

4-25-2003

# Failure of the Russian Democratic Reforms: The Democratization of the Big Bear

Nicolé M. Hicks

*University of South Florida*

Follow this and additional works at: <https://scholarcommons.usf.edu/etd>

 Part of the [American Studies Commons](#)

---

## Scholar Commons Citation

Hicks, Nicolé M., "Failure of the Russian Democratic Reforms: The Democratization of the Big Bear" (2003). *Graduate Theses and Dissertations*.

<https://scholarcommons.usf.edu/etd/1391>

This Thesis is brought to you for free and open access by the Graduate School at Scholar Commons. It has been accepted for inclusion in Graduate Theses and Dissertations by an authorized administrator of Scholar Commons. For more information, please contact [scholarcommons@usf.edu](mailto:scholarcommons@usf.edu).

Failure of the Russian Democratic Reforms:  
The Democratization of the Big Bear

By

NICOLÈ M. HICKS

A thesis submitted in partial fulfillment  
Of the requirements for the degree of  
Master of Arts  
Department of Political Science  
College of Arts & Sciences  
University of South Florida

Major Professor: Darrell Slider, Ph.D.  
Committee Member: Dajin Peng, Ph. D.  
Committee Member: Earl Conteh-Morgan, Ph. D.

Date of Approval:  
April 25th, 2003

Keywords: Shock Therapy, Vouchers, Political Culture, Psychology

Copyright 2003, Nicolè M. Hicks.

## Dedication

To everyone who ever believed in me. Especially, my parents, Chris, Michelle and many other friends whom I have known through the years.

A special thank you to my major professor, Dr. Darrell Slider, for all of the long conversations on this topic (and many others) over the years.

## Table of Contents

List of Tables	ii
Abstract	iii
Chapter One Democratization of the Big Bear	1
Introduction	1
Russian Democratic Reforms: An Overview	2
Chapter Two The Blame Game	14
Critics	14
Fault of the media	15
Fault of advisors	16
Fault of ambivalent US officials	18
Supporters	20
Fault of the already failed economy	20
Fault of Russian officials who placed too much emphasis on reforming the economy	21
Dissent from Parliament resulting from no political reforms	22
Chapter Three The Failure Of Reform: Key Factors	28
Political Culture and World View	28
No Strong Democratic Institutions	35
Corrupt Russian and American Officials	52
Chapter Four Concluding Thoughts	65
Bibliography	70

## List of Tables

Table 1	Annual Survey of Freedom Country Scores 1991-2002	50
---------	---	----

Failure of the Russian Democratic Reforms:  
The Democratization of the Big Bear

Nicolè M. Hicks

Abstract

Looking back at the past twelve years, many would say that it appears Russia has lost the battle for liberal democratic reform. Among Russia watchers, the following question has been circulated: “Who lost Russia?” This debate has polarized most scholars into one of two camps: those who feel the reforms failed (the critics) and those who feel the reforms were a success (the supporters).

This paper will explain why the Russian reforms failed. By filling in the holes left by current research, the author will demonstrate that the truth may lie somewhere in between the two opposing sides.

## Chapter One

### The Democratization of the Big Bear

#### *Introduction*

Former U.S. Attorney General Robert F. Kennedy once wrote: “Progress is a nice word. But change is its motivator. And change has its enemies.”

Kennedy’s comments seem particularly prescient when one looks at Russia today. Many scoffed when President Ronald Reagan demanded that Soviet Premiere Mikhail Gorbachev “tear down this wall”, believing that an end to the physical institutions of the Cold War was as unlikely as an end to the political ones. But despite resistance from within and without, the Berlin Wall did fall. Since that fateful day, the Big Bear has transformed from a Cold War superpower to a struggling nascent democracy. But the road of progress has been a challenging one for Russia, and cookie—cutter solutions have failed to produce a western (or even western European) democratic culture.

Where did the best political theorists of the western world go wrong? Some point to the eminent Harvard consultants, who prescribed a heavy dose of fiscal “shock therapy” to bring the Communist country rushing into the global free market economy. The policy garnered favor even among young Russian reformers, who were anxious to grab their seat at the world’s table. President Yeltsin even supported the plan, a tactical error he would later come to regret. Indeed, the economic hardship and turmoil that followed left many Russians wondering if they were better off under Communism.

And while the new Russian Federation struggled to find its path, there was no shortage of other suitors who proposed to light the way. More think tanks, western corporations and nations of all political stripes clamored for the opportunity to play a role in remaking the old Communist *burokrateya* into a sophisticated new player on the world stage. It seemed that everyone was ready to co-operate and bring about this new Russian culture- provided everything went the way *they* wanted. Most never anticipated the widespread cultural and institutional resistance they would face.

What was it that made this process so frustrating in Russia? What was it that caused the Russian reforms to fail so miserably and with such dire results? The answer to this question is the principle focus of this paper.

#### *Russian Democratic Reforms: An Overview*

World War II recast the political actors of the global arena, and left just two true “world” powers standing: the Union of Soviet Socialist Republics and the United States. Their forty-plus year battle for global position would become an era of ideological conflict, international subterfuge and nuclear brinkmanship that we know today as the Cold War.

The Cold War was characterized by periods of almost surreal competition, as both sides escalated their military capabilities in a manner reminiscent of Dr. Seuss’ anti-war allegory *Butter Side Up, Butter Side Down*. At times, the only thing preserving the world from destruction was the threat of mutually assured destruction (MAD).

This seemingly unending race for military might and cultural superiority took a terrible toll on the USSR. By the late 1980s, the centralized Soviet economy was unable to support the costs of it’s many social responsibilities. In 1985, moderate politburo

apparatchik Mikhail Gorbachev rose to become the new General Secretary of the Communist Party. Sensing that the Union was cracking under the pressures of the Cold War and the weak Centrally Planned Economy, Gorbachev set out to reform the system, ostensibly in order to preserve it. But Gorbachev's two initiatives, *glasnost*' (openness-freedom of speech and more open channels within the government to promote some transparency) and *perestroika* (restructuring- economic reforms), would sow the seeds of the Union's destruction.

Armed with freedom of expression, the people of the Soviet Union unleashed emotions and political feelings that had been pent up for decades. The new era allowed them to question even the most fundamental assumptions of Soviet culture. This extended to include Gorbachev's own failed policies of economic reform. A free press meant that, for the first time, a Soviet leader could be held accountable for public promises.

But Gorbachev was convinced that a transformation to a nationalized economy, with limited elements of capitalist enterprise, was the right path for the Russian people. During the October 1990 parliamentary session, he rejected the so-called "500 Days" plan to convert the centralized economy to a market orientation in less than two years. This despite the fact that he himself once strongly advocated *uskoreniye*, or acceleration, of economic reforms. There would be no Soviet—style rewriting of history to conform to the new public position this time around, however, and the Russian people subsequently took Gorbachev to task for his seeming refusal to improve the economy.

Meanwhile, the physical disintegration of the Soviet Union as a political entity had already begun. It started in the relatively far—flung client states of the Soviet Union throughout the Eastern Bloc. Robbed of their economic subsidies from the floundering Russian Bear, they were catapulted into establishing free market economies out of

necessity. The problems soon spread to “non—Russian” areas of the Soviet Union itself. It began in 1987, in the Baltic region, when the government of Estonia demanded autonomy. The other two Baltic republics, Lithuania and Latvia, soon followed. Gorbachev was trapped. He could not move against these rebel republics without suppressing them militarily, which would have undermined his own policy of glasnost’ and jeopardized his western support.

Once this "Pandora's box" of nationalist movements had been opened, it spread across the entire Soviet Union. The power of the Central Government was weakened; they could no longer rely on the cooperation of these once-loyal provinces. The situation only worsened in 1991, when Boris Yeltsin became the first popularly elected President in Russian history. Since the USSR still existed as a political entity, Yeltsin and Gorbachev were forced to share their power, with Yeltsin as President and Gorbachev as Soviet Premier.

It all finally came to a head in August of 1991. In a last—ditch effort to save the Soviet Union, as it floundered from the implementation of Gorbachev's glasnost, a group of "hard—line" Communists organized a coup d'etat. They kidnapped Gorbachev, and on August 19, announced on state television that he was very ill and would no longer be able to govern. The country went into high dudgeon. Protests were staged in Moscow, Leningrad, and many of the other major cities of the Soviet Union. President Yeltsin, who had been a member of the Politburo and a staunch critic of Gorbachev’s reforms, acted not only to swell opposition against Gorbachev but now to protect him *from* the Communists. In a move that firmly established him on the international stage, Yeltsin climbed atop a tank pointed at the protestors in front of the Russian “White House” with 20,000 protesters looking on, calling for mass resistance. He criticized the attempted

coup as unconstitutional and called for a general strike, declaring himself the "Guardian of Democracy". Soon the crowds grew to over 100,000 angry Russians.

When the coup organizers tried to bring in the military to quell the protectors, the soldiers themselves rebelled, saying that they could not fire on their fellow countrymen. Starved, unpaid and weary, the enlisted men and junior officers turned on their senior staff. After three days of tense protests and political turmoil, the coup organizers surrendered. Without the cooperation of the military, they realized, they simply did not have the power to overcome the population of the entire country.

In the aftermath, crowds cheered not for Gorbachev's return but for the country's perceived savior, Yeltsin. The popular mood swung even further in favor of the democratic reformers, and it was only a few months after the failed coup, that the Soviet Union completely collapsed. Both the government and the people realized that there was no way to turn back the clock; the massive demonstrations of the "August days" had shown that the population believed that democracy was what was best for the Russian people. Recognizing this, Gorbachev resigned on December 25, 1991. By the next month, January of 1992, the Soviet Union had ceased to exist.

But the road to reform would be a rocky one. It began when Yeltsin, now the head of the new Russian government, swiftly ordered, by decree, the dissolution of the Communist Party. He also temporarily suspended publication of the communist newspaper, *Pravda*. Yeltsin did this not only to punish those who took part in the coup attempt but to silence dissent. He then set about searching for ways to speed the process of democratic reforms, to ensure that a move backwards could not take place.

Western advisors clamored to be a part of the new reforms. In the United States, members of the Clinton Administration turned to a think tank of Harvard-based economic

policy consultants and academics for guidance. The so-called “Harvard Project”, in turn chose a group of young Russian reformers from St. Petersburg to help shape the fledgling democracy. Led by a charismatic former government economist named Anatoly Chubais, the “Chubais Clan” quickly cemented their ties to the Ivy league experts.

Deputy Prime Minister Ygor Gaidar was a young democratic reformer of the Chubais Clan, Prime Minister and the head of economic reforms in the new government. He proposed “shock therapy” (an economic policy devised by Harvard economist Jeffery Sachs) as the means to quickly eradicate the old Soviet system in favor of a free market economy. Shock therapy would focus on the “liberation of prices” for goods and services from the yoke of state central planning or the removal of decades old set prices for consumer staples and services. On January 2, 1992, the “Measures to Liberate Prices” began with devastating results. Russia’s middle class suffered the most, many left virtually penniless as hyperinflation ballooned to over 2000 percent.

The inflation was so rampant, that the Russian ruble became virtually worthless. Workers were often paid using some form of barter, often with the products produced by the very factories in which the people were employed. If the factory produced tires or pots and pans, the workers were forced to use that product as their only viable currency. They would then try to sell these items for cash to buy food or trade them for things they needed to survive. Pensioners and the soldiers were not so lucky.

At the same time, reformers set about privatizing Russia’s largest industries. Anatoly Chubais himself spearheaded this initiative, under which Russian citizen were issued “vouchers” worth about ten thousand rubles (20 USD). Citizens could sell the voucher, exchange them for stock shares in soon-to-be privatized companies, or

invest them in one of 650 “voucher funds”. Sadly, most of the funds were little more than fraudulent pyramid schemes.

By the time 1992 came to a close, over 47,000 state companies had been privatized. The total reached just over 90,000 by December 1993. But less than 14 percent were privatized through public auction. Most were sold at shockingly low valuations through insider deals and options. This left the majority of the country’s wealth in the hands of a tiny oligarchy of former “red managers” who led these same factories under Soviet rule.

Public discontent and outrage over the privatization process fanned the flames of dissent against Yeltsin in the Russian Parliament, the Congress of People’s Deputies. Disenfranchised communists, bitter over the break up of the Union and Yeltsin’s takeover, tried to block economic reforms and demanded more social safety nets. Rather than acquiesce to their demands, President Yeltsin pushed for a new Russian constitution that would increase his powers. The deputies responded by demanding for the removal of Yeltsin’s chosen Prime Minister Ygor Gaidar in favor of the more consensus-oriented “moderate” Viktor Chernomyrdin. Eventually, Yeltsin agreed, on a *quid pro quo* basis, hoping he would win on his other issues. The Congress still refused to participate. This only served to enrage Yeltsin.

Yeltsin dissolved the Congress by decree and called for early elections. The deputies, in turn, moved to have Yeltsin deposed from power. On October 3, 1993, the anti—Yeltsin legislators then barricaded themselves in the Parliament building. Yelstin rallied his loyalists and ordered army tanks to fire on Parliament. Close to 140 people were killed, and another 150 arrested, in the ensuing mayhem. The violent conflict left Yeltsin firmly in control. He drafted his new constitution, which would imbue him with

“superpresidential” powers. It was ratified not by the Deputies, but by popular vote, on December 12 1993.

Yeltsin’s constitution also created a bicameral legislature consisting of the Federation Council (an “upper house” controlled by regional leaders) and the Duma (a “lower house” of elected local legislators). The president could also easily dissolve the Duma at any time, but the new rules also made it almost impossible to impeach the President. Furthermore, the new Duma had little say on who would hold positions in Yeltsin’s various ministries and posts. These measure served to dilute legislative power even further.

In 1994, with Chernomyrdin installed as the Prime Minister, the reign of the oligarchs truly began. The “Big Seven”, as they came to be known, consisted mostly of bankers and oil managers from the Russian *nomenklature*. Their stranglehold on the Russian economy was strengthened further in 1995, when Deputy Prime Minister Anatoly Chubais launched round two of the privatization initiative.

The “loans for shares” program transferred control of many of Russia's prime assets to seven bank executives for token sums. Vladimir O. Potanin, a onetime deputy prime minister for economic affairs under Chubais, was among them. Potanin led the powerful Unexim bank, and paid rock bottom prices for shares in some of the nation's most valuable corporate assets. He in turn enabled the Harvard Management Company, the university's endowment fund, to get in on two of Unexim's best deals, despite the fact that foreign investors were supposed to be excluded under auction rules. Chubais, Chernomyrdin and others also benefited handsomely.

