ministerial feudalism of the communist era, he acquired what every *Soviet* minister had coveted: an autonomous power base. Such a move was actually in the best interests of the Gaidar government as it struggled relentlessly to "capture" the Russian executive. Throughout the government's first year in power, the Russian MFA was disorganized and vulnerable to criticism by opposition groups sensitive to the incoherence of Russian foreign policy. (Although a member of the reform camp, Kozyrev, as noted above, never really belonged to the economists' inner circle.) One way to compensate for the weakness of this executive instrument was to increase the overall number of ministries, placing valuable resources of the MFA in a ministry more firmly in the government's control. The splintering of ministries made sense in this context, for it strengthened the hand of the Gaidar team in the intra-executive struggle.

Yet the MFA-MFER split had deleterious consequences as well. The Ministry of Foreign Affairs, already in trouble for its inability to define Russia's national interest in a coherent manner, had its economic base torn away even as it argued that Russia's global economic integration was a central feature of its policy. Radical administrative restructuring is difficult to accomplish without degrading policy coherence under any circumstances; the indispensable prerequisite for such restructuring is a cooperative environment in which various ministerial agencies work toward a common goal. The intransigence of the Gaidar team, however, precluded a favorable administrative outcome. Instead, the Ministry of Foreign Economic Relations acquired *de facto* capacity to conduct policy in the most pressing area of Russian foreign relations: ministerial power was enhanced at the expense of state capacity.

The trend toward ministerial feudalism was further confirmed little more than a month later, when Aven changed his position on the future of the former Soviet and Russian FTOs. Reversing an earlier decision to gradually phase them out of existence due to their incompatibility with

a market economy, Aven in April 1992 maintained that FTOs would remain alongside commercial trading houses in a new, two-tiered foreign mission. This dual-purpose entity would, according to Aven, be supported by the MFER, allowing the ministry to retain control over the foreign assets of the FTOs. The apparent contradiction of a "free market" minister moving to preserve a state presence in the international economy actually made perfect political sense. Aven was accumulating resources in a bid to enhance his personal power as minister; it would have been suicidal to sacrifice hard currency assets in the international economy.⁸⁵

The disintegration of state capacity in foreign economic policy caused by the resurrection of the Ministry of Foreign Economic Relations was only the beginning of a much larger process of decline. Soon after the MFER came the creation of the Russian Agency for International Cooperation and Development (RAMSIR). Relatively more is known about the process by which RAMSIR developed; it serves as an excellent illustration of the way in which pre-existing attitudes guided the new economic elite to adopt policies at odds with the goal of a free market economy.

Under Aven, the MFER established bureaucratic autonomy in the spheres of trade agreements, export promotion, and import controls. Russia's greatest difficulty in foreign economic policy, however, remained attracting foreign investment—a central feature of the original Gaidar reforms.⁸⁶ Although the MFER attempted to claim responsibility for investment promotion, this effort ultimately failed⁸⁷ and RAMSIR

85. Interview with Aven in *Trud*, 2 April 1992, 3; as cited in FBIS, *Daily Report*, 17 April 1992, 6.

86. Foreign direct investment in the Russian economy plummeted following the August 1991 coup attempt; the Gaidar reforms failed to reverse this trend. In the fourth quarter of 1991, foreign direct investment was only fifty-two million dollars. The volume fell to twenty million dollars the following quarter and dropped to a mere five million dollars by the second quarter of 1992 (Victor Winston, "One Year After the Collapse of the USSR," *Post-Soviet Affairs* 8, no. 4 [October-December 1992]: 309).

87. In a clear signal that it was still engaged in a bureaucratic contest, the MFER later created a special department to supervise foreign investment. See *Commerzant*, 23 February 1993, 18.

appeared on the scene as a new agency charged with investment promotion. The history of this agency's genesis further corroborates that a struggle for control of the old regime's assets was at the heart of intra-elite conflict within the Russian executive.

