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Playing Political Economy

The Goals and Outcomes of Russia's Economic Reforms of 1992

Just four months after the abortive coup that had led to the rebirth of the Russian state, a small team of economists began to implement a program of radical economic reforms that aimed at quickly and irreversibly changing Russian society. This team was characterized by two close advisers, in a phrase memorable for its unintended irony, as comprising "the best and the brightest of Russia's young economists."[1] By the end of 1992, the best and the brightest were no longer holding the reins of economic policy in Russia.

This essay examines the nature of the policies enacted by the economists who were at the center of the first government of the reborn Russia. There has been an unfortunate tendency to assume that Yeltsin's first economics team based its choices on the standard lessons of Western economics. In Russia, critics of the government often interpret the economic events of 1992 as proving that Western orthodoxy is simply inapplicable to their country. The news media and politicians in the West, and some academics, assume that the progression of economic events in 1992 is one in which a government is prevented from implementing standard economic prescriptions by its political opponents. This paper shows that neither of these two judgments can be sustained.

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I argue that the failures of policy in Russia in 1992 represent the failures of a particular theory of political economy. This theory did not live up to its claims that it embodied viable prescriptions on how to promote large-scale, acceptable, socioeconomic change. Of course, the failure in practical application of such a theory should hardly be surprising.[2] But in order to appreciate the possibilities for the progress of reforms in the future, it is vital to understand that such a theory failed in Russia in 1992, not current economic orthodoxy.

The argument begins by summarizing those elements of the theory of economic policy that command a consensus amongst economists. This is followed by a description of the theory of political economy underpinning the reform program implemented in Russia in 1992. These two sections show clearly that economic orthodoxy does not dispense the same types of prescriptions that emanate from this political economy view.

The ensuing sections continue this line of reasoning by examining the progress of economic policy and its repercussions in Russia in 1992. I explore how specific policy choices correlate with the prescriptions of economic orthodoxy and with the reformers' political economy, showing that the most important decisions followed the latter, not the former. The essay concludes that the failure of economic policy in Russia in 1992 should be squarely placed on the attempt to implement a rather strained theory of political economy that has incongruously become the vogue among economists in recent years.

Consensus economics

Williamson has made "an attempt to summarize the common core of wisdom embraced by all serious economists" on what constitutes a desirable set of economic reforms.[3] It is a view "drawn from that body of robust empirical generalizations that forms the core of economics," which would be accepted by policy-making technocrats and the multilateral organizations.[4] Fischer, who endorses Williamson's statement of the consensus, remarks that it would be accepted in most universities and policy institutions in the U.S. and elsewhere.[5]

Williamson's consensus view comprises ten basic points:

1. "[T]here is very broad agreement ... that large and sustained fiscal deficits are a primary source of macroeconomic dislocation."[6]

Hence, there must be a noninflationary budget: budget deficits should be small enough not to resort to an inflationary tax. But this leaves open the question of whether cyclical imbalances might be used as a tool of stabilization policy.

2. Public expenditures must be shifted toward projects that can be justified by their high economic return or by important social objectives. In particular, this implies the removal of indiscriminate subsidies, especially for state enterprises, and the switching of public expenditures to education, health, and public infrastructure.

3. Tax reforms should aim at broadening the tax base and cutting marginal rates, implying the need for improved tax administration.

4. Financial liberalization should seek, as interim objectives, moderately positive real interest rates and the absence of preferential rates for favored sectors or enterprises. Further aspects of financial liberalization find less consensus among economists, some of whom note that there have been very successful economies that have had state direction of credit.[7]

5. Exchange rates should be unified and should be at a level to encourage exports. During periods of reform, this will usually imply both government management of exchange rates and the absence of a fixed regime.

6. Foreign trade must be liberalized. In the short term, quantitative restrictions must be rapidly removed and replaced by tariffs. Then tariffs will be reduced until a uniformly low tariff in the range of 10–20 percent is reached. There is little consensus either on the speed of tariff reduction—3 to 10 years spanning the ranges of disagreement—or on whether the speed should be calibrated to macroeconomic conditions. Certainly, "A highly protected economy is not expected to dismantle all protection overnight."[8]

7. There should be equal treatment of foreign and domestic companies.

8. Privatization of public enterprises is necessary, because of the superior efficiency of private enterprises that have managers responsible to real owners and because bankruptcy places a floor on the extent of social wastefulness.[9] In the context of postsocialist reform, this calls for a whole legal infrastructure necessary to complement the private sector. On the methods and speed of privatization, there simply cannot be a consensus because there has not been enough experience to form robust empirical generalizations.

