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Occasional Paper #283
U.S. Assessments of the Soviet and Post-Soviet Russian Economy: Lessons Learned and Not Learned

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In March 2002, the Woodrow Wilson Center's Kennan Institute convened over a dozen specialists on Soviet and Russian affairs to evaluate U.S. assessments of the Soviet and post-Soviet Russian economy. We were joined in organizing and sponsoring this conference by the Office of Net Assessment of the United States Department of Defense.

Debates over the quality of U.S. assessments of Soviet economic capacity were among the most quarrelsome of the Cold War. Those debates were subsequently matched in intensity by battles over how to understand the post-Soviet economic reforms in Russia during the 1990s. The purpose of this gathering and this report was not merely to replay old battles. Rather, it was based on the premise that how we talked about our assessments of the Soviet Union in the past—and how we in the United States continue to talk about Russia—is about more than who was—and is—right or wrong. Bitter disagreements will long linger over the old debates about what happened or did not happen a quarter-century ago and over the past decade.

It is far more important today to look with a new perspective at those clashes which are in essence highly contentious debates over how best to understand complex societies. Can social reality be disciplined by rigorous and orderly research strategies and methodologies? Is there an aspect to understanding a society which transcends collating data? Are economic conditions more important than social attitudes? Does culture matter? What role do institutions play in shaping reality? When it comes to Russia in particular, analysts have fallen into a pattern in which people of strong opinion tend to talk past one another rather than engage one another in shared conversation.

We at the Kennan Institute and our colleagues from the Office of Net Assessment hoped that the March 2002 sessions would begin to move the participants at that meeting (and the readers of this report) towards a shared conversation. Our purpose was not to ask participants and readers to abandon strongly held opinions, so much as it has been to encourage them to partake in a single conversation as a means for discerning the outlines of legitimate disagreement. As readers of this Occasional Paper will discern, the result proved to be more successful than not.

Given the intensity of analytic passion still simmering underneath the surface of American discussions of Russia, we decided that we needed to do more than to bring together in the same room various participants of debates that have endured for long years and expect that they would talk differently to one another. We therefore invited Russian colleagues who had wrestled with the same issues in their own distinct context to join into our conversation. The result proved to be an exotic blend of academic and government perspectives from both the U.S. and from Russia, and brought us face to face with the limitations of our ability to envision radical change. As conference keynote speaker James Schlesinger observed: "Almost every major change comes as a surprise. Why is that? Because official views develop in institutions, and neither societies as a whole nor institutions expect change. We tend to see things as continuing on an accustomed track, and we tend to extrapolate from previous trends and current times into the future."

The report to follow is based on the conference deliberations, presenting both the formal papers provided by each author as well as summaries of the discussions provoked by those written submissions. I would like to thank each panelist for agreeing to join in this enterprise.

The conference in many ways was an extension of a conversation that Igor Birman and I have been having for some time. I would like to acknowledge and to thank Igor for his inspiration and for his help in launching this enterprise. I also would like to take this opportunity to thank Andrew Marshall and all of his colleagues at the Office of Net Assessment—not just for having provided the material support necessary to have everyone appear in the same room at the same time, but also for their considerable intellectual support. Finally, though hardly least, I would like to thank Kennan Institute Program Associate F. Joseph Dresen and Program Assistant Nicholas Wheeler, and our colleagues at the Kennan Institute and at the Wilson Center, who made this meeting and resulting report possible.

—Blair A. Ruble
Director
Kennan Institute
Woodrow Wilson Center

U.S. Assessments of the Soviet and Post-Soviet Russian Economy: Lessons Learned and Not Learned

March 27-28, 2002
Kennan Institute, Woodrow Wilson Center
1300 Pennsylvania Avenue, NW
Washington, D.C.

Panel One: Revisiting the Estimates and Analyses of the Soviet Era.

Chair: **Blair Ruble**, Director, Kennan Institute.
Nikolai Petrakov, Director, Market Economy Institute, Russian Academy of Sciences, Moscow.
Abraham Becker, Senior Economist, Emeritus, RAND.
Discussants:
Igor Birman, independent scholar, Washington, D.C.
Robert Campbell, Distinguished Professor of Economics, Emeritus, Indiana University.

Panel Two: Assessments of Russian Reform Programs.

Chair: **Blair Ruble**, Director, Kennan Institute.
Mikhail Zadornov, Deputy, Russian State Duma, and former Minister of Finance, Russian Federation.
Mark Medish, Partner, Public Law and Policy Practice Group, Akin, Gump, Strauss, Hauer & Feld, LLP.
Discussants:
Peter Reddaway, Professor, Department of Political Science and Elliot School of International Affairs, George Washington University, and former Secretary, Kennan Institute.
Anders Åslund, Senior Associate, Carnegie Endowment for International Peace.

Panel Three: Understanding the Underlying Social Aspects of Soviet and Post-Soviet Russia.

Chair: **Kari Johnstone**, Title VIII-Supported Research Scholar, Kennan Institute.
Yuri Levada, Editor-in-Chief, *Russian Public Opinion Monitor Bimonthly*, Moscow.
Judyth Twigg, Associate Professor, Department of Political Science, Virginia Commonwealth University, Richmond.
Discussants:
Arthur Miller, Professor, Department of Political Science, University of Iowa.
Richard Dobson, Research Analyst, Russia, Ukraine and Commonwealth Branch, Office of Research, U.S. Department of State.

Keynote Address

The Honorable James Schlesinger, Chairman, MITRE Corporation, and Senior Advisor, Lehman Brothers.

Panel One:
Revisiting the Estimates and Analyses of the Soviet Era

The enormous army of Western Sovietologists analyzing the Soviet economy failed to anticipate its rapid and total crash and the collapse of the Soviet Union's political system. My reading of the available literature on the Soviet economy, as well as numerous personal contacts with Western experts on the Soviet Union, have convinced me of this. Before 1991, not a single Western analyst had predicted the catastrophic collapse of the Soviet economic system. Disputes were generally limited to the rate of the Soviet economy's growth, the reliability and completeness of official statistics, and methodologies for comparing USSR and U.S. levels of production and consumption. In short, what was discussed was the competition between the two systems. In this game, the analysts emphasized the unquestionably greater dynamism and power of the U.S. economy in particular and Western economies overall. However, it is clear that the discussion followed a framework set by Soviet international economists and political scientists. The competition was understood as a "long distance economic race" between the two systems. The clinical death of one of the systems was not considered as a possible outcome.

The reality proved to be quite different. While it was not predicted, was it really unpredictable in principle? I think not. A collective 'hypnosis' prevented the world scientific community from evaluating and drawing conclusions from many telltale phenomena that were apparent on the surface of economic life. Now, with a decade's hindsight, I see two reasons for the blindness from which scholars suffered in the years preceding the collapse of the Soviet economy. The first was that none of the critics of the numerous shortcomings of the Soviet economic system posed the question in terms of whether such a system could survive. The second reason was a gross underestimation of the scope of falsification that affected indicators of Soviet economic performance.

A Doomed Economy

The foundation for the irrationality of the Soviet economy was not created when the Bolsheviks came to power in Russia (1917), but, significantly, 10 years later in 1927.

The Bolsheviks' War Communism (1918-1921) was cruelly efficient and allowed Russia ultimately to emerge from World War I and its Civil War with minimal territorial losses from the former tsarist empire. Through a series of bold market reforms termed the New Economic Policy (which contradicted Soviet ideology), Soviet Russia was able to emerge from the devastation of war in agriculture, transportation, and the main sectors of industry. By 1926, the monetary system, the budget, and banking had stabilized. For purposes of comparison recall that, for example, Germany had emerged from the war two years earlier than Russia, but was unable to control hyperinflation for the next 10 years.

However, the economic success of the Soviet economy ends at this point. It was replaced by "success" of another sort. The economy was given non-economic, ideological, and political tasks to perform. The USSR leadership under Stalin called for "a great leap" in industrial development. The slogans of 1927 included: "to catch up with and surpass developed capitalist countries in industrial production," "to traverse in 10 years the road to an industrial society that took the West 100 years to traverse." (Thirty years later such slogans were revived in China.)

This idea led to a forced structural deformation of the national economy that was unprecedented in world economic history and lasted for almost 14 years (right up until the time the Soviet Union entered World War II in 1941). In an environment of martial law, income from agricultural, consumer goods, and services sectors was confiscated and invested in the defense industry, and the metallurgy, machine-building, and energy sectors. The distortion between the Soviet economic sectors was entrenched at this point. While this episode in the USSR's economic history has been described in detail numerous times in the Western, as well as the Soviet, literature, it was not analyzed from the standpoint of the strategic consequences of such a serious structural deformation.

Structural changes are a necessity for any dynamically developing economic system. But there are limits to structural changes beyond which the economy loses its stability and ability to survive through self-regulation. It is clear that in the 1930s the Soviet economy exceeded the limits of its structural stability and destroyed its long-term viability. The deformations that determined the structure of the Soviet economy and ensured the inevitability of its destruction may be reduced to the following four aspects.

1. **Bloated defense sector**. The Soviet Union's geopolitical ambitions led to extreme over-investment in all industries directly or indirectly associated with maintaining the armed forces or facilitating the development and production of military technology. Igor Birman called attention to this circumstance in Western journals as early as 1983, writing: "The Western observer of the Soviet Union has difficulty coming to terms with the proportion of the national product and national resources that the Soviet rulers devote to preparing for war. It is this that makes it possible to have enormous military power and yet a weak economy." ("The Economy of Shortages," New York, 1983, p. 397).

2. **Inefficient use of primary resources in the processing/ manufacturing sectors**. The low level of technology in the processing/ manufacturing sectors required much larger quantities of primary inputs, 5-6 times greater than in the West, to produce a given finished product.

3. **Extreme underdevelopment of agriculture.** In labor productivity, standard of living of the rural population, degree of mechanization and electrification, transportation, and social infrastructure, Soviet agriculture was backward not merely by Western standards, but also compared to other sectors of the Soviet economy.

4. **Extremely underdeveloped consumer goods sector, public utilities, health care, education, and social security.** The deformations between heavy industry and the social sector were built up over the years, spurred by the pressures of "socialist industrialization," collectivization, World War II, and then the Cold War.

These deformations in the Soviet economy resulted in continually decreasing rates of growth (see Table 1), with so many bottlenecks that its survival was put increasingly in doubt. The Soviet economy was collapsing under the weight of its own structural deformations. This, in fact, is what occurred during its last decade. And here again I will quote Igor Birman: "The principal difference between the Soviet and the Western economies is that in the Soviet-style economy there are no economic cycles and the prolonged decrease in production is

Table 1

Mean average rate of growth of USSR national income (in %)

1951–55	11.4
1956–60	9.2
1961–65	6.5
1966–70	7.7
1971–75	5.1
1976–80	4.7
1981–85	3.6
1986–90	2.8

(Computed from handbooks on "The USSR Economy," Moscow, "Finansy i statistika.")

irreversible." ("The Economy of Shortages," p. 201, 1983).

Soviet professionals understood the Soviet economic crisis better and recognized the developmental dynamic better than Western analysts. The leaders of the Soviet Union most likely understood the burden of the structural deformation on the economy, and were worried by the decreasing growth rates, as they were well aware that official statistics grossly inflated the growth rates cited above.

In 1953, immediately after Stalin's death, Malenkov made a timid attempt to transfer some capital into the consumer sector. But this was counter to the interests of the defense sector and Malenkov's political career came to an end. In 1965, after Khrushchev had retired, an attempt (known as Kosygin's reforms) was made to soften these structural deformations. But the Party elite considered the reforms to be unnecessary since the boom in world oil prices in the early 1970s created the illusion that the Soviet Union would be able to emerge from the crisis without significant restructuring.

In 1973, Soviet economist Boris Mikhalevskiy drafted a secret report to the government in which he cited his own calculations demonstrating that the Soviet Union had fallen into a structural trap. In his opinion, without a radical change in structural policy, the country was doomed to profound crisis. According to my information, Mikhalevskiy's report was squelched from above.

A decrease in rate of growth is only one of the macroeconomic parameters indicative of the death throes of the Soviet economy. Other irreversible negative processes were also developing rapidly. Among these were:

1. The consequences of monopoly production on the domestic market;
2. Widespread deficit of consumer goods;
3. Increasing delays in the construction of new industrial facilities;
4. Increasing non-liquidity of money;
5. The hidden budget deficit and artificially suppressed inflation.

Unfortunately, the overwhelming majority of Western Sovietologists virtually ignored these serious symptoms of the Soviet Union's economic malaise in their studies. Moreover, Western experts generally displayed astonishing confidence in Soviet statistics.

A Falsified Economy

We have already noted that the Soviet leadership was deeply worried by the worsening rates of economic growth. Since they were not able to make effective changes in economic policy, they chose to make a fetish of it by introducing the slogan "growth regardless of price." Increasing the volume of produced goods, however, erected a strong wall between the interests of the producer and those of the consumer. It is true that the Soviet tractors, combines, metal cutting machine tools, etc. outnumbered their Western-produced counterparts. But these were low quality products for which there was little demand and which generally remained in the warehouses of wholesale and retail commercial depots. This was the case in virtually all sectors of the economy, including that of consumer goods. The data in Table 2 on page 8 show a typical growth pattern of goods that were not in demand.

According to the data in the *Economic Gazette*, in 1985 the total volume of commodity stocks for nonfood consumer products attained a value of 61.6 billion rubles.

Of course, such large scale production of goods for which there was no corresponding consumer demand, accompanied as it was by the growth of non-liquid cash income (so-called deferred demand or "monetary overhang," [1]) created an illusion of economic growth. But this wasted production was only one facet of the falsification of statistics by the

Table 2

Growth of inventories of unmarketable and out-of-date nonfood goods in wholesale and retail commerce (as of October 1, based on data from current studies)

Type of goods	1985 in % of 1980
Wool cloth	287
Silk fabric	367
Clothing and linens	144
Knit goods	154
Haberdashery	227
Electric appliances and other household goods	237

(*Economic Gazette*, 1986, No. 48, p. 7.)

Soviets. Another facet, more subtle and interesting in my view, was the fact that at the same time that they were falsifying the rate of economic growth, they were also falsifying budget revenues. This latter mystery demands further elucidation.

The state revenues from Soviet enterprises came in two forms: profit and turnover tax. The entire turnover tax was automatically allocated to the budget, as was 50 percent to 80 percent of the enterprise's profit. The most important thing about transferring revenues into the budget was the "calendar principle." The calendar principle demanded that on the 10th and 25th of each month, fixed amounts of planned profit were transferred to the state budget. The turnover tax was paid in full when the goods were unloaded at the Gossnab wholesale depot. In reality, goods might never have been sold by producers nor purchased by buyers (in a number of cases they were never even produced), but the budget nevertheless received its planned, albeit often fictional, revenues.

One can see the true scope of falsification when we recall that the turnover tax in 1985 amounted to 97.7 billion rubles. Analysis of the price structure for nonfood goods shows that the turnover tax accounted for approximately 40 to 50 percent of the cost for nonfood goods. That year, out of 61.6 billion rubles of unsold nonfood goods, a minimum of 24.6 billion rubles (i.e., a quarter of the turnover tax for 1985) was counted as budget revenue even though it was largely fictional. The situation was similar for the profit tax as well.

