

# 14. *A Modern ‘Time of Troubles’*

FROM REFORM TO DISINTEGRATION,  
1985–1999

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The fourteen and half years between Chernenko’s death and Putin’s presidency loomed like a redux of the ‘Time of Troubles’ in the early seventeenth century. What began as systemic reform turned into systemic collapse—dissolution of the Soviet Union, disastrous economic regression, profound social upheavals, and loss of superpower status. Mikhail Gorbachev initiated the reforms, aiming to reinvigorate and ultimately transform the Soviet system. His ‘perestroika’, however, unleashed forces and expectations even as it failed to satisfy minimal requirements. Dissolution of the Soviet Union, at the initiative of Russia under the leadership of Boris Yeltsin, marked an end of communism and heralded a new attempt to reconstruct Russia after a Western model of democracy and free markets. That transition proved far more difficult, disruptive, and destructive than any imagined; the result was systemic breakdown of the economy, polity, and social system. By the late 1990s, Russia had been degraded from a superpower to a ‘failed state’ with an ‘undeveloping’ economy.

## **The General Secretary as Reformer: Mikhail Gorbachev**

By any standard, Mikhail Sergeevich Gorbachev had an extraordinary career. Born in 1931 in the agricultural heartland of

southern Russia, he lived through the difficult 1930s and personally experienced the full weight of German occupation. After the war he not only studied but laboured, with distinction, earning the Order of the Red Banner of Labour by helping a collective farm produce a record harvest. That distinction, and raw intelligence, earned him a coveted place at Moscow State University in 1950, and set him apart from others who matriculated by dint of military service or family connections. Gorbachev majored in law and, by all accounts, demonstrated a keen mind and exceptional curiosity. Upon graduation in 1955, in accordance with the Soviet system of 'assignment', authorities returned him to Stavropol', where he quickly rose in the local party hierarchy. Gorbachev also continued graduate studies, specializing in agriculture and earning a reputation for expertise in what was undeniably the Achilles heel of the Soviet economy. That expertise, plus ties to people like Iurii Andropov, helped to catapult Gorbachev to Politburo membership in 1978 and brought him from a provincial backwater to the very centre of power. With Chernenko's death on 10 March 1985, the Politburo—with a strong recommendation by the *éminence grise*, Andrei Gromyko—made the youthful Gorbachev the new general secretary, the youngest general secretary since Stalin assumed that post in 1922.

Although elevated to power by the old guard, Gorbachev was cut from a very different cloth. He was a 'post-Stalinist' member of the élite: he formally joined the party in 1952, but made his career under Khrushchev and Brezhnev. Profoundly influenced by Khrushchev's revelations and reforms, Gorbachev belonged more to the free-thinking *shestidesiatniki* ('people of the 1960s') than the older Stalinist cadres who dominated the party apparatus. Foreign travel in the 1970s broadened his horizons, reinforcing his intellectual curiosity and encouraging a broader, even critical perspective of the Soviet system. Gorbachev nurtured ties to intellectuals like Aleksandr Iakovlev, who would figure prominently in the attempt to transform the Soviet system. Thus the 1970s and 1980s, along with 'stagnation', generated a critically

thinking élite, which included such figures as Abel Aganbegian and Tat'iana Zaslavskaia, who worked in research institutes and bore the accolade *institutchiki*. Gorbachev's wife Raisa had close connections to these intellectual circles and played a key role in broadening his intellectual horizons. The impact was evident even before he became general secretary; in December 1984, four months prior to becoming party head, Gorbachev candidly spoke about 'a slowdown of economic growth at the end of the 1970s and early 1980s' and hinted at the need for far-reaching changes. Heeding advice from prominent *institutchiki*, Gorbachev spoke openly about the need to consider price, cost, and efficiency and thus challenged the basic premisses of the command economy that had impeded innovation and growth.

### **Power, Discipline, and Economic Growth**

Vision was not enough: Gorbachev understood that he must consolidate power and change leadership at the very top. Thus, in his very first month in office, he had five allies promoted to key positions, with three becoming members of the Politburo. Over the next two years he engineered a massive turnover in the leadership, replacing the elderly and conservative with younger cadres and *institutchiki* disposed to transform the existing order. All this had a profound impact on discourse and policy discussions; the Politburo itself began to discuss issues hitherto regarded as taboo.

As the new general secretary consolidated power, he was not primarily seeking to transform the existing system but rather to make it more efficient. He initially laid a heavy emphasis on 'discipline'. That included a campaign against corruption, much in the spirit of Andropov, but broadened to include not just venality but also the violations of work discipline and alcoholism which bore such heavy costs for the nation's health and economy. The anti-alcoholism campaign entailed its own high costs, including the destruction of valuable vineyards, a sharp decrease in state revenues, and a boom in the production of untaxed (and unsafe)

moonshine. The campaign also elicited popular discontent: in a sputtering economy rife with *defitsity* (deficit consumer goods), alcohol had absorbed the surplus money in circulation, but Gorbachev's temperance campaign severely aggravated the ubiquitous problem of deficit goods.

The principal thrust of Gorbachev's strategy, however, was a huge increase in capital investment—the traditional Soviet recipe for raising the rate of economic growth. Gorbachev promoted an 'acceleration' (*uskorenie*) that was indeed ambitious—a twofold increase in investment which, he predicted, would increase industrial output 20 per cent in the next fifteen years. He also resorted to deficit financing; given the drop in state revenues and the reluctance to limit consumption (by raising prices on deficit goods), Gorbachev chose to cover the budget deficit by expanding the monetary supply and by relying on domestic and especially foreign loans and credits. That strategy presumed that the increased investment could overcome structural problems and eventually recoup the 'loans' through higher rates of economic growth.

### **Economy: Structural Constraints**

Like most of the élite, Gorbachev lacked a rudimentary economic education needed for understanding the structural problems that beset the Soviet economy. Simply put, since the 1970s the Soviet economy came to depend less on growth than the export of raw materials, especially oil, natural gas, metals, and other commodities. By the mid-1980s, that strategy foundered partly because of new global dynamics, above all the drop in prices for energy, but also because of the stagnation in domestic production. In the case of oil, for example, the price plunged from 70 dollars a barrel in 1979–81 to just 20 dollars in the mid-1980s. Simultaneously, Soviet production—which had increased in the 1960s and 1970s—suddenly faltered; the exploitation of new oil and gas fields became increasingly difficult and expensive, and precisely at a time when investment capital was scarce and needed for other sectors for Gorbachev's 'acceleration'. Indeed,

1985—Gorbachev's first year as general secretary—recorded the first *decrease* in oil production. The future was indeed bleak: Soviet economists calculated that the country needed to increase its investment nearly fivefold merely to maintain current levels of production. Nor, when oil prices were high, had the regime built up a reserve fund; rather, having squandered the windfall of the 1970s, it increasingly had to rely on loans and credits, using export earnings to serve its mounting debt.

Agriculture was equally problematic. Confronted with unstable harvests and low productivity, the government invested heavily in agriculture and at a rate far exceeding that of Western countries. Thus, despite the priority of 'acceleration' and mounting economic problems, the government allocated substantial resources to agriculture (17.1 per cent of all capital investment, 1985–90). Nevertheless, the agricultural sector failed to meet domestic demand and forced the government to divert hard currency to import grain from abroad. It abjured the alternative (raising food prices), fearing that this would exacerbate popular discontent over the ubiquitous 'deficits'. The government therefore continued to sell staples at below-cost prices—20 per cent for bread, 74 per cent for beef, and 61 per cent for milk.

As a result, Gorbachev's government piled up budgetary deficits. On the one hand, it had declining revenues—largely because of the fall in earnings from energy exports, but also because of the sharp contraction in excise taxes (from the anti-alcohol campaign). On the other hand, the government indulged in a spending spree as it simultaneously sought to subsidize agriculture, stimulate industrial growth, import foreign goods, and keep low prices for consumer goods. To finance this budget deficit, the Gorbachev regime assumed new debts (which rose from 18.1 billion dollars in 1981 to 27.2 billion in 1988, and still more sharply over the next few years). By 1990, however, it became increasingly difficult to service the foreign debt, and authorities reported that they had to use 'almost the entire income from the oil and gas exports' to pay the interest on the debt. Gorbachev was well aware of the deficit and debt, but saw

no alternative to the imports: 'We have to buy, because we cannot live without this.'