The story begins on 12 May 1992, when Yeltsin by yet another decree authorized the formation of the Russian Association for International Cooperation (RAMS). The nucleus of RAMS consisted of appropriated possessions of the former Union of Soviet Societies of Friendship and Culture, making it—like the MFER—an agency that controlled substantial international assets.⁸⁸ RAMS was initially instructed to coordinate its efforts to attract foreign investment with the Ministry of Foreign Affairs. This policy did not endure, however, and RAMS, together with its assets, was transformed into RAMSIR on 12 August 1992. RAMSIR was awarded ministerial status and Aleksandr Shokhin and Kirill Ivanov (the latter transferred from the MFER) were appointed its director and deputy director, respectively.

There were now two ministry-level organizations, each with substantial physical and financial assets, charged with overseeing important elements of Russia's foreign economic policy. The actual creation of RAMSIR was delayed until December 1992, as the MFER resisted the division of responsibilities between the two organizations.⁸⁹ RAMSIR won out in the end and, with the advice of the World Bank and the assistance of Goldman Sachs and other external institutions supportive of greater foreign involvement in the Russian economy, received control over foreign investment promotion.⁹⁰

The creation of RAMSIR need not have been a negative development. Conceivably, an agency specifically focused on foreign investment could have had a salutary effect on the government's dreadful image among foreign investors, just as interagency cooperation among foreign affairs bureaucracies could have eliminated policy incoherence.

88. *Vedomosti*, no. 20 (1992): article 1124.

89. *Commerzant*, 19 January 1993, 6.

90. *Financial Times*, 18 July 1992, 2; and 21 December 1992, 3.

Unfortunately, both the way in which RAMSIR was created and the formal powers it acquired indicate that such was not the case.⁹¹

Investment Promotion Agencies (IPAs)—the model for RAMSIR—are typically limited in function to providing information and materials designed to better acquaint potential foreign investors with a country's investment potential. Such organizations generally avoid commercial activities and function best when they are legally and institutionally autonomous from government institutions, lest they become financial conduits for particular executive agencies. Governments reserve the right to restrict foreign investment in those sectors of their economies they deem sensitive, such as military technology, in which case the function of an IPA is to notify potential investors in advance of any such restrictions. Ambiguity on the part of either an IPA or a host government will discourage investment, as will continual change in the list of industries deemed "sensitive." Finally, the size of a country dictates the manner in which investment promotion should be organized, with a nation the size of Russia requiring a more decentralized agency than that required by smaller nations.

Rather than conforming to this ideal of a limited, autonomous, and decentralized investment promotion agency, RAMSIR emerged as a centralized government bureaucracy with powers far broader than any IPA was ever intended to possess. In structure and jurisdiction, RAMSIR represented an attempt to control all foreign investment from Moscow, an attempt that not only lacked economic rationality, but smacked of the centralizing tendencies of the old Soviet regime. Among the many organizational purposes assigned to RAMSIR in the December 1992 Supreme Soviet resolution that created the agency were: 1) the development of financial/investment and insurance institutions in the sphere of international cooperation, 2) the pursuit of commercial operations using state assets and liabilities, and 3) the development of proposals for the use of Russian property abroad. RAMSIR was also granted the right to "participate in preparing legal and other normative acts within its competence" and, rather amazingly, "to independently

91. Information about the organization of RAMSIR and the attitudes of Russian officials who were charged with its creation was primarily provided by sources that requested anonymity.

process passports for foreign travel and request visas from foreign missions."⁹²

As the diagrams on the following two pages make clear, commercial activities on the part of RAMSIR would replicate the activities of those very state enterprises the government sought to eliminate under the Gaidar reforms. Diagram 1, a duplicate of RAMSIR's internal draft proposal that later formed the basis for the Supreme Soviet's legislation on the agency, reveals that Russian policy-makers have far to go in appreciating the importance of coherent organizational architecture. In fact, when compared with the explanatory text in the original proposal, Diagram 1 is a rare achievement: it is simultaneously incoherent and wrong.