These tactics permitted the legend of the "never-in-deficit budget." Since, as was explained above, the budgetary contributions from enterprises came at different times than the proceeds from sales, Gosbank branches extended the enterprises short-term loans at nominal interest (0.5 percent). The rapid growth of short-term loans as compared to growth in production is an indirect but obvious indicator of the growing crisis in the Soviet economy. (Petrakov, "Democratization of the Law of Supply and Demand," Moscow, *Ekonomika*, 1988, pp. 93-100.)

Table 3 shows that the growth in short-term loans significantly exceeded the growth of GNP. Especially striking is that the largest increases are in short-term loans in agriculture (by a factor of 9.4) and construction (by a factor of 12.6), i.e., precisely in those sectors where the return on capital investment is particularly low. The increasing debt of the construction sector did a great deal to "stimulate" the enormous scale of "uncompleted projects." In 1985, the nation's uncompleted construction projects had a value of 78 percent[2] of the total annual capital investments, i.e., 140 billion rubles. This exceeded the amount of uncompleted construction in 1970 by a factor of 2.1.[3] The shortage financing allocated to industrial and public construction was one of the main reasons why

Table 3

Growth of GNP and of short-term loans by economic sectors, 1971-85 (1970=100)

Economic sector	Growth of gross national product in actual prices of 1985 (in % of 1970)	Growth of balance of short-term loans in % of 1970
Industry	206.5	314.2
Agriculture	210.6	941.9
Transport and communications	256.8	440.0
Construction	201.6	1264.8
Commerce, procurement, logistical support, and other sectors	312.8	235.1

(Based on data from: "The USSR Economy in 1985," pp. 45, 566.)

uncompleted construction and the delay in commissioning new projects took on such enormous proportions.

Short-term loans that were repaid slowly or not at all became long-term loans, and consequently became in essence additional resources. Financing obtained through short-term loans went to pay for raw materials, consumables, and for the wages of the blue- and white-collar personnel. If a loan was not repaid on time, then it "dissolved" in the economic turnover under the "additional financing" budgetary item.

Subsequently the economic situation developed as follows. The workers took their money and their demand for goods to the consumer market. Finding no products that would meet their need, they put a portion of their wages (earned while producing goods that did not meet anyone's need) in a bank. The bank, having discovered that its liabilities had increased, extended more loans, including loans to maintain industries manufacturing goods that did not meet the consumer needs. In the ensuing vicious circle, the deficit of consumer goods directly facilitated expanded financing to enterprises, which in turn ran up more deficits.

This is the way the fictional Soviet economy functioned, and moved on to its inevitable crash. Of course, Soviet statistics, as we have already noted, were widely used to improve on reality. But the subterfuges were an open secret. One can only wonder why Western Sovietologists did not see through them.

For example, no one in the Soviet Union tried to hide the fact that the subsidies to agriculture had reached 60 billion rubles annually by the mid-1980s (*Literary Gazette*, 1987, No. 33, p. 12). At the same time it was no secret that these subsidies did not pass through the federal budget, but through a special account that was administered by the Ministry of Agriculture in order to cover the difference between wholesale and retail prices. Here is another example. It was not exactly advertised, but neither was it concealed, that the line item in the budget for "defense expenses" referred only to the so-called direct expenditures for maintaining the troops and ammunitions. The main portion of expenses for the development and manufacture of weapons was part of the budget of the Ministry of Medium-size Machine Building and was concealed in the line items "financing of industry" and "research expenses." The list of such tricks could be continued indefinitely. However, it is important to note that if the problems had been studied conscientiously, most of them could have been identified and enumerated easily. But no such study was ever undertaken.

For this reason, the non-viability of the Soviet economy was established only after the fact.

Postscript

The profound structural deformations in the Soviet economy were the root cause of its eventual collapse. Nevertheless, this artificial economy survived for a fairly long historical period. How can we explain this? I believe that it was possible because of rigid centralized regulation using extra-economic, anti-market methods. Mechanisms to completely suppress competition were put into play. In essence, these mechanisms resulted in the government taking away virtually all the revenues created by enterprises or other economic entities, leaving nothing for investing in their development. These revenues were concentrated in a single center, which constituted a powerful investment pie. The center divided this pie between the various sectors of the economy, defense spending, and social programs as it saw fit. This was an economy governed by the rules of martial law. And in the absence of war or international tension, this economy lurched towards its deathbed. Thus, the sustained (from 1917 to 1989) and inflamed hostility of the Western alliance towards the Soviet Union continually propped up the irrational Soviet economic system. The East-West confrontation justified, morally and ideologically, the existence of the system in the eyes of a significant portion of the Soviet Union's population. Thus, for a long period of time, the West played right into the hands of the Soviet leadership, actively responding to any Soviet foreign policy provocation. This is the first conclusion of this retrospective analysis.

The second conclusion is the following. To the extent that the Soviet economic system was managed solely through administrative directives (rather than responding to market signals), the sudden withdrawal of government control and the immediate shift to reliance on market forces and freedom of economic choice inevitably led not only to the destruction of the old system of management, but also to complete economic anarchy and chaos. This is especially evident when you consider the scale of ensuing criminalization of the economy, the unprecedented corruption at all levels of authority, the helplessness of the banking system (and the total loss of faith in banks by entrepreneurs and the public), the rigid monopolization of even those segments of the market where competition would be possible, manipulations in the monetary system, leading to extensive use of barter, the lack of money to pay wages, etc. Against this background, the few fragments of civilized market relationships that have arisen seem to be nothing more than pleasant exceptions. During the decade of "market self-regulation" in Russia, not a single one of the structural deformations that Russia inherited from the Soviet Union was eliminated or even attenuated. Agriculture (especially animal husbandry) is living through the darkest years since the freeing of the serfs; the national commodity producers eke out a beggarly existence in both the consumer and the manufacturing sectors; there is still no rational solution to the problem of the military industrial complex; and social services are even more pitiful than under the Bolsheviks. If, in the past, everything hinged on maintaining semi-military discipline, now everything hinges on world prices for oil. Russian economic chaos has replaced Soviet dictatorship, but the powerful nuclear arsenal remains.

Endnotes

1. Between 1971 and 1985 wages in industry increased by 58% and the total deposits in savings banks by a factor of 4.8. ("The USSR Economy in 1985," pp. 397, 448.)

2. "The USSR Economy in 1985," pg. 371.

3. Calculated from the data in "The USSR Economy in 1985," pp. 366, 371.

Revisiting Postwar Soviet Economic Performance

by Abraham S. Becker[*]

It seemed entirely appropriate to begin this Kennan Institute conference with a retrospective on the Soviet economy, particularly in the last decade or two of its history. The intense scrutiny of the Cold War since its termination has focused on the political-strategic dimensions; much less attention has been devoted to the economic side. Fisher (1991, p. vii) called the downfall of the Soviet bloc and of the USSR itself the "last great drama of the Cold War." The lead up to that drama was the developing Soviet political-economic crisis, and the period 1975-90 is pivotal in any review of the Soviet economic record. Such a review should in principle encompass Soviet-era measurement of Soviet performance as well as the analysis of Soviet economic institutions, policy and problems. The declassification and release of a great mass of CIA analytical documents suggest the utility of an extended reexamination of the second heading. That was one main focus of Noren (2001), but he could only sample the 60,000 pages in over 2,000 documents, so there is room for further exploration. This paper regrettably cannot take up that challenge, which must be left to another occasion or other hands. The discussion here is devoted to the first subject, the measurement of Soviet performance.

Street opinion still seems to be that the CIA record in this arena is one of abject failure,[1] and two members of this conference panel, Igor Birman and Nikolai Petrakov, wholeheartedly endorse that view. The present writer sees no reason to change his overall view that this reading is a serious distortion (Becker, 1994).[2] Other analysts and scholars have arrived at the same judgment, but apparently it was neither widely heard nor credited where heard. Perhaps we succeeded only in confusing where we sought to clarify. An anecdote, perhaps apocryphal, relates that Alfred North Whitehead once congratulated Bertrand Russell after a lecture on the cosmos before a learned society: "We must be grateful to Lord Russell for the unequaled skill with which he has left the vast darkness of the universe unobscured." Must the debate on the CIA estimates leave the darkness enveloping the analysis of the Soviet economy unobscured, or is it still possible to dispel at least some of the murk?

This paper will not reenter the debate over the relative merits of the various estimates of Soviet performance. In accordance with the call of the conference subtitle to draw the "Lessons Learned and Not Learned," the paper will instead seek to narrow the area of controversy and arrive at some conclusions about the significance of the prolonged struggle over the numbers. Three questions are posed: (1) How large are the differences among the principal estimates of Soviet performance since 1960? (2) What is the analytical or policy significance of the observed differences? (3) What lessons have been learned or not learned from the experience of the debate?

Performance: The Scope of the Controversy[3]

Ruble GNP

According to the CIA, Soviet GNP increased at an average annual rate of 3.8 percent between 1950 and 1985 measured at 1982 factor cost, or 4.1 percent if the series at 1970 factor cost is linked at, say, 1975 to the series at 1982 factor cost.[4] If the two series were chained to a third, employing earlier period weights, perhaps those of 1955, the overall growth would probably be larger still, as index number theory suggests. These are substantial rates of increase and a number of critics have avowed that they were seriously overstated.[5] Even more controversial were the CIA comparisons of Soviet and American output at points in time. This section examines the size of the differences between the CIA estimates and their chief competitors. In quantitative terms, what is the issue?

Growth and Structure of GNP

Tables A and B in the appendix to this paper set out CIA estimates of the average annual rates of growth (AARG) of ruble total output minus net material product (NMP), the most frequently used Soviet aggregate, as well as GNP and its components. These are compared with the calculations of the Soviet Central Statistical Administration and the principal alternatives— primarily, those made by Grigorii Khanin and Dmitri Steinberg.

Three features stand out in an examination of total output growth in Table A. First, Khanin, Steinberg and the CIA all substantially discount the official Soviet claims. There has long been a consensus on this judgment in the West, and Khanin was the path-breaker in the Soviet Union toward the same conclusion. Second, all the series indicate a marked deceleration of growth over the quarter century; the retardation is monotonic in several series after 1966-70. On this too there has been a longstanding agreement, even in the USSR. Third, the differences among the alternatives to the official numbers are small. Because this last result belies a widely held belief, it is worth brief elaboration.

Khanin's estimates show the lowest growth rate for each sub-period, except in the first part of the 1970s; Steinberg's, with one exception, are lower than those of the CIA. [6] The differences among the three sets of calculations in any five-year period are however no larger than 1.5 percentage points. Over the 25-year period 1961-85, the AARG margin between the CIA's and Khanin's figures for NMP is one percentage point; the AARG of the CIAs GNP series exceeds that of Steinberg's over the 20 years 1966-85 by 0.7 percentage points. [7] Cumulatively, Khanin estimated that NMP almost doubled in 25 years, whereas the CIA put the change at 2.4 times.

For the branch of origin components, the CIA's numbers exceed those of Khanin/Steinberg as follows (percentage points of AARG): [8]

	Khanin	Steinberg
Industrial output		
1961-80	0.4	
1966-85		0.8
Agricultural output		
1966-85		-1.2
Construction		
1960-75	0.5	
1966-85		2.4

The differences noted—total output and branch of origin production alike—are for all practical purposes insignificant, excepting Steinberg's construction series. This is not the case with respect to the end uses of GNP, where the CIA's estimates have been subjected to much criticism. The CIA-Steinberg margins for the two main end uses are also small: 1.2 percentage points in the AARG for consumption and one point for fixed investment. Others, however, have taken a more jaundiced view. Igor Birman (1991, cited in Becker, 1994, p. 299) challenged the CIA estimate that the rate of growth of per capita consumption in the USSR over the period 1951-88 exceeded that in the U.S. (although by 0.4 percentage points). "The figures necessarily mean much better performance of the Soviet economy as compared with the American during the four last decades! [9] No Soviet propagandist would dare say such a thing." But neither he nor Khanin (AEA, 2000,Vol. I, pp. 105-106), who was also skeptical, offered alternative growth rate estimates. [10]

On investment the main issue was the degree of inflation in the value of the machinery and equipment component of the official investment series, on which the CIA relied to a considerable extent. Various Western observers and Soviet writers suggested a range of estimates of inflation rates (Rumer, 1989, p. 313; Measures, 1990, pp. 40-41; Kellogg, 1990, pp. 103-104; Shukhgalter, 2000, p. 71; Nochevkina, 2000, pp. 100, 102, 105). The

Agency acknowledged the probability of upward bias in its fixed investment estimate (CIA, 1988, p. 15), but it nevertheless believed that "the upward bias in [the CIA's] total investment growth, at its peak, may be slightly over 1 percentage point per year" (Measures, 1990, p. 43). The Soviet writers may have considered that an understatement of the true rate of investment inflation, but no alternative investment series has been offered.

The divergences among the various estimates of growth of total GNP and its components cannot compare to the clash of views on the growth of military expenditure. The figures of William Lee (for the period 1961-85) and Steven Rosefielde (1961-79) exceed those of the CIA by an average of 6.3 percentage points, with considerable variance around the mean. Lee and Rosefielde found much higher rates of technical change in Soviet weaponry and much lower rates of price inflation than the CIA did (reviewed in Firth and Noren, 1998, Chapter 6). In contrast, Steinberg's rates of growth average only half a percentage point higher than the CIA's.[11] Franklyn Holzman (e.g., 1994) was the most prominent among those who believed the CIA estimates were *over*stated.

Defense is also the main problem in the structure of GNP (Table B). There is disagreement on the sector of origin distribution, particularly with respect to trade and the residual category, but no evident pattern of variation. On the end use side, consumption accounts for a considerably smaller share of GNP in Steinberg's structure, especially in 1982 and 1985, relative to the CIA/CIR figures; fixed investment takes a larger weight (though not in 1985). On the other hand, Steinberg's residual category weight is 9-10 points higher than that of the CIA/CIR in 1982 and 1985.

This catchall category is however not comparable between the two series because Steinberg did, and the CIA did not, calculate defense as a component of the GNP accounts; the Agency never successfully integrated the two. The CIA believed that defense elements in its distribution were included in fixed investment, R&D and the final residual. Total military expenditures (including R&D) estimated from the separate CIA "building block" model represented 12.2 percent of GNP in 1970 and 15.0 percent in 1982 (Firth and Noren, 1998, pp. 129-130). Steinberg's "total defense" took up 17.6 percent of GNP in 1970 and 18.6 percent in 1982.

Steinberg's "total defense"/GNP ratios are by no means at the extreme end of the range aired in public discussion. The figure of 25 percent has received some currency.[12] Various reasons were advanced for rejecting the building-block-derived figures, but the debate centered on the scope of the defense numerator: for example, should all space expenditures or the "costs of empire" be included? A major issue concerned the scope and cost implications of Soviet mobilization capacity and the cost penalties imposed on less favored civilian activities by military priority (see Gaddy, 1996, for illuminating detail). The CIA defense estimates were explicitly based on a relatively narrow definition for the sake of comparability with U.S. numbers. Expansion of the definition produced expectedly higher defense/GNP ratios, but the Agency never attempted to encompass all the factors mentioned by the critics.[13] The controversy over the growth and relative weight of military outlays was surely the most heated in the Soviet performance debate, exceeded in temperature only occasionally by disputes over the comparative size of Soviet GNP and household consumption.