The scandal outraged the Russian public. In 1995, angry voters supported Communists in record numbers, and the Communist Party came out on top, gaining 25

percent of the vote. Vladimir Zhirinovskiy's ultra-nationalist Liberal Democratic Party of Russia came in second. Chernomyrdin's moderate Our Home Is Russia party was a distant third. Things were looking bleak for Yeltsin and the would-be reformers.

Yeltsin's approval ratings plummeted to the single digits. He solicited the help of new media moguls Vladimir Gusinsky and Boris Berezovsky to launch a media campaign to bolster his ratings. Yeltsin's daughter Tanya was brought in to help improve his image and Anatoly Chubais was brought in as campaign manager. Through their combined efforts, Yeltsin eked out a narrow win over the Communists.

The ramifications of the reformers' policies soon caused a new crisis for Yeltsin's administration. Russia's stock market performed well for a time, rising 150 percent from June 1996 until June 1997. But by the fall of 1997, trouble in the Asian economic markets contributed to a downward spiral in the Russian stock exchange. Foreign investors began to withdraw. The already poor economic situation in Russia was worsened by falling oil prices (oil and gas equated to 75 percent of Russia's foreign currency earnings) and a government deficit equivalent to 7 percent of the GDP. A high tax rate and an ineffective tax collection system only made matters worse. Combined with "crony capitalism", crime, and corruption, Russia's economy was in peril.

In May 1998, foreign and domestic investors panicked<sup>1</sup> and began to sell government bonds, corporate stocks, and rubles. In a desperate attempt to save the ruble, the Russian Central Bank hiked the interest rates on government bonds to 200 percent per year and exhausted large amounts of Russia's foreign exchange reserves to buy back the

---

<sup>1</sup> According to Ariel Cohen, Several factors contributed to the drop in foreign investor confidence in the spring and early summer of 1998. The communist-dominated State Duma passed legislation prohibiting foreign ownership of more than 25 percent of the stock of Unified Energy Systems (UES), the national electrical monopoly, at a time when foreign ownership already was over 28 percent. Foreign investors became jittery when a huge government-owned oil company with oil reserves worth tens of billions of dollars that was slated to be privatized failed to attract any buyers at the asking price of \$2.1 billion. "Russia's Meltdown: Anatomy of the IMF Failure" The Heritage Foundation, 1998.

falling currency. The Central Bank could not support the ruble forever. Prime Minister Kirienko, chosen by Yeltsin as a more reliable political ally than his predecessor Chernomyrdin, soon called upon former First Deputy Prime Minister Anatoly Chubais to negotiate yet another bailout package with the International Monetary Fund (IMF). Chubais, in turn, went to old allies in the Clinton Administration to help lobby the IMF.

In July, the IMF Board announced a \$22.5 billion dollar international bailout package for Russia's troubled currency. The intention was to provide foreign currency reserves that would enable Russia to defend the ruble long enough to implement the political and economic reforms needed to achieve long—term stability. The IMF ordered that the exchange rate policy should remain broadly unchanged during the remainder of 1998. But in fact, the market mayhem halted for only two weeks.

Less than a month later, Prime Minister Kirienko announced that the government would allow the ruble to devalue by 34 percent by the end of the year. He also declared a 90-day foreign debt moratorium and announced a de facto default on the government's domestic bond obligations. Yelstin turned on his protégé after the unpopular announcement, firing Kirienko and bringing back his predecessor, Viktor Chernomyrdin. But Chernomyrdin, now mired in the loans for shares scandal, was unable to win confirmation from the frustrated Duma.

In the wake of the struggle, the Russian Central bank announced they could no longer protect the ruble. Currency traders worldwide dumped the troubled script, and in less than a month, the ruble's value deflated from 6.2 rubles to the dollar to over 20. On September 7, the Chairman of the Russian Central Bank, Professor Sergei Dubinin, himself a fellow architect of the reformers' economic policy, resigned.

In September, Yeltsin offered Foreign Minister Yevgeny Primakov the job of Prime Minister. Primakov had credibility with Communist hard-liners, having been a former head of Soviet and Russian external espionage and was a member of the last Soviet Politburo. He won the immediate and enthusiastic endorsement of the Duma.

But Primakov's popularity may have been his undoing. Yeltsin soon saw him as a political liability, and replaced him with Sergei Stepashin, a loyal protégé who himself had spent enough time in the security forces to mute criticism from the Communist voting bloc. Stepashin was also pro—economic reform, which helped mend some relationships with western creditors. Finally, Stepashin made it clear that Russia would not prevent NATO from intervening in the Balkans, a gesture of capitulation that let American and western European diplomats know that Russia would “play ball”.

But just as others before him, Stepashin soon fell out of Yeltsin's favor. In August 1999, Yelstin replaced him with by the relatively unknown head of the domestic security service, an obscure spy turned bureaucrat named Vladimir Putin. Closely associated with the Chubais Clan, Putin pushed a policy that reasserted Russia's right to crack down on internal dissent, even in the face of western objections. The more that westerners denounced the war in Chechnya, the more ruthlessly Putin seemed to pursue it. Putin also earned the political credit for this policy, and thus moved out of Yeltsin's shadow.

On December 31, 1999, Yeltsin resigned. He relinquished his powers to Putin, naming him acting President. Putin used his new title to help build political momentum, and he handily won in the March 2000 presidential elections.

Putin's presidency has been enigmatic. He favors broad answers on policy issues, making it difficult to determine what he will do in the future. He claims to be a promoter of democracy, yet he has attacked both the independent press and various religious

organizations, such as the Salvation Army and the YMCA. Most tellingly, Russia's "freedom score" has dropped under Putin's reign, suggesting a less than optimistic outlook for continued democratic reforms.

Some may question the importance of this topic in the post-9/11 world. Russia seems less threatening now, a fallen superpower beset with internal strife, while Muslim extremists seem to run rampant over the globe in search of western targets. But Russia still has a crucial role to play in the global future. If not a democratic friend, it may become a place where economic despair and lawlessness will create a frightening arms bazaar for the world's most dangerous terrorists and criminals.

Change may indeed have its enemies, and there is no real progress without sacrifice. But to turn our backs on the Russian Federation and the struggle for democracy is to create a post—modern enemy more dangerous than the Soviet Union.

Chapter Two analyzes the critics and supporters of the Russian reforms as they play the "Blame Game" in search of a scapegoat. In Chapter Three, the author identifies the factors behind the failure of reforms. Chapter Four offers suggestions for strengthening democratic institutions and offers concluding thoughts.

## Chapter Two

### The Blame Game

Current research on Russia's failed reforms can be divided into two schools of thought. The first contends that American advisors, particularly those chosen under the Clinton/ Gore administration, are the ones principally at fault. The second asserts that inept Russian officials are the real reason that reforms have failed. Both agree, however, that the goal of both American and Russian officials was to create a virtual "carbon copy" of the United States' democratic free market system. A fundamental flaw in this strategy is that it fails to account for the unique nature and worldview of the Russian people.<sup>2</sup>

#### *Critics*

The "American Influence" school of thought can be summarized as having three principle contentions. First, critics contend that the American media is in part to blame for not reporting more about the impact of U.S. involvement in Russia reforms. (Many suggest that media failure was the result of a misguided desire to protect American political interests.) Second, they also blame corrupt American advisors, who may have been more interested in lining their own pockets than actually helping the Russian transition to Democracy. Lastly, critics fault the Clinton/ Gore Administration itself, for having a lenient if not negligent approach towards Russian Democratization.

---

<sup>2</sup> Cohen, *Failed Crusade*, pg. 25 2000.

*Fault of the media.* Steven Cohen is the principal critic of the media's role in the scandal of failed Russian reforms. Cohen argues that journalists were not "doing their duty." He claims they were not reporting the truth of what was going on in Russia during this time of alleged "transition" and "reform". Coverage during this time (1992-1998), he claims, was: "Media coverage without Russia", painting a picture of Russia in rosy western terms while ignoring Russia's political and historical reality. 3

Cohen points to media-identified "banks" that were actually thinly-disguised money laundering outfits, "entrepreneurs" who were nothing more than self-serving confidence men, "privatized" industries that in reality still depended on massive government subsidies and the "bumpy road" to a free market system, which failed to mention a bloody civil war between competing would-be oligarchs.

Cohen also alleges that, by focussing solely on stock market numbers, the media misrepresented the world's worst economy as "the best-performing emergent market". He also cites the frequent use of the word *reform* to describe Russia's difficult transition. He believes the media deliberately ignored the reality: that self-proclaimed democratic reformers were in fact looting the country, creating widespread poverty. 4

Finally, Cohen asserts that, by suggesting that Russia might be reinvented as a mirror image of America, these journalists were unknowingly writing policy. At the core of the problem, in his view, is a fundamental ethnocentrism that prevents Americans from viewing their own institutions through the lens of another culture. 5

---

3 Cohen, S. *Failed Crusade*, pg. 44. 2000.

4 Cohen, S. *Failed Crusade* pp. 28-33. 2000.

5 Cohen S, *Failed Crusade* pg. 53. 2000

*Fault of advisors.* Many American corporate leaders, think tank experts and U.S. government officials dabbled in Russia's failed transformation. However, critics seem to focus the majority of their vitriol on U.S. economics advisor Jeffrey Sachs, a leader of the Harvard Project and architect of the "shock therapy" theory of economic redevelopment. Sachs' theory can be defined as a combination of the elimination of price controls on consumer goods, combined with privatization of national industries and stabilization of the economy through cautious and vigilant monetary policies.<sup>6</sup>

Critics allege that a key flaw of this theory is its reliance on western ideals of economic development, "ignoring the historical, cultural, and value of differences between nations."<sup>7</sup> In the case of Russia, shock therapy ignored the centuries-old tradition of maintaining some kind of "social safety net" for the Russian people. The removal of controls on consumer prices in turn removed a cultural bedrock that Russians have always counted on, leaving little refuge when inflation soared, savings dwindled, and earnings were nearly non-existent. But this phase of the plan neatly spared the Russian politicians and senior managers co-opted in to supporting the reforms. Buoyed by American aid and investment dollars, these new party bosses experienced "neither shock, nor therapy".<sup>8</sup>

Privatization was soon to follow, led by Anatoly Chubais, the Chairman of the State Property Management Committee. Chubais has been cited repeatedly by critics as a key figure who profited off the bargain-basement public sale of Russia's biggest industries. Chubais and his circle of similarly opportunistic colleagues, known popularly as the Chubais Clan, frequently colluded with western advisors to line their own

---

<sup>6</sup> Kotz, *Revolution From Above*, pg. 161. 1997

<sup>7</sup> Reddaway, *The Tragedy Of the Russian Reforms*, pg. 234. 2001

<sup>8</sup> Reddaway, *The Tragedy Of the Russian Reforms*, pg. 234. 2001

pockets.<sup>9</sup> Critics claim that it was shock therapy- and privatization in particular- that resulted in Russian robber baron “capitalism”, which was the “unavoidable product of the economic recipes purveyed” by the Yeltsin régime and Western shock therapists.<sup>10</sup>

The Harvard group has been accused of conspiring with the Chubais Clan in the loans for shares program, which provided would—be Russian corporate titans with the capital they needed to snatch up publicly offered shares of the newly privatized companies. The result was a slew of Russian corporations where members of the board controlled a greater percentage of the stock than the boards of most American companies. Harvard Group leader Andrei Shleifer, who was also in charge of USAID (United States Agency for International Development) funding to Russia under the IMF, approved the loans for shares program. Some of the Harvard team members, including Shleifer himself, are said to have invested “several hundred thousand dollars” of these funds in some of the Russian companies- personally profiting from insider information provided to them by the Chubais Clan.

Furthermore, as critic and cultural anthropologist Janie Wedel notes, the Harvard-Chubais alliance actively obstructed the road to reform when reform ideas came from outside their group or were seen as having interests conflicting with their own. For example, when a USAID—funded organization backed by the alliance did not receive additional funding as requested, both the Chubais Clan and the Harvard Group worked together to oppose legal reform in the title registration and mortgages sectors. These programs had been “launched by agencies of the Russian government”, but the alliance opposed it using an old-fashioned filibuster, effectively holding the legislation hostage

---

<sup>9</sup> Reddaway, *The Tragedy Of the Russian Reforms*, pg. 248. 2001

<sup>10</sup> Reddaway, *The Tragedy Of the Russian Reforms*, pg. 234. 2001

until they received the funds that they sought. 11 (There will be more to follow on the Harvard Group, the Chubais Clan and their policies in Chapter Three.)

*Fault of ambivalent US officials.* One way in which critics claim US officials failed Russia was by sending advisors who knew little to nothing about Russia; either politically or culturally. Cohen notes that instead of sending economists and scholars who had an extensive back ground in Russia, the U.S. administration sent individuals who had not the “first clue” about anything as it relates to the country they were supposed to help.<sup>12</sup> While being “good” economists, they were not Russian experts and knew nothing of the people or history of those they were trying to help.

Furthermore, they claim the U.S. government placed all of its efforts into one group of advisors.<sup>13</sup> They developed a close personal association with a few Russian officials instead of a consistent and principled approach to policy that transcended personalities. In other words, they focused on one group of young Russian reformers and one group of American economists to the exclusion of any other possibilities based on popularity vs. merit.

Second, the policy of the Clinton Administration was to focus on the economy and the executive branch. This left donor nations little room to truly follow the ideals of Democracy, e.g. creating what Diamond says is the most important element—the rule of law.<sup>14</sup>

The problem with their economic policy was that it focused on macro-management of the economy rather than focusing on the fundamentals of building institutions that would help sustain the new economy. The signing of the “Economic

---

11 Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*, pg. 151 2000

12 Cohen, S. *Failed Crusade*, pg 45, 2000

13 Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*, pg. 125. 2000

14 As we will see in Chapter 3. Reference to Larry Diamond and his concepts of *Liberal Democracy*.

Policy Memorandum” of February 27, 1992 bound Russia to the whims of the West and the IMF. This made the West and the IMF rulers of the “New Economic Policy” in Russia.