### **International Dynamics**

Gorbachev, an expert in agriculture but not in international relations, nevertheless made the latter sphere integral to his strategy for change. Above all, he believed that a resumption of détente—better relations with the West—would enable Moscow to ratchet down military expenditures and thereby free more funds for 'acceleration'. He therefore made international relations a priority and, aided by his new minister of foreign affairs, Eduard Shevardnadze, took charge of foreign affairs and directed diplomats and party functionaries to 'rethink' the country's foreign policy.

The military was indeed an immense drag on the Soviet economy—by some estimates devouring as much as 16 per cent of the GDP. Revealingly, even Politburo members knew little about the military budget and its impact on the economy; only in the autumn of 1986 did they learn that defence consumed 40 per cent of the state budget, not counting the subsidies and aid given to allies in the communist bloc and to developing countries. The sheer size of the armed forces, together with the gargantuan costs of maintaining nuclear parity, diverted critical resources that could have been funnelled towards such urgent priorities of revitalization as investment in the industrial sector. As Gorbachev stressed in May 1986, it was essential to reduce the crushing pressure generated by 'the vice of defence expenditures'.

It was not just finances that concerned Gorbachev: he also came to believe that nuclear disarmament was an urgent priority. He was already familiar with the writings of the nuclear disarmament movement and, revealingly, authorized the return of Andrei Sakharov—a leading exponent of nuclear disarmament—from exile in Gorkii. Gorbachev's personal commitment was greatly strengthened by the events of 26 April 1986, when a nuclear power plant in Chernobyl exploded and spewed immense

amounts of radioactive materials into the atmosphere. The disaster cost dearly in terms of human life (thousands killed, nearly half a million exposed to high doses of radiation) and resources (billions of roubles). The disaster hardened Gorbachev's resolve to reverse the nuclear arms race; as he told members of the Politburo, 'we learned what nuclear war can be'.

All this propelled Gorbachev's bold initiative for disarmament. In August 1985 his government announced a unilateral moratorium on nuclear tests and internally began to revise its nuclear strategy, shifting the goal from 'nuclear parity' to 'nuclear sufficiency'—that is, a downscaled military which would reduce costs yet guarantee deterrence. Sensitive to economic imperatives, Gorbachev warned that Moscow must avoid being 'drawn into an arms race which is beyond our capacity' and which Moscow was bound to 'lose'. Gorbachev's charm offensive won strong support from European leaders, most notably Margaret Thatcher, the arch-conservative British prime minister, who wrote to US President Ronald Reagan that Gorbachev 'was much less constrained, more charming, open to discussion and debate, and did not stick to prepared notes'.

The United States, however, was a hard nut to crack. The conservative administration of Ronald Reagan was aggressively anti-communist; in 1983 the president himself characterized the Soviet Union as the 'evil empire' and shortly afterwards announced the Strategic Defence Initiative (SDI, popularly known as 'Star Wars')—a defensive missile system designed to negate parity and mutual deterrence. Key officials, such as CIA director Robert Gates, dismissed perestroika as a sham and Gorbachev's overtures as a ruse. The ideological intransigence in Washington, predictably, strengthened the hand of Politburo critics who regarded an agreement with the anti-communist Reagan as impossible. Such pessimism seemed justified by the stalemate at Reykjavik (11–12 October 1986), when Reagan—largely because of SDI—spurned Gorbachev's proposals to achieve nuclear disarmament within a decade. A conservative like the KGB head Viktor Chebrikov thereupon argued that 'the Americans understand

only power', and the military redoubled its demand for still more resources.

But Washington was not the only obstacle to improving Soviet–American relations: a fair share of the blame rests with Moscow itself. Gorbachev himself was loath to abandon Soviet clients in the third world, despite the fact that they cost the Soviet Union immense sums—in financial and military assistance—that the Kremlin could ill afford. The Afghan conflict was particularly troublesome. Although some in Moscow (including the military) endorsed rapid disengagement, Gorbachev and others feared that a precipitous withdrawal would unleash a bloodbath and gravely compromise Russia's vital interests. As an interim solution, Gorbachev proposed to 'indigenize' the conflict: that is, promote 'Afghanization'—making pro-Moscow Afghans responsible for combating the Islamists. But that policy too ran afoul of America's engagement, especially its clandestine support of Islamic insurgents; the Afghan question, which had ended *détente*, continued to weigh heavily on Soviet–American relations.

### **Perestroika: From Modest Renovation to Fundamental Reconstruction**

Gorbachev sought to transform domestic, not just foreign policy. His central idea, 'perestroika', was elastic; its meaning could range from modest renovation to systemic, fundamental transformation. Initially, Gorbachev himself thought in terms of 'renovation' but gradually came to embrace a far more radical vision. His rhetoric reflected the shift: in 1987 the traditional 'democratic centralism' (a Leninist phrase denoting single-party dictatorship) gave way to 'pluralism', appearing first as 'socialist pluralism' (implying plurality of opinion) but eventually as 'competitive pluralism' (denoting a multi-party political system).

Gorbachev not only talked about democratization, but began to experiment with its application. He first did so in the 1987 elections to local soviets, with multiple candidates in 5 per cent

of the races. But the critical breakthrough came in elections to the Congress of People's Deputies in March 1989, when a third of deputies were elected in open territorial elections (the rest being designated by the Communist Party and by various institutions). The popular elections were open to non-party candidates and, to the shock and dismay of party élites, many leading party candidates—including prominent first secretaries in several oblasts—went down in defeat. Flamboyant oppositionists won impressive victories; Boris Yeltsin, former party leader in Moscow who had broken with Gorbachev and emerged as the leader of anti-Kremlin forces, won 89.6 per cent of the ballots.

Democratization, however, exposed Gorbachev to popular will—a hazardous vulnerability as the economic situation rapidly deteriorated. The earlier elixir—using hard-currency earnings from the export of energy and natural resources—was fast disappearing, as production, prices, and therefore earnings plummeted. Gorbachev thus found it increasingly difficult to sustain both capital investment and the import of grain and basic consumer goods. The goods shortages (*defitsity*) intensified, for the government declined to raise prices (for fear of popular unrest) to absorb the 'monetary overhang' (the gap between the rising income in paper roubles and the available goods). The inevitable result was an acute shortage of basic goods.

Gorbachev had heralded 'glasnost' (openness and publicity) as the motor of change, but that too served to erode his authority. The free press, especially its shocking revelations about the travesties of earlier regimes, undermined not only the regime's legitimacy but Gorbachev's own stature. Gorbachev had hoped to ride the wave of democratic forces, but discovered that he could not satisfy rising expectations, either material or political, and that failure inevitably took a toll on his approval ratings.

As Gorbachev embraced radical perestroika, he still held a clear preponderance of power. He had acted promptly to replace a majority of members in the Politburo and Central Committee; in April 1989 he induced 110 full and candidate members of the

Central Committee to resign 'voluntarily' and thereby enable the influx of people loyal to the general secretary.

### **Growing Opposition, Shrinking Base**

Even as Gorbachev consolidated power in the party, the CPSU itself was steadily losing its authority, cohesion, and legitimacy. Five months after the Congress of People's Deputies met in 1989, the proportion of the population expressing 'trust' in the Communist Party plunged from 52 to 21 per cent. Even the loyalty of rank-and-file party members was quickly fading; by 1989 only 27 per cent declared that they would rejoin the party. The number of party members, which had steadily increased in the post-Stalin era, began to decline—from 19 million members in October 1988 to 15 million in August 1991.