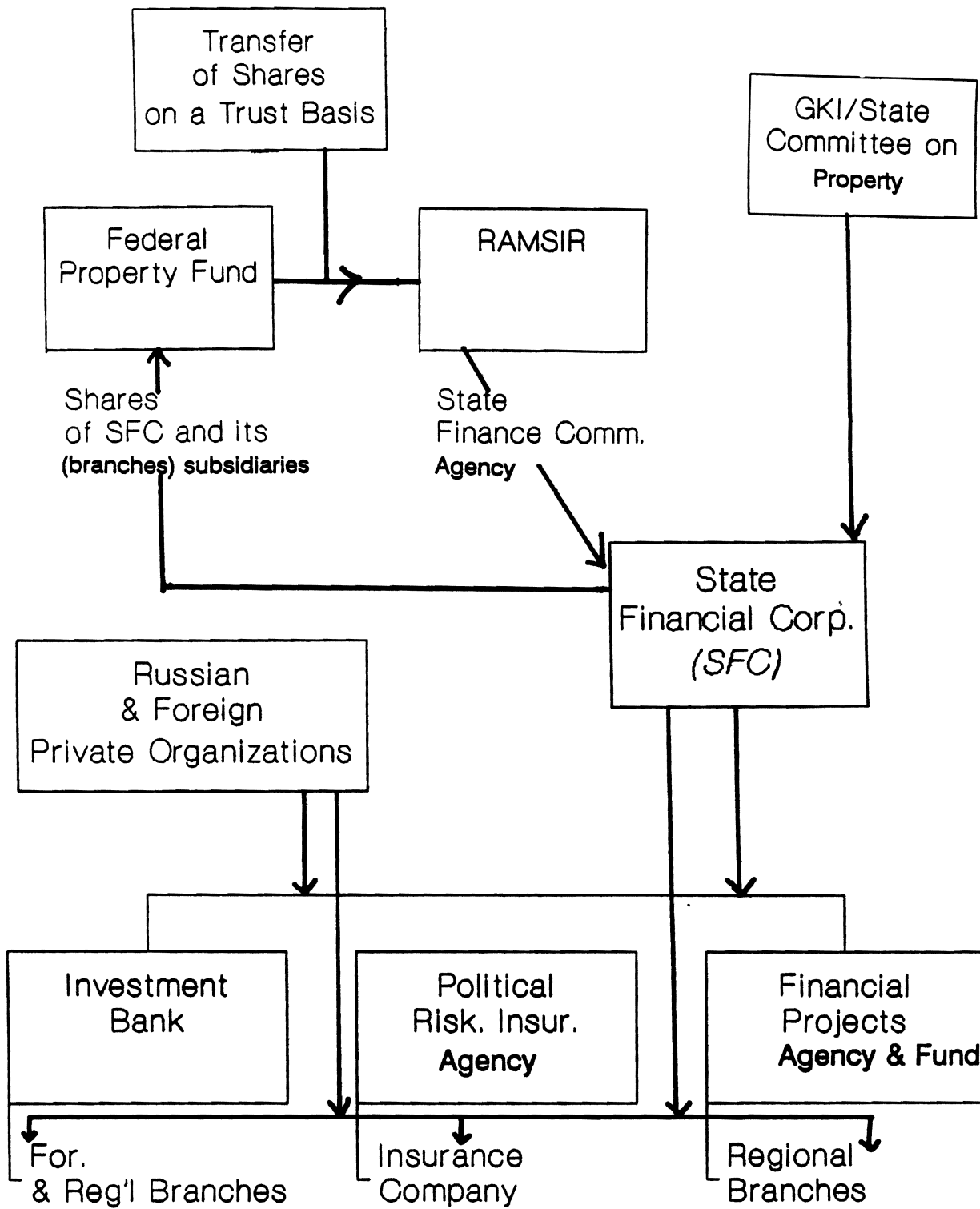
Diagram 2 reflects the author's best effort to divine the real structure of RAMSIR based on a close reading of the Russians' original draft proposal for the agency.⁹³ Of particular interest are several conclusions drawn from the second chart: RAMSIR will 1) oversee the activities of an investment bank, a political risk insurance agency, and a special financial projects agency; 2) have regional departments that replicate the functions of the central office; 3) retain the right to appoint the chairman of the board of directors of any department, regional or national, within the RAMSIR structure; 4) oblige all departments, including local subsidiaries derived from any branch of the tentacular RAMSIR structure, to channel a portion of its profits on commercial activities back to the center; and 5) permit foreign and domestic private organizations based abroad to contribute funds to RAMSIR while denying such investors administrative control over its activities.

92. "Regulation on the Russian Agency for Cooperation and Development," *Commerzant*, 19 January 1993, 24-25.