The IMF, together with the United States, pushed for rapid reforms and privatization. The leitmotifs of IMF involvement between 1992 and 1998 were “budget cuts, and deflation, with little regard for the social consequences.”<sup>15</sup> What occurred, as a result, was the buttressing of the Soviet Centrally Planned Economy, through never ending funding efforts by the IMF and the United States. This threatened the funds and created greater temptation for corrupt officials to take the monies for themselves, while applying the yoke of international debt to the Russian people. <sup>16</sup>

The Speaker's Advisory Group on Russia<sup>17</sup> contends that the Clinton Administration was reinforcing their own views and “excluding independent information, analyses, and recommendations from multiple intelligence professionals throughout the U.S. government. They were unable or unwilling to let facts guide policy, or even to make corrections once “problems” were brought to their attention in the face of increasing corruption and growing evidence of the failure of their policies. <sup>18</sup>

They contend that this behavior was deliberate as they refused to admit corruption on the part of their Russian counterparts and reformers. When top-secret intelligence was brought to Gore by the CIA concerning his Russian counterpart Viktor Chernomyrdin, he completely disregarded the information. Furthermore, the U.S. government actively encouraged a Yeltsin regime that enabled a small clique of predatory insiders to plunder Russia’s most valuable twentieth—century assets, a policy that continued during the early

---

15 Reddaway, *The Tragedy Of the Russian Reforms*, pg. 248. 2001

16 The Speaker’s Advisory Group On Russia-- <http://policy.house.gov/russia.html>

17 In March 2000, the Speaker of the House tasked the leadership of six committees of the House of Representatives to assess the results of U.S. policy toward Russia during the Yeltsin years.

18 The Speaker’s Advisory Group On Russia-- <http://policy.house.gov/russia.html>

months of Putin's rule, while most of its people were being impoverished and millions of them dying prematurely for lack of elementary resources. 19

Critics maintain that this "policy" directly led to the emergence of a strong mafia influence and rule of the oligarchy, which sent the "reforms" on a downward spiral. The oligarchic economy, created with the advice and assistance of the Clinton administration, also tightened the monopoly of "official" corruption over the Russian government and the large sector of the supposedly "privatized" economy that it influenced. This official corruption both stymied law enforcement and created a symbiotic relationship between corrupt Russian officials and organized crime, assisting them in laundering money and in the undertaking of other crimes. 20 This will be discussed further in the next chapter.

### *Supporters*

The supporters show a virtual domino effect of events and mistakes that lead to failure. They have three main contentions. 1) Fault of an already failed economy. 2) Fault of Russian officials who placed too much emphasis on reforming the economy. 3) Fault of Russian officials who did not focus enough on political reform that caused rifts between the parliament and the president.

*Fault of the already failed economy.* Supporters point to the four years of stymied reform under Mikhail Gorbachev that wrecked the control systems of the centrally planned economy. Also, the Soviets were bankrupt after being outspent from the Cold War. Furthermore, they point to the rupture of traditional economic links (the loss of agriculture and other natural resources from the Ukraine, the Baltics, etc.) resulting from the collapse of the Soviet Union which only further exasperated the problem. All of this

---

19 The Speaker's Advisory Group On Russia-- <http://policy.house.gov/russia.html>

20 The Speaker's Advisory Group On Russia-- <http://policy.house.gov/russia.html>

happening with the background of huge foreign debt accumulated over the last years of the Communist regime.<sup>21</sup> The new Russian government inherited massive debt and a failed economy, leaving little money to dedicate to effective reforms.

The Russian government therefore had to focus on getting the economy in order. It was the crippled state of the USSR that forced the new Russian state to shift from the transition between communism and democracy (in which it was successful for now) to now focus on economic prosperity.

*Fault of Russian officials who placed too much emphasis on reforming the economy.* Emphasis on the economy resulted from, in part, misunderstandings on the part of Russians stemming from the Marxist notion of the relationship between capitalism and democracy. They believed that in order to create a new democratic system, they must first aim for capitalist principles.<sup>22</sup> Yevgeny Yasin, a columnist for *Izvestiya* wrote:

“In order to gain stability, a democratic society needs a solid economic and social base, a developed market economy and a class of proprietors who have something to lose—a middle class that encompasses a significant part of the population. We do not have such a base. For this reason, our society will continue to suffer from extremism for a long time; people are having a tough time, and they are inclined to respond to the calls of those who promise quick and easy success; that is, they are susceptible to demagoguery. In this sense, the major dangers for our young democracy still lie ahead.”<sup>23</sup>

---

21 Gaidar, Institute For Economy In Transition International Conference. “Post-Communist Russia in the context of the global social and economic development” December 2000.

<http://www.iet.ru/publics/westnik/eng6.htm>

22 Mc Faul, pg. 145

23 Yasin, “A Normal Economy Is the Main Condition for Democracy” *Izvestiya*, August 27, 1991

Yeltsin's first priority was not the creation or consolidation of a new democratic political system. Rather, he decided that Russian independence and economic reform were greater priorities. Yeltsin advisors furthered this idea by telling him they had only a finite amount of time before trust in the Yeltsin plan would wane. Gaidar claimed that splitting focus between political and economic reform might result in failure of both. The idea behind shock therapy was to quickly make their reforms so that they would be irreversible in the event they were forced out of office. All other options which did not support the objective to "lock in market reform" were considered extraneous. 24 As Gaidar explained, "you cannot do everything at the same time." 25 The threat of Communist resurgence was still very real and the development of a free market system was seen as the best strategy to destroy this looming threat. 26

*Dissent from Parliament resulting from no political reforms.* The focus on the economy occurred to the detriment of political institutions. This resulted in the absence of co-operation between the president and the parliament, which was a fatal flaw in the reforms. 27 Mc Faul explains why the perceived balance of power between the executive and the legislative hindered any attempts at real reforms.

Usually, when a successful and peaceful democratic revolution occurs, a balance of power emerges between opposing sides. Because neither side is strong enough to prevail through aggressive means, they "opt to negotiate a resolution." 28 However, Mc Faul posits that, in the Soviet—Russian case, it appears the exact opposite is the case. 29

---

24 Mc Faul pg. 146

25 Mc Faul pg. 129

26 Yeltsin, *Midnight Diaries*, pg. 105. 2000

27 Talbot, *The Russia Hand*, pg 29, 2002

28 Mc Faul, *Russia's Unfinished Revolution*, pg. 17. 2002.

29 Mc Faul, *Russia's Unfinished Revolution*, pg. 18. 2002.

To support his claim, he states, “ambiguous calculations about power constitute a major cause of conflict.”<sup>30</sup> When one side underestimates the power of the other side, war or conflict is likely to ensue. Peace or conflict resolution occurs when both sides have a mutual understanding of the other’s power.

When the fall of Communism occurred in 1991, the balance of power switched wildly in the direction of Yeltsin and Democracy. He felt it necessary to secure the peaceful dissolution of the Soviet system, next, to focus on the economy and lastly, when the other two were assured; focus on developing Russian political institutions. The problem arose when changes were occurring in all three arenas simultaneously. Leaving political reform for last meant that he failed to detail the new rules of the game under the new system. This proved to be disastrous.<sup>31</sup>

Counter—revolutionary tendencies could be seen from the ancien régime resulting from Yeltsin’s forced acquisition of power. Because the transition was relatively uneventful, this gave the opposition an opportunity to organize a meaningful resistance. Since Yeltsin did not remove those who opposed him from positions of power this sent mixed messages to the people and gave an appearance of ambiguity in relation to the distribution of power within the government. Conflict between the two sides to determine the new rules of the game was the end result.<sup>32</sup>

Severe polarization within the government *nomenklature* continued between the Communists and the Democrats when Yeltsin introduced Gaidar’s concept of radical economic reform, “shock therapy”. When the time came to debate the reforms, they were met with strong resistance in the Russian Supreme Soviet from the Communists. The

---

30 Mc Faul, *Russia’s Unfinished Revolution*, pg. 17. 2002.

31 Mc Faul, *Russia’s Unfinished Revolution*, pg. 18. 2002.

32 Mc Faul, *Russia’s Unfinished Revolution*, pg. 162. 2002.

opposition demanded a one year safety net of state control of the market to avoid complete economic breakdown. This notion quickly gathered steam from those in the ancien regime who feared change and the loss of privilege under the Soviet system. 33

Polarization was most acute, with democrats supporting new market reform and strong presidential power with the CPRF diametrically opposed. This was most obvious looking from the outside—democrats occupying the executive with communists imbedded in the Congress of People’s Deputies.<sup>34</sup>

This came to a head when the President wished to make a new constitution ensuring his Presidential power. The opposition refused to participate. This led Yeltsin to draft Decree 1400 which called for the dissolution of the Congress of People’s Deputies, popular ratification of the new constitution and elections for a new bilateral Parliament in December 1993. 35

The opposition responded by appointing Yeltsin’s former Vice President Rutskoi the new President in the new interim government. He took up residence in the White House and locked Yeltsin out. Since he was a former General, he felt he could rely on the support of the military. Since opinion polls showed him to be more popular than Yeltsin, he felt his chances for success were good. Had he been assured of his demise before hand, he would have chosen an alternate course to end the conflict.<sup>36</sup>

Armed conflict ensued, initiated by Rutskoi against Russian State television, Yeltsin responded sending the army to take control of the White House. They did so,

---

33 Mc Faul, *Russia’s Unfinished Revolution*, pg. 167. 2002.

34 Mc Faul, *Russia’s Unfinished Revolution*, pg. 170. 2002.

35 Mc Faul, *Russia’s Unfinished Revolution*, pg. 196. 2002.

36 Mc Faul, *Russia’s Unfinished Revolution*. pg. 197

initially, with little gusto. But by the next day, the war between the parliament and the president was over, leaving hundreds dead. 37

Had the rules of the new regime been focused on from the beginning, conflicts between the two sides could not have occurred? Debates occurred over the rules themselves because they had not been clearly delineated. Not all issues can be handled through exclusively constitutional means, but if the rules of the game were clear, then the amount of extra-constitutional means would have been limited.<sup>38</sup> It was this policy that greatly set back Russian democratic reforms in the eyes of the supporters.<sup>39</sup> As Jessica Mathews, Former President, Carnegie Endowment for International Peace, said:

“The liberal reformers elevated by Yeltsin failed utterly to build a political and social base of support for the kind of reform course they wished to pursue.... and behaved as if getting the macroeconomic stability numbers right would somehow automatically lead to growth and prosperity.”

Supporters of the reforms would contend that these initial “mistakes” would be overcome by political reform that would take place between 1993 and 1996. The second drafting of the constitution “clearly” defined the president’s powers and the results of the 1996 Presidential election reaffirming the people did not wish to return to the old ways of communism and ended resistance from the opposition. As well as the restoration of the balance of power with in the parliament.

They also do not like to think of the reform as a failure. Perhaps this was because so many of them played roles in the process. Focus on the economy and lack of political institutions was seen merely as “mistakes” on the part of Russians resulting from their

---

37 Mc Faul, *Russia's Unfinished Revolution*. pg. 198

38 Mc Faul, *Russia's Unfinished Revolution*. pg. 198

39 Talbot, *The Russia Hand*, pg. 29. 2002

market naïveté. The Russian government was “as clueless” as it was “helpless.” 40 Poor “ol’ Boris”<sup>41</sup> did the best with what he was given, is the overall tone. They want us to focus on what did not occur. Things could have been much worse.<sup>42</sup> Perhaps things could have been worse, but much more than naïveté was at work.

While the supporters of the reforms hailed the Clinton Administration as the only people who could have made reforms possible<sup>43</sup>, the critics would claim they drove the reforms into the ground. The critics are too harsh on the Clinton Administration, claiming his stance on Russia was disinterested at best and encouraging Russian corruption at it’s worst. But, to claim Clinton did not care about Russia is to be disingenuous. Furthermore, taking a firmer stance on corruption within the Russian government would have only further strained relations between the former enemies.

There is also virtually no mention of corruption on the part of western advisors or the Clinton camp from supporters. There are only remarks made in passing. Many of them, Mc Faul, Talbott, Aslund and obviously Yeltsin, to name a few, are intimately connected with both groups. This implies a possible desire to rewrite history as if these events are completely irrelevant to the failure of the reforms.

Both sides of the story seem to be leaving bits and pieces out. While they are playing the blame game or covering their eyes like children, the truth is being lost in the quagmire. As we will see in Chapter Three, as it usually is in life, the truth lies some where in between both sides.

---

40 Anders Aslund, *Russia In Turmoil*, October 1998 <http://www.ciaonet.org/wps/hoa01/>

41 Talbot, *The Russia Hand*, pg. 154, 2002

42 Talbot, *The Russian Hand*, pg. 408, 2002

43 Yeltsin, *Midnight Diaries*, pg. 134 2000

## Chapter Three

### The Failure Of Reform: Key Factors

Why have democratic reforms failed to take hold in Russia?

Experts have scoured the country's political landscape, searching for a likely villain. Was it Yeltsin, who ruled by decree rather than Democratic process? Or perhaps the Clinton Administration's lack of interest in Russian reform? What about the Russian mob, whose violent extremes undermine the country through corruption and coercion? Or was it the Russian people themselves, who sometimes seem to resent the free market system so much that they publicly yearn for the days of Communist rule?

But the reality is not so simple. Like a Russian sloika cake, the failure of reform is multi-layered, the product of cultural and historical motifs, piled one on top of another. Three key factors, however, stand out. Russian democratic reforms have failed due to: 1) The Political Culture and World View of the Russian people, 2) An absence of strong Democratic Institutions and 3) Corruption among both American and Russian officials.

#### *Political Culture and World View*

Democratic theorist Larry Diamond defines Political Culture as “a people's predominant beliefs, attitudes, values, ideals, sentiments, and evaluations about the political system of their country and the role of the self in that system.” 44

---

44 Diamond, *Developing Democracy*, pg. 163. 1999

Let us start with the building block of democratic society, the individual. When Diamond writes of the “role of the self” in a political culture, we must consider the impact of Fatalism as an underlying leitmotif on the Russian psyche. Fatalism can be defined as the “belief that every event is bound to happen and it does not matter what we do about it. Fatalism is the most extreme form of causal determinism, since it denies that human actions have any causal efficacy.” 45

This can be likened to the state of “learned helplessness”, a term clinical psychologists use to describe sufferers who have given up on trying to effect change themselves, but rather simply “hope for the best”. Russian Fatalism can be seen, at least in part, as the product of centuries of centralized, authoritarian rule by Tsars and Soviets.