The party also became a source of opposition, as criticism—even among Gorbachev's erstwhile supporters—rapidly intensified. The party élite had initially acquiesced and acceded to the general secretary's will, but increasingly came to believe that Gorbachev's *glasnost* and democratization were undermining the party's power and privilege. *Glasnost* had spawned a profusion of independent newspapers and journals; their shocking revelations about the atrocities perpetrated in the Stalin era not only demonstrated Stalin's personal culpability but also exposed the party's failure to oppose the senseless repression and terror. Nor did party leaders welcome Gorbachev's pluralism; the profusion of organized political movements and free elections increasingly made them feel isolated and humiliated. The party élite was also alarmed by the revolutionary forces sweeping the Soviet bloc, as countries like Poland, East Germany, and Hungary openly asserted their interests and independence. The most famous challenge by the party's old guard came in a March 1988 newspaper article by Nina Andreeva, a Leningrad chemistry teacher, who castigated the attacks on Stalin as defamatory and who denounced perestroika as a disastrous assault on the country's basic socialist principles.

Gorbachev's popularity also declined among the general public. Public opinion surveys showed a precipitous drop in his approval rating, while that of his critics—above all, the former Moscow party boss, Boris Yeltsin—skyrocketed. Little wonder then that, when the Congress of People's Deputies created a presidential post in March 1990, Gorbachev decided to have the Congress (where a majority of deputies were party members) choose the first president of the USSR rather than face a general election. A popular vote meant greater legitimacy, but also greater risk. As a result, however, Gorbachev lacked the mandate given to Yeltsin when the latter, two months later, won an overwhelming majority of the popular vote to become the first president of Russia. All this emboldened the *neformaly* (informal political organizations) to become more assertive. 'Democratic Russia', established earlier (January 1990), demanded an end to the Communist Party's monopoly of power, establishment of strict control over the KGB, creation of a 'regulated' market economy, and sovereignty for the Russian republic.

The mounting opposition drove Gorbachev to retreat from his radical vision and to seek the support of more conservative quarters. He became increasingly cautious, especially after the trenchant criticism openly expressed at the Congress of People's Deputies, and sought to appeal to his base in the party. Gorbachev also spurned radical economic proposals (to replace a command economy with free markets) and created a Presidential Council that was dominated by conservative political figures. None of this, of course, endeared him to disgruntled members of the party, not to mention the more democratic, reform-minded members of the public.

The steady erosion of Gorbachev's political power, moreover, only served to encourage the explosive nationalist movements that were gaining momentum all across the borderland republics of the Soviet Union. Such aspirations in fact had already emerged in the preceding decades, but could now burst into full view under perestroika. Indeed, perestroika—with its themes of 'democratization and glasnost'—empowered nationalities,

especially in the Baltics, Ukraine, and Caucasus, to demand more autonomy, official predominance of the indigenous language, the precedence of their own economic interests, and ultimately total independence. Gorbachev first encountered the surprising intensity of nationalist strivings in December 1986, when Kazakh students demonstrated to protest Moscow's decision to replace the Kazakh first secretary with an ethnic Russian. Gorbachev beat a hasty retreat, exposing the centre's vulnerability and readiness to compromise. Anti-Soviet movements were especially powerful in the Baltic republics of Estonia, Latvia, and Lithuania, the last to be incorporated into the USSR and the first to proclaim independence in 1991.

Nationalism gave rise not only to demands for independence but also to inter-ethnic conflict, especially in areas of mixed ethnic populations (often the product of deliberate, planned settlement of Russians). Although ethnic tensions were hardly new, conflicts intensified as state power seemed to weaken and as Gorbachev sought to 'unleash' popular forces. The violence was especially intense in the Caucasus, most notably in an Armenian enclave inside Azerbaijan—the Nagorno-Karabakh region that soon became the focal point of armed conflict between Armenians and Azeris.

Nationalist movements also proliferated throughout the Soviet bloc. The critical turning point came in East Germany in the autumn of 1989, when Gorbachev—convinced that the regime was on the verge of collapse—refused to intercede and prop up an unpopular, faltering communist regime. Demolition of the Berlin Wall in November 1989 not only marked the end of the Soviet bloc but also demonstrated to nationalists inside the Soviet Union that the unthinkable had now become possible.

### **Crisis and Dissolution**

The year 1991 was a watershed in modern Russian history: it marked the dissolution of the USSR into fifteen sovereign republics, the largest of which was the Russian Federation. This

process, while under way before Gorbachev, accelerated sharply in the late 1980s and encouraged republic leaders to demand total sovereignty and independence, not mere autonomy.

Determined to resist this process, Gorbachev desperately sought to preserve the Soviet Union as a federal state. He first arranged a national referendum in April 1991, where a majority voted for preserving the USSR, but that could not stem the tidal wave of nationalist movements that had emerged throughout the Soviet Union. In a last attempt to save some semblance of the Soviet Union, Gorbachev laboured to win adoption of a 'New Union Treaty', which would transform the unitary Soviet state into a loose confederation with a common presidency, foreign policy, and military. Gorbachev persuaded a majority of republic leaders to accept the treaty and scheduled a formal signing ceremony in Moscow on 20 August 1991.

The very prospect of such a treaty precipitated a last-ditch attempt by conservative élites, including his own vice-president, the chief of the KGB, and some military officers, to attempt a *coup d'état*. When Gorbachev left Moscow to take a holiday at his summer retreat at Foros in the Crimea (with plans to return to Moscow in time for the signing ceremony on 20 August), that gave his adversaries (including some whom Gorbachev had appointed to bolster his power) an opportunity to launch a putsch. The scheme immediately went awry. The conspirators had expected Gorbachev to acquiesce; when they dispatched emissaries to demand that he surrender power, however, they met with a categorical refusal. Although some participants later claimed that Gorbachev acquiesced (even colluded), the preponderance of evidence shows that he categorically opposed the cabal of conspirators. Placing Gorbachev under house arrest, the conspirators declared a national emergency and established a State Emergency Committee 'to manage the country and effectively maintain the regime in a state of emergency'. Ill prepared and poorly led, they failed to establish control over the 'force ministries' (including the military), lacked any semblance of a coherent plan to seize power, and within three days

capitulated in ignominious defeat. The most famous, enduring legacy of the 'putsch' was the image of Boris Yeltsin, astride a tank in downtown Moscow, leading those opposed to the coup and emerging as the victorious hero in the whole affair. Shortly afterwards, at Yeltsin's insistence, Gorbachev outlawed the Communist Party, thereby dismantling the institutional bastion of the Soviet political system. The putsch also gave the republics an easy opportunity to declare independence, and within days, at most weeks, they hastened to do so, a process that culminated in a Ukrainian referendum of 1 December 1991, when over 90 per cent of the electorate voted in favour of independence.

Formal dissolution of the USSR came a week later. On 8 December 1991 the leaders of the three main Slavic republics—Russia, Ukraine, and Belarus—gathered at a Belorussian natural reserve called Belavezhskaia pushcha to consider the future of the USSR. The three parties, without consulting the other twelve republics, agreed to dissolve the USSR and signed what became known as the Belavezh Accord. Later that month, representatives from most republics (except Georgia and the Baltic states) convened in Alma-Ata and agreed to create the 'Commonwealth of Independent States'. On 25 December 1991 Gorbachev resigned as president of the USSR; the Soviet Union had ceased, even nominally, to exist.

### **Constructing the Russian Federation**

As one of the newly independent states, Russia inherited the lion's share of the Soviet Union's assets, land, and population. But dissolution did not mean resolution: the fifteen republics were still closely entangled, with interdependent economies and complex interspersing of ethnic groups. Most Russians, for example, resided in the Russian Federation, but another 25 million ethnic Russians resided in the 'near abroad'—the other former Soviet republics. It was one thing to dismantle the Soviet state; it was quite another to disentangle the knot of economic,

ethnic, and cultural ties that had been forged over the many decades of tsarist and Soviet rule.