9. Comprehensive deregulation should aim at abolishing regula-

tions that impede the entry of new firms into industries and should ensure that existing regulations are justified by credible economic and social criteria.

10. Private property rights must be made secure.

For the present exercise, it is also important to note the areas where consensus is absent. There is genuine disagreement among economists on the following issues: the desirability of maintaining controls on capital flows; how rapidly inflation should be reduced; the role of industrial policy; whether the business cycle should be stabilized; and the usefulness of wage and/or price freezes in the process of inflation stabilization.[10]

In Williamson's consensus, there is little mention of the sequencing of reform measures, or of the timing of each measure within the context of a comprehensive reform program. This is a reflection of the actual lack of consensus on these issues. However, Corbo, summarizing World Bank research and experience, remarks that: "As the success rate of stabilization programs in countries that have experienced a prolonged period of inflation is very poor, it is very dangerous to [undertake these programs together] with reforms whose ultimate success depends on the control of inflation (i.e., major trade and financial liberalization)."[11] Thus, "[M]ajor trade liberalization should be attempted only when clear and credible progress has been achieved in reducing inflation or when there is a clear perceived commitment from the authorities that the anti-inflationary program has a very high priority."

These admonitions apply even more to the issue of privatization, on which experience to date is limited. Walters counsels caution based on British experience: "Let us try it on a modest scale before launching it on a grand national scale."[12] Similarly, Rogozinski, the director of Mexico's privatization efforts, advises that "When a government decides to privatize, we've learned that small steps must precede large leaps. Privatizations require a trial and error learning process."[13]

This sense of caution on sequencing and timing is thoroughly echoed in Fischer and Gelb, who give what might be called a multilateral-financial-organization consensus view of postsocialist reforms:

> The time needed to reform institutions, create skills, and value assets, argues for a measured pace of reform. But a slower pace has costs, including prolonged uncertainty and probably a longer period of poor economic performance, during which opposition can coalesce to block

> the reform process. A rapid approach, in which markets are liberalized even before adequate preparatory steps, avoids the dangers of delay, but raises the potential for economic chaos.[14]

Thus, orthodox economics suggests deliberateness; the logic of political economics leads to the emphasis on rapidity.

Political economics

Consensus economics did not drive the policies implemented in Russia in 1992. Rather, there was a very different theoretical weapon in the strategic arsenal of the reformers. To document the elements of this theory, it is most productive to turn to the conceptualization provided by those Western economic advisers who were closely associated with Gaidar's economics team and who have most prominently and consistently offered their views on the theory of transition.[15] The authors whose views are described below are those who, by their own profession, were "deeply involved in the elaboration of the change of economic system in Russia."[16]

The central element of the theoretical conception underpinning the Russian reforms of 1992 is that "politics takes primacy over economics in the transition."[17] The consequence is that "The economic strategy must take cognizance of the political context, which in our view, argues *overwhelmingly* for a very rapid, straightforward, and sharp program of economic reform."[18]

In this view, the cardinal problem for reformers is the correlation of interests between the old economic structures and the old political powers, which must be broken quickly. Reform is simply a time of the "population versus the vested interests."[19] There is a "window of opportunity" after a change of governments, during which the forces of resistance to change can be sidestepped and reforms implemented by clear-minded, neutral technocrats.[20] Then, the reforming government creates new interests that are in tune with the economic system that is the goal of reforms. Reformers view themselves as acting on behalf of the social forces that will arise as a consequence of the reforms, a conception explicitly endorsed by Gaidar.[21]

The economic policy elements of this politicoeconomic approach are most clearly laid out in the works of Lipton and Sachs.[22] In the economic analysis underpinning policy, there are two central, but largely unsubstantiated, assumptions. The first is that the existing arrangements of the system have no economic value, even in the short run, and therefore simply should be thought of as political obstacles. Thus, reforms are envisaged as a combination of destroying the old and constructing the new, rather than of moving from the old to the new.[23]

Several tactical elements follow from this first assumption. Most basically, the models for institutional creation mimic the imagined end-state of the reform process.[24] Existing institutional structures are not to be examined, searching for ways to change them, but rather, politics reveals the ways in which these institutions can best be destroyed. For such a task, reform must be thrust into the hands of technocrats who feel a distance from society.[25] Indeed, Aslund suggests that ex-Soviet professionals cannot have a place among the reformers.[26]