During the rule of the Tsars, the monarchy held absolute control over a repressive and strictly delineated caste system. Position on the socioeconomic ladder defined the prospects for social mobility, with little movement between (or even within) the castes. Periodic “reforms” only seemed to support the Russian suspicion that change was not necessarily for the better or with their best interests in mind.

Peter the Great fueled both these fatalistic urges and the Russian propensity for *Xenophobia* with his famed “Revolution From Above”.46 His aspiration was to transform his nobility from a group of backward hedonists into a modern, educated, dynamic class that would uplift Russia through enlightened thought and actions. But while he may have achieved his goal of creating a “European Elite”, the Western clothes, language and other social niceties only served to deepen the divide between the landed nobility and the peasants who provided them with their wealth. The average serf saw this

---

45 Philosophical Dictionary of Names and Terms On- Line. <http://www.philosophypages.com/dy/f.htm>

46 English, Robert. 2000. <http://www.ciaonet.org/book/english/CH-01.pdf>

outside cultural influence as little more than a change of clothes and courtesies for the Russian elite.

In fact, life changed little for the Russian peasantry throughout the centuries of Tsarist rule. Tied to their land and beholden to the moneyed gentry, they lived short, hard lives. To challenge this status quo (regardless of social rank) was to risk the often-brutal wrath of the Tsar, as it did in 1825, when Nicholas I ordered the bloody suppression of the revolution-minded Decembrists in St. Petersburg.

Nicholas' successor Alexander II instituted some civil and agrarian reforms, most significantly freeing indentured serfs from their age-old bonds to landed nobles in 1861. But this reform was muted by the still—centralized political reality, as described by British journalist and historian Stephen Graham:

“(The large landowners) lived in St. Petersburg or some other great city. They did not farm their estates. They had stewards who administered their property and collected the revenue. They had numbers of serfs paying a handsome annual tribute for their partial freedom, a tribute which the landowners' agents strove incessantly to increase.”<sup>47</sup>

While Alexander II's failure to adopt more sweeping democratic reforms eventually resulted in his death in 1881 at the hand of socialist revolutionaries, the Russian people saw little benefit from this regime change. He was replaced by an even stricter monarchist: his second son, Alexander Romanov. Alexander III openly targeted those who advocated political changes and social reforms. He cracked down on religious freedoms, supporting a policy of “Russification” to erase ethnic identities. He also moved

---

<sup>47</sup> Graham, *Alexander II*, <http://www.spartacus.schoolnet.co.uk/RUSalexander2.htm>

to undo or at the very least circumvent most of his father's modest reforms. This resulted in demoralizing conditions for the average Russian, with little hope of recourse:

“As far (sic) as the urban workers, things were no better. The government intervened in disputes between the workers and their employees when it came to wages and labor contracts. There were stiff penalties for strikes and the instigation of strikes. Factory boards and supervisors supervised everything.”<sup>48</sup>

Alexander III survived several assassination attempts, only to die at an early age of natural causes.<sup>49</sup> As his son Nicholas II took the reigns of power, he saw a Russia drifting away from Tsarist rule. He responded by denouncing reformers, and relocated his family to the secluded confines of Alexander Palace in Tsarskoe Selo. The endgame had begun for the Tsars, but even those who sympathized with both reformers and the monarchy felt a centralized government was still the state's best hope for survival. They tempered their words with deference to the need for a strong, centralized government.

Consider this memorandum to Nicholas II from his Chief Minister, Sergei Witte:

“The great danger which resulted from centuries of stagnation, and threatened our country's very survival, calls for unity among us and the formation of a strong authoritative government that will be backed by the people's confidence- this alone can rescue our country from present chaos.”<sup>50</sup>

Russians who sought political change found little encouragement in Orthodox Church pews either. Throughout the time of the monarchy, church leaders taught that the

---

<sup>48</sup> Rempel, *Reform and Reaction Under Alexander II and III*,

<http://mars.acnet.wnec.edu/~grempe/courses/russia/lectures/22reactreform.html>

<sup>49</sup> Tsar Alexander III died at the age of 49 as a result of an infection from a bruise.

<sup>50</sup> Witte, *Memorandum Witte to Nicholas (October 1905)*,

<http://www.strath.ac.uk/Departments/History/c30366.htm>

Tsars were anointed by God, and therefore predestined to rule. Moreover, the church's concept of pre—destiny extended to each and every Russian. Serfs were told that if they were born as serfs, it was God's will that they should toil in the fields, encouraging them to be content with their predetermined lot in life.<sup>51</sup>

The October Revolution of 1917 seemed to offer the real prospect of change for Russia's oppressed poor, but in many ways the Bolsheviks only transformed existing institutions. They replaced loyalty to the double-headed eagle of the Tsars with devotion to the hammer and sickle of the Soviet worker. But while a peasant farm boy might now indeed rise to become Premier one day (ala Nikita Khrushchev), the Bolsheviks stressed the importance of the "labor collective" over the needs of the individual. The promise of the redistribution of wealth alone was to be considered adequate reward, rather than encouraging the achievement of individual goals. As the Soviet system matured, the extent of a Russian worker's political power was to vote "yes" to a slate of Communist party candidates. The "role of the self" of the average Russian had been quickly reduced to effectively "rubber—stamping" the new but equally centralized authoritarian system.

The soviets taught that the West was filled with evil "capitalist pigs" hell bent on imperialism and building wealth only for a few and they were, therefore, superior. Propaganda was geared at furthering the concept of the collective by breaking down individual and group differences into one soviet proletariat.

Finally, the divine right of the Tsars was simply replaced by the inescapable inevitability of global Communist revolution. In her analytical report, *Ten Years of Russia's Reforms as Seen by Her Citizens*, Sociologist Zinaida Sikevich notes:

---

<sup>51</sup> Hosking, *Russia*, pg. 227.1997

“When the Soviets took power through the October Revolution of 1917, they replaced God with themselves... Russia's Christian Orthodox self-identification was transformed into class self-identification and the belief in the Kingdom of God was replaced with that in the inevitable coming of Communism. This is why now the system of liberal values is opposed not just by the Soviet but also by the traditional Russian psychology.”<sup>52</sup>

In the end, both Tsars and Soviets served to convince the Russian people that effecting change, as an individual was an unlikely, even far—fetched possibility. Sikevich has found that things have not improved in the aftermath of the Soviets, and that most Russians appear to harbor profound doubt about the benefits of a free market system.

In 2000, Sikevich conducted a poll on behalf of the Rosbalt News Agency:

“For its supporters, socialism represents not only justice but also 'true freedom' and 'happy life', while capitalism is a phantom society where everything is untrue, where instead of freedom there is only its semblance, civil rights existing on paper only and life itself being illusory. While the former system 'held social guarantees for everyone', as believed by 12.3% of the respondents, the present one, according to 6.9%, is 'the sinecure of thieves' where 'only bandits and thieves thrive'. Besides, many think socialism means 'the power of the people', existing for the

---

<sup>52</sup> Zinaida Sikevich., with the Rosbalt News Agency, a reputed sociologist from St. Petersburg, presented her analytical report 'Ten Years of Russia's Reforms as Seen by Her Citizens'. The materials Mrs. Sikevich presented concerned the specifics of Russia's - and St. Petersburg's - society. March 19, 2002. <http://www.rosbaltnews.com/2002/03/29/41485.html>

people and in the interests of the people, while capitalism is 'the power of money', that is, of the rich.” 53

Indeed, Sikevich’s poll seems to suggest that most Russians believe “hoping for the best” is all they can do:

“The core of the traditional and mostly unconscious Russian outlook is the belief in favorable fate and the hope that things will 'somehow work out'. This is why 83.6% of all respondents in a poll conducted in St. Petersburg in 2000 agreed with the old saying 'whatever is done is for the better', singling it out of 42 proverbs offered. These words are the quintessence of the typical Russian optimistic fatalism coexisting with passivity and non-interference with life that goes on as if 'all by itself', while people think, 'All I can do is hope' or 'Let's hope for some luck'.”54

This attitude, while in some ways benign, strikes a sharp contrast to Western democracies. Consider the political culture that helped shaped America’s infant republic. Our nation’s founding fathers, fueled by the Puritan work ethic, the quest for religious freedom and a history of dissent, built their governing documents upon the rights of the individual, and the individual’s capacity to make their voice heard.

To this end, the author of this paper conducted an informal poll during a June 2001 visit to the Russian Federation. The question, put to 30 young Russians between the ages of 19 and 32, was this: Was the human cost of Stalin’s rule worth the gains to Soviet society? While most (25 out of 30, representing 83.3% of the sample) agreed with the statement that “terrible things” had happened under Stalin’s rule, they felt that in the end

---

53 Rosbalt News Agency, Zinaida Sikevich.

54 Rosbalt News Agency, Zinaida Sikevich.

Russia had a strong industrial complex and emerged as a superpower, so ultimately what happened was for the best.

Later that same visit, a Russian acquaintance asked if “you really believe all that American nonsense about individual power?” I replied that I did, and that American history supported a pattern of individuals successfully effecting change. “That’s nice,” he said with a smile, “but in Russia, the average Russian has one life, and the politician has another. Their lives do not cross. This is why we are not interested in involving ourselves with politics, as you do. It is not for us. We are at the whims of our leaders.” He did not believe the individual could make a difference in Russia. His friends all agreed.

It is against this backdrop that we see an inherent conflict emerge: the independent West vs. the fatalistic East. An active populous, as we will see shortly, is key to developing (and sustaining) a thriving liberal democracy. Ambivalence only serves to hamper this process. The worldview and political culture of the Russian people, in fact, has been shaped in a manner so diametrically opposed to some fundamental democratic ideals, that the post—Soviet political climate would prove to be rocky terrain for the future of liberal democracy.

### *No Strong Democratic Institutions*

After the fall of the Soviet Union, political optimists hoped that democratic elections would signal the birth of a western—style executive branch, legislature and judiciary. But, as we will see, Russian leaders would not abandon their past so quickly.

President Boris Yeltsin and his administration didn’t take long to develop a simple modus operandi for dealing with existing state institutions. As with the Bolsheviks

before them, their plan was often: “co-option, not coercion or dissolution.”<sup>55</sup> A key indicator: only those directly involved with the 1991 coup attempt were ousted from power. Many longtime central committee members and politburo officials were allowed instead to retain their rank and accrued power. Yeltsin’s policy, in effect, was to minimize resistance to reform by changing the established institutions in name only, so that he might gain the allegiance of these ministers for his new regime. Critics allege that most of these “converts” were motivated not out of love of the new democracy, but rather simply by personal gain. Yeltsin frequently offered them bribes in the form of vacations, new dachas<sup>56</sup>, money, etc. The policy became so endemic to the new government it earned a name: “dacha politics”.<sup>57</sup>

Yeltsin’s own political predilections also served to undermine his own appointees. When he felt eclipsed or threatened by someone, regardless of rank or tenure, he would not hesitate to replace them:

“Yeltsin had all but made a parlor game of the constant reshuffling his ministers; during one eighteen-month stretch, Yeltsin hired and fired four prime ministers. His desire to control politics in Russia meant that it was important to topple any would-be successors before his own role was challenged.”<sup>58</sup>

Nor would Yeltsin hesitate to spare even his most loyal deputies, should political necessity demand it. When the free market “shock therapy” policy grew increasingly unpopular and showed signs of failure, though he heavily endorsed it, he fired his Prime Minister Ygor Gaidar. The namesake of the young reformers group known as the

---

<sup>55</sup> McFaul, *Russia’s Unfinished Revolution*, pg. 133.2001

<sup>56</sup> Summer homes in the country side.

<sup>57</sup> Huskey, *Presidential Power in Russia*, pg. 39. 1999

<sup>58</sup> Moon, *Yeltsin and Chechnya*,

[http://www.unc.edu/depts/diplomat/AD\\_Issues/moon\\_yeltsin.html#Bottom%20of%20page%201](http://www.unc.edu/depts/diplomat/AD_Issues/moon_yeltsin.html#Bottom%20of%20page%201)

“Chubais Clan”, Anatoly Chubais fared no better when his privatization plan also failed in public opinion. Yeltsin gave him up to the *volkii* as well.<sup>59</sup> But as he often did, he would rehire many of those he fired to other positions within the government. Yeltsin referred to this policy as “reshuffling the deck.” The cumulative effect was widespread dissent and instability in the executive branch.<sup>60</sup>

Yeltsin also subscribed to an old Soviet caveat: institutional redundancy. He hired so many people that the Russian executive branch quickly ballooned into an unwieldy mess. He placated dissenters, however, by incorporating them into his administration. It also served as simple favor trading, providing jobs to otherwise unemployed Communist party *apparatchiki*. Finally, it helped Yeltsin establish an insulating layer of loyal subordinates, protecting him from rivals within his own government.<sup>61</sup>

The result was a governing entity as rife with cronyism as New York’s infamous Tammany Hall, with rival politicians competing with one another for Yeltsin’s favor and attention, as multiple ministries and offices held overlapping interests and missions. Ministries were even created to monitor other ministries, mirroring the pre-collapse era of interwoven Soviet “minders.” Perhaps more significantly, since currying Yeltsin’s favor was part of insuring continued employment and favor, rival coteries would race to see who could achieve one of the President’s objectives faster or better. But rather than spark a healthy and constructive competition, this jockeying for position created monumental bureaucratic inefficiency that only served to undermine the public’s faith in their new governing institutions.<sup>62</sup>

---

<sup>59</sup> Russian meaning “wolves.”