To sum up: the competing calculations of aggregate national output growth do not indicate substantial differences in either average annual rates or cumulative totals. This is also the case for growth of output by the originating sectors (except for Steinberg's construction numbers) as well as the chief end uses, consumption and investment. Neither were there sharp disagreements—between CIA and Steinberg, at least—on the sector of origin structure of output. There were major conflicts on the subject of Soviet military outlays, with respect to both growth and share of GNP. On the latter, poor comparability of the data obscures the actual differences. It is clear however that neither Steinberg's nor the CIA's end-use distribution constituted a full measure of the "real" burden of the Soviet military effort, which would, in any case, depend on the definition employed.

Are the CIA Growth Estimates Overstated?

Since the CIA estimates of aggregate output growth rates are, with few exceptions, higher than those of Khanin and Steinberg, the question arises whether there is possibly an upward bias in the CIA series. Two possible sources are considered here. Regrettably, the discussion of both is inconclusive. It would require considerable investigation, assuming the data available, to arrive at a more definitive judgment.

An important possible source of bias is the deteriorating quality of output.[14] Åslund (2001, p. 6) called "poor quality of output the fundamental problem in socialist economics." Soft budget constraints on enterprises, directed supplier-customer relations, persistent shortages, taut output planning, general inability of consumers to affect the volume and composition of the retail basket, were among the principal factors inducing producers to neglect quality in favor of meeting quantitative output targets. A major role must also be assigned to the military priority system, which effectively siphoned off quality resources and left the inferior residue for non-military uses (Gaddy, 1996, Ch.3).[15]

One of the most revealing bodies of evidence on output quality emerged from Gorbachev's 1987 attempt to impose a zero-defects production regime on the machinery industry, administered by a new organ, *Gospriemka*, the State Acceptance Commission. The experiment failed, as might have been expected, but the attempt to compel absolute adherence to quality standards shone a direct light on a dark corner of Soviet production practice, revealing astonishing lapses of observance:[16]

- Technical primitivism. There were numerous reports of dirty work stations, neglected tools, tools that were grease covered or coated with metal filings.
- Unreliability of suppliers. Producers were reluctant to confront suppliers over late deliveries of poor quality materials and components, because it was often impossible to change suppliers and confrontational behavior could lead to deterioration of supply problems.
- Sacrifice of quality for quantity. Workers had become accustomed to cutting corners to raise productivity. Often they were obliged to do so, because wage rates per unit of output were reduced when new machinery was installed, on the dubious assumption that the investment would automatically bring increases in productivity. The combination of supplier unreliability and continued insistence on meeting high quantity targets meant a continuation of the long-standing practice of "storming" (racing to meet output targets at the end of a reporting period). The tendency to sacrifice quality was great at the end of the month, greater still at the end of the quarter and at the end of the year: "even God closed his eyes to defective output" (*Izvestiia*, March 25, 1987, p.3).
- Inadequate capital base. There were acute shortages of measuring tools, instruments and equipment. More importantly, Soviet industrial plant, even in machine building, was worn, badly maintained, or obsolete, making it difficult to fulfill technical standards.

The anecdotal evidence suggests that in the last decade of the USSR's existence, and perhaps earlier too, output quality in Soviet civilian goods manufacture was spotty at best. In any given year of this period, it seems likely that the value of output computed as reported physical production weighted by base year prices is overstated. To what extent quality deteriorated over time and therefore biased the CIA indexes upward is however much more difficult to judge, but it seems possible.

Growth rates, though probably not of GNP, could be affected by correction for under-depreciation of Soviet capital assets, particularly for obsolescence, for which there is also considerable anecdotal evidence. There is a widespread view in the West that Soviet capital stock as a whole was increasingly obsolete at the end of the Soviet regime.[17] The Lenin Steel Works in Magnitogorsk, one of the USSR's principal steel production centers, can serve as a symbol of the obsolescence of much of the Soviet industrial capital stock, especially in the smoke stack industries. In 1991 the Lenin Steel Works' capital stock still embodied essentially 1930s technology (Remnick, 1991). The directors dreamed of replacing their ancient open-hearth furnaces with converters, but that was 1950s technology and the world had moved on to electric arc furnaces, continuous casting (actually, a Soviet invention) and mini-mills producing a wide range of specialized steels. The situation of Magnitogorsk steel production was replicated throughout the USSR—for example, in the Uralmash complex in Sverdlovsk (Smith, 1990, pp. 244-245).

The implication of finding extensive obsolescence would be that the asset amortization rates recorded in Soviet enterprise accounting, as distinct from real economic depreciation rates, were too low. Moreover inadequate accounting for obsolescence appeared to be a problem of long standing[18] and may have intensified over time. Pitzer (1990, pp. 16-17), however, calculated that in the period 1955-1987 the average service lives of Soviet capital assets fell "within the same general area as those of the U.S." He concluded that "within very broad constraints, the Soviet depreciation deductions represent the economic value of the capital stock consumed each year about as well as U.S. deductions do."

One would expect longer actual service lives in Soviet production capital in the light of Cohn's observations (note 18), and the considerably greater importance of modernization in American capital growth (Shukhgalter, 2000, pp. 71-76). The other side of the coin of under-depreciation would be low rates of retirements of capital assets, and there is evidence of that too. Annual retirements as a ratio of the total capital stock in 1961-87 were (with minor exceptions) a constant 2-3 percent (Kellogg, 1990, p. 146). The retirement rate appeared to be declining in the late 1980s, judging from official data for production capital (N.kh.1990, p. 289). At the same time, cumulative depreciation of production capital in industry due to wear and tear (*iznos*) increased from 36 percent of the end-year capital stock in 1980 to 41 percent in 1985 and 46 percent in 1990 (N.kh.1990, p. 375).[19] The compilers of the statistical yearbook (N.kh. 1990, p. 380) complained that despite some acceleration of asset withdrawal in industry in 1985-90, "retirements of fixed capital are still 1.5-2 times below norm, as a result of which a significant amount of obsolete (*ustarevshie*) machinery and equipment is retained."

The paradox may be partly explained by the separation of Soviet amortization allowances into two funds, one for replacement and the other for so-called "capital repair." In Soviet depreciation practice capital repair funds were under the control of the producing enterprise, whereas higher administrative echelons generally granted the replacement funds. The size of total amortization allowances may have justified Pitzer's conclusion, but actual replacements probably fell considerably short of real economic depreciation. This could occur in two ways: over-expenditure of capital repair at the expense of the replacement fund or, more likely, under-funding of replacement by ungenerous mid-level administrations or by the enterprise itself. The Soviet enterprise manager incurred considerable risks when he undertook replacement investment, risks that were reduced by substituting capital repair of obsolescent equipment (Cohn, 1979, p. 244). In a protected seller's market with expected long-term price stability, there seemed little need to worry about obsolescence. In fairness, it should be noted that the share of total amortization allowance nominally earmarked for capital repair showed a clearly declining trend in the 1970s and 1980s (N.kh. 1985, p. 558; N.kh. 1990, p. 25).

Even if confirmed, a finding of under-depreciation would not necessarily undermine the accuracy of the calculated GNP growth rates, because depreciation affected only CIA's branch of economy weights. But under-depreciation suggests the utility of a complementary total net output indicator, which would deduct capital consumption from the gross product. [20] The dynamics of net and gross product might well diverge.

Western concern with aggregate demand and employment has tended to focus national income measurement on gross product and to ignore the net indicator. Moreover, in an economy where capital consumption allowances are closely related to actual economic depreciation, the difference between NNP (NDP) and GNP (GDP) can be glossed over. Whether this is the case in the industrially developed market economies, it was certainly not true in the Soviet Union. The recorded amortization allowances of Magnitogorsk's steel works may or may not have understated the physical wear and tear, but they surely minimized the real economic obsolescence of its capital stock. This may also have been the case with much Soviet industrial capital. Actual net investment in aggregate for the USSR was probably lower than the official figures on the use structure of NMP suggest. In ignoring the distinction between net and gross aggregate product in the USSR, Western reconstructions neglected a possibly important feature of the Soviet growth record. There remains the issue of the change in depreciation over time. If the margin between reported amortization and real depreciation widened, the real rate of increase of Soviet NNP may well have been lower than that of GNP.

Comparative Size

Criticism of the CIA estimates of ruble GNP measures was often vocal but, with the conspicuous exception of military expenditure, few alternatives were proffered. In sharp contrast, the measurement of comparative USSR/U.S. size seemed almost a household industry in the Soviet Union.[21] The 1990 AEI-sponsored conference on comparing the Soviet and American economies discussed or mentioned several views on the Soviet/American ratio of GNP alone (see table below) (AEI, 2000, Vol. I, pp. 10, 11, 20, 40, 55, 75, 127):

These numbers appear to refer to some version of dollar calculations; valuation of American output in rubles seems to have been attempted only rarely.

Author	USSR/U.S.(%)	Year	Author	USSR/U.S.(%)	Year
Åslund	21-34	??	Illarionov	45.9	1985
Belkin	14	1987	Khanin	20	1985
Birman	20	"now"	Kudrov	35	"present"
Bolotin	45	1985	Nikitin and		
Dikhanov	33.6	1985	Gelvanovskii	33-35	??

For comparison, the CIA's geometric mean of ruble and dollar relatives ranged between 52 and 56 percent, depending on the year of publication (Becker, 1994, p. 309). In addition, figures were cited at the AEI conference for GNP per capita, NMP and the components thereof, as well as per capita consumption, investment and the capital stock. In the 1970s Valentin Kudrov directed a project at the Institute of World Economy and International Relations (IMEMO) on comparison of the two economies, which did trouble to develop ruble as well as dollar relatives. Kudrov (2000, p. 65) claimed, "To the best of our knowledge, the value-based comparisons of the USSR and U.S. economic indicators performed at the IMEMO are still the most extensive, detailed, systemic [sic] and factual as compared to all other comparisons ever done in the USSR." They were replicable and verifiable, but in hindsight he believed they were Soviet-biased. Kudrov (1997, pp. 887, 891, 895, 896) provides a considerable set of results from the IMEMO studies, from which the following sample may be cited (geometric means of ruble and dollar relatives):[22]

NMP produced, 1963	46.0 percent
Industrial output, 1967	51.2
Agricultural output, 1967	84.2
Consumption,	1969
Total	37.3
Per capita	31.9

Kudrov concluded (p. 903):

> As a whole the comparisons of the main macroeconomic indicators of the USSR and the USA carried out in IMEMO reflected lower ratios than those published in the Soviet official statistics on a regular basis. In many cases the IMEMO ratios were close to those published by the CIA. That was the main reason these comparisons were kept secret by the Institute.

The CIA's ratios of Soviet to American GNP were derived or extrapolated from two sets of purchasing power parity studies, relating to 1955 and 1976. Since then the only "extensive, detailed, systematic and factual" study to have been carried out was by the OECD and the UN for 1990 in a multinational, Europe-centered comparison of GDP, the European Comparison Program (ECP, 1994).[23] With Austrian prices and quantities as a bridge, the Soviet/American ratio for per capita GDP is 31.6 percent (ECP, 1994, p. 77).[24] The corresponding CIA figure as extrapolated by Bergson (1997, p. 3) is 43 percent, more than a third higher. Schroeder (1995, p. 216) allowed for a 10 percent discount of the CIA ratios of both GNP and consumption, because of superior U.S. quality of output, and then extrapolated the ratios to 1990. These are shown here along with similar Bergson calculations and the ECP ratios (percent):[25]

	Per capita GNP or GDP	Per capita consumption
ECP	32	24
Schroeder	39.5	27.7
CIA via Bergson	38	28
ECP/CIA	81/84	86

For comparison, the alternative numbers favored by several prominent critics of the CIA GNP estimates, noted above or cited in Becker (1994, pp. 312-13), ranged from about one-quarter to four-fifths as high as the Agency's mean ratio of about 55 percent for the mid-1980s.[26] A World Bank-sponsored study, cited earlier, indicated a ratio of 43 percent, thus about 78 percent of the Agency average. The gap between the CIA and ECP aggregate output figures for 1990 is therefore tangibly smaller than the differences between the CIA estimates for the mid-1980s and those of its critics.

This is also true of the comparison of per capita consumption in 1990. The ECP ratio is but 14 percent below the quality-discounted CIA figure. Interestingly, Igor Birman's extended critique of the CIA's comparative per capita consumption estimate for 1976 claimed an error margin of at least 17-35 percent, but if the CIA numbers were discounted 10 percent, Birman's estimate would imply a difference of 8-28 percent. The gap between the CIA's and the ECP's ratios for per capita fixed investment is somewhat larger: the ECP estimate is 30 percent below that of the CIA and 23 percent less than a discounted CIA figure (Bergson, 1997, p.8). Military outlays are lumped with government administration in the ECP accounts.[27]

Becker (1994, p. 316) concluded that the CIA's reported average GNP size ratios were "not just upper bounds but more likely overstatements of the upper bounds on the 'true' ratios." The ECP studies suggest that the Schroeder 10 percent nominal discount for quality may not be sufficient. Perhaps, too, the economic turmoil in the Soviet Union before its demise implies that extrapolation from 1976 inadequately accounts for deterioration of consumption and production standards in the intervening years.

What Difference Do the Differences Make?

The preceding section reviewed the size of the divergence in the estimates for various magnitudes. Some of the disparities observed were considered small, others were seen as more significant, which raises the question, in what analytical or policy context can significance be judged? This section considers the question in relation to three issues.

Appraisal of Soviet official statistics. This is the easiest issue to gauge. The alternative estimates of the growth of total output and its major components all discount the official Soviet figures, and by substantial margins. It hardly seems important whether the CIA understated the degree of exaggeration in any of the official series, in view of the quite small differences among the alternatives. It might be argued that military expenditure is the salient exception. Several alternative estimates of military output growth and share of GNP are sharply higher than the Agency's estimates. Until the late 1980s, however, the Soviet government figures were ridiculously low and devoid of credibility within or without the Soviet Union. A somewhat similar judgment applies to the occasional official figures on the USSR/U.S. ratios of national income (NMP) and industrial production noted in the next paragraph.

Comparison of Soviet and American performance. This paper has not compared U.S. and USSR growth rates. But changes in comparative size, over fairly short periods, reflect relative differences in growth, at least crudely. On this subject the official Soviet figures are certainly no help for they have clearly been fudged (Revenko, 2000, pp. 37-38 and Kudrov, 2000, pp. 58-62). The figures from individual Soviet scholars or institutions cited earlier were single point estimates for the most part. Kudrov (1997) did report time series data for the major categories of the IMEMO studies, and these show uninterrupted increases in the USSR/U.S. ratios of industrial and agricultural production, investment, consumption, total and per capita, and total fixed assets, from the 1950s to about 1970 (pp. 887, 891, 893, 895-96). The article did not provide a time series for NMP. The only extended time series available for comparative aggregate output is that published by the CIA. It indicates that the Soviet/American ratio of GNP increased considerably between 1955 and 1975 but declined tangibly in the next decade (Becker, 1994, pp. 307-311).[28]

Evaluation of the Soviet economic model. Ericson (1990, p. 90) believed that Khanin's growth estimates had dramatic implications for the appraisal of Soviet economic history and the Soviet economic model. As a result,

> We can no longer believe in the "command economy" as an effective mobilizer of resources or instrument for change over any but the shortest period of time. [T]he "command economy" appears rather as an engine

> for the dissipation of social energy and resources, and the propagation of waste, inefficiency, indifference and dishonesty in the social system. Moreover, it is an instrument that is becoming increasingly ineffective over time, even with respect to those tasks that it once did well, despite all efforts to reform or improve its functioning. This is a far cry from the dynamic Soviet development model that threatened to bury us.