The second central assumption underlying the economic tactics of this brand of political economy, also largely unsubstantiated, is that the process of institutional construction is technically quite easy. Thus, the program offered in December 1991 by the new government was viewed as containing all the essential elements necessary for transition to a market economy,[27] despite the fact that: "All the vehicles of macroeconomic policy must be constructed more or less anew, reconstituting the Central Bank and the Ministry of Finance, as well as payment mechanisms and tax collection systems."[28] Similarly, the issues of greatest importance in the monetary sphere could be solved within half a year,[29] despite the fact that "The monetary problems in Russia are perhaps the most complex in world history."[30]

This optimism on institutional construction is necessary because the policy logic of this political economy requires the implementation of a massive number of contingent measures. If there were not such optimism, the political logic would break down—the new classes and the better times would not come quickly enough for the reformers to survive accusations that they have destroyed without creating. Thus, there is emphasis on the short-term efficiency gains that flow from macroeconomic stabilization.[31] For Russia, "enormous scope exists for increases in average living standards within a few years."[32] On this point, political economics and consensus economics directly conflict. The consensus would emphasize that where countries have had economic miracles—West Germany, Korea, Singapore—the gains in living standards come as a result of a steady growth that is hard to initiate, rather than from some magical immediate result.

Of course, the economic measures advocated by this political economy approach do overlap to some extent with those prescribed by consensus economics. For example, Lipton and Sachs cite as significant measures fiscal and monetary austerity, a convertible currency, deregulation of prices, the demonopolization of the state sector, the removal of all barriers to international trade, full liberalization of the private sector, the creation of new rules for the regulation of state enterprises, tax reform, institution of unemployment insurance and job retraining schemes, credit allocation to individuals to start small businesses, and privatization.[33]

But it is on matters of sequencing and timing, on which the consensus is largely silent, or advocates caution, that political economics is the most shrill. For political economics, the emphasis is on speed and on the need to implement a complete set of contingent measures. This element is seen most vividly in the most difficult and complex measure, privatization.[34] The whole program of reform is contingent on "massive and rapid privatization" because "the government is in a race against time" and unless privatization occurs "quickly and on a vast scale" the earlier economic gains will be lost.[35] The reason for this lies not in economics—the inefficiency and inertia of the state sector—but rather in politics—the hypothesis that state industry, lobbying for subsidies, is always more of a threat to macroeconomic balance than is private industry. Thus, in Russia, the economic situation might be characterized as "a race between hyperinflation and privatization."[36]

How is this most difficult and complex measure to be carried out? The ideal implementation is via a team of technocrats. Bargaining and negotiation among the members of society—the traditional processes of market democracy—are to be avoided.[37] This follows from politics—the unsatisfactory correlation of old economic structures and old political forces at the beginning of transition.

In sum, this brand of political economy is nothing more or less than the use of economic policy as a tool of social and political revolution. With existing economic structures the problem, political considerations become dominant in economic policies. With the assumption that a new world is needed and can be built, a host of measures are demanded immediately. The reform program is then marked by the programmatic nature of the sequence of changes envisaged at the beginning, with the steps contingent upon each other. Hence, there is extreme faith in the top-down measures created by visionary leaders and their technocrats. These characteristics of the reform strategy would certainly earn this strategy Popper's label of Utopian Social Engineering.[38]

There are thus immense differences between consensus economics and political economics. But such differences seemed of little consequence to the main players in the debate on the formulation of the Russian reform program—that is, the economic team within the Russian government, the multilateral economic institutions, and the major Western backers of the new Russian government. Thoroughly in tune on matters of economic strategy for a short while, the Western capitals and Moscow were imbued with the dubious logic of political economics and had forgotten the more cautionary messages of consensus economics.

The implementation and effects of political economics: Russia in 1992

Russia's reformers faced a task as large as in any reforming socialist country. Lines of authority within the political system had fundamentally weakened during the Gorbachev years. Thus, in order to carry out the normal tasks of central administration—tax collecting, infrastructure development, and so on—any government would have had immense difficulties. But this was no ordinary time, and many extraordinary functions of government were concentrated at the top because of the lack of effective decentralizing reforms under Gorbachev.