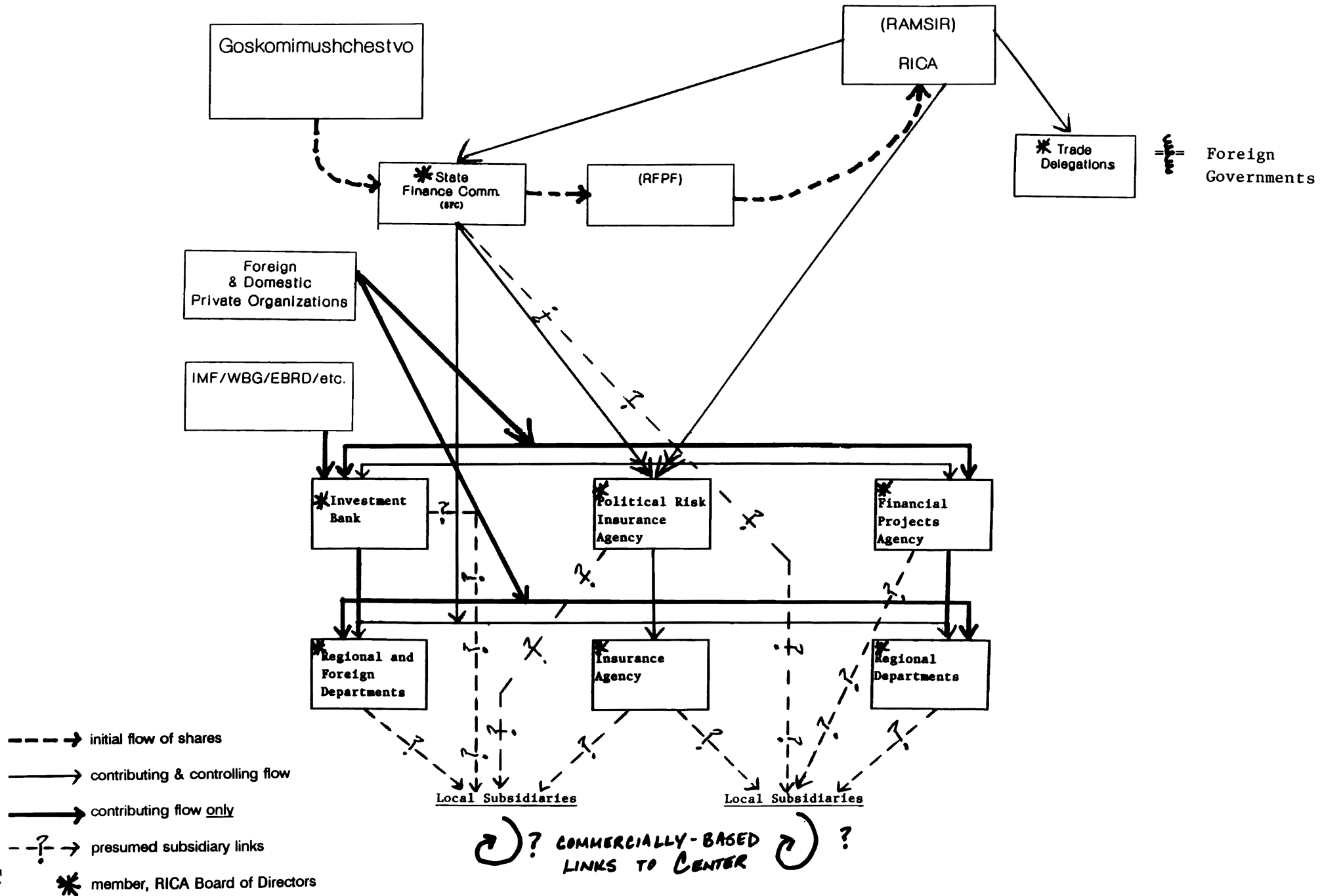
93. According to confidential sources, the agency will be composed of civil servants and prominent Russian entrepreneurs. The original internal proposal suggested that a central board of directors of RAMSIR would be appointed, but did not specify by whom. Presumably to eliminate conflict of interest for civil servant board members, the proposal contains the following cryptic proviso: "Civil servants who are members of the Board shall receive no remuneration, but, should they leave the Civil Service, shall retain their seat on the Board and shall receive payment for their services until their term of office expires." One suspects that even the legendary Sphinx would have difficulty unravelling the conundrum presented by this language.