However one views this characterization of the "command economy," it is difficult to credit Ericson's assessment of Khanin's role. Scholars in the West had deflated Soviet government boasts of super-high rates of growth long before Khanin's results became known. The differences between the AARG of Khanin's NMP and those of Bergson-CIA (Table A and Becker, 1994, p. 304) never exceeded about one and a half percentage points for either the prewar or postwar periods. Both the quantitative and the policy studies of the postwar Soviet economy performed in the West stressed the exaggeration in the official view of Soviet performance and the deepening difficulties of Soviet planning and operation. Nikita Khrushchev's vainglorious boast was seen as hollow within a very few years of its pronouncement.

There is, as we have seen, a wide dispersion of views on the comparative size of the Soviet economy at a particular time. There may also be disagreement on the time trend of the Soviet/American GNP ratio until the mid-1970s. Since then however the ratio declined in the CIA series; presumably the critics assent. In the last 15 years of its existence, clearly, the Soviet Union fell further behind the U.S. This finding may be viewed as bearing its own verdict on the effectiveness of the Soviet system in international perspective. Whether one then believes that ratios of one-third or one-half (or their alternatives) imply different judgments of the Soviet model seems a matter of taste rather than analysis.

Relevance to U.S. Government policy. Some critics have made much of the CIA's alleged failure to anticipate the "collapse" of the Soviet economy, a consequence in part of being blinded by the Agency's high estimates of Soviet economic growth. Thus handicapped, the U.S. government supposedly made erroneous, costly decisions, including on the military budget and the national debt. Noren (2001), surveying the recently declassified Agency reports and memoranda, argues that the CIA on many occasions pointed to the increasing difficulties of the Gorbachev regime in coping with the serious structural problems of the Soviet economy. Whether those analyses were adequate must be left to separate examination.[29] The quantitative record however hardly supports the charge noted. In Table A all the total output series portray sharp, uninterrupted retardation of growth rates from at least 1970. All the non-official calculations show rates of growth below 2 percent per year in the last decade, except for the 1970-price valuation of CIA's "NMP." All four indicate a further growth decline in the first half of the 1980s, although the change in the CIA series is small and in the case of GNP, minimal. All the non-official estimates cited, against the background of continuing growth retardation since the 1960s, suggest approaching stagnation or recession/depression. A somewhat similar pattern appears in the second part of Table A. It stretches credulity to argue that the one-percent per year difference in growth rates between Khanin's and CIA's estimates for NMP in 1976-85 marks the difference between a forecast of "collapse" and an intelligence failure.

Some critics insist however that there had long been handwriting on the wall that proclaimed the inevitability of "collapse." The CIA's exaggerated view of Soviet growth, and especially of the comparative size of the Soviet economy, prevented it from seeing and understanding the message. Or so runs the critics' claim. Apart from the merits of the arguments on the statistics, there are two problems with this claim: the dubious meaning of "collapse" and the inapplicability of such a notion to the economy of the last years of the USSR.

What is the analytical meaning of "collapse" or indeed of any of the several other synonyms—such as "clinical death," "total crash," "strategic nonviability"—that have been employed? These are all dramatic terms, but they lend themselves to neither measurement nor analysis. Economies may shrink in size drastically; they may suffer severely from maladies like inflation, unemployment, corruption, black markets, etc. But they do not "collapse" like a tent whose guy ropes have been suddenly severed; they do not "die."

However it may be defined, "collapse" hardly seems an appropriate description of the state of the Soviet economy in 1989-91. In the Civil War that followed the Bolshevik Revolution, industrial production declined 70 percent (Nove, 1969, p. 68). According to the UN's Economic Commission for Europe, the GDP of the CIS economies shrank by almost half in the decade following 1989 (cited in Åslund, 2001, Table 3), although this figure is arguably exaggerated. Growth of the Soviet economy through 1989 however was positive, though small. The decreases in 1990-91 may have been large, but they were considerably smaller than those that followed the dissolution of the USSR (Åslund, 2001, Table 1).

The almost continuous retardation of Soviet growth since the 1960s, leading to the absolute declines of 1990-91, was surely due to the combination of systemic deformations and the clumsy efforts of the regime to cope with the increasingly manifest problems. To repeat the conclusion of Becker (1994, p. 394), almost no one foresaw the dissolution of the Soviet empire and of the USSR itself because no one foresaw the immediate cause of the upheaval. Ironically, it was Gorbachev, the one leader who seemed to grasp the parlous state of the economy and attempted to pull it out of stagnation, who unwittingly pulled down the pillars of the temple.[30]

Lessons Learned and Still Unlearned

One of the hallmarks of the analysis of Soviet economic performance was the high degree of controversy that enveloped it. Disagreements are voiced in all professional fields and the argument can be heated. The temperature of the polemic in economic Sovietology was however particularly high, with accusations of personal and political failings not uncommon. Several factors may explain this phenomenon but Soviet concealment policy is surely the single most important reason. There are debates about aspects of national accounting in the U.S. and in other countries blessed with more or less open publication of economic data. Such disputes have not however generated the magnitude of differences in estimates, certainly not the politicization of conflicting viewpoints that developed over Soviet economic measurements. The reason is simple enough: the controversial character of the Soviet system, the Cold War political-military conflict between East and West, and the connection between Soviet economic performance and U.S. policy choices, most prominently on the size and structure of our military budget. Soviet concealment necessitated independent estimates of Soviet economic performance, but the dearth of reliable information also made those estimates difficult, cumbersome and open to challenge, well-grounded or not. If one can imagine a socialist political-economic order with economic data as freely available as in the U.S., it seems unlikely that there would have been either a perceived need for independent estimation or much controversy surrounding Moscow-issued statistics.

For this reason the controversies of yesteryear over Soviet economic performance may present few lessons for a new generation of analysts in the West. The

Soviet combination of hostile purpose and secrecy with statistical manipulation is not apparent in the Russia of today. So long as that is true, tomorrow's Russian data disputes will probably be tame in comparison with those of the "good old days." Many observers of Russian affairs are however concerned about what they see as a concentration of executive power in Moscow and the growing role of the police forces. These developments seem hardly compatible with a free flow of information in a truly democratic society.

There is one issue of the Soviet era controversies that does bear revisiting. Soviet secrecy and the labor intensity of the major independent estimating effort in the West, essentially that of the CIA, generated a strong incentive for skeptics of the CIA results to resort to "back of the envelope" calculations[31] and simple plausibility tests to challenge the CIA numbers. Some economic "alternative medicine" efforts raised genuine issues of methodology (Becker, 1994, p 302 and p. 307, n. 32), but others were based on elementary errors of analysis.

A prominent example of the latter is the following type of comparison. Suppose Soviet and American agricultural outputs in 1985 were of equal size. Agricultural production contributed only 2 percent of U.S. GNP then, whereas agriculture's share in Soviet GNP was 19 percent (Table B). Therefore, the argument runs, American GNP was better than nine times as large as Soviet GNP. If Soviet agricultural output was actually smaller than the American, the U.S./USSR GNP ratio would have been even larger.[32] The absurdity of this "calculation" can be immediately demonstrated by comparing any other originating branch components. Thus, the share of mining and manufacturing production in the U.S. GNP in the same year was 23 percent, excluding government enterprises, whose output would add another few percentage points. Industrial production accounted for 30 (CIR) or 35 (Steinberg) percent of Soviet GNP. If industrial outputs in the two countries were of equal size, U.S. GNP was, presumably, less than 1.5 times larger than the Soviet. Even if Soviet industrial production was only half as large as the U.S. volume, the GNP ratio would still have been less than three, rather than more than nine, according to the logic of the example.[33]

The elementary but fundamental error of this plausibility test consists in the failure to distinguish between two national price sets and an average of output ratios derived from each set. GNP shares are calculated in dollars and rubles. Average ratios of output derive from separate ruble-weighted and dollar-weighted calculations. The attempt to cross these lines arbitrarily results in the muddle depicted above. The remarkable aspect of this story is that warnings against such procedures have been sounded for more than forty years (for example, Becker, 1960). This is one lesson that some have not yet learned.

The origin of this methodological error is surely in the temptation to rely on "common sense," intuition or "feel" for the reality on the ground. There have been those who thought they could distinguish between GNP growth rates of three percent and one percent, or between USSR/U.S. GNP ratios of one-third (or less) and one-half, on the basis of personal experience in the Soviet Union. Others were confident that particular CIA estimates were completely wrong but could not provide the "correct" number. First hand knowledge of an economy and society is certainly a necessary complement to serious quantitative research, and Soviet secrecy and self-isolation imposed significant handicaps on Western Sovietologists during the height of the Cold War.[34] But there are important limits to reliance on the qualitative dimension of analysis. A "feel" for the reality may justify rejection of a particular measurement as implausible or even incredible. Famine in a largely agricultural society is not compatible with claims of rapid increases in per capita consumption. Neither is stagnation at a time of full employment and bustling retail shops a plausible combination. But these are straw men extremes, easily knocked down. In between lies a minefield where gut reaction, "educated" guesses and back-of-the-envelope calculations greet the unwary with the potential for major error.

The other side of the coin of reliance on intuition or personal experience is the search for "*the* answer." The answer to the question, how fast did the Soviet economy grow—or the magnitude of the Soviet defense burden, or the size of Soviet consumption compared to that of the U.S.—is not inscribed on a tablet from Mt. Sinai awaiting discovery by those possessed of right reason and a pure heart. And the method of determining a proper response is not self-evident. Western economic Sovietology relied on "conventional Western norms" (Bergson, 1995), and "standard concepts and measurement techniques in the field" (Schroeder, 1995, p.200). These were of course derived from the Western apparatus of the theory and practice of national accounts. The issue here however is not the relative validity of NMP vs. GNP. One is not inherently right and the other evidently wrong. The problem with Soviet statistics was not that their theoretical foundation was the labor theory of value, but that the concepts were often unclear, the methodology skewed or masked and much of the underlying data suspect when not simply concealed. In short, whether a number is "right" depends on its theoretical context, how it is defined, the procedures used to measure it and the transparency of the measurement process. Regrettably, there seems to be great resistance to the lesson that the correctness of an estimate depends only on the path taken to arrive at it.

In this light the CIA calculations may still be criticized for various shortcomings—even serious ones, as some Western analysts have claimed—judged by the standards to which the Agency had committed itself. But its quantitative analysis throughout remained within the disciplined framework of careful, detailed construction of estimates guided by the well-tried apparatus of theory and methodology. It is those who diverged from that approach whose claims to superior merit remain in question.

APPENDIX

This appendix presents and explains two tables comparing the CIA and alternative estimates of Soviet ruble GNP performance. The chief alternatives are those by Grigorii Khanin and Dmitri Steinberg. Table A shows the AARG of output by five-year periods, Table B the structure of output in benchmark years. The first part of Table A, covering aggregate output, compares estimates of both net material product (NMP), the most commonly-used Soviet aggregate, and GNP. The Soviet Central Statistical Administration began computing GNP only in the late 1980s, and the series was not extended backwards to the sixties and early seventies. Khanin's series cannot be associated with a particular set of prices because his methodology attempts to avoid the valuation problem, and the official indexes use varying established-price weights. Otherwise, the table looks at the results of valuation in, alternatively, early-1970s and 1982 factor costs plus a set at "chained" prices.[35]

The second part of Table A features the growth of the components of GNP, the main originating sectors and then the chief end uses. To simplify the presentation, the table limits the Steinberg and CIA entries to those at 1982 factor costs: in either set there is little difference between the AARG at 1970 or 1982 factor costs.[36] There is no Khanin row for agricultural output because he accepted the official index as valid. Neither did Khanin provide estimates of end-use.

The structure of GNP by branch of origin and end use is shown in Table B at factor cost for the two weight years of the

CIA growth indexes, 1970 and 1982. These are the only ones for which the CIA estimated both established and factor cost values in current prices. Table B also compares the official Soviet structure of GNP in 1985 with Steinberg's distributions as well as with those compiled by the U.S. Bureau of the Census' Center for International Research. Because the CIR did not estimate end use at factor cost, that 1985 comparison is at established prices. It is not clear whether the CIR accounts are essentially a continuation of those by the CIA. The accounting structure and the basic procedure seem similar, but it would require detailed comparison to establish whether or not there are significant differences.

In 1990 the USSR participated for the first time in the European Comparison Program (ECP). The end-use distribution for 1990 in the government submission to the ECP (1990, p. 38) may be compared with the data published in the 1990 yearbook (N.kh. 1990, p. 9; percent):

	ECP submission	N.kh.1990
Final national consumption	58.3%	56.9%
Gross fixed capital formation	30.0%	
Increase in stocks	1.8%	{30.1}%
Gov't collective consumption	10.4%	
Net exports	-0.6%	{13.0}%

Defense expenditures are supposedly included with collective consumption, but both the latter figure and the N.kh residual are obviously far too small to reflect all Soviet military outlays.