Nor was the Russian Federation itself a cohesive unit. Apart from the substantial ethnic and religious minorities, it lacked the set of independent political institutions needed to resolve critical problems and differences. Yeltsin had disestablished the Soviet Union and had outlawed the Communist Party, but did not have an alternative political base and organization. He had made tactical alliances with nationalist and democratic movements, but showed a commitment to neither; elected president of the Russian Federation in 1991, for the next eight years he lacked a coherent vision and programme and instead concentrated on the consolidation of 'presidential' powers. Throughout, Yeltsin had to combat an independent, oppositionist parliament, which only reinforced his predilection to rule imperiously rather than govern democratically. He initially had a legal mandate for that authority: in the twilight of the Soviet Union, the Russian Congress of People's Deputies gave him broad powers, but for only one year, with 1 December 1992 as the date for their expiration. Yeltsin used that power to convert the Soviet administration into Russian institutions, sometimes by simply renaming them, but often by conducting more fundamental reorganization. He also created a para-governmental apparatus directly responsible to the president (the 'Presidential Administration'), which steadily grew in size and power.

Yeltsin's most fateful decision was to embrace fully the so-called 'shock therapy', a radical prescription for an accelerated transition from a command economy to free markets. It was based on the prevailing neoliberal nostrum, which included deregulation of prices, privatization, and budget austerity, with the goal of a rapid transition to a more efficient, competitive economic system based on the Western model. Gorbachev had rejected this formula, but Yeltsin had no such inhibitions; he believed that it would produce instantaneous results and also elicit Western aid and credits. His acting prime minister, Egor Gaidar, firmly believed in the neoliberal programme which

celebrated the end of the Cold War and seemingly heralded the global triumph of Western, free-market democracy.

That neoliberal prescription, as Gorbachev had foreseen, entailed enormous costs. First, it failed to generate the anticipated windfall of revenues from the privatization of state property and from a higher level of productivity. On the contrary, it led to a sharp decline in production and prices for energy exports, leaving the government insolvent. Moreover, dissolution of the USSR sundered the ties that characterized the interdependent, autarchical Soviet economy; factories dependent on other republics—for resources or markets—suddenly had neither. As production and trade contracted, the government saw a corresponding decline in tax revenues. But Moscow was fearful of slashing expenditures: it dared neither to reduce social services (health care, education, and pensions) nor to cut subsidies to state enterprises (which would only swell the ranks of the unemployed). Instead, Yeltsin printed money with abandon, with the inevitable result of astronomical inflation—a mind-boggling increase of 2,609 per cent in 1992, which wiped out years of individual savings and left the entire economic and social edifice in total shambles.

This social and economic crisis formed the background to rising tensions between President Yeltsin and the parliament, which only intensified once Yeltsin's extraordinary powers expired in December 1992. Parliamentary and presidential sides negotiated but failed to reach an agreement, especially on the difficult issues facing a country in post-communist transition. In April 1993 Yeltsin arranged a national referendum on his draft constitution, but won by a bare majority. That heralded an open confrontation between Yeltsin and the parliament, impelling each to manoeuvre and seek popular support. By the autumn of 1993, in the face of impending economic collapse and mass discontent, a desperate Yeltsin resorted to raw force and illegal, non-constitutional means: on 21 September 1993 he disbanded the parliament and announced plans for elections and a referendum on a new draft constitution. The parliament actively resisted Yeltsin's *coup*

*d'état*; the president stormed the parliament, crushed the opposition (with nearly 200 killed and hundreds more wounded), and reiterated plans for a constitutional referendum and new parliamentary elections.

The balloting in December 1993 did nothing to resolve the political crisis. In the referendum, a majority of voters approved the Yeltsin constitution, but by a slim majority; given the low rate of voter participation, less than a third of the electorate approved the new constitution—and even these did so before Yeltsin released the actual text of this foundational document. Nor did the parliamentary elections (to what was now called the ‘State Duma’) give Yeltsin a reliable legislature; on the contrary, the opposition had a clear majority (with the Communist Party the largest contingent) determined to combat Yeltsin every step of the way. For the next six years Yeltsin had to govern without parliamentary support, and that only reinforced his predisposition toward personal rule and gravely complicated the government’s capacity to identify and resolve critical problems.

### **The Yeltsin Presidency**

Boris Yeltsin reigned but did not rule. Although he claimed broad authority and built a personal (‘presidential’) administration to exert his will, Yeltsin actually had limited power. At the central level an oppositionist Duma fiercely contested his policies and sabotaged his legislative agenda. The new Duma elections in December 1995 did not help: the result was a two-thirds anti-Yeltsin majority (with the Communist Party ascendant), which was still more obstreperous, feeling empowered by the vote, Yeltsin’s low approval ratings, and keen awareness of the country’s desperate economic situation. But the Duma had only negative power: it could obstruct, but not impose its own will or chart a new direction. The Yeltsin constitution of 1993 sought to create a ‘super-presidency’ and therefore limited the parliament’s power to initiate legislation, check the executive branch, and impeach Yeltsin and his officials. The Duma did have the power to reject

the president's nominee for prime minister, but could do so only at its own peril: after three negative votes, the president could dissolve the Duma and call for new elections. That would force Duma deputies to risk losing their privileges and perquisites, a gamble that few deputies were willing to take. Once approved, the prime minister and his administration were not accountable to parliament. Nor did the Duma, given the reports of corruption and scandalous behaviour (fisticuffs and brawls during its august sessions), enhance its stature in public opinion. Still, as Yeltsin's popularity plummeted and the domestic economic crisis deepened, the Duma had ample opportunity to trumpet the regime's incompetence and corruption. The Duma dramatically demonstrated its *amour propre* and authority in September 1998, when it forced Yeltsin to withdraw his original nominee for prime minister and to accept a candidate—Evgenii Primakov—who enjoyed the enthusiastic support of the Duma, not the president.

Lacking the support of either the electorate or the parliament, Yeltsin became ever more imperious and erratic. As his threat to cancel elections in 1996 revealed, he was hardly a convinced democrat; faced with universal unpopularity, he acted more like a party boss determined to impose his will, regardless of the Duma or public opinion. Most, including former close associates, concur with a former press secretary that Yeltsin 'has no ideology of his own except the ideology of power'. For Yeltsin, ruling meant decreeing: in 1996, when the Duma passed 230 laws, the president promulgated 1,000 personal *ukazy* (decrees) and signed another 2,000 edicts and directives from his Presidential Administration. Apart from 'ukazomania', Yeltsin showed a strong penchant for wilfulness, with no apparent purpose other than to remind his entourage who was boss. During one yachting trip in Siberia, 'Tsar Boris' became furious with an aide and had him thrown overboard; another aide, positioned on the lower deck, saw the figure soar past, extremities wildly flailing, and at first glance thought it to be some exotic Siberian fowl. Yeltsin's fondness for drink did not help; after imbibing the president was reportedly fond of drumming out rhythms on the foreheads of hapless aides

and allegedly even bestowed this honour on President Oskar Akaev of Kyrgyzstan. Yeltsin turned the state cabinet into a royal court.

The court did not want for new faces: Yeltsin's self-assertiveness expressed itself most dramatically and destructively in a high turnover of top officials. After Yeltsin sacked Viktor Chernomyrdin as prime minister in March 1998 (for appearing more presidential than the president), the country witnessed a parade of four different prime ministers in sixteen months. The Kremlin turned into a game of musical chairs; altogether, during his second term, Yeltsin had five prime ministers, three foreign ministers, three defence ministers, five finance ministers, five chiefs of staff, and seven heads of the national Security Council. Worse still, competence and tenure appeared to be inversely related, as the hasty dismissals of Aleksandr Lebed (as secretary of the Security Council in November 1996) and Evgenii Primakov (as prime minister in March 1999) attest. Given Yeltsin's inability to govern, the turnover only accelerated the breakdown of rational, orderly governance.