Diagram 1

RAMSIR: Original Russian Proposal



RAMSIR: ORIGINAL PROPOSAL FOLLOWING CLARIFICATION



Taken together, the elements of this proposal constitute a kind of new, improved Gosplan: a highly centralized and bewilderingly complex agency that will legislate the terms of foreign investor activity in Russia, conduct its own commercial operations, and recycle regional and local profits from such activities back to the center, as well as issue its own passports and travel documents. It is difficult to imagine an organization closer to the Soviet ideal or further from the desires of Western investors. Clearly, RAMSIR is an autonomous government bureaucracy, yet it does not appear to be designed (as would an IPA) for the purposes of attracting foreign investment. Rather, it appears designed to participate in the Soviet game of ministerial feudalism wherein each bureaucracy seeks to gather under its control as many resources as possible.

There are other unexplained, curious features of RAMSIR. First, no legislation or official document has yet explained the meaning of "transfer of shares on a trust basis"—the process by which RAMSIR apparently obtained its assets. If this was simply a transfer of property to RAMSIR from the State Committee on Property, it hardly seems necessary to have used an elaborate procedure of transferring shares, the nature of which is unclear even to the Russian government. In addition, Russian officials have never explained why such a transfer was necessary in the first place, since RAMSIR had already assumed control of the properties of the Union of Soviet Societies of Friendship and Culture.

Second, Russian officials insist that RAMSIR has the right to "approve" all foreign investments, despite Western advice that investment potential is maximized by creating a short list of restricted investment opportunities requiring such approval. The reasoning behind these officials' insistence on "approving" investments (it is never clear what exactly is meant by "approval") is illuminating: if they do not do so, someone else will—that is, another body will gain control over the investment. The concept of investment unconnected to any government agency is apparently alien to the thinking of Russian officials: "free" investments can allegedly be captured by other bureaucracies. Herein lies the reason for the Russian government's inability to break with a highly politicized understanding of foreign investment.

Third, it is difficult to understand why a political risk insurance agency designed to safeguard foreign investment from intervention by the host government (e.g., nationalization) should be a part of that government. Apparently, many Russian policy-makers in the Gaidar government saw no contradiction in such an arrangement.⁹⁴ Finally, there is no clear explanation as to why RAMSIR would handle investments of Russian entrepreneurs operating abroad—an unexpected task for an agency ostensibly oriented toward foreign investment.

Ultimately, in style and substance, RAMSIR resembles earlier Soviet bureaucracies designed for intra-governmental and inter-bureaucratic conflict among autonomous organizations. Like the Ministry of Foreign Economic Relations, RAMSIR possesses substantial domestic and foreign assets with which to conduct its policies. Similarly, the evidence does not suggest that the agency was designed to work with other ministries to coordinate investment policy, as its goals and actions have worked to undermine the authority the Foreign Ministry.

Conceivably, the Yeltsin government, in anticipation of losing the Ministry of Foreign Affairs to opponents of reform, sought to divest its functions and assets to "friendly" bureaucratic redoubts. Kozyrev was indeed a likely candidate to lose his post in early 1992, but there is insufficient information to determine whether or not this reasoning guided the creation of RAMSIR. Even if this tantalizing hypothesis proved correct, it would only confirm that Russian administrative behavior had once again reverted to Soviet type: a rule-making executive agency, preparing for political struggle within the government, recreated a bloated, centralized, and politically powerful bureaucracy.

Several events in early 1993 confirmed that internecine political conflict within the Russian executive exacerbated the disintegration of the central government's foreign affairs bureaucracies. Iurii Skokov, secretary of Yeltsin's Security Council, appreciably augmented his control over foreign policy when a Foreign Political Commission subordinate to

94. Foreign advisors' attempts to explain this contradiction to numerous officials of the Russian government was a difficult, but not impossible task. In conversations with Western aid agencies, certain officials, particularly younger ones, proved receptive to the concept of foreign investment without government clearance.

the Council was created in February. Among the members of the commission were the ministers of Foreign Affairs and Foreign Economic Relations. This new body apparently received the right to control the work of major ministries and to prepare all major foreign policy decisions for Yeltsin.⁹⁵ If this were true, one wonders what was left for Kozyrev to do at the Foreign Ministry?