Finally, the presentation of Steinberg's estimates raises questions about the consistency of various parts of his calculations. To our great regret, his untimely passing

Table A

ALTERNATIVE ESTIMATES, POSTWAR SOVIET OUTPUT GROWTH

Average annual rates of growth, percent

	1961-65	1966-70	1971-75	1976-80	1981-85	1961-85	1966-85
Total Output							
Soviet official,							
NMP	6.5	7.8	5.7	4.3	3.6	5.6	5.3
Khanin, NMP	4.4	4.1	3.2	1	0.6	2.6	2.2
CIA, NMP							
1970 prices	5.1	5.6	3.7	2.6	n.a.		
1982 prices	4.9	5.2	3.3	1.8	1.6	3.3	2.9
chained indexes	5.1+	5.6	3.7	2.2	1.6	3.6	3.2
Soviet official, GNP	n.a.	n.a.	n.a.	4.8	3.7		
Steinberg, GNP							
1973 factor cost	n.a.	5.2	2.3	1.7	1.1		2.5
1982 factor cost	n.a.	5.1	2.1	1.6	1		2.4
chained indexes	n.a.	5.2	2.3	1.7	1		2.5
1970 factor cost	5	5.2	3.7	2.7	n.a.		
1982 factor cost	4.8	4.9	3	1.9	1.8	3.2	2.8
chained indexes	5+	5.2	3.7	2.3	1.8	3.6	3.2
Components							
Industry							
Soviet official	8.6	8.5	7.4	4.4	3.7	6.5	6
Khanin	7	4.5	4.5	3	n.a.		
CIA	6.5	6	5.6	2.4	2	4.5	3.9
Steinberg	n.a.	4.3	4.2	2.6	1.4		3.1
Agriculture							
Soviet official	2.3	4.2	0.8	3.5	2.1	2.6	2.5
CIA	2.8	3.4	-2.3	0.2	1.2	1	0.6
Steinberg	n.a.	6.9	-1.2	-0.2	2.1		1.8
Construction							
Khanin	5	3.2	3.7	n.a.	n.a.		
CIA	4.9	5.5	4.2	-0.1	1.1	2.7	2.2
Steinberg	n.a.	2.7	0.8	-1.7	-2.7		-0.2
Consumption							
CIA	3.7	5.3	3.5	2.5	2	3.4	3.3
Steinberg	n.a.	4.6	2.4	0.9	0.8		2.1
Fixed investment							
CIA	7.2	5.5	4.1	2.1	2.6	4.2	3.6
Steinberg	n.a.	6.4	3.1	0.8	0.3		2.6
Defense							
CIA	6.1	4.4	3.4	1.7	1.1	3.3	2.6
Lee	10.1	11.6	11	7.6	8.1	9.6	9.5
Rosefielde	8.7	14.9	8.3	8.9*	n.a.		
Steinberg	n.a.	3.5	3.4	2.4	3.1		3.1

*1976-1979

Sources: Soviet official: NMP, N.kh.1987, p. 9; GNP, N.kh.1990, p. 8; industrial production, N.kh. 1987, p. 7; agricultural output, N.kh. 1980, p. 39 and N.kh. 1987, p. 5. Khanin: NMP, cited in Harrison (1993, p. 146); industrial and construction output, Khanin (1991, pp. 146 and 167). CIA: total output: 1970 prices and factor cost, Pitzer (1982, pp. 15, 25); 1982 prices and factor cost, Measures (1990, p. 46); components, except defense, Measures (1990, pp. 58, 73). Steinberg (1990): Tables 2A, pp. 220-221 (GNP and originating sectors) and 2C, p. 227 (end uses). All defense figures from Noren (1995, p. 249).

precludes the resolution of these difficulties. The ambitiousness of Steinberg's effort nevertheless required consideration of his results.[37]

Table B

STRUCTURE OF GNP: STEINBERG, CIA/CIR, OFFICIAL SOVIET

(Percent; current factor cost, except as indicated)

	1970		1982		1985		
	CIA	Steinberg	CIA	Steinberg	CIR	Steinberg	Official^^
A. Origin							
Industry	32	29.6	32.4	31.4	30.1	35	36
Agriculture	21.1	22.1	20.6	18.4	18.5	18.7	17
Construction	7.3	10.8	7.8	10.6	7.7	10.6	8
Transport & Communicat.	9.6	7.5	10.4	8.8	9.7	8.8	6
Trade	7.3	4.9	6.5	5.1	5.8	4.9	14
Other	22.7	25.1	22.3	25.7**	28.2	22**	19
B. End Use					1985 established prices		
Consumption	54.2	50.7	55.3	44.5	54.4	47.7	54.8
Fixed invest.	28.2	30.4	30.4	31.6	30	26.4	
Inventories	n.a.	1.7^	n.a.	3.6^	3	3.1	{33}
Other	17.6	18.9	14.3	23.9	15.5	22.8	13.2
of which:							
Defense	n.a.	12.3*	n.a.	15.4*	n.a.	14.7***	n.a.
Administ.	2.8	1.6	2.9	1.4	2.8	n.a.	n.a.
R&D	3.1	2.6	3.4	2.8	2.9	n.a.	n.a.
All other, incl. stat discrep.	11.6	2.4	8.1	4.4	9.9	n.a.	n.a.

*Excluding R&D and, possibly, personnel outlays

** Including 1.9 percent unidentified in 1982 and 2.7 percent in 1985

^ Including reserves

^ ^ Established prices

*** "Total defense"

Sources: CIA 1970: Pitzer (1982, p. 41). CIA 1982: Measures (1990, pp. 23 and 72). Steinberg (1990): For 1970 and 1982, Charts 9 and 11, pp. 189, 193; for 1985, Table 2B, pp. 222-225 and Table 1F, p. 214. CIR (1991, pp. iii, iv). Official Soviet, N.kh. 1990, p. 9.

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Endnotes

*. This paper is a revised version of one presented at the Kennan Institute conference on "U.S. Assessments of the Soviet and Post-Soviet Russian Economy: Lessons Learned and Not Learned," March 2002.

1. See the press commentary on the March 2001 Princeton conference, "The CIA's Analysis of the Soviet Union 1947-1991:" for example, Kotkin (2001) and Taubman (2001).

2. Becker (1998) deals in part with related issues.

3. This section deals with the growth and structure of Soviet GNP as well as its size compared to American output. Growth of the capital stock, productivity, and comparison of Soviet growth with that of industrially developed economies are among the important topics not covered in this discussion.

4. The cut-off point for the growth rates considered below is 1985 rather than 1990 (a) because 1985 is the terminal point for most of the estimates of both Grigorii Khanin and Dmitri Steinberg, the main alternatives to the CIA calculations discussed below, and (b) because of the increasing turmoil in the late eighties. After the rebound of 1986, when GNP is estimated to have grown by more than 4 percent, the average annual rate in the next three years was 1.6 percent (CIA, 1990a, p. 64). But the meaning of factor cost measurement of Soviet output must have been compromised in the last years of the USSR.

5. It should be kept in mind that a small minority of critics of the Agency's estimates believed they were understated. See Becker (1994, p. 298) and Schroeder (1995, p. 208).

6. Steinberg (1990, p. 177) remarked that his estimates of total material product are "notably higher, particularly for the late 1970s and early 1980s, than Khanin's," but he speculated that perhaps Khanin discounted growth rates for quality changes.

7. The entries for the three Western series are the "chained" indexes of Table A, which provide a less favorable comparison for the CIA figures than the series at 1982 factor cost.

8. Khanin's industrial and construction output series extend only to 1980 and 1975, respectively, and he accepted the official agricultural output index as valid. Steinberg's construction growth figures are lower than Khanin's for the two five-year periods of comparability. Steinberg's series shows a 20 percent decline in 1976-85 and a negative average growth rate in 1966-85!

9. Birman passed over the implication that Soviet per capita consumption gained little ground in the competition with the U.S. over four decades.

10. The CIA found grounds for believing its consumption index both understated and overstated (CIA, 1988, pp. 15-16; Schroeder, 2000, pp. 84-87). Schroeder (2000, pp. 90-92) discusses various objections to the CIA consumption estimates. See also Discussion (2000) and Becker (1994, pp. 299-301).

11. Growth rates implied in Steinberg's Table 2C, p. 227, for "total defense outlays" differ somewhat from those cited by Noren (1995)—the source of the figures in Table A—which derive from a Steinberg 1992 article and were valued in 1992 rubles. The growth rates of the 1990 Steinberg series are on the average 1.7 points higher than the CIA's.

12. e.g., Rowen and Wolf (1990, pp. xiii, 7 and 9) or Birman (2000, p 55). At this Kennan conference, Birman raised his estimate to "at least a third of the Soviet national product."

13. These issues are discussed in greater detail in Firth and Noren (1998), Chapters 5 and 6. See also Noren (1995). For an opposing approach, see Epstein (1990). My

own view on many of these matters is set out in Becker (1998).

14. There has been much discussion of another issue, deliberate inflation of the reported quantity of output, so-called *pripiski*. Åslund (2001, p.3) claimed it amounted to about 5 percent of total output. The degree of over-reporting varied over time, as Khanin noted (cited in Becker, 1994, p. 306), and so would any consequent upward bias in the CIA's estimated growth rates. Åslund (1990, p. 19) and Ericson (1990, pp. 64, 70) believed there was a distinct upward trend. There has however been inadequate information to gauge the probable size of the error. Cf. CIA (1988, p. 11): "…we believe the evidence that overreporting of [physical quantities produced] has increased over time is inconclusive and note that even the critics of official Soviet statistics make heavy use of such series in constructing their alternative estimates." See also pp. 12-13 in ibid.

15. Brixiova and Bulir (2001, p. 22) argue that in a planned economy firms were able to "produce goods and services that nobody demanded." As a rough measure of that capability, they cite the sharp rise in the ratio of total inventories to NMP in Czechoslovakia between 1954 and 1989, from 32 to 90 percent. In the USSR the ratio of material working capital to NMP rose in every five-year period since 1970 (N.kh.: 1985, pp. 409, 554; 1988, pp. 12, 16; 1990, pp. 11, 27). The accumulation of unwanted goods, like output losses due to spoilage or waste, does not however require a reduction of sectoral output in the GNP indexes. Instead, they should be recorded under final uses—in the CIA accounts, as part of the ultimate residual. See CIA (1988, pp. 13-14).

16. The brief summary of the evidence on the Gospriemka episode cited below is drawn from FBIS translations of the central press (*Pravda*, *Izvestiia* and *Ekonomicheskaia gazeta*), national economic journals (*Ekonomika i organizatsiia proizvodstva*, *Standarty i kachestvo*) and several regional organs (Leningrad, Kazakhstan and Ukrainian *Pravda*; *Kommunist* of Vilnius and Yerevan), largely in the first half of 1987. On the quality of Soviet machinery, see also Shukhgalter (2000, pp. 76-82).

17. Ericson (2000, p.15) expresses a near-consensus view. "Most capacities inherited [by Russia] from the Soviet Union were obsolete and extremely inefficient in their use of energy and material inputs."

18. Cohn (1979) pointed to six factors that contributed to under-depreciation in the 1970s. (1) In Soviet conditions replacement investment, rather than investment in new plant and equipment, was the essential bearer of modernization, but the ratio of replacement to total investment was far below that in the U.S. and other market economies. (2) Soviet replacement investment did not necessarily involve new technology. Much of the former consisted of assets transferred to lower priority activities. Cohn estimated that at least one-third of total replacement investment consisted of obsolete transfers. (3) Until the early 1960s the concept of obsolescence played no part in replacement investment decision-making. Even afterwards obsolescence was only a minor factor. (4) Programmed asset service lives in the USSR were considerably longer than in the U.S. Assets were retired before the end of norm or nominal service lives, not for obsolescence but for abuse or poor maintenance. (5) The extension of service lives beyond programmed limits was made possible by extensive capital repair, an alternative to replacement and one of inferior technology. (6) Soviet industrial capacity in the mid-1970s was far below that required for modernization of the industrial capital stock.

19. Wear and tear (*iznos)* was measured by the quotient of the cumulative sum of amortization divided by the end-year original cost of capital assets (N.Kh. 1990, p. 705).

20. Half a century ago it was commonly argued that to include the value of capital used up in the production of the national output, which is what we do in calculating GNP, is to double count just as much as adding the cost of grain and the cost of flour to the value of the final good, bread. It is the net new addition to production capacity, net investment—not the gross—that yields economic output. Edward Dennison, (1990, p.180) put the case for net output succinctly: "My own choice of output measures…is net product. Insofar as a large output is a proper goal of society and objective of policy, it is net output that measures the degree of success in achieving this goal. There is no more reason to wish to maximize capital consumption incurred in the production of, for example, television sets than there is to maximize the metal or plastic used in their production, and no more reason to include it in the output measure adopted for growth analysis."

21. "…the problems of comparison of the main economic indices of the USSR and the USA were an urgent practical task for many state agencies and organizations of the USSR" (Kudrov, 1997, p. 883).

22. The margins between the ruble-weighted and dollar-weighted ratios in the IMEMO results are often surprisingly small. For example, NMP produced, 5.6 percentage points; investment in equipment, 0.8 points!

23. The ECP compared 25 countries in a complex framework under which six communist countries were linked to 19 other European countries via Austria. The Soviet-American comparison is made possible by a separate linkage of the U.S. via Austria. An earlier World Bank–sponsored study involved a direct Soviet-American comparison but it employed extensive shortcuts (see Becker, 1994, p. 313). Other estimates challenging the CIA measures did not derive from detailed alternative calculations. The partial exception to this statement is Igor Birman's lengthy critique of the CIA's consumption comparison, and it is referred to below.

24. ECP 1994 (pp. 60-61) provided the end-use distribution of GDP in national currencies of the 25 countries. Comparison of the Soviet ruble data, assumed to be the government's submission to the ECP, with the highly condensed GNP distribution for the same year in N.kh. 1990 (p. 9) reveals the following oddities (ECP/N.kh. ratios): GDP or GNP 1.03, consumption 1.06, gross investment 1.09, other uses 0.78!

25. Schroeder's extrapolated 1990 figure of 39.5 percent is below the 41.9 percent indicated in CIA (1991, pp. 28-29). The latter figure is based on 1990-dollar purchasing power parities.

26. If the competing estimates were true dollar-valued ratios, the counterpart CIA figure would be about two-thirds, making the disparity with the critics' numbers even greater. For the most part however the latter are derived from short-cut calculations and often use the CIA averages as referent.

27. The CIA regularly calculated the dollar cost of Soviet military expenditure for comparison with U.S. outlays. It estimated the ruble value of U.S. defense only occasionally, owing to the problems of developing ruble prices for hardware that would have been difficult or even impossible for Soviet industry to produce. See Firth and Noren (1998, pp. 148-50) and Becker (1998, pp. 103-04).

28. U.S. GNP grew 2.9 percent per year in 1976-85 (Economic Report, 1994, p. 270), compared to 2.0 percent for the Soviet Union (Table A: CIA GNP, linked index).

29. Schroeder (1995, pp. 216-24) presents a detailed defense of Western Sovietology's analysis of Soviet economic problems and prospects.

30. cf. Shlapentokh (2001): "In an attempt to improve the efficiency of the

economy…Gorbachev initiated reform that shook the pillars of Soviet society" (p. 178). Also, "The Soviet system, a rigid hierarchical organism, turned out to be defenseless against the actions of its leaders who undermined its vital mechanism" (p. 201).

31. Such as the extrapolation of Russian Empire/U.S. ratios over 75 years by single national indexes.

32. Even Steinberg (1990, p. 16) was attracted to this lure.

33. A more common form of this error concerns the defense/GNP shares, comparative military outlays and the bilateral GNP ratio. For examples, see Ericson (1990, p. 91), Birman (2000, p. 36) and Khanin (AEI, 2000, Vol. II, p. 53).

34. A truly profound assessment of the Soviet economy exceeded the capabilities of economic analysis alone and required the insights of other disciplines—history, political science and sociology. Perhaps the most notable shortcoming of Western Sovietology was the failure to apply multidisciplinary analysis to the study of Soviet problems and prospects.

35. Justification of the chained series rests on four assumptions: (1) Because of structural change in an economy over time, it is appropriate to change price weights of growth indexes periodically. (2) Index number theory suggests that an earlier set of prices would yield a higher growth rate in 1961-65 than 1970 or 1973 prices. (3) 1970/1973 prices are acceptable for the periods 1966-70 and 1971-75. (4) The linked index entry for 1976-80 can be calculated as a simple average of the entries using 1970/1973 and 1982 prices.

36. The largest changes resulting from the shift of price base by the CIA are: one percentage point in the AARG of industrial production in 1976-80, 1.4 points in construction in 1971-75 and 2.5 points in 1976-80. Steinberg's shift results in no difference in the rates for agriculture and construction and small differences for industrial production.

Panel 1 Summary: "Revisiting the Estimates and Analyses of the Soviet Era

Nikolai Petrakov, Director, Market Economy Institute, Russian Academy of Sciences, Moscow

Abraham Becker, Senior Economist, Emeritus, RAND

Discussants:

Igor Birman, independent scholar, Washington, D.C.