It also flung the door wide open to corruption, with inordinate influence devolving upon close advisers and supporters, collectively known as the 'Family'. An inner circle dominated by Yeltsin's daughter (Tatiana Diachenko, officially appointed a paid presidential adviser in 1997) controlled access to Yeltsin and shaped decision-making. The entourage included some 'oligarchs', rich businessmen who had amassed fabulous wealth by dubious means and connections to high officials, and who repaid the favours by financing Yeltsin's re-election in 1996. This élite included figures like Boris Berezovskii (former mathematician, car dealer turned plutocrat), who openly boasted that the oligarchs controlled '50 per cent of the Russian economy', played a critical role in Yeltsin's re-election in 1996, and therefore claimed the right to 'occupy the key posts in the government and to benefit from the fruits of victory'. Berezovskii himself became deputy head of the Security Council; another oligarch, Vladimir Potanin, served as deputy prime

minister responsible for economic policy. But the oligarchs soon squabbled over the spoils of victory and used their control of the media to disseminate *kompromat* (compromising materials) about top officials, further eroding public trust in the Yeltsin government.

As the 'centre' imploded, the eighty-nine ethnic republics and regions became increasingly independent and assertive. In his struggle with Gorbachev, Yeltsin himself had encouraged centrifugal tendencies by urging local authorities to withhold taxes and act on their own—most vividly telling the leadership in Tatarstan in 1990 to 'grab as much sovereignty as you can swallow'. The breakdown of central authority accelerated after the collapse of the Soviet Union, as republics and *oblasti* all across Russia withheld taxes, proclaimed 'sovereignty', appointed officials, and—in seventy of the eighty-nine regions—adopted laws and constitutions at variance with the federal constitution and laws. In Yeltsin's second term, as the political and economic crisis deepened, some regions adopted price and export controls to protect their citizens. As in the case of the oligarchs, Yeltsin dispensed privileges and property in exchange for political support, codifying such deals in bilateral treaties with over half of the regions.

A critical factor in the breakdown of the central government was its inability to collect taxes from citizens and enterprises. Thus, between 1989 and 1997 state revenues fell by nearly 45 per cent, partly because the regions reduced the transfer of revenues, partly because individuals and enterprises simply refused to pay taxes (in 1997, only 16 per cent of the taxpayers paid in full and on time, 50 per cent partially and belatedly, and 34 per cent nothing at all). When the government proposed tax reform for small businesses, petty entrepreneurs were aghast: 'Don't do anything: it is fine as it is! We evade all taxes, from the profit tax to the value-added tax. We've learned how to circumvent all the assessments for social services.' Yeltsin had partly 'legalized' the tax evasion by making special deals with influential companies; others simply refused to pay (the top eighty enterprises accounted

for 40 per cent of the tax arrears). Other factors behind the decline in tax revenues included the breakdown of the state apparatus for tax collection, the proliferation of a 'shadow economy' unrecorded in accounting books, and corruption vigorously promoted by organized crime. Tax collection came to resemble civil war: in 1996 twenty-six tax officials were murdered and eighteen tax offices subjected to bombings and armed assault. In October 1997 Yeltsin conceded the magnitude of the peril and established an 'extraordinary commission' (invoking the same Russian initials as the first Soviet secret police, VChK) to collect taxes. A desperate government imposed a plethora of new taxes (more than 200 separate taxes were on the books in 1997), but these were riddled with special-interest concessions and open to arbitrary interpretation and manipulation. By the late 1990s, government revenues amounted to a mere 16 billion dollars—equivalent to 1 per cent of the revenues flowing into the US Treasury.

A poor state is a corrupt state: underpaid civil servants, from ministers to militiamen, openly demanded bribes. Venality permeated the highest ranks of the government; the most sensational case involved accusations by Swiss investigators that Pavel Borodin (a Kremlin official in charge of presidential properties and patron of the future president Vladimir Putin) had accepted 65 million dollars in kickbacks from two Swiss firms for contracts to renovate Kremlin properties. Corruption also created opportunities to appropriate state assets at a nominal price. One oligarch observed in 1997 that politics was the most lucrative business in Russia—a candid allusion to insider deals, special privileges, and 'fire-sale' prices on state property for those with the right political connections.

As tax revenues plummeted, the state had to cut back on basic services—from law enforcement and national defence to education and public health. Although the number of state employees increased (especially those in the 'Presidential Administration'), the government steadily reduced its allocations for essential services. The budget for law enforcement, for example, fell by

17 per cent; the inevitable result was a personnel flight that hobbled not only the Interior Ministry but even the fearsome KGB (now the FSB, the Russian abbreviation for 'Federal Security Service'). This breakdown led to a privatization of violence, as private security firms—non-existent in 1992—swelled to 10,804 firms with 156,000 employees in 1998 (of whom 23 per cent came from the Interior Ministry and 8 per cent from the FSB).

Still more striking was the decline in national defence: the budget dropped to one-seventh of Soviet levels, with devastating consequences for the military-industrial complex and the armed forces themselves. The government channelled its few resources into maintaining the strategic nuclear forces in a state of readiness, but had to make drastic cuts in research and development, suspend the acquisition of new weapons, delay payment of paltry wages, and reduce operational funds (to the point where ships stayed in dock and warplanes on the ground). By the end of the 1990s, Russia's air force and navy were perilously under-maintained and obsolescent; the fleet of nuclear submarines, for example, shrank from 247 to 67 (some of which were not in service). Penury bred corruption and theft, most sensationally in the disappearance of fissionable materials—including, as the chief of the Security Council admitted in 1996, over half of the country's 'portable nuclear devices'. Morale plummeted; dearth and *dedovshchina* (the brutal maltreatment of conscripts by superiors) led to desertion, suicide, and multiple homicides. Not surprisingly, conscription ceased to function properly, as a majority of recruits paid bribes for exemption or simply ignored the draft notices.

Fiscal crisis and neoliberal ideology combined to force the government to make sharp reductions in social services and cultural needs. In education, for example, state penury—amidst inflation—shrank teacher salaries to nominal sums (when indeed they were paid) and made teachers a salient part of strike movements. Students suffered as well: despite the constitutional guarantee of free education, schools and universities—especially elite institutions—increasingly expected students to pay fees and

bribes. Similar woes beset the public health system: universal medical coverage gave way to fee-based services that were beyond the means of 95 per cent of the population. Budget 'austerity' also took its toll on culture: the institutions of the fine arts—museums, cinema, theatres, and concert halls—suffered a sharp decline in revenues, not only from state subsidies, but also from an impoverished public (theatre ticket sales, for example, fell by 50 per cent between 1990 and 1997). Cinema fared no better: Mosfilm studios—which had earlier produced 60 feature films a year—produced one or two. Russian film-makers could still produce prize-winning artistic successes (for example, Nikita Mikhailkov's *Burnt by the Sun* and Sergei Bodrov's *Prisoner of the Mountains*), but the Russian film industry had all but collapsed.

To compensate for its dwindling revenues, the central government resorted to desperate financial measures. The most notorious was the 'shares-for-loans' programme in 1996–8, which used state assets (including oil and mineral companies) as collateral for loans from the leading banks. Although the government could theoretically redeem the property, its virtual bankruptcy meant that the loan was tantamount to sale. And at bargain-basement prices: with the 'auctions' rigged and competitors excluded, creditor banks organized the auctions and—predictably—emerged with the winning 'tender' and at a fraction of the real market value. For example, Mikhail Khodorkovskii's bank Menatep acquired Yukos oil (valued at 7 to 10 billion dollars) for a mere 159 million dollars, paving the way for Khodorkovskii to amass fabulous wealth and become the richest man in Russia. All sixteen 'auctions' followed the same insider pattern. Yeltsin's government portrayed the transactions as legitimate 'privatization' (*privatizatsiia*), but observers aptly described it as 'grabization' (*prikhvatizatsiia*). The giveaways enriched the insider but not the state; this 'fire sale of the century' failed to generate the vast revenues that it had anticipated.

The government continued to seek foreign and domestic loans, but found it exceedingly difficult to attract foreign capital,

chiefly because Yeltsin's government was in ill repute and had failed to comply with prior commitments. Not that compliance was easy: the West made loans and credits contingent—with 'conditionalities' that dictated a tight money policy and fiscal austerity. That monetary policy reflected fiscal reality, specifically, the imperative need to service public foreign debt, which forced the government to divert revenues from governance, defence, law enforcement, and essential social programmes. The government also had to cut subsidies to unprofitable enterprises (exposing them to bankruptcy and the workers to unemployment) and to reduce social services in such vital areas as education and public health. A desperate Kremlin also resorted to three-month treasury notes to cover gaps in current cash flows. Although that strategy brought short-term relief, it was tantamount to a financial pyramid, whereby the state—with interest rates rising and tax revenues falling—had to borrow more and more just to cover its spiralling debt.