By 1991, economic reform in the Soviet Union had hardly progressed beyond the stage of decentralization within the essential parameters of the old system. Price controls and state orders each applied to about 75 percent of economic activity, although as 1991 proceeded these were breaking down. The small amount of private enterprise that had been established was still in a symbiotic relationship with the state sector, rather than thriving on its own terms. By the time the USSR met its demise, essentially none of the legal framework necessary for a modern economy had been passed, let alone implemented.[39]

In addition, an economic crisis of vast proportions was setting in. The maldesign of Gorbachev's economic reforms, particularly the lack of attention to macroeconomic balance, had left the economy in a parlous state by the end of the 1980s. In 1990 and 1991, financial largesse became one of the chief weapons in a "sovereignty war" between the union and Russian governments. Each level of government sought to buy support from enterprises using lower tax rates, greater subsidies, and easier credit. The result was a massive budget deficit, of which the imputed Russian component has been estimated at 20 percent of GDP. By 1991, the lack of constructive market reforms, combined with a decline in the disciplinary force of the old administrative system, meant that the economy was beginning to enter a free fall. Even before the chaos created by the failed coup, GDP in 1991 was predicted as heading for an 18 percent fall.

This was an economic crisis that would have sorely tested the most capable leadership. But, importantly, most of the country's political and economic leaders had still not grappled with the difficult conceptual and institutional issues that were central in using market-type instruments to establish macroeconomic control. There was "little technical understanding and no tradition of an active monetary policy to limit credit growth . . . .The idea that bank credit should be limited to restrict the overall growth of the money supply simply did not exist until 1992."[40]

For all of these reasons, and because of the temporary power vacuum created by the failed coup, the time must have seemed especially ripe for the implementation of the political economics described above. This was surely a moment for those able to believe in the power of top–down measures created by visionary leaders and their technocrats. For example, for two of the government's advisers, there was, in the Russian economic crisis, "one bastion of hope—the democratically elected Russian President."[41] Thus, incomprehensibly enough in the light of later events, it was Boris Yeltsin who was to lead Russia to the promised land of free market capitalism.[42]

The window of opportunity

In late October 1991, Yeltsin announced the intention of a radical attack on the country's economic problems. Already, a competition between several teams designing economic reforms had resulted in the choice of the group formed by Burbulis and Gaidar. Political economics was to be the guiding force of policy as Russia began large-scale economic reform in January 1992. Political economy dominated the concerns of the new government, even to the extent of crowding out attention to the difficult structural decisions that had to be made on economic change.[43]

In the reformers' eyes, there was a power vacuum in late 1991, which loosened many of the usual constraints circumscribing policy:

> The situation was characterized by the absence of any influential social forces that would be organized enough to be capable of explicitly formulating their interests and upholding them, let alone foisting them on society . . . .[T]he possibilities for the first steps along the reform path were practically limitless and depended almost solely on the chief executive's political will.[44]

This was reinforced by the Congress of People's Deputies, which voted Yeltsin a free hand in administrative and policy choices for one year.[45] Of course, the influential social forces were viewed as temporarily latent, weakened by the demise of the traditional instruments of power and temporarily crippled by the failed coup, but ready to rise again. The aim of the policies of political economics was to prevent this rise.

Thus, to the extent that any policy-making environment is conducive to the implementation of political economics, this was surely the case for the Russian environment in the months after the failed coup. The temporary power vacuum gave the technocrats the much desired window of opportunity, which would allow them to ply their trade unfettered by the society and the polity that are viewed as the central problem in the process of change. It was the reformers' hope that a new reality would be forged by the time politics became normal: there would be a new correlation of political and economic forces, one consonant with the economic world envisaged for the endstate of reforms.

These points are crucial, because it has become fashionable to argue that the reformers were somehow frustrated from plying their political economics in Russia.[46] But, in fact, the beloved window of opportunity was fully open for the application of political economics. Yeltsin used the window to thrust economic policy making into the hands of a group of theorists who believed that they knew how to use this window to create a new society.

The shock

January 1992 saw the implementation of the set of policies that is typically known as shock therapy.[47] Among the announced measures were the freeing of most prices, the removal of the old supply system, the complete liberalization of imports, a thoroughgoing change in the tax system, a rapid closing of the budget deficit (implying massive changes in investment and subsidy policies), a stringent tightening of monetary policy, the introduction of antimonopoly measures, a privatization program with very ambitious goals, preparation for early convertibility of the ruble together with an immediate relaxation of rules on foreign exchange trading, and the renegotiation of existing trade relationships with the other ex-republics.[48]

But the shock comprised much more than economic measures. There was the thoroughgoing intention to undermine the existing institutions of government. The incoming government viewed their mission as an attack on the old Soviet system. Thus, for example, the dismantling of price controls was seen as a revolutionary move undermining the old anchors of power of the USSR: "the backbone of the old totalitarian system was being crushed."[49] Price liberalization and financial austerity would break existing economic relations forever.[50] Thus, it was not economic efficiency that was emphasized in the choice of economic instruments, but rather politicoeconomic effects.