<sup>60</sup> Huskey, *Presidential Power in Russia*, pg. 40. 1999

<sup>61</sup> Huskey, *Presidential Power in Russia*, pg. 40. 1999

<sup>62</sup> Huskey, *Presidential Power in Russia*, pg. 55. 1999

The second Russian constitution (1993) did little to reassure a skeptical public. Rather than employ an American—style system of clear checks and balances, the new Russian constitution was written in such a way that the president was not horizontally accountable to anyone. Yeltsin had in effect given himself “super-presidential” powers, granting him the power to rule by decree and, echoing the power of the Tsar, to dissolve the State Duma at will. In fact, the phrase “Democracy by Decree” is sometimes used to characterize Yeltsin’s ersatz imperial presidency, since he used this power to silence opposition on more than one occasion.<sup>63</sup>

Legislative bodies also fared poorly under Yeltsin. His long rivalry with the Communist and conservative—dominated Congress of People’s Deputies led to Yeltsin’s questionably legal declaration that new elections would be held for the Congress. The announcement sparked days of street fighting, as army units and interior ministry forces loyal to Yeltsin battled supporters of the besieged Deputies. It culminated in attacks on both the Russian Parliament building and Yeltsin’s “White House”, but in the end Yeltsin and his forces prevailed. Dozens of rebellious legislators, along with over a hundred of their supporters, died in the battle, many as army tanks fired on the Parliament building.<sup>64</sup>

Members of the State Duma, often conscious of their precarious position under Yeltsin’s rule, often criticized the President but were constitutionally incapable of providing meaningful opposition. A watershed failure of the Duma came in the summer of 1999, after President Yeltsin removed popular Prime Minister Yevgeny Primakov. While a change in Prime Ministers was a frequent event during Yeltsin’s rule, this removal seemed to run clearly contrary to the will of the people:

---

63 Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*, pg. 142. 2001

64 Mc Faul. *Russia’s Unfinished Revolution*. pg.198. 2001

“Primakov was popular among not only the Communist-oriented parliamentary majority, but also the Russian people. At the time of his firing, Primakov’s approval rating was 68 percent- a sharp contrast with President Boris Yeltsin’s 2 percent support. In one survey, 81 percent of Russians have expressed over his ouster. A broad group within Russia’s political elite also has denounced Primakov’s dismissal, including all of Russia’s major presidential candidates.”<sup>65</sup>

Perhaps even more egregious, Yeltsin proposed to replace the consensus—building , economy-minded Primakov with former Russian “top cop” Sergei Stepashin. The announcement came at a time of profound financial crisis for Russia, as the country suffered from the failures of the “shock therapy” policies. Public outrage was palpable; many viewed Yeltsin’s decision as a political power play at their expense. Still, when confronted with this obvious attempt to diminish the power of the Prime Minister (and by extension, themselves), the Duma reacted by paying lip service to the cause of legislative resistance, but ultimately backed down:

“Many deputies initially said that they would not support Stepashin’s appointment. But the threat that Yeltsin would offer an even less palatable candidate and dismiss the Duma if it failed to confirm him pushed an increasing number to say they vote(sic) for the former interior minister.”<sup>66</sup>

It was clear that, under Soviet rule, the Russian people could expect little from the Duma but implied consent. As with the old days of Communist party elections, when

---

<sup>65</sup> Simes, *‘U.S. Shouldn’t Be Betting On Yeltsin’*, from *Newsday*, June 9, 1999, p. A40, [http://www.nixoncenter.org/publications/articles/6\\_9yeltsin.htm](http://www.nixoncenter.org/publications/articles/6_9yeltsin.htm)

<sup>66</sup> Larina, *‘Primakov Sacking Reflects Ongoing Political Crisis’*, from *The Russia Journal*, May 17, 1999, <http://www.therussiajournal.com/index.htm?obj=554>

citizens could either vote for the Communist Party candidates or simply vote no (an unthinkable act of political heresy), the new legislature offered little hope of real democratic reform for freedom-seeking Russians.

With the executive branch a bastion of authoritarian rule, and the legislature reduced to a toothless assemblage of would-be power brokers, the Russian judiciary represented the last chance for some degree of real democratic reform. But if one studies the judiciary from Yeltsin's reign to that of President Vladimir Putin today, one could say it is "as if the Soviet Union had not collapsed".

The first round of attempted reforms on Russia's judicial system ended in 1992 and ended with little success. But Yeltsin seemed content to let the matter drop. Vyacheslav Nikonov, a former Yeltsin political adviser said, "Yeltsin couldn't pass anything through the Duma (on judicial reform) and wasn't really eager to."<sup>67</sup>

As a result, Russian judges face a daunting task. Their rulings are often ignored, robbing them of the force of law. (Rulings involving politically powerful plaintiffs are a notable exception.) A poorly defined judicial hierarchy provides those with the money to do so many means to appeal, undermine or overturn a judge's decision. The court system is understaffed, with a plethora of cases and a shortage of qualified jurists, even courtrooms, to hear them. Finally, the chronically low pay for Russian judges (as little as \$200 a month in Moscow, half that in the rural provinces) has led many judges to depend on the benevolence of attorneys, and for some to seek bribes as well:

---

<sup>67</sup> Baker, *Putin Pushes Reforms, With Power* 2001.  
<http://216.239.39.100/search?q=cache:RVK4JWBK80cC:www.fbird.com/articles/Putin.pdf+Judicial+reform+Yeltsin+%22corrupt+judges%22&hl=en&ie=UTF-8>

“There are anecdotal reports of judges being on retainer to law offices; of judges setting their bribe amount as a percentage of the claim; of lawyers paying for judges' office supplies because the government would not do so.”<sup>68</sup>

President Putin even acknowledges the issue, speaking in support of a strong judiciary in his book, *First Person*. When asked why a vital judiciary was important to the future of Russia, he answered:

“The courts must work—as must the law enforcement agencies and the courts arbitration. The role of these agencies has changed, and we refuse to understand that. Their role has begun to correspond to what is written in the law. Why don't we pay the judges and law enforcement agents the money that they deserve? Because Soviet ideology governs our consciousness to this day. Remember how we use to think: ‘Well, a court, what's that? Nothing special. The District Party Committee is the body that makes all of the decisions. It's important. And what will judges do? They will do what they are told.’”<sup>69</sup>

Putin argues that the Russian people simply need to understand the importance of a strong judiciary in a democratic society, and the value of paying judges a good salary. But the likelihood of this political sea change taking place is a real question in a country where influential forces including corrupt politicians, law—evading business tycoons and Russian mob leaders have a lot to lose from a strong judicial system.

The fact is, the prospect of dramatic change, in any of these three pillars of democratic governance, the presidency, the legislature, the judiciary, is unlikely. So

---

<sup>68</sup> Cohen, Ariel. The Heritage Foundation, 1998.  
<http://www.heritage.org/Research/RussiaandEurasia/BG1228.cfm>  
<sup>69</sup> Putin, *First Person*, pg. 182. 2000

where does that leave the Russian people? In truth, some analysts still laud the achievements of the Russian government in the years since the Soviet collapse:

“Russians today enjoy the basic freedoms- of speech, of assembly, of religion- that are the hallmarks of a free society. Russia has dismantled the command economy, transferring most economic power to private hands.”<sup>70</sup>

Supporters of the reforms, both Russian and foreign, seem to recognize that changes came at the cost of some personal freedoms, and indeed the lives, of many Russians. For some, the Machiavellian rationale of “the ends justify the means” may excuse Yeltsin and Putin’s decree-driven policies as a necessary evil and damage merely collateral. But even their staunchest backers should be able to concede that Russia could not be described as a *Liberal Democracy*.

Political scientist Adam Przeworski defines Democracy as simply, “a regime in which governmental offices are filled as a consequence of contested elections.”<sup>71</sup> Under this definition, Russia seems to size up. But when we speak of Democracy as a form of constitutionally based government, democratic theorist Larry Diamond argues that we are instead referring to a *Liberal Democracy*, as originally conceived by the American Federalists. Liberal in this context refers not to modern political leanings, but rather a system in which individual and group *liberties* are well protected. <sup>72</sup>

Diamond believes that Liberal Democracies possess three distinguishing factors. First, “the absence of reserved domains of power for the military or other actors not accountable to the electorate, directly or indirectly.” Second, “in addition to the vertical

---

<sup>70</sup> Daadler & Hill, ‘*Get Over It, Mr. Bush: The Cold War Has Finished*’, Brookings Institution, 2001

<sup>71</sup> Diamond, *Developing Democracy: Toward Consolidation*. pg.6. 1999

<sup>72</sup> Diamond, *Developing Democracy: Toward Consolidation*., pg.12. 1999

accountability of rulers to the ruled, it requires the horizontal accountability of officeholders to one another; this constrains executive power”. Third, “ it encompasses extensive provisions for political and civic pluralism as well as for individual and group freedoms.” 73

But under an *Electoral or “Illiberal” Democracy*, these ideals and certain key democratic freedoms (such as freedom of the press, speech, organization and assembly) are addressed but not necessarily insured. The government may support them publicly and even argue strenuously that they are being observed. But the political reality may be altogether different. Significant parts of the population are often excluded from the political process and kept from defending their agendas, even though electoral pluralism is considered to be in place. Typically, it is the poor and ethnic minorities who find themselves marginalized under such a government. Furthermore, under electoral democracy, most leaders are not held accountable by a system of supervisory checks and balances, nor is there a bona fide *rule of law*.74

An analysis suggests that Russia’s current state seems closer to this definition, of an Electoral or Illiberal Democracy, than to that of a Liberal Democracy. Returning to Diamond’s criteria, we find a checklist of conditions conducive to a Liberal Democracy. By reviewing them, we may better identify the fundamentally flawed underpinnings of Russia’s current Democratic reforms.

Under a Liberal Democracy:

---

73 Diamond, *Developing Democracy: Toward Consolidation*, pg.10. 1999

74 Diamond, *Developing Democracy: Toward Consolidation*. pg.8. 1999

- Executive power is constrained, constitutionally and in fact, by the autonomous power of other government institutions (such as an independent judiciary, parliament, and other mechanisms of horizontal accountability)
- Control of the state and its key decisions and allocations lies, in fact as well as in constitutional theory, with (democratically) elected officials of the state; in particular, the military is subordinate to the authority of elected civilian officials.
- Electoral outcomes are uncertain. The opposition vote is significant and there is a presumption of party alteration in government. No group that adheres to constitutional principles is denied the right to create a party and contest elections.
- No group (regardless of ethnicity, culture or religious beliefs) is kept from expressing their interests in the political process or from speaking their language or practicing their culture.
- Citizens have continuous and numerous avenues to express and have their voices be represented—these include independent associations and movements, which they may elect to join.
- Sources of information, aside from government information, (to include an independent media) are easily accessible.
- The individual is granted extensive freedoms as they relate to speech, belief, opinion, expression, demonstration and petition.
- All citizens are equal under the law, even if they have few political resources.
- Groups, as well as individual liberties are protect by an independent judiciary—their decisions are respected and upheld by other sources of power. 75

---

75 Diamond, pg. 11, 1999

Diamond also suggests that these criteria imply an eleventh condition: “if political authority is to be constrained and balanced, individual and minority rights protected, and rule of law assured, democracy requires a constitution that is supreme.”<sup>76</sup>

The rule of law may sound grandiose, but in fact Diamond believes that it is a very tangible concept that is experienced empirically by citizens of a Liberal Democracy, who in turn are more likely to support their government. Leaders who support the right of individuals to vote in valid elections, who allow citizens of all ethnic groups to share in a culture’s wealth and speak without fear of reprisal, inspire participation by the populace.

He argues that:

“The citizenry will be more likely to favor democracy if they have faith in their leaders. As, their leaders give them greater freedoms and protection through the rule of law, citizens will have a higher approval rate of Democracy. The regime should also focus on human rights to help ensure legitimacy among its people. It is through a liberal form of democracy that this high rate of legitimacy is obtained.”<sup>77</sup>

Following this line of reasoning, the legitimacy of elected leaders is paramount, particularly in a newly established Democracy. Even if a country seems to be fairing well in Democratic development, if legitimacy wanes, then Democracy can itself crumble.<sup>78</sup>

---

<sup>76</sup> Diamond, *Developing Democracy: Toward Consolidation*. Pg.12 1999

<sup>77</sup> Diamond, Larry. “Assessing Global Democratization a Decade after the Communist Collapse.” Address to the Workshop on Democratization, New Europe College and Romanian Academic Society, Bucharest May 6, 2002 [http://www.stanford.edu/~ldiamond/papers/romania\\_speech.pdf](http://www.stanford.edu/~ldiamond/papers/romania_speech.pdf).

<sup>78</sup> Diamond, *Developing Democracy: Toward Consolidation*. Pg.12 1999

Subjected to this standard, it is easy to see how the Yelstin and Putin administrations might fail to inspire the confidence and participation of their citizens.

But not everyone feels that Democracies need to meet these criteria to be deemed successful. Critic Thomas Carothers, for one, dismisses the importance of the rule of law:

“In quite a few countries that are considered well-established Western democracies- and that hold themselves out to developing and post-communist countries as examples of the sorts of political systems that those countries should emulate- one finds various shortcomings: (1) Court systems that are substantially overrun with cases to the point where justice is delayed on a regular basis;(2) Substantial groups of people, usually minorities, are discriminated against and unable to find adequate remedies within the civil legal system; (3) The criminal law system chronically mistreats selected groups of people, again, usually minorities; and (4) Top politicians often manage to abuse the law with impunity, and political corruption is common.”<sup>79</sup>

Carothers’ argument is, of course, not without precedent in American history. The United States has certainly had a poor record when it comes to the treatment of African-Americans and other minorities, with oppressive voting laws in effect as late as the 1960s. Indeed, some still argue that black and Latino youths continue to suffer at the hands of an inequitable court system, and a slew of recent death penalty cases have been overturned on that basis. It’s even possible to consider the last U.S. presidential election, cast in doubt by the vote—counting conflagration that followed, an example of a political crisis that made some question the fundamental rule of law.

---

<sup>79</sup> Carothers, Thomas. *Promoting the Rule of Law Abroad: The Problem of Knowledge*: Carnegie Endowment for International Peace. 2002

But while these issues and others can, when taken as a whole, certainly could reflect poorly on America's Freedom Score, they cannot damage it sufficiently to leave any question as to whether or not the United States is in fact a Liberal Democracy with a strong rule of law. The fact is, these ills have been remedied, or at least addressed, and the aggrieved parties all had some redress under the rule of law. Supervisors of elections were challenged, sued and ordered to abandon Civil War—era voting laws. Governors were presented with evidence of unjust convictions, and granted pardons to the questionably imprisoned. And while not everyone was happy with the ultimate outcome of 2000 presidential election, the issue was at least heard before the highest court in the land, the U.S. Supreme Court. One wonders if any of these avenues would have been explored, or any changes realized, in a society where the rule of law does not exist and constitutional rights were not duly protected.

By contrast, Liberal Democracy does not exist in Russia because the political leaders have failed to demonstrate a fundamental commitment to the principles of democracy and to democratic institutions, (including a strong civil society and free press) what Diamond refers to as “political—will.”<sup>80</sup>

Freedom of the press is severely curtailed in Russia. While Yeltsin promised to further the aims of perestroika and glasnost', he did not hesitate to suppress independent voices when they grew sufficiently critical.<sup>81</sup> Putin has fared even worse. In the process, Russians have learned that to express real dissent is to risk a raid by the FSB, a midnight arrest, or the seizure of a TV studio. <sup>82</sup>

---

<sup>80</sup> Diamond, Larry. “Assessing Global Democratization a Decade after the Communist Collapse.” Address to the Workshop on Democratization, New Europe College and Romanian Academic Society, Bucharest May 6, 2002 [http://www.stanford.edu/~ldiamond/papers/romania\\_speech.pdf](http://www.stanford.edu/~ldiamond/papers/romania_speech.pdf).