In August 1998 that pyramid collapsed. Admittedly, the Yeltsin government was not solely responsible; it was also a victim of a sudden 39 per cent plunge in oil prices (from 18 dollars a barrel in 1997 to 11 dollars in 1998) and the East Asian financial crisis (which frightened off investors from developing markets). But the fundamental problem was a ballooning deficit covered by short-term, high-interest treasury bills. As revenues fell and interest mounted, even a last-minute World Bank loan could not stave off insolvency: on 'Black Monday', 17 August 1998, the government defaulted on treasury bills worth 40 billion dollars and offered no clear prescription for extracting itself from the crisis. Yeltsin thundered that the value of the rouble would not fall; it was solid as a rock, and plummeted accordingly. The default pushed Russia's credit rating to the lowest levels, caused the Russian stock market to lose 88 per cent of its value, ruined five of the ten largest banks, wiped out a third of small and medium businesses, and cut real wages by two-thirds. Not surprisingly, Yeltsin's approval rating dropped to a mere 2 per cent.

**'Catastroika'**

The financial crisis of August 1998 was but the culmination of an unparalleled economic decline precipitated by the disastrous 'shock therapy' of Yeltsin's first term. Although the government retreated from that original strategy, it still adhered to the neoliberal strategy of macroeconomic stabilization, market liberalization, and privatization of state assets. Under pressure from the International Monetary Fund (IMF) and the World Bank, the government eventually brought inflation under control (from 2,609 per cent in 1992 to 11 per cent in 1997), liberalized most sectors, slashed subsidies and social expenditures, and by 1996 had privatized approximately 70 per cent of all state enterprises. The government could boast that it had not only halted the massive decrease in GDP but, for the first time since 1991, had even briefly achieved slight economic growth (in the third quarter of 1997), along with a 600 per cent boom on the Russian stock market.

By 1998, however, the net result was eight years of catastrophic decline on an unprecedented scale. The GDP dropped a staggering 43 per cent from 1991 to 1997; to put that into perspective, the Great Depression in the United States entailed only a 32 per cent decline; even the colossal devastation of the Second World War reduced the Soviet GDP by just 24 per cent. As Russia hurtled downwards, developed countries enjoyed unprecedented economic prosperity, widened the gap between themselves and Russia, and even threatened to reduce Russia to the rank of a third-world state. The decline was staggering; in 1980 the per capita GDP of Russia was 38 per cent of the United States, but that had dropped to just 4 per cent by 1999. Even when adjusted for purchasing power parity (to offset distortions in exchange rates), Russia's per capita GDP in 1999 was only 4,200 dollars—slightly more than Botswana (3,900 dollars), but less than Namibia (4,300 dollars) and Peru (4,400 dollars). The post-Soviet depression affected not only industrial production but also agriculture, where gross output contracted by a third and an even

greater decrease in the country's livestock (by approximately a half).

As important as quantitative decline was the qualitative regression: as investment collapsed and Soviet factories faced keen competition from world markets, Russia devolved into a supplier of raw materials and energy resources. The result was a primitivization of the Russian economy: manufacturing branches (including high-tech and defence industries) either converted to the production of low-grade consumer goods or shut down completely. For example, computer chip production fell from 1.6 billion dollars in 1989 to 385 million dollars in 1995; a leading electronics manufacturer in 1992 was producing shampoo four years later. The aerospace branch that had earlier produced 2,500 planes per annum and accounted for 60 per cent of the world's fleet was virtually idle; in 2000 it produced just four aeroplanes (compared to 489 by Boeing). As Russian exports concentrated on energy and raw material, the economy became heavily dependent upon volatile markets subject to huge price fluctuations. Agriculture underwent a similar decline. For lack of state subsidies, private capital, and effective demand, agricultural producers reduced the use of fertilizers (by 89 per cent) and even machinery (cutting petrol consumption 74 per cent).

Russia also suffered a major degradation in fixed capital and human resources. Given the dearth of investment (because of scanty foreign direct investment, capital flight, high interest rates, and tight money policies), Russian machinery became obsolescent and hence progressively less competitive on international and even domestic markets. The losses in human capital were also immense, especially because of the massive 'brain drain' that robbed the country of much of its talented, educated élite. The degradation applied even to those who stayed, as many—especially the young—abandoned education and technology for the higher-paying jobs in the trade and business sector.

Despite rosy expectations, transition brought devastating economic decline. Liberalization gave Russian producers access to

global markets, but also exposed them to its volatility, prices, standards—which could have a major impact on production costs and profitability. For example, Soviet energy prices were but a third of those prevailing on world markets; deregulation of domestic energy prices thus gave inefficient enterprises little chance to survive. Moreover, the break-up of a single Soviet 'economic space' suddenly deprived producers of their traditional sources of supply and sale. Indeed, the former Soviet republics looked elsewhere, and inter-republic trade within the CIS shrank 70 per cent in the 1990s.

While *some* decline was inevitable, the magnitude of what happened in the 1990s surpassed even the direst predictions. One factor was the acute dearth of capital investment, which plummeted by 92 per cent between 1989 and 1997. Thus, given the depreciation of existing plants and machinery (increasingly obsolescent and depleted), Russia actually experienced a disinvestment, with fixed capital declining 12 per cent by 1998. The state, given its fiscal woes, was powerless to stop this decline in capital investment. Nor did Russia's 'new entrepreneurs' provide the needed capital. Most lacked the resources; privatization simply conferred property rights, often on insiders who lacked the capital or business acumen to modernize or even sustain these enterprises. One observer offered this apt description of the privatization of large-scale state enterprises: 'We sold off a herd of elephants at rabbit prices, and now a new class of owners is trying to feed them at the price of a carrot a day.' Insider privatization did not create a class of innovative entrepreneurs but simply spawned a class of businessmen who openly declared that politics was the fast track to personal enrichment, not innovation and investment. Thus 'entrepreneurs' not only corrupted politicians, but politicians corrupted the 'entrepreneurs'. And once successful, the entrepreneurs hastily spirited their ill-gotten gains abroad, with the capital flight of the 1990s exceeding 200 billion dollars.

This haemorrhage of precious capital far exceeded the paltry influx of foreign investment—a cumulative 29.4 billion

dollars, with just 12.8 billion coming as foreign direct investment (FDI). That was far short of the fabulous sums predicted by Western economic advisers and promised by Western political leaders. Apart from loans (intended to promote monetary stabilization, but increasingly used to service Russia's foreign debt and to line anonymous pockets), international agencies and private investors found the Russian market too corrupt and risky, especially in the case of FDI. The tales of the defrauded, even murdered, deterred all but the most adventurous. As a result, Russia attracted a fraction of global investments (for example, under 1 per cent of global FDI in 1995—less than Peru's share, a tenth of China's). Even more striking was the contrast with East European states, where the per capita FDI was twelve times higher. The capital famine (given depreciation, hence net disinvestment) resulted in 'deindustrialization' and concentrated the country exports in the volatile market for raw materials, metals, and energy resources.

Bad policy—driven by the neoliberalism of foreign creditors and Western consultants—exacerbated the country's economic problems. The chief economist of the World Bank later observed that the reformers were 'overly influenced by excessively simplistic textbook models of the market economy', which inspired a mystical faith in the 'market', gainsaid the role of the state, and ignored the need to construct the institutional foundations of a market economy. As the state failed (its institutions collapsing, its finances withering, its power declining), it could not design and implement a prioritized economic strategy like that successfully employed by the 'Asian tigers'. Indeed, as Yeltsin traded state property and privileges for political support, Russia devolved from a 'command economy' into what the Nobel Laureate Douglas North decried as the 'anarchy . . . that we have been observing in Russia'.