After price liberalization, the focal point of the government's early policy was the attempt to balance the budget in the first quarter of 1992. In this very ambitious task, the government was quite successful.[51] This implied an intended fiscal adjustment of 19 percent of GDP, essentially overnight, a speed of adjustment that is hardly implied by consensus economics, even given the importance of balanced budgets to the consensus. Balance was to be produced by running government on a cash-flow basis, with expenditures cropped to meet highly unpredictable revenue flows. The consequence was immediate, draconian cuts in spending.

The cuts in spending were made even deeper by reductions in tax collections that were the result of other policies. The new government precipitately introduced a value-added tax (VAT), which yielded only 50 percent of forecast dues in the first quarter. This revenue shortfall was not surprising. IMF advice—consensus economics—indicates that several years of preparation are necessary for the successful implementation of a VAT.[52] The collection of the old turnover tax, for which the VAT substituted, would have demanded too much dependence on the old structures and levers of power. Therefore, the reformers went for a move that was, in Gaidar's words, "very dangerous."[53] Politics dominated economics—the attempt to balance the budget was not as important as breaking the power of the old administration.

Monetary policy reinforced the fiscal reform, as is acknowledged even by the monetary authorities' most ardent critics.[54] In fact, there was an extreme monetary and credit squeeze in the beginning of the year, the real value of the money supply falling by approximately 70 percent in the first quarter of 1992. Central Bank credit to enterprises and commercial banks fell by the same order of magnitude. But these facts have been clouded both by the shrill criticisms of the Russian monetary authorities from the most ardent proponents of the political economics and then by the disastrous profligacy of the Central Bank in the second half of the year, after Mr. Matyukhin's critics had secured his demise.

In the first part of the year, the Central Bank defended its credit policies on the basis that the agricultural regions relied on centralized credit during the planting season, in the absence of the types of credit mechanisms available in market economies. In such a situation—the absence of a fundamental market—consensus economics would not speak, except perhaps to caution the use of prudent and nonpreferential interest rates. Political economics was clear, however—these regions were bastions of conservatism and needed to be shocked. The attack on the monetary authorities in early 1992 was therefore as much politics as economics.

In many areas, policy was distinctly different from that advocated by the consensus economics. A complete import liberalization was announced in January 1992, with tariffs reduced to insignificant levels. But, at the same time, import licensing was still in existence. Similarly, exports were subject to myriad quantitative restrictions. In fact, consensus economics advocates almost the opposite policies, the replacing of quantitative restrictions by tariffs and the reduction of tariffs in a measured fashion. The most charitable interpretation of this set of Russian foreign trade policies was that the central government precipitously reduced all trade restrictions in order to undermine the old trade administrations, but then administrative weakness foreclosed the removal of licensing. But this interpretation again shows the element of political economics that was at the center of policy.

Similar inconsistencies with consensus economics occurred elsewhere in policy. For example, territorial privileges were granted to individual regions in order to garner political support for the economic program. Incomes policy was rejected in order to secure the support of industrial workers for the government's policies. The control of energy prices was much criticized by that chief keeper of the consensus, the IMF. The decision to keep energy price controls was based on an analysis within the government that the energy situation was highly inflexible and that decontrol would have few efficiency effects (an analysis, one might add, that goes against the very core of the consensus). Therefore, politics became dominant in the policy on energy prices.

As the winter drew to its close in Moscow, the new government was in a confident mood. Heartened that there had been no large public protests, and buoyed because the opinion polls did not turn against them, the government decided to take their political economics to a higher stage. This would require a full-fledged attack on the Central Bank, which was not conducting monetary policy with the type of stringency required by the political economics. Politics became even more dominant over economics at this time, when, according to commentators close to the government: "The government [was] giving its undivided attention to political strategy while still hazy about the actual structural reform tactics."[55]

The window closes

As we have seen, a government implementing political economics aims to deprive of influence the representatives of the old economic interests. The intent of the Russian government in increasing the severity of its reform policies in early spring 1992 was exactly that—once and for all to vanquish the centers of the old Soviet economic power. However, as the second quarter of 1992 proceeded, it soon became clear that policy could not be made independently of the old economic interests. In fact, there was a congealing of the political opposition as a direct consequence of the effects of the economic policies that were being implemented—the failure in practice of the strategic conception at the heart of the government's political economics.

At this time, there was a heightened perception that the interenterprise debt crisis was threatening the entire industrial system. In direct reaction to the stringent tightening of credit and the reduction in demand, enterprises had favored their traditional customers, some enterprises supplying without insisting on payment. This led to a chain of circular debt that affected the vast majority of enterprises. By June 1992, there were estimates that planned bankruptcy laws would cause over 70 percent of all enterprises to be technically insolvent.