The much-maligned Iurii Petrov, former head of the presidential administration, also made a political comeback in February 1993, reappearing as the chairman of the newly-created State Investment Corporation (SIC).⁹⁶ The SIC constituted yet a third major bureaucratic structure that, together with the MFER and RAMSIR, was allegedly responsible for foreign investment. Despite Petrov's assurances to the contrary, no legal or political guarantees existed to prevent the outbreak of territorial conflicts among these three giant bureaucracies. In fact, SIC's proposed functions and the nature of its start-up fund incline toward the opposite conclusion. The new corporation is formally independent of the government, but, given that the prevailing atmosphere of ministerial feudalism renders all executive agencies effectively autonomous, it is not clear what this means. The substantial foreign and hard currency assets of RAMSIR and the MFER at least give their claims to autonomy considerable credibility.

Petrov has announced that the SIC will concentrate on training investment promotion officers, developing regional investment offices, insuring foreign investments against political risk, and creating favorable conditions for investment.⁹⁷ But these functions are largely covered by Shokhin's Agency for International Cooperation and Development (RAMSIR), which suggests that the SIC is little more than the Sverdlovsk group's bureaucratic riposte to the Chicago Boys.

95. *RFE/RL Daily Report*, 12 February 1993, 1.

96. The information on the State Investment Corporation in the following paragraphs is taken from: Andrei Shmarov, Vadim Bardin, Aleksandr Sukhotin, and Leonid Brodskii, "State Company to Oversee Foreign Investments," *Commerzant*, 23 February 1993, 18.

97. As with RAMSIR, Petrov's corporation contains some odd functions: *Commerzant* notes that "a mystic touch appears in the provision on granting the corporation the right to organize and hold a computerized linear lotteries [sic]...in the next 25 years" (*ibid.*, 18).

Finally, the SIC, like its two rivals, rests on assets which, while valuable, raise concern about their potential abuse. The one billion dollars in property to be transferred to Petrov's agency apparently includes rare minerals, uncut diamonds, and uranium from dismantled warheads—all goods in high demand on the international market. In all three cases, the troubling possibility arises that a large, state-based actor will be tempted to exploit its assets in the global economy for its own benefit at the expense of both foreign investment and government coherence. Mineral deposits, moreover, pose a constitutional problem, since they are the property of the territories in which they are located. How can a Russian agency provide foreign investors collateral against political risk with assets to which it has no constitutional right? Even if this legal question were resolved in the center's favor, political paralysis in Moscow makes enforcement of such decisions impossible in the provinces.

By the spring of 1993, the economic dimension of Russian foreign policy had disintegrated into a chaotic welter of competing bureaucracies. Instead of a coordinated effort to attract foreign investment and regularize contacts with the global economy, Russia possessed mammoth Soviet-style agencies with ambiguous legal foundations engaged in a battle to expand their respective administrative domains. The persistent unwillingness of the Russian government to clarify the limits of state participation in investment promotion activities left foreign investors unclear as to whether or not they could expect to encounter domestic competitors subsidized by the host government in Russia—inhibiting, rather than encouraging, foreign investment.

Although the Yeltsin government considered rapid development of foreign economic ties an essential element of its foreign policy, neglect of administrative restructuring undermined the government's capacity to pursue this goal. Saddest of all, perhaps, the humiliating outcome of governmental disintegration lent credence to those extremists who yearned for the return of the Party. However bad Communist government was, it was still government. And, as Walter Lippmann observed, men cannot live without government.

CONCLUSION

Egor Gaidar's reformist government attempted to achieve a breakthrough in the transformation of Russian society by rapidly implementing the kind of economic "shock therapy" that had apparently succeeded in Poland and Latin America. The effort failed because the reformers were unwilling to concentrate on the parallel task of restructuring the government bureaucracy which, in the absence of restructuring, reverted to the ministerial feudalism of Soviet days. Bolshevik monetarism adapted quite comfortably to the historical terrain of Soviet experience, as the Gaidar team exhibited the same ideological fervor that had motivated its Leninist precursors.