Robert Campbell, Distinguished Professor of Economics, Emeritus, Indiana University

Chair:

Blair Ruble, Director, Kennan Institute

The first conference panel looked back at how American experts on the Soviet economy wrestled with the subject of their study. Economics has been the most heavily criticized of all the fields of post-Soviet studies for its failure to predict the collapse of the Soviet Union. How much of that criticism is warranted? Analysts of the Soviet economy had to be detectives as well as economists. They sifted through data that was designed by the Soviets to mislead, weighed survey results of émigrés, and made educated guesses where information was completely absent. Controversies included the percentage of the Soviet economy devoted to defense, the rates of growth, and the comparative living standards between the Soviet Union and the West. And while disagreements over the quality of the work of economic analysts studying the Soviet Union have outlasted the Soviet Union itself, the panel arrived at some new ways of thinking about the disagreements themselves.

In the following summary, only conference panelists listed on the agenda are identified by name.

Nikolai Petrakov opened the conference with a presentation of his paper. He declared that the principal failure of U.S. analysts of the Soviet economy was that they thought of competition between the West and the Soviet system as a race. They concentrated on measuring where the "runners" were in relation to each other in the race, and whether the gap between them was widening or closing. They did not seriously contemplate whether one of the runners might actually die during the race. By concentrating on the race, according to Petrakov, Sovietologists failed to see the basic weaknesses of the Soviet system.

Soviet scientists, through the use of extensively falsified data, lured Sovietologists into an ideological trap of exaggerating the capabilities of the Soviet economy, Petrakov argued. Their inflated estimates of the Soviet economy raised the level of the perceived threat posed by the Soviet Union and, in turn, helped perpetuate an atmosphere of confrontation between the West and the Soviet Union. The Soviet regime relied on that confrontation in order to maintain an atmosphere of crisis in support of the country's highly militarized economy.

Abraham Becker concentrated his remarks on the issue of understanding Soviet economic growth. During his remarks, he stressed that the analyses produced by the CIA during the Soviet era represented the work of highly dedicated people grappling with very complex issues with little or no reliable data. At the end of the day, Becker argued, they came up with their best judgments, which actually gave a pretty good picture of the Soviet economy. With the benefit of hindsight, a number of factors can be identified that might bring additional clarity to the picture of the Soviet economy. These factors include:

- *Padding reported production results*. This practice, called *pripisky*, helped enterprises fulfill production quotas while undermining the strength of the Soviet economy. The practice may have increased under Gorbachev.
- *Quality deterioration*. The *perestroika* reforms of Gorbachev exposed the

consequences of the Soviet obsession with quantity over quality in production.

- *Under-depreciation of capital assets*. Factories and machinery were often not replaced or modernized. One WWII-era steelworks in Magnitogorsk had failed to upgrade to 1950s technology as late as 1991. Replacement investment (moving used equipment from higher- to lower-priority sectors of the economy) was the essential vehicle for modernization under this system.

One lesson to be drawn from this improved understanding of the Soviet economy is that net national product (that is, gross net of depreciation) may have been a better tool for evaluating the Soviet economy than gross national product.

Robert Campbell, the panel's first discussant, noted that the Soviet collapse resembled the collapse of Enron in its surprise and in its speed. He further compared U.S. Sovietologists and government analysts with Enron's accounting firm, Arthur Anderson, pointing out that these analysts made excuses similar to those of Arthur Anderson—"our estimates were based on sound accounting (or for Sovietologists—social science research) principles." This second analogy is not as strong as the first, Campbell argued. First, Sovietologists were relatively open about their methodologies and sources—they did not "shred documents." More fundamentally, Sovietologists did understand that there was a bankruptcy "elephant" tramping up and down the halls of the Soviet house as they played with their numbers and formulas. The Sovietologists made frequent references to the elephant in terms of resource waste, economic stagnation, perverse incentives, and other signs of social breakdown. It is a strong argument to say that the Soviet house was shaken down when Gorbachev tried to chase out the elephant, rather than by the elephant itself.

The Soviet Union, like Enron, made it very difficult for its auditors to reveal its true condition. Nevertheless, Campbell stated, Sovietologists had a good record in going behind the façade and presenting detailed accounts of Soviet society. Their failure was in extrapolating from these accounts and drawing broader conclusions. It would be a mistake, he argued, to continue to fight yesterday's battles over which accounts of the Soviet economy were closer to the truth. Such debates would require the kind of technical hindsight analyses, such as "under-depreciation of capital," that were illustrated by Becker.

Instead, Campbell argued, we have to address the more fundamental confusion over final demand—that is, the kinds of goods and services produced by an economy that really satisfies people's wants. Comparing final demand within a single economy, such as the United States, is a simple exercise of comparing apples to apples. That exercise is vastly more complicated when comparing between national economies or, even worse, economic systems. It requires a common denominator (in this case, in either rubles or dollars) that is not simple to derive. For a Soviet-U.S. comparison, Sovietologists would equate a thousand U.S. passenger miles, cars, research workers, etc. with their Soviet equivalents. Yet, Campbell stressed, a thousand Soviet research workers could not produce anything near what a thousand U.S. research workers would. "When we consider something like half of all we were counting from the Soviet side was either non-true final demand or input-measured inputs rather than outputs, we have greatly exaggerated what the size [of the Soviet economy] is," concluded Campbell.

Campbell added that critics of the prevailing opinion of the day on the Soviet economy, such as Igor Birman, were instinctively right in measuring Soviet consumption on quality grounds, even if they had difficulty in proving their case according to the Arthur Andersen-esque "generally accepted accounting principles" of the Sovietologists.

Today U.S. analysts, academic or governmental, are no longer the main players in measuring Russia's economic performance. That task has now been taken over by the IMF and World Bank. This is not necessarily an improvement over Russia's former auditors, the Sovietologists. The IMF and World Bank are huge, bureaucratic organizations and have an institutional inertia in their intellectual practice that is possibly stronger than the CIA ever had.

This raises the issue of accountability of the auditors (whether CIA, IMF, or Arthur Anderson) to the various publics. It is true that consumers of auditing reports can always delude themselves into believing all kinds of nonsense, whether they be investors predicting the inherent value of stock, or Soviet leaders who refused to accept the idea of bankruptcy of the system, or our own military planners who deliberately mistook the CIA's estimates of production potential for military threat potential. The final question, concluded Campbell, is who checks the checkers? It is pretty hard to imagine any kind of external control. "My final hope is that in the best tradition of scientific life, peer pressure among the different kinds of auditors may operate positively and provide some protection and independence to the different kinds of people who are trying to tell us what is going on in Russian society."

Igor Birman, concluding the opening panel, stated that the question is not how wrong CIA estimates were on the Soviet economy—they were very wrong. A typical example of the CIA's poor work is their 1985 estimate that East German GNP per capita was $10,330, while West German GNP per capita was lower—$10,320.

Birman stated that a similarly "accurate" picture painted by the CIA of the Soviet economy, a picture that was embraced by the Western intellectual community, included the following characteristics:

- Soviet military expenditures were estimated prior to 1977 at 6 percent, and were later raised to 12-16 percent, of Soviet GNP
- Soviet living standards were one-third of American living standards
- Soviet GNP was 60 percent of U.S. GNP, or 50 percent of U.S. GNP on a per capita basis
- The Soviet economy had no real financial problems: for example, inflation was low; there was a budget surplus; and a normal propensity to save

The reality was much different, argued Birman. Military expenditures were at least one-third of Soviet GNP, more than twice the CIA estimates, according to Birman. The CIA's calculation that Soviet consumption levels were one-third of U.S. levels was based on false comparisons. For example, the CIA compared the weight of an American fish fillet with a whole Soviet fish, exaggerating Soviet production by 2.5 times. They compared the number of doctors, and concluded that Soviet medical services were better. Birman stated that he had uncovered these and other errors in a book-length review of CIA calculations that he had written.

Birman stated that his many arguments in his review were not directly disputed, but were instead dismissed by the CIA on the basis that the "corrections were not scientifically quantified."

Another exercise to demonstrate the inaccuracy of CIA figures involves comparing agriculture in both nations. Imagine, Birman argued, that American and Soviet agriculture were equivalent in terms of output. Next, remember that agriculture was 3 percent of GNP in the U.S. and, according to CIA estimates, 16.5 percent of GNP in the Soviet Union. Under these conditions, U.S. GNP would be 5.5 times larger than Soviet GNP, and not around twice as large, as the CIA claimed. In fact, the difference must be even greater, as U.S. agriculture produced far more than the Soviet Union. This is not a scientific measure, allowed Birman, but it is still relevant as a check on CIA estimates.

In sum, Birman concluded, one cannot find a single correct CIA estimate of the Soviet economy. The Sovietology project cost billions of dollars, and failed miserably. Lessons should be drawn from this failure. The most obvious mistakes must be understood. In a country built on competition, there has been no rivalry in the field. Instead, an institutional culture has prevailed, and, with the exception of the military field, there has been no professional criticism of CIA analyses in print. Too much attention was given to the science of method and not enough to common sense. Finally, it must be noted that experts of the day trusted too much in the invented figures and statistics produced by the Soviet government.

Panel Chair **Blair Ruble** opened the discussion period by reminding the panelists that the purpose of the conference is not to refight battles over specific estimates, but to try to draw out some larger issues to map out where we go from here.

Ruble commented that Campbell's image of a bankruptcy elephant stomping around in the house as the accountants are counting beans is one of the central issues raised by the panel. He noted that Petrakov argued that outside analysts who were trying to assess Soviet economic performance fell into an ideological trap. That ideological trap, to use the elephant image, was that U.S. analysts were not asking about the elephant even while they were cohabiting with the elephant. This leads to the point that Becker raised in his paper and Campbell repeated, which was that the problem came when the people in the house realized that there was an elephant and attempted to get the elephant out. The elephant didn't react very well and brought the house down. Birman is basically saying that there was an elephant, that the elephant was military expenditure, and that people in the CIA and people on the outside who were looking at the elephant kept saying that it was a dog and we therefore totally missed what was going on.

As we look to the future, Ruble continued, it seems that the lessons concern two sets of issues. One has to do with refining intellectual concepts that are used in response to feedback. Becker's point about the need to reformulate the question of understanding the Soviet economy around the net domestic product instead of gross domestic product seems to be the kind of lesson that can be learned from looking at the experience of the collapse of the Soviet Union. Such a lesson from the discipline of economics is applicable not just to looking backwards, but also to looking forwards and even beyond Russia.

A second message, from political science, relates to something that a current fellow at the Wilson Center has talked about a lot. James Manor was asked by the World Bank to evaluate decentralization policies in 125 countries around the world, and indeed the 1990s were a period of decentralization. The fundamental issues, at the end of the day, are the issues of governance and accountability. There are two kinds of accountability here: Campbell's version of who "checks the checkers;" and then the larger accountability regarding what was or was not happening inside the Soviet Union. At this point, Ruble turned the discussion back over to the panelists.

Campbell responded that there is really no formal way to "check the checkers" aside from maintaining an atmosphere that is conducive to debate and allows open competition in ideas.

Looking towards the future, **Petrakov** warned, we see a Russian government again pushing an optimistic line on economic growth. While there has been growth, it is based almost entirely on temporary factors—the high price of oil that is buoying the Russian economy and the post-1998 currency devaluation that boosted the competitiveness of Russian industry. The level of investment in the Russian economy, continued Petrakov, tells another story. Now the IMF experts are the lead analysts on the Russian economy, and they share the Russian government's optimism. However, Petrakov argued, the IMF has an institutional interest in Russian success, given the years of advice on reform and the billions of dollars that they have loaned Russia. If economic growth is truly dependent upon temporary factors, then there are serious implications not only for the economy but in the political realm as well.

Returning to the image of the "bankruptcy elephant," **Becker** asked how would it be possible to tell if it is in fact an elephant, or a dog, a shark or a mouse? The answer is certainly not by feel—the issue must be approached scientifically. Only a scientific method enables you to get a handle on a problem. Without it you would be lost. There has been a great deal of criticism that rested to a very considerable extent on one's "feel for reality." The field of Soviet studies, especially early on, struggled with secrecy and a lack of access. As time went on, these obstacles eased and understanding of things on the ground increased substantially. Nevertheless, Becker argued, "The primacy of systemic, disciplined approach by economic science or political science is the only way that these problems can be approached."

Birman countered that it is important to be scientific, but it is also important not to be wrong, and repeated his claim that the CIA was always wrong in its estimates.

Ruble concluded the initial discussion by drawing out the difference in approach between Becker and Birman. Becker focuses on social science and how to measure and approach the problem of studying a complex society in a disciplined way. Birman's response is that intuition is more important and that this is about art more than science. Hopefully, Ruble continued, it will be possible to figure out if there are bridges between those two approaches to Russia, for this is a recurring debate, and not just on this panel. Ruble then opened the discussion to the audience.

The first question from the floor returned to the issue of how to use intuition and observation, especially when the scientific statistics and estimates strongly disagree with what is observed on the ground.

Becker replied that observation is a step in the direction of reaching a supportable estimate. Casual observation may arouse questions, but is not really an appropriate basis for a generalization on the whole.

A former official who was a close observer of U.S. government debates on Soviet policy commented that any mistakes in CIA estimates had little impact on the actual formulation of policy. First, the mistakes made may have clouded the picture of the Soviet economy, but they did not completely obscure it. He noted that as early as 1962 the CIA had predicted that the Soviet Union was running out of extensive factors of economic growth and was running into a crisis. Second, there were offsetting errors. If the CIA had gotten the GNP and military expenditures right, it would have inflated the threat perceived by U.S. policymakers, because only a society with Hitler-style aggressiveness could adopt such socially perverse priorities. A third factor which was understood but underestimated was the degree to which Soviet military behavior was governed more by military industrial supply-push rather than military demand-pull.

Anders Åslund echoed the points that were raised in Becker's presentation about the distorted investments of the Soviet era. He noted that while Soviet investment was nominally twice the current Russian level of investment, much of that investment was totally wasted. Åslund calculated that one quarter of Soviet investment went directly into inventory (military stocks and unsold consumer goods). Another source of wasted investment was uninstalled equipment. For example, he noted that a Swedish company that sold 200 dairy lines to the Soviet Union tried to trace them following the Soviet collapse, and could only find six lines in operation. The rest must have been resold, scrapped, or simply uninstalled, but were nevertheless counted in Soviet investment figures and should not have been. This supports Campbell's point about understanding the final demand of Soviet investment and Russian investment. It would tell us if Russian output really collapsed by 44 percent as official statistics state, or by 10-15 percent, which, Åslund argued, would be more accurate.

Campbell responded that the issue of how to direct investment in Russia is an important one. He noted that the New Economic Policy during the 1920s restored the Soviet economy from the ravages of War Communism during the Russian Civil War. Russia is at another crossroads—their current system for directing investments is poor. How they might arrive at a better system is a subject that requires a great deal of study.

A former Foreign Service officer noted that Ambassador George Kennan once wrote of his concern that in the West there were people who had a deep scholastic knowledge of Russia, but who had never stood in a Russian line or had Russian mud on their boots. During the Soviet era, the U.S. was limited to 135 diplomatic personnel, and analysts had few chances to visit the country of their study. A tension between analysts and personnel in the field evolved as a result, reducing the effectiveness of both. Impressionistic evidence is not superior to analytic methods, but the two have to be married together to be fully effective. Relying on analysis alone leads you into the Stanley Hopkins fallacy. Stanley Hopkins was a young inspector in a Sherlock Holmes story who arrested a 90-pound weakling, on the basis of circumstantial evidence, for a murder that required the murderer to thrust a harpoon through the victim. Sherlock Holmes pointed out that the only problem with this case was that it was intrinsically impossible. That is the kind of fallacy that the U.S. government frequently got into, often driven by policymakers who wanted evidence of what they wanted to see.