The bad advice was not always disinterested: Western countries—particularly the United States—benefited from the economic collapse which marginalized and impoverished the former superpower. Given the close nexus between the West and

economic reform (reinforced by propaganda campaigns, like that financed by the United States to sing the praises of privatization), a majority of Russians suspected that the West had deliberately caused economic havoc in order to achieve economic colonization of Russia and to ensure America's global hegemony. Some Western advisers exploited Russia's plight for personal gain. In the most notorious case, the US Justice Department charged that the Harvard Institute for International Development (which had received 40 million dollars in government grants and controlled a portfolio of 350 million dollars in aid) had mishandled the aid money and that its principals had engaged in insider trading. Such revelations filled the Russian press, reinforcing popular disenchantment and distrust of the government, market reforms, and their Western sponsors.

### **Society: Polarization, Degradation, and Deviance**

The impoverishment of the many and enrichment of the few had a profound, polarizing impact on society. Whereas the Soviet regime engaged in egalitarian 'levelling' (especially in the post-Stalin era), the post-Soviet order was unabashedly anti-egalitarian. One index of economic stratification, the decile ratio (comparing the income of the top 10 per cent with the bottom 10 per cent), leaped from a relatively egalitarian 4:1 (1990) to 15:1 (1994) and remained at that level for the rest of the 1990s. Another measure is the Gini coefficient, with 0 being total equality, 1.00 total inequality; analysts regard 0.20–0.30 as relatively egalitarian, and anything over 0.40 a sign of growing income disparity and inequality. In Russia's case, the coefficient jumped from 0.26 in 1991 and climbed to 0.40 in 1999. Although increasing inequality also characterized Western societies in the 1980s and 1990s (the Gini index, for example, rising to 0.31 in Western Europe and 0.43 in the United States), the differentiation in Russia was both more extreme in scale and more compressed in time.

The minuscule *élite* of wealthy Russians—derisively called ‘new Russians’, a pejorative for the uncouth *nouveau riche*—were in fact not so new: approximately two-thirds of them, especially the first wave, used their party, especially Komsomol (the communist youth organization), connections to acquire assets and amass capital. They went from party cards, not rags, to riches. Mikhail Khodorkovskii, at one point the wealthiest billionaire in Russia, began in the Komsomol organization, where he used its connections and resources to start a computer business that eventually turned into a huge financial and industrial empire. Much the same was true of the other tycoons. Apart from buying political influence and special privileges, such ‘entrepreneurs’ often had ties with organized crime—an association admitted by some 40 per cent in one poll, with the real rate doubtless being much higher. Ironically, Soviet criminalization of the black market forged a natural link between economic and ordinary criminals, producing a close nexus between the new market economy and organized crime.

But it was a corrupt state, not the Komsomol or organized crime, that enabled the richest to appropriate state property on a massive scale. In most cases, the new economic *élite* relied heavily upon insider connections, especially during the ‘shares-for-loans’ in 1996–8. Not that the chief officials were unaware of what was happening. Anatolii Chubais, the architect of privatization (which earned him approval abroad and opprobrium at home), told an interviewer in 1997 that the oligarchs ‘are stealing absolutely everything. . . . But let them steal and take property; they will become owners and decent administrators of that property.’ Beneath the Olympian heights of the ‘seven oligarchs’ was a small stratum of lesser winners who occupied key positions and profited accordingly. The proliferation of luxury imports (more top-of-the-line Mercedes being sold in Moscow than in Europe), the construction of palatial mansions, and the flood of spendthrift Russians to *élite* shops and resorts in the West all attested to the fabulous wealth of the ‘new Russians’.

Well below them was a small middle class, with modest resources and incomes but a few times the average wage—though light years removed from the élites. It was partly on the basis of cultural, occupational, and educational descriptors that they imagined themselves to be part of a ‘middle class’. However, compared with those on subsistence wages, this middle class enjoyed access to Western goods unimaginable in Soviet times. Private car ownership, while increasing in the 1970s and 1980s, doubled in the 1990s (jumping from 63.5 to 128.1 per 1,000 residents) and included vast numbers of imports. Still, this ‘virtual middle class’—in terms of sheer size, assets, income, and political influence—bore scant resemblance to its peer in Western Europe.

At the bottom was the mass of society—the disprivileged and dispossessed. About half of this underclass consisted of the ‘working poor’, those whose disposable income plunged by two-thirds in the 1990s and, for most of them, was unpaid and in arrears. The working poor included most civil servants and state employees (for example, teachers and doctors) as well as those trapped in unprofitable or mismanaged enterprises. It helped little when the employers offered to ‘pay’ the wages in kind, such as gas pistols, coffins, and brassieres; teachers in Altai were first offered toilet paper, then funeral accessories, and finally vodka to settle their wage arrears. The other half of this underclass found itself below the poverty line (that is, had an income beneath the subsistence minimum). They included the unemployed (a category unknown in Soviet times, but—by conservative calculations—reaching 14 per cent of the workforce in 1999), the elderly (whose pensions were devalued by hyperinflation), single-parent families, and an array of social outcasts—the homeless, waifs, the disabled, and refugees from the Caucasus and other areas of conflict. Although estimates vary, in 1999 the CIA estimated that 40 per cent of the Russian population—over fifty million people—were below the poverty line (compared to 12 per cent in the United States). Although official figures can overstate the scale of the problem (since they do not take into

account tax evasion, black-market earnings, and the subsistence gardening that augmented the declared incomes), the level of poverty was none the less extraordinary, whether measured by Soviet or Western standards.

One revealing index of immiseration was demographic decline: from 148.6 million 1993 to 146.3 million in 2001. This population decrease was partly due to a low birth rate (among the lowest in the world), but chiefly to a sharp increase in mortality. One revealing indicator was the drop in life expectancy, which peaked at 65 for men and 75 for women in 1985 but had dropped to 59 for men and 72 for women in 2000. While partly due to a high rate of infant mortality (two to three times that of Western countries), higher death rates became pandemic for the working-age population. Particularly revealing was the prospect for a 16-year-old male living to the age of 80: the rate in the United States was 88 per cent, but a mere 58 per cent in Russia—only slightly higher than a century earlier (56 per cent in 1895). Given these dismal patterns, contemporary studies by the United Nations and the Russian Academy of Sciences project that Russia's initial population of 148.6 million (1993) will shrink to 130 million by 2015 and even drop to 100 million by 2050, perhaps sinking as low as 70 or 80 million. Such a cataclysmic decrease means an immense contraction in labour inputs and, simultaneously, a dangerous imbalance in the proportion of the workforce to pensioners (dropping officially from 2 : 1 in 1991 to 1.4 : 1 in 1999).

Critics attribute this demographic implosion to the destitution engendered by transition. Both nuptiality and fertility fell sharply: fewer married and still fewer bore children, with 70 per cent of pregnancies terminated through abortion. Still more important was the rise in mortality, especially in the middle range of the labour force. That was partly due to a deterioration in diet, with a significant reduction in meat consumption (33 per cent) and dairy products (over 40 per cent). Even with a compensatory increase in carbohydrate consumption, Russian daily caloric intake in the 1990s was only 62 per cent of the norm

recommended by the World Health Organization. Bad living habits (astronomic rates of smoking and massive consumption of cheap alcohol) also took a toll; the explosion of prostitution (with 4,000 brothels in Moscow alone) raised sexually transmitted diseases to epidemic proportions (the syphilis rate, for example, increased seventyfold in the 1990s); and the vast increase in drug addiction spawned new scourges like Aids. Russia reported 135,000 officially registered HIV cases, but the real rate was probably five times greater; in specific cases, the increase was of horrifying magnitude—for example, the number of HIV-infected in Tver jumped from 8 in 1997 to 2,342 four years later. Even diseases once thought to be eradicated have roared back in full force; in particular, deadly strains of tuberculosis—widespread in the large prison population—have produced a mortality rate thirty times that of the United States.