Although the specific causes of the interenterprise debt crisis were legion, the common feature of all of these was an inconsistency between the financial and macroeconomic policies pursued at the center and the lack of structural reform and change in enterprise behavior at the microeconomic level. The reliance on centralized levers of macroeconomic policy, a fundamental characteristic of political economics, assumes quick adjustment by economic actors. But, as in Poland,[56] an absence of quick adjustment in Russian enterprise behavior was evident. The crisis in the industrial sector was the direct result.

A crucial consequence of the burgeoning of interenterprise debt was that the fortunes of the better enterprises became more intimately tied to those of the loss-making enterprises. This meant that enterprise directors united in opposition to the government's policies, where previously the enterprises had competed for government subsidies and other favors. The increasing cohesion of the interest groups representing old state industry, the formation of an alliance of enterprise directors and independent labor unions, and the establishment of the Civic Union in June 1992 were all to some extent a consequence of these economic developments. The reformers were forced into compromise with these interest groups, whose members eventually entered the government.

As early as April 1992, policy began to reflect an implicit compromise with the industrial interests.[57] By that time, the government was ready to use large-scale subsidies in order to mitigate the effects of earlier measures. In the face of the threat of a wave of bankruptcies, the government condoned the giving of special credits to enterprises in significant amounts.

As the months proceeded, the prevention of industrial failure would become a dominant concern for the government, with the president and acting prime minister even paying attention to the fortunes of individual enterprises. The backbone of Soviet society, heavy industry, which political economics had hoped to break, was at the center of influence even before the policies of political economics had been in place for six months. Policy developments throughout the remainder of the year reflected the compromise between political economics and the forces that political economics had hoped to vanquish—the old economic interests that were a heritage of the Soviet system.

Conclusion

In sum, economic policy in Russia in 1992 was not based on Western consensus economics. The reason for this was not that the reformers were stymied by a recalcitrant opposition from implementing standard prescriptions, as is often argued. Rather, the reformers were ready to disregard consensus economics, where consensus economics came into conflict with their political economy. The progress of policy in Russia in 1992 was determined by the attempt to implement a particular brand of theory of political economy and by the reactions of the various actors in the economy to the policies that were based on that theory.

Judging the implementation of political economics on its own terms, as a politicoeconomic gambit aimed at producing a particular sequence of related social, economic, and political changes, the result was failure. A direct consequence of the policies introduced in January 1992 was that the dominant economic interests of the old Soviet system were much stronger by the end of the year than they had been before those policies were introduced. Far from being able to use economic policy to sidestep society, the strategic moves of the technocrats led directly to the increasing influence on policy of the old interests. Judging the results from the point of view of consensus economics, the state of both policies and the economy left much to be desired by the time Gaidar was replaced by the representatives of the industrial interests in December 1992.

But another phase of political economics is still currently underway. This is the phase of mass privatization, a program that is still in the hands of the technocrats who initially came to power with the Gaidar team. The structure, methods, and timing of the privatization program in Russia are very much determined by the dictates of political economics. Indeed, there is even less connection to the consensus than was the case for the stabilization program of 1992. Whether the privatization phase of political economics will be more successful than the stabilization phase that was implemented by the first post-Soviet Russian government remains to be seen.

Notes

1. Anders Aslund and Richard Layard, eds., *Changing the Economic System in Russia* (London: Pinter, 1993), p. xii. For the fullest measure of the irony, see David Halberstam, *The Best and the Brightest* (New York: Random House, 1969).

2. Karl Popper, *The Open Society and its Enemies* (Princeton, NJ: Princeton University Press, 1971).

3. John Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington, DC: Institute for International Economics, 1990), pp. 7–20; see also John Williamson, *Democracy and the "Washington Consensus"* (Institute for International Economics, 1992).

4. Williamson, *Democracy and the "Washington Consensus,"* p. 15.

5. Stanley Fischer, "What Washington Means by Policy Reform: Comment," in *Latin American Adjustment*, ed. by John Williamson, p. 25.

6. Williamson, *Latin American Adjustment*, p. 10.

7. In particular, France during the 1950s and South Korea to the present day are often cited. Only recently were privately owned banks possible in Taiwan.

8. Williamson, *Latin American Adjustment*, p. 15.

9. Williamson does leave open the possibility of restructuring public enterprises, rather than privatization. But presumably privatization is more urgent in the reforming socialist countries than in other parts of the world. I assume, therefore, that privatization commands an economists' consensus for ex-socialist countries.