It was only in the later years that they started to be able to get a union of people with analytical skills and on-the-ground experience. Then there was the more fundamental problem of getting anyone to believe facts. "Birman mentioned East Germany," the former Foreign Service officer related, "a place that I happen to have a great deal of experience with. I can tell you that in the mid-1980s the U.S. government had superlative economic analysis coming from our embassy, the finest that I ever read in my entire foreign service career, demonstrating the East German economy was approaching systemic collapse. It was absolutely top-flight, unimpeachable and we couldn't get anybody even at a moderate policy level in Washington to believe it because everybody knew that East Germany was the success story of Eastern Europe. Everybody knew that it was the tenth largest economy in the world, which was nonsense; everybody knew all these things that they knew and trying to get them to believe otherwise was difficult." In retrospect, he concluded, a large part of the problem was that we had a division between the impressionistic and the methodological. That was the reality and it did lead to many shortcomings.

Mikhail Zadornov returned to the question of bad investments. Citing the example of two big bridges recently built in Japan at a cost of over $60 billion, he asked the panel whether this should be counted as an investment if, as is generally recognized in Japan, it is a bad investment.

Birman recommended that the utility of an investment should be taken into account. If the result of investment is waste, then it is not a genuine investment. This, in his view, was one of the mistakes of the CIA—they compared capital investments in the Soviet Union and the U.S. by cost and not by results. The costs in the Soviet Union were tremendous, but the results were not.

Campbell argued that even if the Japanese bridges prove to be useless in the future, they must be recorded as an investment since actual resources went into their construction. Where the cost to society will materialize, if the bridges are indeed useless, is in lower Japanese growth rates in the future compared to potential Japanese growth if the bridge resources had been more productively invested.

Petrakov stated that all infrastructure investments bring about positive effects. If those bridges could be used free of charge, it would cause a positive spurt in economic growth. Economic cycles are so short that such projects are not considered cost effective. Government must undertake an active role in such investment projects, because no private company can bear the delay in getting a return on the investment.

A discussion ensued about Soviet military expenditures and their impact on the Soviet economy. Several panelists directly questioned the relevance of measuring the strength of the Soviet military in terms of estimates of the size of the Soviet economy and percentage of the economy dedicated to military expenditures. **Petrakov** noted that military goods were produced under a central planning system that so distorted costs that it would be impossible to calculate the economic factors of military products. Calculating the size and growth of Soviet GNP in order to measure Soviet military production potential was an illegitimate question, argued **Campbell**: "There is no way that GNP accounts can answer all questions, they are not appropriate for that." Several panelists agreed that in terms of the final products of military spending, the U.S. had distinct advantages in military forces even with the Soviet Union spending more in relative and absolute terms.

The panel was asked to compare the experience of China's "soft landing" transition from central planning with the Soviet Union's collapse. **Petrakov** listed three important differences between China and the Soviet Union that argue against the possibility of a "soft landing" for the Soviet economy. First, the Soviet economy was significantly more centralized and militarized than the Chinese economy. Second, agriculture in China was in much better shape than Soviet agriculture. Third, even after the Cultural Revolution, China still had a small class of entrepreneurs and businessmen, whereas the Soviet Union had completely obliterated such individuals in Soviet society. Following the collapse of the Soviet Union, Russian government officials were "zombified" by representatives of the IMF into following policy prescriptions, stated Petrakov, while "the Chinese were smarter…there was wisdom on behalf of the political leadership of China to bring it to a softer landing."

A member of the audience who spent ten years in the former Soviet Union asked how the U.S. could increase the numbers of people with vital field experience. **Ruble** responded that the U.S. government has dramatically slashed funding for programs that send young analysts to the field. "The 1990s will have been a golden age for people, graduate students and students who have done academic field research in Russia and Ukraine, because the programs that have supported [this research] in the past are not going to be there," he warned. Furthermore, programs that support scholars from the region to study in the U.S. are likewise dwindling.

The final question returned to the issue of the proper use of GDP and GNP when talking about the Russian economy. **Becker** commented that economists do more than calculate the value and growth of GNP; they study the structure of GNP, final demand, income distribution, and a host of additional calculations to describe an economy. He argued that "there is a total portfolio of analyses that go along with [GNP calculations] that deal with policy, that deal with institutions, that deal with structure…there was a lot more to it than GNP."

Panel Two:
Assessments of Russian Reform Programs

In the last two years of its existence, the Soviet government took hardly any action to reform its economy as structural imbalances worsened and foreign debt snowballed. At the same time, those years were marked by earnest preparation and discussion of economic reform programs. After the Soviet Union's collapse, the post-Soviet Russian government headed by President Boris Yeltsin and Vice-Prime Minister Yegor Gaidar relied on the theoretical foundation of the so-called "500 Days Program," as well as the experience of economic transformation in Poland and Yugoslavia. The Polish experience of 1990-91 had a particularly strong impact on the policies of the Yeltsin-Gaidar government. In 1991, IMF and World Bank experts drafted a fundamental review of the Soviet economy; although rather good, it proposed no action program. By late 1991, the Soviet and Russian leadership was in a tug-of-war over effective tools of economic management, each trying to grab a larger share of the tax revenue, while fiscal deficits and consumer goods shortages loomed large. With these struggles, Russia had entered into a decade of difficult economic transformation, which can be split into four major phases:

- 1990-91 – reaching a conceptual base for economic reforms;
- 1992-93 – price liberalization and opening up the economy;
- 1994-98 – attempts at macroeconomic stabilization and early structural reforms;
- 1999-2001 – macroeconomic stabilization and growth.

When the Yeltsin-Gaidar government came into office, the previous system of planned distribution was paralyzed. Many of the institutions and tools of a market economy did not yet exist. The public's swelling expectations of an immediate improvement in the economy and in their standard of living contrasted sharply with unavoidable inflation and a slump in output. The government's first set of announced objectives included price liberalization to achieve equilibrium in the commodity market, opening up the economy, and macroeconomic stabilization on the strength of a balanced national budget.

In the absence of a clear plan of action, the only objectives achieved in 1992 were price liberalization and the elimination of the government's monopoly over foreign trade. That year inflation broke through the promised ceiling, eventually exceeding 2600 percent. The fiscal deficit, which was over 30 percent of GDP, was monetized through Central Bank loans. Moreover, the government and Central Bank acted with little consistency. For example, the government lacked the courage to eliminate regulated fuel and energy prices, in effect maintaining a substantial portion of fiscal subsidies and "in-kind" benefits for various sections of the population. In 1992 and early 1993, the Russian Central Bank provided so-called centralized loans directly to industrial and agricultural enterprises. It even continued lending to the national banks of former Soviet republics until mid-1993.[1]

It was this inconsistency and weakness on the part of government and the Central Bank that triggered hyperinflation and a sharp decline in living standards, undermining the credibility of economic reforms in the Russian public's eyes. Since then, public trust in the authorities has never been restored. The early economic failures and public disenchantment first ushered in a new Prime Minister (Viktor Chernomyrdin was appointed Prime Minister in December 1992) and later triggered a political crisis lasting from March through October 1993.

Economic reforms did not receive a new impetus until early 1994. The following four years were marked by macroeconomic stabilization and structural reforms.

The government's goal during this phase was to reduce inflation to single digits by simultaneously tightening fiscal and monetary policies. By that time, not only the Polish experience but also reforms in the Baltic countries, the Czech Republic and Hungary provided a model of post-Communist economic transformation that revolved around the sequence of liberalizing the economy, privatizing public property, creating a competitive environment, and assuring macroeconomic stabilization through tight budget constraints. Under this model, international financial institutions (IFIs) were to provide technical assistance, largely in the area of structural reform, and to finance deficits in the balance of payments if and when needed. By that time, Russia had used IMF facilities twice (a stand-by program in 1992 and the first short-term facility (STF) program in 1993), although in both cases it failed to meet macroeconomic conditionality. From 1994 through 1999, Fund-supported macroeconomic programs and structural reform programs approved by the World Bank effectively served as action plans for the Russian government and the Central Bank. In fact, those documents were incorporated into the *Mid-Term Program of Economic Reforms* drafted by the government and intended for 1995-98.[2]

The government's policies brought about a temporary and deceptive stabilization from 1996–97, which was achieved at the cost of racking up extensive external and domestic debt, defending a ruble-dollar trading band, and holding to a tight monetary policy that stymied growth. This illusory stabilization was brought crashing down by a combination of several adverse developments striking at once: the 1997 financial crisis in Asia that undermined credibility of all emerging markets, including Russia; the collapse of petroleum prices that plunged Russia's trade balance into negative territory; and finally a rapidly worsening portfolio of increasing debt and cost of debt service. Despite the government's attempt to introduce an emergency package of financial and tax measures[3] and "loans of last resort" from the IMF and World Bank in August 1998, the government and the Central Bank moved to devalue the ruble and default on domestic liabilities. The core reason for the macroeconomic policy failures of 1994-98 lies in the fiscal arena. The government was simply unable to collect the budgeted revenue amounts. At the same time, shaky political support for Yeltsin and his government from the public and the State Duma prevented any reduction of government commitments to more closely match the level of actual revenues. It should be noted that the government had not actually tried to streamline or reduce its budgetary commitments prior to 1997.

This period's tax system featured an exceedingly high nominal taxation level with numerous tax exemptions. Combined with a weak tax administration, the system was laced with disincentives for taxpayers. As a result, Russia's federal and consolidated budget deficit remained within 6-8 percent of GDP during 1995-97. Since direct Central Bank lending to the government was prohibited by law, the fiscal deficit was financed with external credits (mostly from the IMF and World Bank) and with ruble-denominated T-bills (known as GKOs). By mid-1998, domestic debt had risen to roughly US$60 billion, while outstanding borrowings from IFIs had reached US$28 billion. Despite borrowing huge amounts, federal and regional budgets were unable to cope with their existing commitments. On the flip side of this fictional stabilization, quasi-monetary and barter payments to the government and between enterprises kept rising. More than 20 percent of federal budget revenue in 1996-98 came in the form of so-called "offsets" (i.e. simultaneous write-off of tax liabilities against budget commitments that were never met). The share of quasi-monetary operations in regional budgets stood at 30-50 percent as late as 1999.

This weak fiscal policy was accompanied by an unreasonably tight monetary policy. When the currency band was introduced in January 1995 the ruble appreciated 75 percent in real terms in the band's first year alone, dramatically undercutting both the external and domestic competitiveness of Russian enterprises. In 1996, the Ministry of Finance was borrowing at effective rates of 40-100 percent in dollar terms, dropping to 18-20 percent per annum only in 1997-98. As a result, the fiscal sector sucked in all cash liquidity within the economy, greatly increasing the interest rates for financing the industrial, transportation, and agricultural sectors. The Russian Central Bank, seeking to suppress inflation, consequently spent three years pursuing a monetary policy that obstructed economic growth in the non-financial sectors.

Meanwhile, the period of 1994-98 saw some visible progress on the structural reform front. To begin with, substantial government assets were privatized between 1993-95. By 1997, 70 percent of all property was privately held. Yet the mass privatization of 1993-94 and, in particular, the loans-for-shares schemes of 1995-96 provided the government with minuscule revenue, increased income inequality in Russian society, and handed the crown jewels of the Russian economy (oil and gas, metals, telecommunication, etc.) to a small group of financial and industrial conglomerates. Among the successful structural reforms was the transformation of Russia's coal sector, in which the least profitable third of all mines were closed, over half of the rest were privatized, and new jobs were created for displaced miners. By 1999 more than 70 percent, and presently over 95 percent, of the industry (in terms of sales) had turned profitable. Over the past two years, the coal sector has enjoyed growth rates surpassing the national average.

The 1998 financial meltdown brought an end to the illusionary stabilization period, badly hurting external investors, private depositors of commercial banks, and numerous small import businesses. At the same time, as with any economic crisis, it helped to identify economic distortions and set new corrective trends in motion. Russia's national budget was fully executed in 1999 for the first time in its modern history. The federal fiscal deficit dropped to 1.5 percent of GDP. In 2000 and 2001, the central government posted a surplus standing at 2.0-2.5 percent of GDP. This turnaround depended on three factors:

1. Fiscal revenue growth from 10.2 percent of GDP in 1998 to 15.5 percent in 2000 and 17.5 percent in 2001;
2. Containment of federal non-interest expenditures to within 11-12 percent of GDP during 1999-2001; and
3. Increase of the federal share in total revenues of consolidated budget from 45 percent to 60 percent between 1998-2001.

In real terms, federal budget expenditures dropped by about a third in 1999. At the same time, quasi-monetary transactions were reduced to a bare minimum, and the bulk of budget liabilities accrued over past years was repaid in 2000–01. This macroeconomic stabilization resulted in a number of positive effects. Between 1999 and 2001, economic growth exceeded 20 percent, strengthening the foundation of macroeconomic stabilization. Russia's public debt, which exceeded 130 percent of GDP immediately following the meltdown in 1998, is now below 50 percent of GDP. In 2001, the nation coped with an external debt repayment spike of US$22-23 billion.

Monetary policy was significantly relaxed right after the meltdown. In 2000, the money supply grew 62.5 percent, with a 40 percent rise in 2001 (i.e., 1.5 to 2 times over the monetary policy targets of the Central Bank and the Russian government). Interest rates on deposits, government securities and, since late 2000, on bank loans, remain negative in real terms. These financial conditions have produced, on the one hand, a rather high rate of inflation (around 20 percent per annum between 2000 and 2001), and, on the other hand, a dramatic growth of bank lending to the real sector (by 35-36.5 percent a year), while the economy's monetization increased to 18 percent of GDP by early 2002.[4] Macroeconomic stabilization and robust growth has created a solid foundation for continued structural reforms. The tax reform has already decreased the nominal tax burden by 5-6 percent of GDP, whereas actual tax revenues collected by the central government rose by 3 percent of GDP between 1999 and 2001. The total number of taxes has been reduced, virtually all corporate tax breaks abolished, and most income tax and VAT exemptions have been removed as well. More revenue is now collected from commodity exporters, although still at an insufficient level. The tax reform should be completed within 18 months.

Substantial progress has likewise been achieved in reforming the judiciary and the land title system. Natural monopoly restructuring is finally under way. A sizable share of the proposals and legislation conceived and drafted in 1997-99 were implemented between 2000 and 2001.

For the first time ever in modern Russian history, an economic reform roadmap for the period through to 2010 has been developed and is currently being implemented. In addition, the Russian government independently developed both the strategy and short-term plans. The role of the IMF has been reduced to monitoring the economic situation and providing advice and technical assistance.

It has taken Russia nine years to implement the standard action plan of a transition economy, i.e., "liberalization—privatization—macroeconomic stabilization." During each of the reform phases, the Russian government relied on a theoretical foundation laid down during the preceding phase. For the most part, programs prepared together with the IMF heavily influenced the reform period.