Crime also increased sharply. The homicide rate, for example, rose to thirty times that of a gun-free United Kingdom and even three times that of the gun-rich America. The exponential increase in crimes of person and property overwhelmed the law-enforcement, judicial, and penal systems. In 1997, for example, the 28,677 employees in the procuracy (the office for legal prosecution) issued 427,000 arrest warrants and sought to process 1.2 million court cases; St Petersburg courts in 1996 were scheduling the docket for the year 2000. State prisons and labour camps held over a million citizens (a per capita incarceration rate sixteen times that of Western Europe and comparable only to the United States), but could not afford to house or feed them adequately. Particularly ominous was the intense growth of organized crime; by the late 1990s, Russia reportedly had 8,000 gangs with tens of thousands of mobsters. Apart from sensational contract murders (which claimed the lives of prominent politicians, journalists, bankers, and businessmen), organized crime invaded the new economy. In one city, 80 per cent of the businesses admitted paying the mafia for 'protection' (normally half of their profits); the Interior Ministry estimated that organized crime held one-third of the capital and the bulk of stock shares in the

country. The deputy prime minister, Boris Nemtsov, did not exaggerate when decrying the pervasive influence of 'gangster capitalism'.

### 'Multi-polarity' and the 'Near Abroad'

The post-Soviet honeymoon in relations with the West, especially the United States, did not last beyond the mid-1990s. In addition to minor irritants (for example, recurring accusations of intelligence activities), the principal issues were three: NATO's decision to incorporate former Eastern bloc countries and even former Soviet republics, Western military intervention in Yugoslavia, and American plans to construct a national missile defence (NMD) system.

The spectre of NATO expansion, under discussion during Yeltsin's first term, now became a reality. Whereas Yeltsin's first foreign minister, the complaisant 'Atlantist' Andrei Kozyrev, had acquiesced to such plans (in hopes of maintaining good relations), his departure in January 1996 signalled a new era of hardening resistance and truculence on the part of the Kremlin. The latter argued that the end of the Cold War made military alliances like NATO superfluous, and that security and stability in Europe required a new, comprehensive structure which included Russia itself. From Moscow's perspective, NATO proposals to incorporate the former Eastern bloc countries—especially the Baltic states of Estonia, Latvia, and Lithuania—were tantamount to deploying NATO forces on Russian borders. The West, under American leadership, ignored Russia's objections: in July 1997 NATO formally resolved to admit three former Eastern bloc countries (Poland, Czech Republic, and Hungary) and to consider the inclusion of others in 2002. Powerless to stop the process, Russian rhetoric—official and public—became increasingly vitriolic.

Events in Yugoslavia reinforced anti-NATO sentiments. As Yugoslavia disintegrated and the Serbian government under Slobodan Milošević fought to preserve the country's integrity,

Kosovo—a Yugoslav province with a secessionist Albanian majority—became the focus of attention. Contending that the Serb government was preparing to perpetrate atrocities (with a new wave of 'ethnic cleansing'), in March 1999 NATO—under American leadership—launched a massive air assault. Significantly, it did so without authorization from the United Nations (where any such request in the Security Council was certain to meet with a Russian veto) or, in the American case, even from the US Congress (which, constitutionally, has the power to declare war). The military intervention outraged the Russian government and public, partly because of the sentimental ties to the Serbs (as fellow Slavs and as Orthodox coreligionists), partly because of the flagrant disregard for Russian interests and the unilateral decision to intervene militarily. Both official and unofficial Russia castigated the NATO operation as counter-productive, precipitating the ethnic conflict it sought to prevent. From Moscow's perspective, at least, Kosovo became an object lesson in Washington's arrogant belief in its unilateral right to intercede wherever and whenever it chose.

The final cause of growing tension was Washington's decision to revive the 'Star Wars' project of the 1980s—the construction of a missile defence system. Warning that 'rogue states' like North Korea and Iran were developing nuclear weapons and ballistic delivery systems, the United States stepped up its research and development on a national missile defence (NMD) to repulse such limited attacks. Despite the rhetoric about Iran and North Korea, the NMD not only violated the 1972 Anti-ballistic Missile Treaty (which allowed each side to construct a missile defence system around a single site—a missile complex in the American case, Moscow in the Russian case) but also created the spectre that subsequent development could neutralize Chinese and ultimately Russian deterrence. Despite test failures and questions about technical feasibility, and despite the much-acclaimed personal ties between Yeltsin and President Bill Clinton, Washington continued to work on the project—to the dismay of Russia and even some American allies in Europe, who feared a

unilateral dismantling of the nuclear arms structure constructed over the previous three decades. Although the Clinton administration deferred a final decision on development and deployment (because of international criticism and early test failures), the project remained alive and elicited enthusiastic support from conservative quarters, notably the then presidential candidate, George W. Bush.

Marginalized in the West, Russia increasingly turned its attention to the former Soviet republics—the 'near abroad' (the very term implying a special relationship). Although Russia played a leading role in creating the Commonwealth of Independent States (CIS) in 1991 and adopting the collective security treaty of 1992, the Yeltsin government took little notice of the former 'fraternal republics' during his first term in office. That changed dramatically in the mid-1990s. Apart from disenchantment with the West, Russia now recognized the importance of economic ties with the CIS: these countries were once integral elements of a single system and offered markets where Russian products were still competitive. Moscow also claimed a strong interest in the fate of ethnic Russians, twenty-five million of whom found themselves outside the Russian Federation and appealed for protection. Ethnicity also raised delicate border issues, as in the Crimea, which Khrushchev had 'given' to Ukraine in 1954 but which had a Russian majority that identified with Moscow, not Kiev. Finally, Islamic fundamentalism also posed a growing threat not only to the newly independent states of Central Asia, but also to the Caucasus (above all, Chechnya) and potentially to other Muslim republics in the Russian Federation. Moscow had some incentive to exaggerate the threat of Islamic radicalism in order to refurbish its leadership and influence in the newly independent states of the Caucasus and Central Asia.

Russia also chose to play the 'Chinese card'. The time was opportune: Beijing shared its concern about Islamic radicalism (especially among the Muslim Uigur population of Xinjiang province) and opposed 'unipolarity' (a code word for American

hegemony). The improvement in Sino-Russian relations commenced under Gorbachev and accelerated sharply in the second half of the decade. The turning point came in April 1996, when Russia, China, and three Central Asian states (Tajikistan, Kazakhstan, and Kyrgyzstan) met in Shanghai and agreed to establish the ‘Shanghai Five’, which was to promote economic cooperation, coordinate foreign policy, and make reciprocal military reductions and the like. Above all, Beijing and Moscow were determined to resist American pretensions to global dominance, to repulse Western meddling in their internal affairs (whether human rights or secession-prone regions like Xinjiang and Chechnya), and to combat Islamic radicalism. This collaboration proved all the more attractive as American engagement (and especially a willingness to become embroiled in far-off Central Asia) waned, creating a vacuum and need for joint action by the two regional powers—China and Russia.

### **From the Abyss to Renewal**

On the eve of the new millennium Russia found itself mired in profound crisis. The most obvious problem was the economic collapse that ensued after it defaulted on loan repayment in August 1998, precipitating a downward, vertiginous economic spiral that erased the modest recovery begun in 1997. The economic turmoil had a devastating impact on society, from élites to disprivileged, and seemed to presage a whole new phase of debilitating economic regression. At home and abroad, Yeltsin’s policies appeared a total fiasco; even though much was beyond his control (such as the Asian financial crisis that turned global, with a devastating impact on Russia), Yeltsin bore the blame. He no longer enjoyed, or appeared to curry, the patronage of the West, which had exploited—in the view of many Russians, even facilitated—Russia’s demise as a great power. Amidst all these woes, the ‘strong presidency’ devolved into a weak executive; the president himself was not only politically but even physically debilitated (barely able to appear in public without the physical

assistance of aides). Yeltsin also was losing his long-fought battle with the Duma, which imposed its own prime minister in September 1998, became increasingly aggressive, and even laid plans to impeach the unpopular president. Constitutionally deprived of the right to re-election, his approval rating reduced to single digits, 'Tsar Boris' was already a 'lame duck'. By August 1999 he, and his regime, appeared ready to expire; it was precisely at that point that he named Vladimir Putin prime minister—the man who would soon become his anointed successor.