<sup>81</sup> Klebnikov, *Godfather In the Kremlin*, pg. 320. 2000

<sup>82</sup> As was demonstrated through the State seizure of NTV in March of 2001.

Similarly, freedom of religion extends only to those denominations and faiths approved by the Federation's central government, and each faith must then undergo a lengthy process of applying for recognition at each provincial government. As a result, some unlikely candidates, including the Salvation Army, have been refused the right to register with their local governments labeled as "cult—like". Even established faiths such as the Roman Catholic Church have endured an uphill battle; in 2001, a pair of Bishops assigned by the Vatican to establish church services in the Federation were told that the only way they could apply for permanent residency was to "marry a Russian". Sometimes the persecution is less benign neglect than outright persecution. Analysts point to President Putin's longstanding belief that foreign missionaries may pose a threat to his government:

"Putin's background is with the security services, and state security is his natural concern. Thus religion usually becomes a priority when it seems to impinge upon security issues. In such instances the response of the new administration is uncompromising. Serious concern is shared by the security organs and some respected experts in the religious studies that foreign missionaries (particularly those from the U.S.) are allegedly agents of western powers." 83

There is little these organizations could do if they wanted. Just like other interest groups who would form up the civil society in Russia, they are not strong enough to challenge the system. This is due to a combination of factors.

First, as we have seen previously, the Russian worldview is not one which is interested in becoming actively involved in political organizations which would clash

---

83 Fagan and Uzzell, *Russia: Religious Freedom Under Putin: One Year On*, Keston News Service, 2001. <http://www.ripnet.org/law/rrfupoyo.htm>

with the establishment. The population has become a passive player in the democratic process due to the lack of trust they have in their politicians. They do not believe their voice can make a difference.

Second, those who would actively take part in the democratic process have been rendered useless. Between “shock therapy”, baron privatization schemes and the August 1998 crash, the middle class in Russia has been effectively decimated. Since it is the middle class who are the traditional creators and supporters of civic interest groups, the formation of a strong civil society has yet to come to fruition. This has allowed the politicians to operate unchecked by the citizenry—a key element to a thriving liberal democracy.<sup>84</sup>

But while religious and other interest groups are frequently subjected to intense scrutiny and regulation by Russia’s government, organized crime seems to operate with impunity. While complete freedom from crime may be an unattainable goal for most civilized societies, it seems an all too distant and unlikely prospect in present day Russia. Even powerful citizens harbor skepticism about the efficacy of the courts and the criminal justice system. Consider this, from former Stolichnii Bank executive Mikhail Smolensky: “...unfortunately, the only lawyer in this country is Kalashnikov [AK-47]. In this country there is no respect for the law, no culture of law, no judicial system....”<sup>85</sup>

Statistics indicate that by 1995 there were eight thousand gangs operating in Russia.<sup>86</sup> But despite this proliferation, citizenry aren’t holding their breath for a government crackdown. Boris Nemtsov, a liberal party leader in the Duma and member of the Chubais Clan, doubted the prospect that Putin will take any serious action to

---

<sup>84</sup> Mc Faul, *Russia’s Unfinished Revolution*, pg 480, 2002

<sup>85</sup> Remnik, *Resurrection: The Struggle for a New Russia*, pg. 136, 1997

<sup>86</sup> Remink. *Resurrection: The Struggle for a New Russia*, pg. 357, 1997

pursue the *mafilya*, or to reform the system ostensibly charged with pursuing them: “...he won’t do anything fundamental. The security systems, the police, the prosecutors—he won’t touch these elements of the Soviet System.” 87

The result of these and other failings of the Federation’s government can be seen in Russia’s most recent Freedom Score, assigned a 4.5 for the years of 1999-2000.<sup>88</sup> This represents a lower rating than those assigned to the countries of Colombia, Indonesia and Nigeria for that same year (see Table 1).<sup>89</sup> It also represents a marked decline from Russia’s own 3.5 rating in 1996, and 3.0 in 1991.<sup>90</sup> Political analyst M. Steven Fish considers Russia part of a trend: to wit, “Backsliders”, countries who began the process of democratic reforms but whose current Freedom Scores are worse now than they were in years past.<sup>91</sup> Fish specifically cites executive ambivalence towards democratic institutions and a poor economy as the primary causes of this phenomena, and suggests that cultural and/or religious issues may be to blame.<sup>92</sup>

Table 1: Annual Survey of Freedom Country Scores 1991-2002

	'91-2	'92-3	'93-4	'94-5	'95-6	'96-7	'97-8	'98-9	'99-00	'00-1	'01-2
Argentina	1, 3 F	2, 3 F	1, 3 F	3, 3 F							
Armenia	5, 5 PF	4, 3 PF	3, 4 PF	3, 4 PF	4, 4 PF	5, 4 PF	5, 4 PF	4, 4 PF	4, 4 PF	4, 4 PF	4, 4 PF
Azerbaijan	5, 5 PF	5, 5 PF	6, 6 N	6, 6 N	6, 6 N	6, 5 N	6, 4 PF	6, 4 PF	6, 4 PF	6, 5 PF	6, 5 PF
China	7, 7 N	7, 6 N	7, 6 N	7, 6 N	7, 6 N						
Colombia	2, 4 PF	2, 4 PF	2, 4 PF	3, 4 PF	4, 4 PF	4, 4 PF	4, 4 PF	3, 4 PF	4, 4 PF	4, 4 PF	4, 4 PF
Côte d’Ivoire	6, 4 N	6, 4 N	6, 5 N	6, 5 N	6, 5 N	6, 5 N	6, 4 N	6, 4 N	6, 4 PF	6, 5 PF	5, 4 PF
Croatia	3, 4 PF	4, 4 PF	2, 3 F	3, 2 F							

86National Geographic: “Russia Rising”, Montaigne. pg 9, 2002

88 Anderson, Post Communism & the Theory of Democracy, pg. 56. 2001

89 Freedom House Staff, *Annual Survey of Freedom Country Scores, 1972-1973 through 1999-2000*, Freedom House, 2000. <http://www.freedomhouse.org/ratings/index.htm> (see Table 1)

90 Diamond, *Developing Democracy: Toward Consolidation*, pg. 30, 1999

91 Anderson, *Post Communism & the Theory of Democracy*, pg. 55. 2001

82Anderson, *Post Communism & the Theory of Democracy*, pg. 83. 2001

Estonia	2, 3 F	3, 3 PF	3, 2 F	3, 2 F	2, 2 F	1, 2F	1, 2 F				
Grenada	1, 2 F	1, 1 F									
Honduras	2, 3 F	2, 3 F	3, 3 PF	3, 3 PF	3, 3 PF	3, 3 PF	2, 3 F	2, 3 F	3, 3 PF	3, 3 PF	3, 3 PF
Hungary	2, 2 F	2, 2 F	1, 2 F								
India	3, 4 PF	3, 4 PF	4, 4 PF	4, 4 PF	4, 4 PF	2, 4 PF	2, 4 PF	2, 3 F	2, 3 F	2, 3 F	2, 3 F
Indonesia	6, 5 PF	6, 5 PF	7, 6 N	7, 6 N	7, 6 N	7, 5 N	7, 5 N	6, 4 PF	4, 4 PF	3, 4 PF	3, 4 PF
Latvia	2, 3 F	3, 3 PF	3, 3 PF	3, 2 F	2, 2 F	2, 2 F	1, 2 F				
Mongolia	2, 3 F	3, 2 F	2, 3 F								
Poland	2, 2 F	2, 2 F	2, 2 F	2, 2 F	1, 2 F						
Russia	3, 3 PF	3, 4 PF	4, 3 PF	4, 4 PF	5, 5 PF	5, 5 PF					
Slovakia	-	-	3, 4 PF	2, 3 F	2, 3 F	2, 4 PF	2, 4 PF	2, 2 F	1, 2 F	1, 2 F	1, 2 F
Thailand	6, 4 PF	3, 4 PF	3, 5 PF	3, 5 PF	3, 4 PF	3, 3 PF	3, 3 PF	2, 3 F	2, 3 F	2, 3 F	2, 3 F
Ukraine	3, 3 PF	3, 3 PF	4, 4 PF	3, 4 PF	4, 4 PF	4, 4 PF					
Zambia	2, 3 F	2, 3 F	3, 4 PF	3, 4 PF	3, 4 PF	5, 4 PF					

\*The characters representing scores for each year are, from left to right, political rights, civil liberties, and freedom status. Each of the first two is measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest. "F," "PF," and "N" respectively stand for "free," "partly free," and "not free." Countries whose combined averages for political rights and for civil liberties fall between 1.0 and 2.5 are designated "free;" between 3.0 and 5.5 "partly free;" and between 5.5 and 7.0 "not free."

This comes as no surprise to Diamond:

“The weakness of the rule of law and continued economic stagnation and decay now also threaten the prospects for building democracy in Russia, Ukraine, and other post-Soviet states. In these and other countries, not only are major political leaders ambivalent (at best) in their commitment to democracy, but democratic

political parties and civil society groups lack the resources, the organizational strength, and the popular bases to promote successful democratic reforms.”<sup>93</sup>

The absence of these strong democratic institutions, and an apparent *indifference* to establishing them, has created a climate where Russians have little reason to support democratic reforms. As a result, the stage has been set for corrupt opportunists to continue to undermine Russia’s fledgling democracy. This policy has set Russia on a path dependency of illiberal democracy which will prove difficult to remove itself from.

#### *Corrupt Russian and American Officials*

As we have seen, where the rule of law is weak, corruption can become endemic and encompass the highest levels of government. In countries like Russia, democracy is anemic because leaders in the government lack the “political—will” to build or maintain institutions that constrain their own power. And civil society is too weak, or too divided, to compel them to do so.<sup>94</sup> But while Russian leaders and foreign pundits have struggled to craft a Russian democracy, opportunists have wasted no time seeking personal gain. And, more often than not, the reformers and the opportunists were one and the same.

Some of the mistakes made are understandable, if not excusable. The foreign (principally American) advisers often had advanced education and extensive knowledge of business, economics and private finance but knew next to nothing about the nuts and bolts of making public policy work for the people. By contrast, the Russian reformers had

---

<sup>93</sup> Diamond, Larry. “Assessing Global Democratization a Decade after the Communist Collapse.” Address to the Workshop on Democratization, New Europe College and Romanian Academic Society, Bucharest May 6, 2002 [http://www.stanford.edu/~ldiamond/papers/romania\\_speech.pdf](http://www.stanford.edu/~ldiamond/papers/romania_speech.pdf).

<sup>94</sup> Diamond, Larry. “Assessing Global Democratization a Decade after the Communist Collapse.” Address to the Workshop on Democratization, New Europe College and Romanian Academic Society, Bucharest May 6, 2002 [http://www.stanford.edu/~ldiamond/papers/romania\\_speech.pdf](http://www.stanford.edu/~ldiamond/papers/romania_speech.pdf).

political acumen and connections, with little or no experience with public finance or the practical effects of a free market economy. Both sides were nearly devoid of people with practical experience in making dreams of capitalist transformation a successful reality. 95

But while incompetence may be a forgivable sin during this historic initiative, profiteering and corruption are not. Critics allege that many of the best and the brightest Russian leaders, chosen to lead Russia at this time of crisis, sought personal gain over public reform. There may be no better example of this than the clique of influential young movers and shakers known as the Chubais Clan.

The Chubais Clan earned their nickname from their charismatic leader, Anatoly Chubais. Chubais was an enthusiastic young economist who rose from a humble post as a government researcher to become one of the most powerful kingmakers in post-Soviet Russia. Chubais' adherents included Yeltsin's first prime minister Ygor Gaidar, finance minister Alexei Kudrin and even the current President of the Russian Federation, Vladimir Putin. This close—knit group became friends in St. Petersburg (nee Leningrad), where they shared involvement in reform-oriented groups spawned by perestroika. They curried early favor from American analysts, thanks in no small part to their youth, their English proficiency and (most importantly) their apparent readiness to commit to western economic models.<sup>96</sup>

But it was the endorsement of the influential Harvard Group, academics hand—picked by the U.S. government to help kick start Russia's reforms, that catapulted the Chubais Clan to their positions of power and influence. The idea was to enlist these young leaders because their youth would make them less likely to hold on to the old

---

95 Cohen, A., *'Russia's Meltdown: Anatomy of the IMF Failure'*, October 23, 1998, Heritage Foundation. <http://www.heritage.org/Research/RussiaandEurasia>

96 Wedel, *Collision and Collusion*, pg. 135, 2000

communist ways. What they failed to anticipate was that these youngsters were far quicker studies- and better “capitalists”- than they imagined.

On December 3, 1991, Chubais Clan member Ygor Gaidar, armed with his authority as the Russian Federation’s Prime Minister, implemented the controversial ‘shock therapy’ program.<sup>97</sup> The results were alarming. The prices of consumer goods rose by 500% almost immediately. This triggered a frightening wave of social change, as schoolteachers were forced to take jobs as janitors, and homelessness became an unprecedented epidemic. By the end of the first year of “shock therapy”, consumer prices had risen at an annual percentage of 1,354 percent. The freefall continued; by the end of the thirteenth month, prices had risen by 2, 318 percent. <sup>98</sup>

Needless to say, this hyperinflation sparked fear and doubt among the Russian people, many of whom spent their entire life savings just to survive the first year of upheaval. This effectively wiped out the entire middle class.<sup>99</sup> Many were desperately seeking ways to use what money they had left to “get rich quick”. It was in this desperate atmosphere that Chubais himself launched the privatization initiative. On the surface, the plan promised to give average Russians a “piece of the pie”. The premise was simple enough: distribute vouchers for ‘stock’ in state businesses, which would then be taken private and subsequently sold on the auction block. Those who held stock would profit from the sale of the newly privatized companies.<sup>100</sup>

It was certainly an ambitious scheme; Russia’s citizens, 151 million people in all, were each mailed their own voucher to use towards the purchase of stock, or shares. The plan was for 29 percent of a company’s shares to be held by the Russian people, 51

---

<sup>97</sup> Reddaway, *The Tragedy of the Russian Reforms: Market Bolshevism Against Democracy*. pg. 247, 2001

<sup>98</sup> Reddaway, *The Tragedy of the Russian Reforms*, pg. 249, 2001.