10. Williamson, *Democracy and the "Washington Consensus,"* p. 18; Vittorio Corbo, "Report on Adjustment Lending II: Lessons for Eastern Europe," Policy, Research, and External Affairs, Working Paper WPS 693 (The World Bank, 1991), p. 34; and Janos Kornai, *The Road to a Free Economy* (New York: Norton, 1990) suggest that an incomes policy is part of the consensus.

11. Corbo, *Report on Adjustment Lending II*, pp. 5, 35.

12. Alan A. Walters, "The Transition to a Market Economy," in *The Emergence of Market Economies in Eastern Europe*, ed. by Christopher Clague and Gordon C. Rausser (Oxford: Blackwell, 1992), p. 105.

13. *Wall Street Journal*, May 15, 1992.

14. Stanley Fischer and Alan Gelb, "The Process of Socialist Economic Transformation," *Journal of Economic Perspectives*, *5*: 4 (Fall 1991), 91–106.

15. Gaidar's team did not document any clear conceptualization of the theory underlying their program. See Marek Dabrowski, "The First Half Year of Russian Transformation," in *Changing the Economic System in Russia*, ed. by Anders Aslund and Richard Layard, pp. 1–18. Moreover, documents issued while the team was in power show all the signs of the clinical language reserved for diplomacy and politics; they give no insight into the real strategic conception behind the reforms. See, for example, the *Memorandum on the Economic Policy of the Russian Federation*, issued in February 1992. It must be emphasized that the present paper does not argue that the Western advisers were responsible for the design of the Russian reform program, but rather that there was a consistency of views between the Russian reformers and their closest advisers. As I have argued elsewhere, that consistency arises more from a commonality of assumptions on the nature of human activity in general than it does from a belief in orthodox economics. See Peter Murrell, "What Is Shock Therapy? What Did it Do in Poland and Russia?" *Post-Soviet Affairs*, *9*: 2 (April–June 1993), 111–140.

16. Anders Aslund, "The Nature of the Transformation Crisis in the Former Soviet Countries," in *Overcoming the Transformation Crisis: Lessons from Eastern Europe for the Successor States of the Soviet Union*, ed. by Horst Siebert (Tubingen: J.C.B. Mohr, forthcoming), p. xiv.

17. Anders Aslund, *Prospects for a Successful Change of Economic System in Russia*, mimeo (Stockholm Institute of East European Economics, October 1992), p. 4.

18. Quoting, with emphasis added, David Lipton and Jeffrey Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland," in *Brookings Papers on Economic Activity 1* (Washington, DC: The Brookings Institution, 1990), p. 87. Confirmation that this was the theoretical view of the Russian reformers can

be found in V.V. Ivanov et al., *Russian Economy in 1992: Trends and Prospects* (Moscow: Institute for the Economy in Transition, 1993), which is as close to an official record of policy thinking in the period as exists.

19. Aslund, *Prospects for a Successful Change of Economic System in Russia*, p. 10.

20. See, for example, Dabrowski, pp. 8, 14. Although the assumption of the window of opportunity is absolutely central to the brand of political economics that I examine here, references to studies that justify this point are rather sparse.

21. In a speech sponsored by the IRIS Center at the Freedom Forum, Roslyn, Virginia, March 3, 1992.

22. Lipton and Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland"; David Lipton and Jeffrey Sachs, "Privatization in Eastern Europe: The Case of Poland," in *Brookings Papers on Economic Activity* 2 (Washington, DC: The Brookings Institution, 1992).

23. See also Ivanov et al., *Russian Economy in 1992: Trends and Prospects*, p. 3 for confirmation that this was the view of the Russian reformers.

24. Lipton and Sachs, "Creating a Market Economy in Eastern Europe," p. 75.

25. Aslund, *Prospects for a Successful Change of Economic System in Russia*, p. 33.

26. Ibid., p. 41. We may note, however, that this would have disqualified both Yeltsin and Gaidar from the reform process.

27. Sachs, as quoted in *Financial Times* (December 13, 1991).

28. Anders Aslund, "The Role of the State in the Transition to Capitalism," presented at the conference on the "Legacies of Marxism," Washington, DC, March 1992, p. 3.

29. Jeffrey D. Sachs and David Lipton, "Remaining Steps to a Market-Based Monetary System," a paper prepared for the conference on "The Change of Economic System in Russia," Stockholm, 1992, p. 1.