The government's misguided attempt to rest its reform program on fulfillment of a limited number of macroeconomic variables was the catalyst for the disintegration of state capacity. Lost in such a strategy was the unavoidable reality that democratization and market reform can survive only when elites undertake a concomitant effort to develop the institutional capabilities of a modern state bureaucracy and leave room to respond flexibly to the unpredictable terrain of social transformation. These choices would make the process of structural reform lengthier and incomparably more complex, but the political legitimacy and social stability generated by such an approach, as Huntington noted a quarter of a century earlier, provide the touchstone for future stability and growth. By neglecting such considerations, the Gaidar government left Russia in 1993 a society without functioning central government institutions.

Despite a precipitous decline in economic productivity, radical reformers defended their macroeconomic policy, arguing that the supply side of the Russian economy would receive proper attention after stabilization. But what, as Skokov observed, were Russians to do in the meantime? And how long would this interim period last? The Gaidar government did not bother to respond to such questions. Moreover, it did not admit, for obvious reasons, that its economic policies were contrary to democratization, a fact made plain by a cursory examination

of the history of shock therapy in other societies. Poland, the lone exception to this pattern, is radically different from Russia: communism did far greater damage to the patterns of social and economic life, and was of much longer duration, in Russia than was ever the case in Eastern Europe. The more typical outcome of macroeconomic stabilization is demonstrated by Latin American experience: harsh authoritarian regimes capable of balancing their budgets. In fact, it is strong—and predominantly undemocratic—governments that have proven most successful at imposing unpopular economic policies on society.

Returning to the evaluative criteria elaborated in Part I, one can conclude that under Gaidar's stewardship, Russia made, at best, no progress in developing the elements of a contemporary state. The present analysis forcefully demonstrates how the enormous inertia of unreconstructed state institutions stifle economic reform and replicate the debilitating political behaviors of the Soviet regime. Instead of functional specialization, ministries returned to the autarkic patterns of the past, complete with the accompanying bureaucratic competition and administrative overlap. Institutional interdependence, which in a modern state provides the cohesion necessary to overcome bureaucratic rivalries, remained stillborn. Perhaps most destructive, the Gaidar government did not early on perceive the need for political coalition-building and compromise. The claim that policies were implemented for the "public good" rang, as they had in the previous regime, hollow—no one made the effort to create a bureaucracy that responded to public concerns.

Nowhere was the Gaidar government's failure to address the task of creating the institutional capacities of the state more apparent than in its approach to the architecture of government. The case of the foreign economic bureaucracy reveals complete neglect of the most basic organizational matters. Central bureaucracies became fiefdoms of personal patronage and byzantine internal complexity that battled one another for control over policy. In light of the fact that Soviet history is a textbook example of the centrality of organization in politics, how can we explain the failure of the new elite to give this matter the attention it deserved?

The explanation lies as much with the ideology of neoclassical economics that gripped the Chicago Boys as with the Russian proclivity for ideological approaches to politics. Marxism-Leninism was dead, but the same could not be said for economic determinism—the Gaidar government genuinely believed the only thing required to transform Russia was fulfillment of key macroeconomic objectives, after which everything else (presumably) would flow spontaneously. Sadly, Russia has yet to be blessed with a state elite that possesses a more pragmatic appreciation of the process of social development. It was, of course, little help that the mundane nature of administrative details was far less appealing than the almost revolutionary fervor surrounding economic transition. Yet as the previous revolutionary epoch demonstrates, attention to bureaucratic detail remains decisive for political success.

The past eighteen months have done little to address the fundamental social anxiety emanating from the collapse of the Soviet/Russian empire and the corresponding shock to Russia's national identity. The government's inability to develop an identifiable national interest and clear foreign policies towards the West and the countries of the near abroad exacerbated this problem by providing extremist nationalists greater credibility than their anxieties and ambitions merited. Only the Gaidar team's political immaturity and basic disinterest in what it disdainfully referred to as "pure politics" can account for this inattention to the national interest. But if the broader question of national identity was not resolved, its short-term substitute, performance-based legitimacy, failed because doctrinaire application of monetarist reform casually accepted what in any other country would be considered a catastrophic decline in productivity. Looming in the background was an even more serious problem: mass unemployment. It is difficult to imagine how a group of young economists could explain this result of their policies to a public conditioned to expect employment as a birthright.