<sup>99</sup> Reddaway, *The Tragedy of the Russian Reforms* pg. 247, 2001.

<sup>100</sup> Cohen, *Failed Crusade: America and the Tragedy of Post- Communist Russia*, pg. 29, 2000

percent to be distributed among the company's workers and managers, and the remaining 20 percent to be retained by the state. But many Russian workers, already starving and poverty—stricken, couldn't wait for a promised payoff at some unknown future date. Desperate to generate quick cash, they sold their vouchers- often for pennies on the dollar- to the same “red managers” who had run the factories during Soviet rule. As a result, the initiative was soon dubbed “nomenklature privatization”, because the companies changed in name only, often with the same Soviet-era officials retaining their power and control. Members of the new administration, including Chubais and his followers, were also quick to profit off the crisis. 101

Perhaps one of the most grotesque examples of this process was the sale of Gazprom, Russia's state natural gas company. Gazprom held one third of the world's natural gas reserves and was not only the sole supplier of most of the former USSR, but also the main supplier for Western Europe. Analysts estimated that Gazprom's fair market value at the time of its sale made it without doubt the most valuable company in Russia, if not the world. Estimated worth ranged between \$300 billion and \$700 billion. But when Gazprom made it to the auction block, it went for a pittance: \$250 million.<sup>102</sup> Among those who profited? Former Russian Prime Minister Viktor Chernomyrdin, who then set about protecting his interests:

“Gazprom ‘privatization’ was a scam of the highest order. The company's privatization process was controlled by its management (which answered to Chernomyrdin) with government approval (ultimately Chernomyrdin)... A citizen could indeed purchase shares with his voucher, but is forbidden to sell them without permission from Gazprom's board of directors. In this way, Gazprom was

---

101 Klebnikov, *Godfather in the Kremlin*, pg. 126. 2000

102 Klebnikov, *Godfather in the Kremlin*, pg. 135. 2000

not only able to hoard vouchers, but managed to control the price of its shares and effectively forbid individual shareholders to sell their shares.” 103

Chernomyrdin didn't stop there. Even after stepping down as chairman of Gazprom, he and his successor utilized the clever design of the company's privatization deal (as first envisioned by Chubais and Chernomyrdin) to insure that they and the board would retain control of this Russian titan of industry:

“To further cement their control, [Gazprom chairman] Vyakhirev and Chernomyrdin structured the privatization so that Gazprom has a right of first refusal to purchase any of its shares that come on the market. Gazprom will not register shareholders who purchase shares without the company's permission. Such rules ‘have kept the price of the shares artificially low’, suiting the management, which ‘has been busy buying up shares.’” 104

Some Russian officials have conceded that the sale of Gazprom and other similar “transfers” were pre-arranged deals where key administration officials determined who among their number would retain principle control of the soon-to-be-private companies.<sup>105</sup> If the company on the auction block was assessed to be of negligible worth, the same “red managers” would sell off the equipment and anything of value. Workers at the company would be out of a job. If a company was considered to be worth privatizing, the first in line to buy up stock and take control would be the same factory czars that had operated them under the Soviets, often with the endorsement of Chubais

---

103 Waller, ‘Author’s Rebuttal to the Department of State.’ Published in *Demokratizatsiya: The Journal of Post-Soviet Democratization* Vol. 5, No. 1, Winter 1997. <http://www.afpc.org/issues/dos3.htm>

104 Waller, ‘Author’s Rebuttal to the Department of State’, *Demokratizatsiya: The Journal of Post-Soviet Democratization*, Vol. V, No. 1, Winter 1997. <http://www.afpc.org/issues/dos3.htm>

105 Wedel, *Collision and Collusion*, pg. 151, 2000

and his disciples. The result was business as usual for most Russian workers, who saw little change from the Soviet era. 106

Making matters worse, as these individuals grew richer, the flight of capital became evident. The money made on these “corporate conversions” was clearly not finding its way back into Russia’s economy. Instead, wealthy profiteers were sequestering their ill—gotten gains in offshore bank accounts, where they would collect interest for them and them alone. 107

Not everyone attached to the administration was so eager to profit off the Russian people, or so enchanted with the results. Some were openly dismayed with the exploitative nature of the process. Boris Fedorov, who also held the revolving-door posts of both Finance Minister and Deputy Prime Minister under Yeltsin, said of privatization:

“I think that privatization... led to oligarchs, led to abuse of shareholders' rights, led to huge inefficiencies and need for future redistribution of property. And I think in major parts of it, especially with the big privatization of loans-for-shares... was building up the process of corruption in Russia.”<sup>108</sup>

Unfortunately, the corruption and thievery were not limited to the privatization process. Yeltsin aided by the charismatic Chubais clan and their American supporters, coaxed billions of dollars in foreign aid funds from the west. The depth and breadth financial impropriety surrounding this money is astounding. Hundreds of millions of dollars, allocated to help rebuild Chechnya after the civil war of 1994-1996, are missing. The World Bank supplied \$250 million to reorganize the country’s coal industry, but

---

106 Reddaway, *The Tragedy of the Russian Reforms: Market Bolshevism Against Democracy*. pg. 248, 2001

107 Wedel, *Collision and Collusion*, pg. 140, 2000

108 CEIP. "Russia Ten Years After.", 2001 Conference, transcript.  
<http://www.ceip.org/files/programs/russia/tenyears/transcript7.htm>

then-Prime Minister Viktor Chernomyrdin claims that money too has simply disappeared.<sup>109</sup> Today, President Putin concedes: “(money) has been slipping through our fingers.”<sup>110</sup>

The lost aid funds took their toll, and the looting of Russia’s young free market economy exacted a terrible price on the Russian people. With little understanding of capitalism, one after another fell victim to the myriad of pyramid scams and other schemes. One survey found that a third of Moscow’s 50,000 homeless were the victims of real estate fraud.<sup>111</sup> With no laws or competent officials to protect them, millions lost their life savings and in some cases, their lives.

State workers, including police officers, judges and social workers, often went unpaid. Even critical social services fell into total disarray. Life-saving medicines rotted on warehouse shelves, since the state no longer provided medical services. Death rates climbed throughout the country.<sup>112</sup> By the year 2000, between 70-80 percent of the population lived at subsistence levels, and one-third lived in extreme poverty. <sup>113</sup>

The poverty became so profound that women with advanced degrees (including doctors, scientists and university professors) resorted to selling their bodies in order to help feed their families.<sup>114</sup> Still others were forced to seek employment in rogue nations such as Iran and Iraq, where they contributed to the development of nuclear power plants or weapons of mass destruction. <sup>115</sup>

Even the once-mighty military was not immune. Russia’s armed services have always struggled to feed its own troops, but U.S. analysts say the situation was never

---

109 Cohen, A., <http://www.heritage.org/Research/RussiaandEurasia/BG1228.cfm>

110 Putin, *First Person*, p.185. 2000

111 *National Geographic*: “*Russia Rising*”, Montaigne, pg 9, 2001

112 Kotz, *Revolution From Above: The demise of the Soviet System*, p. 185, 1997

113 Holmstrom, ‘The Necessity of Gangster Capitalism’, 2000

114 Putin, *First Person*, p.200. 2000

115 *National Geographic*: “*Russia Rising*”, Montaigne, pg 6, 2001

worse than during this terrible period. Sailors, stranded in remote posts, literally starved to death. Soldiers abandoned sensitive sites, even nuclear missile silos, to hunt for food.

In 1998, the U.S. State Department reported that:

“The decline in the (Russian) military’s living standards continues to contribute to the increase in crime (particularly theft) and corruption in the armed forces.”<sup>116</sup>

The problem was poignantly illustrated in March 1999, when a young soldier stormed a food store armed with an automatic weapon. When captured, the soldier confessed, that he "was really hungry".<sup>117</sup>

The Russian people felt betrayed, but not just by the Russian politicians. They also blamed the Americans who had promised to bring democracy and reform to Russia. Russian Fatalism resurfaced with a vengeance, and so did anti—American sentiment along with it.<sup>118</sup>

While many American think tanks and government agencies played a part in Russia’s troubles, the Harvard Group (that same cabal that anointed the Chubais Clan as the likely custodians of the new Russia) may be the exemplars of American malfeasance. Officially known as the Harvard Institute for International Development (HIID), the Harvard Group were Ivy League academics led by maverick economist Jeffrey Sachs and aided by his Moscow project manager, a young Harvard Law graduate named Jonathan Hay. Sachs had been tapped by then Vice-President Al Gore, and once given the White House seal of approval he and his team were armed with wide-reaching clout to shape Russia’s “rebirth”.<sup>119</sup>

---

<sup>116</sup> The Speaker’s Advisory Group On Russia-- <http://policy.house.gov/russia/ch9.html>

<sup>117</sup> The Speaker’s Advisory Group On Russia-- <http://policy.house.gov/russia/ch9.html>

<sup>118</sup> Reddaway, *The Tragedy Of the Russian Reforms*, pg. 248. 2001

<sup>119</sup> Wedel, *Collision and Collusion*, pg. 161, 2000

The Harvard Group's principle tool was the ability to manage the distribution of American and American—controlled aid dollars to Russia. This was the carrot they could use to recommend both people and policies to the malleable members of President Boris Yeltsin's administration. Already facing severe economic crisis, Yeltsin and his former *apparatchiki* desperately needed the billions of dollars in U.S. and International Monetary Fund (IMF) assistance to prop up their fiscal house of cards. If Sachs and Hay wanted them to institute certain economic plans, or place hand picked Russian reformers like Chubais in key offices, what choice did they have but to go right along with it?

Ironically, it was this flow of foreign dollars that provided the "life support" to keep the failing old Soviet economy in operation for years after the fall of the U.S.S.R. This also contributed to Russia's problems, by killing incentives for legislative and judicial reform, and propping up a government whose policies were literally bankrupting the Russian people.<sup>120</sup>

The power of the purse let Sachs and company proceed with their plans virtually without reproach. Functionaries of the Clinton Administration stationed in Russia were well aware of the Harvard Group's appointed role in shaping policy, and thus were hesitant to criticize or question their actions. In the meantime, the respected academicians watched their Russian protégés grow wealthy as the direct result of their policies. They were also uniquely positioned to profit off the privatization process themselves. After all, the Group had intimate knowledge of what companies were to go private and when—thanks that they had constructed. <sup>121</sup>

Ultimately, State Department officials grew particularly suspicious of the activities of Hay and fellow Harvard Group economist Professor Andrei Schleifer. They

---

<sup>120</sup> The Speaker's Advisory Group On Russia-- <http://policy.house.gov/russia/ch4.html>

<sup>121</sup> Wedel, *Collision and Collusion*, pg. 160, 2000

suspected Hay, Schleifer and others of using their position to conduct insider trading on a grand scale, and in so doing defrauding both the U.S. government and the Russian people. In September of 2000, attorneys for the Department of Justice filed a lawsuit against Harvard University, Hay, Schleifer and their wives Elizabeth Hebert and Nancy Zimmerman, seeking \$120 million in damages for conflicts of interest and insider investments. In the lawsuit, filed in Boston's U.S. Federal Court, Assistant U.S. Attorney Sara Bloom wrote:

“A disregard for ethics by the distinguished professor (Shleifer) and law school graduate (Hay) sent to Russia, funded by the United States government, to teach the establishment of the rule of law and fair and open markets teaches a lesson—the wrong one and the exact opposite from what Harvard was paid to promote.”

122

The lawsuit went on to allege that Schleifer, Hay, Zimmerman and Hebert used their positions at HIID for personal gain, in direct conflict with the terms of their USAID contract, which stipulated that they offer impartial advice on privatization and the opening of capital markets. Employees on the project were also given specific instruction not to make personal investments, play the Russian stock market or engage in any other activity which could be seen as inappropriate. But prosecutors claim that the accused did just that, making investments in Russian oil futures that they concealed using the names of close relatives. When these activities came to light, even before the filing of the Justice Department lawsuit, the Harvard project in Russia was suspended. The celebrated saviors

---

122 Associated Press, *Prosecutors: Harvard Experts Hurt U.S.-Russian Relations*, December 12, 2002.

of post—Soviet Russia, the Harvard Group, soon found themselves disgraced, and HIID was eventually closed. 123

Much of the information supplied to the Harvard Group came, of course, from Anatoly Chubais and his allies. But using insider information is not considered a crime in Russia, and he and his coterie easily escaped criminal prosecution. However, the ethical issues remain, particularly when such information is supplied to nationals of those foreign countries where its use is in fact illegal. How did Chubais escape blame? When he was caught concealing his income from market trading, he at first claimed that the sources of his extra income were honoraria from Harvard University. 124

But when Chubais' political friends in Washington passed the word that the HIID was under scrutiny, Chubais quickly cut off his personal and professional official relationships with the institution. He then explained to the Harvard academics that their services were no longer required “by Russia”. 125

Chubais and his clan were not unique. Yeltsin himself was implicated in campaign finance scandals and allegations of influence peddling.<sup>126</sup> Swiss officials launched their own investigation into charges that Yelstin and Kremlin real estate czar Pavel Borodin had both taken bribes from Swiss—Albanian giant Mabetex in exchange for providing the company with lucrative redevelopment contracts. Russian power broker Boris Berezovsky, who Yeltsin had appointed Executive Secretary of the Commonwealth of Independent States, was also implicated and Yeltsin was eventually forced to remove him from his position. As for Yelstin himself, Prime Minister Primakov brokered a deal

---

123 Wedel, *Collision and Collusion*, pg. 162. 2000

124 *Godfather in the Kremlin*, pg. 135. 2000

125 *The Moscow Tribune*. <http://www.fast.ane.ru/smenshikov/MT/MTRIB37.html>

126 Reddaway, *The Tragedy of the Russian Reforms*, pg. 501, 2000

to keep Yeltsin from impeachment- in exchange for Yeltsin's promise not to dissolve the Duma. 127

Some might say this is the way that Russian business has always operated, with an underlying desire to know the quid pro quo in any transaction. But it is both condescending and simplistic to say, as some supporters of the reforms do, that the Russian people are corrupt and we should accept it as a cultural reality.<sup>128</sup> While Russian leaders were guilty of gross corruption and inefficiency, the Clinton administration should have done a better job of aggressively monitoring and working to counter these tendencies; not just within the Russian government but also within their own circles. By not taking action, the message they sent was one of tacit approval. It is also possible that- even if the administration had policed these problems- nothing would have changed. But unfortunately, we will never know. Just as we will never know what could have been if Russia had leaders with the political—will to effect real change.