30. Lipton and Sachs, "Prospects for Russia's Economic Reforms," p. 261.

31. Lipton and Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland," pp. 89–99.

32. Lipton and Sachs, "Prospects for Russia's Economic Reforms," p. 214.

33. Lipton and Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland," pp. 99–103.

34. Ibid., p. 101.

35. Jeffrey D. Sachs, "Poland's Big Bang: A First Report Card," *The International Economy* (January–February 1991), 40–41.

36. Aslund, *Prospects for a Successful Change of Economic system in Russia*, p. 28.

37. Lipton and Sachs, "Privatization in Eastern Europe: The Case of Poland," pp. 298–299.

38. See Peter Murrell, "Conservative Political Philosophy and the Strategy of Economic Reform," *East European Politics and Societies, 6*: 1 (Winter 1992), 3–16. And it is perhaps these characteristics that encouraged commentators very close to the government to coin the motto "Educated Authoritarism" (*sic*) to describe its stance. See V.V. Ivanov, A.B. Kolbasova and N.G. Glavatskaya, eds., *The Russian Economy Today* (Moscow: Institute of Economic Policy, June 1992), p. 5.

39. It would be too cumbersome to give sources for all the facts noted in the ensuing pages, especially in view of the fact that many come from personal

interviews conducted by the author. Among the published sources consulted are Elena Belyanova and Sergei Aukutsenek, "Russia's Economic Decline: State Manufacturers Suffer Less," *RFE/RL Research Report, 2*: 4 (January 22, 1993), 41–44; Keith Bush, "The Russian Budget Deficit," *RFE/RL Research Report, 1*: 40 (October 9, 1992), 30–32; Michael Ellman, "Shock Therapy in Russia: Failure or Partial Success?" *RFE/RL Research Report, 1*: 34 (August 28, 1992), 48–61; Barry W. Ickes and Randi Ryterman, "The Interenterprise Arrears Crisis in Russia," *Post-Soviet Affairs, 8*: 4 (1992), 331–361; Ivanov et al., *Russian Economy in 1992: Trends and Prospects*; Vincent Koen and Steven Phillips, "Price Liberalization in Russia: The Early Record," International Monetary Fund Working Paper (October 1992); Lipton and Sachs, "Prospects for Russia's Economic Reforms"; the publications of multilateral agencies and the current news media.

40. Lipton and Sachs, "Prospects for Russia's Economic Reforms," p. 227.

41. Aslund and Layard, eds., *Changing the Economic System in Russia*, p. xi.

42. In retrospect, Yeltsin's knowledge of economics was declared suspect. See Aslund, *Prospects for a Successful Change of Economic System in Russia*, p. 5.

43. Ivanov et al., *The Russian Economy Today*, p. 24.

44. Ivanov et al., *Russian Economy in 1992: Trends and Prospects*, p. 6.

45. One crucial position that Yeltsin did not control—the head of the Russian Central Bank—was staffed for the first months of 1992 by a person who had been previously recognized as an advocate of hard money policies, G. Matyukhin. In the sovereignty war of 1991, the Russian government had encouraged him to eschew these policies, an early example of the dominance of political economics over consensus economics.

46. Aslund and Layard, eds., *Changing the Economic System in Russia.*

47. That designation, of course, indicates that the underlying basis of these measures is far from consensus economics.

48. See. for example, *Memorandum on the Economic Policy of the Russian Federation* (Moscow: February 1992).

49. Ivanov et al., *Russian Economy in 1992: Trends and Prospects*, p. 2.

50. Ivanov et al., *The Russian Economy Today*, p. 24.

51. Anders Aslund, "The Gradual Nature of Economic Change in Russia," in Aslund and Layard, eds., *Changing the Economic System in Russia*, p. 22.

52. One IMF official characterized the implementation of the Russian VAT as analogous to trying to build BMWs from brochures.

53. *The Economist* (April 25, 1992), p. 18. The VAT was explicitly endorsed by Aslund in *Changing the Economic System in Russia*, p. 22.

54. Aslund, *Prospects for a Successful Change of Economic System in Russia*, p. 17.

55. Ivanov et al., *The Russian Economy Today*, p. 24.

56. Brian Pinto, Marek Belka, and Stefan Krajewski, "Microeconomics of Transformation in Poland: A Survey of State Enterprise Responses," Policy Research Working Paper No. 982, World Bank, 1992.

57. The gap between the period of optimism, with its sense that the economic attack on the old system would be reinforced, and the period of compromise, in which the attack was abandoned, was indeed quite small. The quickly changing mood at this time was palpable: a central element in this change was the attack on the government in the Congress of People's Deputies in April 1992.