Government performance was also exceedingly weak in developing a workable relationship between the public sphere and the emerging private sphere. The government did begin the privatization process and a private sector has begun to emerge in Russia, but the fact that *de facto* privatization was occurring in the provinces before the Gaidar team took

up the question indicates that the momentum of social transformation had already gravitated toward the regions. Beyond this, the government's antipathy toward state institutions doomed any effort to structure interaction between the state and the private sector. When such interaction become a reality, state bureaucracies were a tangle of questionable organizational jurisdictions and conflicting structures, as the foreign economic policy conducted by the Ministry of Foreign Economic Relations, the Russian Agency for International Cooperation and Development, and the State Investment Corporation makes clear. Indeed, the complexity of these bureaucracies obstructed even well-intentioned efforts to delimit the public and private spheres and hampered prospects for a productive relationship between them. More ominously, the size and ambiguous nature of these administrative structures made them potential vehicles with which corrupt politicians could skim revenues from the private sector for personal gain.

The crisis management approach of the Gaidar team also precluded addressing the important issue of civil service training. Although Yelstin adviser Gennadii Burbulis manifested some interest in the development of a professional civil bureaucracy, his overriding commitment remained economic policy. The difficulties surrounding the personnel issue in the Ministry of Foreign Affairs is a vivid example of the problems that remained. No doubt, the problem of personnel selection will continue to hamper government policy. As yet there is only a draft law on government service and, as with virtually all legislation emanating from Moscow, there are no guarantees that a final version will be implemented.⁹⁸ In the short-term, the personnel deficiency confronts the government with the kind of stark choice that intransigent ideologues find so attractive: either forward via macroeconomic reform or backward to the administration of unreconstructed Party *apparatchiki*.

By the beginning of 1993, it was clear that *de facto* decentralization of administrative initiative was underway in Russia. This had transpired despite, rather than because of, sound central policies. Russia's

98. Despite stagnation at the center, the question of civil service training has not been ignored by Roskadry, Russia's civil service agency. In the face of increasingly corrupt, disintegrating state structures in Moscow, Roskadry's regional institutes appear to have taken the initiative for personnel reform into their own hands (Seth Singleton, personal communication with author).

provinces, repelled by the bureaucratic disintegration in Moscow and cognizant of the center's impotence, began to act in their own interests; as the political demands of decentralization were not systematically addressed, the regions were compelled to circumvent the chaos in Moscow and establish independent links to the global economy. Had the Gaidar government paid even the slightest attention to organizing the regionalization of politics, the center might have retained a constructive role, mediating between the international economy and the Russian periphery, thereby converting late 1992 into a defining moment for the emergence of an entirely new style of government in Russia. This opportunity did not, however, sway Moscow's new elite from its self-appointed task of balancing the government budget.

However disappointing the disintegration of Russia's government may be, the regionalization of political and economic life in Russia holds promise. First, no central government, regardless of how enlightened, can be sufficiently responsive to the often idiosyncratic concerns of localities. The most effective government for Russia would be one whose decentralized structure reflected the variety in Russian society. Second, civil society flourishes only when people are willing to take collective responsibility for their lives, a tradition best developed on a smaller scale. Third, a modern state with limited central powers remains the best guarantee against a reversion to political authoritarianism. Simply put, of what use are local parties, pressure groups, voluntary associations, and the like, if the state does not fully acknowledge and respect the right of such actors to function autonomously in the political system? The disintegration of Moscow's authority in the provinces thus creates an opportunity for the gradual evolution of something Russia has never had the fortune to possess: civilized government. None of these potential benefits will materialize, however, unless Russia's ruling elites abandon their obsessive fixation with economic ideologies and acquire a more mature conception of the role of politics and the state in the process of social transformation. In Russia the "dismal science" needs to be replaced with the art of the possible. Despite the dreary procession of economists passing through Moscow, there remain better prospects now than ever before that, eventually, government in Russia will concentrate on improving, rather than destroying, human existence.