What have the Russian people learned from this series of tragic missteps, backroom deals and outright thievery? They have learned not to trust Russian politicians or their foreign advisors who seem to have little or no interest in helping Russia's beleaguered citizens. Most were clearly more interested in lining their own pockets.<sup>129</sup>

So the Russian people survive as they always have: by creating cottage industries, by stealing from the state when they can, and by keeping their money (in stable American dollars) hidden away in the floorboards or other hiding places of their homes. But many

---

127 *Godfather in the Kremlin*, pg. 292. 2000

128 Pastukhov, Vladimir. "Law Under Administrative Pressure In Post—Soviet Russia", *East European Constitutional Review*. Vol. 11 No. 3. Summer 2002. pg. 66

129 The Speaker's Advisory Group On Russia- House of Representatives web site, 2000

believe that they are worse off today than under Soviet rule. They feel they have fallen through the slippery bonds of the democratic dream and into the unknown.<sup>130</sup>

---

<sup>130</sup> *National Geographic* "Russia Rising" Montaigne, Feb. November 2001.

## Chapter Four

### Concluding Thoughts.

The Russian people wanted change, they wanted a better life—this was their motivator, as Robert Kennedy would say, in their move towards Democracy. The enemy working against change, as we have seen, was at times themselves; but came mostly in the form of corrupt officials.

When looking back over the course of Russia's Reforms, we see three major things which have been the enemy of Russian democratic development. 1) The worldview of the Russian people is one of acquiescence to authoritarian rule and distrust of outsiders. 2) There was little attempt by donor nations to truly follow the ideals of Democracy, e.g. creating what Diamond says is the most important element—the rule of law. This left Russia a democracy in name only at best. 3) Corrupt advisors from both camps were more interested in promoting their own welfare than that of the Russian people.

Russians do not have a history of democracy in their past. Through many years of authoritarian rule and Orthodox teachings, they have become soured on politics. Initial enthusiasm over democracy was quickly replaced with the old anti—capitalist and fatalist paradigm as they fell prey to the whims of the capitalists. This only served to deepen the divide between Russia and the West. Russians have again receded back from politics

into their own day—to—day lives leaving the politics to the politicians. Far too many do not believe that the power of one person can effect change, as American's do.

The advice of Jeffery Sachs' shock therapy was eagerly taken up by the Russian administration. The coming of shock therapy effectively destroyed the middle class in Russia. People spent their entire savings just trying to survive through hyperinflation.

Russians got to watch the spectacle of their own officials, in collusion with Western officials, tangling themselves up in the thick of corruption and growing fat at their expense. All the while not strengthening the judiciary because they did not have any money; not paying pensioners or the soldiers because they did not have the money. All legitimacy with in the rulers was lost.

This is where the Clinton administration does hold some blame. It was their duty to ensure the oversight of their advisors whose job it was to help build a strong market system. When rumors of wrongdoing were reaching their desks they should have been taken more seriously. This made their policy one of tacit approval of corruption.

By the same token, supporters of the reforms would like you to believe that the vast fleecing of Russia's economic prized jewels did not affect the reforms towards liberal democracy. Just through the rape of Gazprom alone, the state lost billions of dollars. Monies which "slipped through fingers" and into the pockets of corrupt officials on both sides of the fence, should have been used to pay for the reforms and to create strong democratic institutions—in particular, a strong judiciary to secure individual and civil rights. For, as St. Augustine once said," Without justice, what is the state but a band of thieves?"

And what could be done of it? The rulers were not truly held accountable for their actions. As a result, the euphoria of democracy has once again turned to sour

ambivalence. If the people do not demand a free press and a strong judiciary then who will? If the average Russian does not demand accountability of their rulers then who will? Hoping for the best does not always mean the best will come. Furthermore, just because Communism was shed in favor of democracy does not automatically mean that Russia is a democracy. Factors such as an anemic civil society, suppressed press, a weak judiciary, have hampered Russia's development towards liberal democracy. It is up to the Russian leaders to rebuild trust and demonstrate a real desire to effect change and for the people to actively sign on to this process and for their political culture to change.

Derailing themselves from the path dependency of illiberal democracy will be very difficult but it can be done. The leaders must understand that it is through strong democratic institutions—such as the rule of law—that liberal democracies thrive. They must pull together their political—will and make a firm commitment to change. Streamlining political institutions and making the government more transparent would go a long way in demonstrating this commitment. Immediate emphasis should be placed on strengthening democratic institutions such as the judiciary, a strong civil society and an independent free press.

In order to build a state that adheres to the rule of law, individual citizens, Russian judges and lawyers must change their views about the law, and adopt a completely new relationship with the law. They should learn to see it as a tool in their defense, rather than an instrument controlled by the state.

The free press is also a crucial element to the rule of law. By exposing corruption, it demands that all people, regardless of rank, be held accountable for their actions. Therefore, an emphasis on strengthening a national independent media should be included in future reforms.

The Russian government must take an active role in protecting civil interest groups in order to regain legitimacy from the people. Laws which scrutinize religious and other interests groups must be repealed. Furthermore, laws protecting these organizations must be put in their place.

Political transparency in this process is necessary to demonstrate legitimacy.<sup>131</sup> In order to ensure transparency in reforms, an independent group should be made ready to serve as a check against corruption. It should have real power and authority given to it by the Russian government in order for it to be effective.

When people begin to see transparency at all levels of government, they will naturally react by feeling more secure with their government. When people are secure, they are more willing to take part in the democratic process through voting and joining civil interest groups. A secure citizenry is also more willing to invest in the economy. When they invest in the economy, a true liberal democratic government, will then in turn, invest back into strengthening institutions further for the betterment of society as a whole.

If Russia is willing to break their illiberal path dependency, then they can prosper. Russia has one of the most educated workforces in the world and despite the many resources lost, there is still vast caches of natural resources. It will take many years to fix the severe damage that has been done to the infrastructure. It will take many years to build strong new institutions. But the consequences of not following such a path would be far more disastrous.

For Russians, suffering is nothing new. Their entire history is riddled with deprivation and injustices. They have always endured no matter what “fate” throws their way. However, if they want to build a strong liberal democracy, they must take the

---

<sup>131</sup> See Table 2.

appropriate steps to beat the enemies of change. The road maybe hard and long, but if they can survive Mongol invasions, oppressive Tsars and Stalinist purges, they can live through this, too. The results of which would benefit Russians for generations to come. Hope also lies in the nations younger generations who are extremely computer savvy and more educated in market economies and democratic systems. They have learned to rely on themselves and not the government and look forward to the day when they replace those in power.<sup>132</sup>

---

<sup>132</sup> National Geographic: "Russia Rising", Montaigne. pg 9, 2001

## Bibliography

- 1) Anderson, Richard. *Post Communism & the Theory of Democracy*. Princeton University Press: Princeton, NJ. 2001
- 2) Ander Aslund, *Russia In Turmoil*, October 1998  
<http://www.ciaonet.org/wps/hoa01/> Retrieved February 20, 2003.
- 3) Associated Press, '*Prosecutors: Harvard Experts Hurt U.S.-Russian Relations*', December 12, 2002. <http://www.whdh.com/news/articles/local/A6720/> Retrieved February 3, 2003.
- 4) Baker, *Putin Pushes Reforms, With Power* 2001.  
<http://216.239.39.100/search?q=cache:RVK4JWBK80cC:www.fbird.com/articles/Putin.pdf+Judicial+reform+Yeltsin+%22corrupt+judges%22&hl=en&ie=UTF-8> Retrieved January 25, 2003.
- 5) Carnegie Endowment for International Peace. "Russia Ten Years After.", 2001 Conference, transcript.  
<http://www.ceip.org/files/programs/russia/tenyears/transcript7.htm> Retrieved January 15, 2003.
- 6) Carothers, Thomas. *Promoting the Rule of Law Abroad: The Problem of Knowledge*: Carnegie Endowment for International Peace. 2002
- 7) Cohen, Ariel. "Russia's Meltdown: Anatomy of the IMF Failure" The Heritage Foundation, 1998.  
<http://www.heritage.org/Research/RussiaandEurasia/BG1228.cfm> Retrieved January 20, 2003.

- 8) Cohen, Stephen F., *The Failed Crusade: America & the Tragedy of Post Communist Russia*. WW Norton & Co. , New York. 2000.
- 9) Daadler & Hill, 'Get Over It, Mr. Bush: The Cold War Has Finished', Brookings Institution, 2001
- 10) Diamond, Larry. "Assessing Global Democratization a Decade after the Communist Collapse." Address to the Workshop on Democratization, New Europe College and Romanian Academic Society, Bucharest May 6, 2002 [http://www.stanford.edu/~ldiamond/papers/romania\\_speech.pdf](http://www.stanford.edu/~ldiamond/papers/romania_speech.pdf). Retrieved March 1, 2003.
- 11) Diamond, Larry. *Developing Democracy: Towards Consolidation*. The Johns Hopkins University Press: Baltimore. 1999
- 12) English, Robert. *Russia and the Idea of the West: Gorbachev, Intellectuals, and the End of the Cold War*. <http://www.ciaonet.org/book/english/> Retrieved February 20, 2003.
- 13) Fagan and Uzzell. '*Russia: Religious Freedom Under Putin: One Year On*', Keston News Service, 2001. <http://www.ripnet.org/law/rrfupoyo.htm> Retrieved February 20, 2003.
- 14) Freedom House Staff, *Annual Survey of Freedom Country Scores, 1972-1973 through 1999-2000*, Freedom House, 2000. <http://www.freedomhouse.org/ratings/index.htm>
- 15) Gaidar, Ygor. "Post-Communist Russia in the context of the global social and economic development." *Institute For Economy In Transition International Conference*. December 2000. <http://www.iet.ru/publics/westnik/eng6.htm> Retrieved January 20, 2003.

- 16) Graham, Stephan. *Alexander II*,  
<http://www.spartacus.schoolnet.co.uk/RUSalexander2.htm> Retrieved March 7, 2003.
- 17) Hosking, *Russia*, Harvard University Press: Cambridge, Mass. 1997.
- 18) Huskey, Eugene. *Presidential Power In Russia*. M.E. Sharpe: Armonk, New York. 1999.
- 19) Larina, 'Primakov Sacking Reflects Ongoing Political Crisis', from The Russia Journal, May 17, 1999, <http://www.therussiajournal.com/index.htm?obj=554>  
 Retrieved January 15, 2003.
- 20) Klebnikov, Paul. *Godfather in the Kremlin*, Hartcourt, Inc.: New York, New York. 2000
- 21) Kotz. David. *Revolution From Above*, Routledge: New York, New York. 1997.
- 22) Mc Faul, Michael. *Russia's Unfinished Revolution: Political Change From Gorbachev to Putin*. Cornell University Press. London, England. 2001.
- 23) Menshikov, Stanislav. "AMERICAN CORRUPTION IN RUSSIA: Who Is Next on the List?" *The Moscow Tribune*. 6 October 2000.  
<http://www.fast.ane.ru/smeshikov/MT/MTRIB37.html>
- 24) *Monthly Review*. "Necessity of Gangster Capitalism: Primitive Accumulation in Russia and China. Halstrom, Nancy and Smith, Richard. Vol.51 #9 February 2000. pg.15.
- 25) Moon, Keith. *Yeltsin and Chechnya*,  
[http://www.unc.edu/depts/diplomat/AD\\_Issues/moon\\_yeltsin.html#Bottom%20of%20page%201](http://www.unc.edu/depts/diplomat/AD_Issues/moon_yeltsin.html#Bottom%20of%20page%201) Retrieved March 6, 2003.
- 26) *National Geographic "Russia Rising"* Montaigne, Fen. November 2001.

- 27) Pastukhov, Vladimir. "Law Under Administrative Pressure In Post—Soviet Russia", *East European Constitutional Review*. Vol. 11 No. 3. Summer 2002. pg. 66
- 28) Putin, Vladimir. *First Person*, Public Affairs Reports: New York, New York. 2000
- 29) Reddaway & Glinski. *The Tragedy of Russia's Reforms: Market Bolshevism Against Democracy*, Endowment of The United States Institute of Peace, Washington, D.C. 2001
- 30) Remink, David. *Resurrection: The Struggle For a New Russia*. Vintage Books: New York, New York. 1997.
- 31) Rempel, *Reform and Reaction Under Alexander II and III*, <http://mars.acnet.wnec.edu/~grempel/courses/russia/lectures/22reactreform.html> Retrieved March 20, 2003.
- 32) Simes, 'U.S. Shouldn't Be Betting On Yeltsin', from *Newsday*, June 9, 1999, p. A40, [http://www.nixoncenter.org/publications/articles/6\\_9yeltsin.htm](http://www.nixoncenter.org/publications/articles/6_9yeltsin.htm) Retrieved March 3, 2003.
- 33) Talbot, Strobe. *The Russian Hand*, Random House: New York, New York., 2002
- 34) Wedel, Jamie R., *Collision & Collusion: The Strange Case of Western Aid to Eastern Europe*. PALGRAVE, New York. 2001.
- 35) The Speaker's Advisory Group On Russia—House of Representatives website, 2000 <<http://policy.house.gov/russia/intro.html>> Retrieved May 10, 2002.
- 36) Witte, *Memorandum Witte to Nicholas (October 1905)*, <http://www.strath.ac.uk/Departments/History/c30366.htm> Retrieved January 25, 2003.

- 37) <http://www.ciaonet.org/book/english/CH-01.pdf>
- 38) Philosophical Dictionary of Names and Terms On-Line.  
<http://www.philosophypages.com/dy/f.htm> Retrieved, January 23, 2003.
- 39) Yeltsin, *Midnight Diaries*, Public Affairs: New York, New York. 2000.
- 40) Yasin, "A Normal Economy Is the Main Condition for Democracy" *Izvestiya*,  
August 27, 1991.
- 41) Zinaida Sikevich., 'Ten Years of Russia's Reforms as Seen by Her Citizens': The  
Rosbalt News Agency, March 19, 2002.  
<http://www.rosbaltnews.com/2002/03/29/41485.html> Retrieved January 15, 2003.