American Advice and Leverage in the Russian Economy

The attitude of the American public, businesses, and political elite towards Russia during the past decade reminds one of the way a child treats his favorite toy. It went from early wild enthusiasm and high hopes for Russia's rapid transformation into a developed democracy and successful market economy, to a period of chill disenchantment and lost hopes in the aftermath of the 1998 collapse. Still, it would be difficult to overestimate U.S. influence on developments in Russia during the last decade of the 20th century. In fact, many of the newly created Russian institutions were modeled after U.S. economic institutions. American professors were the first to advise the Russian government. Finally, the U.S. role in influencing IFIs and the G7 is obvious, and in turn these organizations wielded a great degree of clout over economic reforms in Russia.

There are four principal levers that the U.S. administration used in the 1990s to influence developments in Russia:

- technical assistance;
- official lending;
- international financial institutions;
- direct political influence.

During the 1990s, the U.S. provided at least US$3 billion in technical assistance to Russia, mostly through USAID channels. The funds were largely used to pay experts, help draft legislation, and cultivate a favorable public opinion towards reform through the media. The largest portion of this largess was spent on preparing and implementing the privatization program (roughly US$400 million) and creating an infrastructure for the stock market (over US$100 million). In addition to economic projects, the U.S. Congress allocated substantial funds to address the problems of arms reduction: around US$1 billion was spent to dispose of nuclear and chemical weapons, to decommission nuclear submarines, etc. Finally, the U.S. administration and Congress frequently coordinated technical assistance provided to Russia by European countries, Japan, and non-governmental organizations and funds. The significance of such technical assistance for promoting international experience and developing legislative frameworks, infrastructure, and institutes for the new market economy cannot be overestimated. Still, the resources allocated for those purposes were occasionally utilized with less than optimum effect, which might have been achieved with better coordinated planning.

Unlike credit lines provided by the governments of Germany, France, and Japan, the official loans from the U.S. to the Russian government did not play a prominent role in the 1990s.[5] In this category are credit lines the U.S. ExImBank opened to some Russian companies, plus a food credit of US$700 million extended in 1999 along with humanitarian aid.

The weightiest tool the U.S. used to influence both the economic and political situation in Russia in the mid-1990s was its huge voting power in the Executive Boards of the IMF and World Bank. As noted above, facilities extended by IFIs between 1994 and 1998 were a vital funding source to offset enormous fiscal deficits. Usually, the Russian government failed to observe all preconditions and benchmarks of the IFIs macroeconomic and structural programs. In critical times of program approval and revision, everything would hinge on the position taken by the U.S. representatives in the IMF and World Bank. It was the U.S. Treasury and Department of State that would formulate that position in consultations with IFI experts and Russian government officials.

Between 1992 and 2000, Russia received six IMF-supported programs, raising a total of US$18 billion. Over three-fourths of that amount came in 1995-98. World Bank loans totaled US$8 billion. Unfortunately, more than half of the Bank loans to Russia were comprised of so-called "budget substitution" facilities (i.e., funds used for financing fiscal deficits), rather than loans for investments or structural reforms.

None of the IMF-supported programs achieved their objectives, with the exception of the most recent stand-by program of 1999-2000. The sectoral and structural facilities of the World Bank had a mixed record of successes (such as the coal facility mentioned above) and failures (such as employment service reform, an environmental facility, etc.). Nevertheless, Russia certainly paid too high a price to avail itself of international transformation experience.

Finally, at critical junctures dotting the last decade of Russian history, the United States resorted to direct political influence, throwing around its own weight or using the G7 mechanism in order to influence developments. The United States clearly exerted substantial ideological, financial, and political influence on the Russian economic transformation throughout the 1990s. Furthermore, such influence was critically important at various make-or-break moments (such as early 1992, the fall of 1993, and the presidential campaign of 1996).

Certain Lessons of the Past Decade

The history and interim results of Russia's economic transformation suggest some general rules applicable to all post-communist economies. Each of these countries had to pass through certain transformation phases, their duration dictated by the country's initial situation and the attitudes of the political elites. The Russian experience does not provide any supporting arguments to the advocates of a unique "third way" of economic transition. Instead, Russia's experience points to some general lessons.

First, successful economic reform invariably requires a national government with a well-defined plan of action and a strong political will. No amount of external advice or external financing for structural adjustment purposes can make up for the political weakness of the nation's leaders or their failure to understand each of the phases involved in such transformation. Escalating foreign loans are nothing better than hard drugs for a weak government. Unfortunately, Russia offers a glaring example of such addiction.

Second, any reformist government must enjoy popular trust and support. As Boris Yeltsin's rock-solid public support hit rock bottom in 1992, his economic policy floundered, his budget would not balance, and his reforms dragged on and on and on. In the end, the public paid too high a price for the transformation. In such an atmosphere, attempts by political leaders to compensate for low public trust by relying heavily on the support of selected sections of society and vested interests (such as defense, police forces, or large business) threaten the development of democratic institutions.

Which leads to the third lesson. In planning and promoting economic reforms, the government must closely monitor their impact on core sections of society. A protracted and sustained drop in living standards, if experienced by a sizable share of the population, hurts public trust in the reforms and inevitably impedes their progress. Russia's experience with reforms vividly demonstrates the worst aspects of such developments. For example, 36 to 38 million retirees (exactly one-fourth of Russia's total population) twice saw their average pensions collapse in real terms: between 1992 and 1996, their pensions fell by 35 percent; then, following a certain improvement, they dropped again by 30 percent in the second half of 1998. It was only in February 2002, after real average pensions rose 30-35 percent in 2000-01, that pension benefits exceeded the official and highly conservative benchmark of "retiree breadline." It is small wonder that between 40 percent and 50 percent of senior citizens over the age of 55 voted for the Communist Party in the parliamentary elections of 1993, 1995, and 1999.

Enormous income disparities also serve as a bad irritant to the Russian public. The income ratio between the top 10 percent of richest Russians and the bottom 10 percent of the nation's poor, which never exceeded 3 during the Soviet era (with all due reservations for Soviet statistics), reached 13-14 in 1995-97, rose past 15 in 1998, and only during the past 12 or 18 months decreased to the level of 12-13. It should be noted that a significant share of income earned by affluent Russians never makes it into official statistics. Under such circumstances, sweeping customs and tax breaks granted to certain entities (such as the National Sports Fund, oil exporters, and Gazprom), as well as the loans-for-shares privatizations of 1995-1996, were a slap in the face of public decency.

Any reforms the Russian government plans or pursues today should take due account of this lesson. In the medium term, one of economic policy priorities should involve modernizing Russia's social infrastructure (including its health, education, and social assistance systems), which has been starved of investment for the past decade.

Lesson four: for reforms to succeed, the country should be on a path towards economic growth. It is growth that would assure public support for reforms and provide means for implementing any further steps.

Lesson five: though general principles of economic transformation are indeed important, the specific economic situation in each particular country requires thorough review and consideration. Clearly, Russia's economic policy missed a number of key factors:

- *The badly distorted structure of the Soviet economy, with its over-investment in the defense and capital good sectors.* This distortion explains the depth of the GDP slump between 1992 and 1996 (45 percent). However, the authorities used few, if any, measures to soften the impact of the reforms on affected enterprises or displaced workers;
- *Weak government, lack of proper governance structures, institutions, and legislation at the outset of reforms.* Many actions that sought to transplant Western experience of established democracies and institutions in Russia foundered in the quicksand of spontaneous development. Hence the

overwhelming shadow of crime that hung over the economy in the first half of the 1990s; and

• *A looming debt trap that precluded the very possibility of sustainable growth*. The reader may be reminded that, in 1991, Russia assumed the external liabilities of the ex-USSR to the tune of US$95 billion. Real life experience quickly dispelled any hopes that, once economic growth kicked in, the debt would be easy to repay.

Hopes for the Future

Will Russia enjoy sustainable economic growth from now on? Has it learned the lessons of years past? So far, these questions defy clear answers.

There is good news and bad news for the prospects of sustainable growth in Russia. On one hand, the present-day strength manifested in Russia's budget and balance of payments, combined with structural reforms launched in 2001, bode well for the continuation of the favorable trends of 1999-2001. Compared to other emerging economies, Russia has a much greater base of natural resources and human capital. On the other hand, there is a palpable threat of stagnation and Russia losing ground not just to developed economies, but also to the dynamic emerging economies of East Europe and Asia. This concern stems from an obvious weakness of Russia's financial sector; namely, that it prevents the flow of capital to small and medium businesses and the hi-tech sector. The past decade has not seen the dismantlement of structural imbalances, such as the inflated importance of the commodity sector or difficulties and inconsistencies in reforming Russia's natural monopolies. Moreover, the concentration of financial resources among the lucky few who own and manage the fifteen or seventeen largest companies, combined with concentration of political power in a single pair of hands, lays the groundwork for an economic system whose sole purpose is to collect and redistribute natural resource rent.

Therefore, it is fundamentally important that Russia's political leadership should strive for an open economy, the nation's integration in the global marketplace, and further development of democratic institutions. There are quite a few lessons still to be learned.

Endnotes

1. The sum total of 1992 loans the Russian Central Banks provided to various enterprises and CIS countries is estimated at roughly US $14 billion.

2. Since the Russian government was reluctant to advertise the terms and content of IMF and World Bank-supported programs, the *Mid-Term Program* was largely intended for internal use.

3. Only a portion of the package could be approved by the parliament in the summer of 1999.

4. In mid-1998, monetization of the economy sustained a drop to 12 percent of GDP.

5. Between 1992 and 2000, the Russian government raised US$12 billion in bilateral facilities.

Reading Russia Right
by Mark C. Medish

> *The economic system of Russia has undergone and is undergoing such rapid changes that it is impossible to obtain a precise and accurate account of it…. Almost everything one can say about the country is true and false at the same time.*
> John Maynard Keynes, 1925.

Evaluating Russian economic performance in the post-Soviet period has been akin to trading on the Nasdaq. It has been easy to fall prey to excited expectations of rapid transformation, and equally easy to overreact to bad news and disappointments. In my view, the plausible story lies somewhere in the vast middle distance, a race between reform and resistance, a balance of change and continuity, a complex transition characterized by the uneven creation of new modes of political-economic organization and destruction of old ones.

After a full decade of post-Soviet transition—a journey without maps—the Russian economy of 2002 is in many respects in better shape than it could have been, had certain variables played out differently, but it is also considerably worse than it should be or can afford to be in the longer term. Put differently, throughout the 1990s, Russia was something of an underachiever during a time of miracle and wonder. Yet, with respect to Russia's vector, I believe it is both possible and defensible to be a short-term skeptic—about the quantity and quality of reforms—but a long-term optimist about Russia's reasonable prospects.

In thinking about Russia's economic transition, it is important to accept short-term volatility for what it is and to maintain historical perspective. The magnitude of the transition Russia has embarked upon must not be underestimated. Russia is attempting a national rebirth after decades of political-economic *mis*development, shifting its paradigm from plan to market, from one-party state to participatory democracy, and from empire to federal republic. To borrow from Karl Marx, the Russian reformers—and their outside supporters in the West—have sought not merely to interpret history but to change it. Moreover, since the unexpectedly peaceful fall of the Berlin Wall in 1989 and subsequent dissolution of the Soviet Union in 1991, history has been at a gallop across Eurasia. And the trends in the former Soviet bloc have coincided with larger historical forces, loosely termed "globalization," which have been producing unprecedented changes in the economic and political realities of countries around the world over the past decade. The events of 9/11 have only heightened our awareness that profound changes and realignments may be under way affecting Russia and other parts of "post-Soviet space."

What can we say about the nature and quality of Russia's transition in this changing world? How has Russia done? What lessons have been learned? The notion of "lessons learned" is a useful if somewhat tricky one. Its utility lies in its implied pragmatism. Policies may be derived from first principles and normative commitments, but their implementation is the ultimate test of both principles and policies. Lessons are discovered by trial and error, through the iterative process of reform. Other things being equal, we can talk about "best practices." The lessons are "out there" to be learned, if only one can isolate the right variables and examine the right data. All of this is correct, but what is slippery about the idea of "lessons learned" is that it sounds over-determined and overly objective. The developmental goals of an open market and an open society may be axiomatic, but there is more than one true and effective path to achieve those goals. We know this from the development of the G7 economies over many decades. A modern market economy must have certain irreducible core features, but there can also be a wide variety of structures, laws, and socio-political institutions underlying modern market economies. Compare Japan and the U.S., for example.

In addition, it matters *who* is learning the supposed lessons. And it turns out that what lessons one learns may depend importantly on where one stands or sits while things are happening. Thus, Russian officials, Russian workers, Russian oligarchs, Russian *intelligents*, foreign bondholders, foreign equity owners, G7 policymakers, IMF officials, and Western experts may focus on different facets of the story and learn different lessons from particular events, such as those surrounding the financial collapse of 1998.

I am not suggesting that all lessons or perspectives are equally important or valid or persuasive. Far from it. The test of validity, at least in economics, is whether something works or not, whether it produces or hinders growth and prosperity, and whether it makes the best use of scarce resources. As far as we can tell, there *are* laws of economics. But we have only *theories* of economic development. We can understand relatively well the hydraulics of general equilibrium theory in an advanced market economy. We understand poorly the inner dynamics of shifting from one mode of production to another, from one quantum level to another in terms of political-economic modernization.

Put differently, we think we know what makes a strong economy hum. We are far less certain how to turn a bad ("vicious circle") economic system into one that hums like a good ("virtuous circle") one. In a sense, we understand end-states but not transitions. Indeed, things get quite murky when we try to understand, let alone control, the systemic and organic change of an entire social order, which is precisely the nature of the challenge for the Soviet successor states. Transition truly is a journey without maps, to borrow Graham Greene's famous phrase. Or, perhaps worse, it has been a journey with false maps.

Some observers look at the Russian economy and grab their heads in grief or exasperation, while others tend to see welcome surprises and sources of encouragement even amidst the wreckage of demonstrable failures. Russia is periodically "lost," then it is "found" again. Why do assessments of Russia vary so widely? I believe that there are two main reasons for the high variance pattern.

The first, less interesting, reason is that Russia remains a highly politicized case. This is due in part to the Cold War hangover of squabbling post-Sovietologists, many of whom are good foxes but tend to be lousy hedgehogs. For them, most but not all pessimists, Russia is held captive by dark shadows and deep structures of its long, unhappy, authoritarian history, from the Mongol Yoke and the *oprichnina* to the Bolsheviks and the NKVD. For example, you can tell where Richard Pipes is going when he writes that "Russia having become acquainted with property late in its history, and even then only fitfully, failed to create institutions capable of protecting its people from the despotic authority of Leviathan." From this perspective, Yeltsin and Putin are essentially just the latest avatars of the tsars (Alexander II and III) and commissars (Khrushchev and Brezhnev), and so on. A more curious trope evident in some scholarly analysis of 1990s Russia is the longing for the good old days under Gorbachev: if only *perestroika* had been given a little more time, perhaps 500 more days. (The Shatalin Plan was path-breaking in early 1991; but it was retrograde by late 1991.)

The polemical heat over Russia also stems in part from the cycle of triumphalism ("we won the Cold War") and revisionism ("who lost Russia?" or "who robbed Russia?") in American political and market rhetoric. This was certainly evident during the Roaring 1990s. Our pictures of other countries, particularly important ones like Russia, tend to fit our own rhetorical or emotional needs. Some of the stories people tell about Russia—alternatively exuberant or accusatory, hot or cold—are told to move markets or to move voters or to sell books or to abet narcissism of one kind or another. An observer from Mars might conclude that Western analysis of Russia tends to take on the characteristics of the proverbial "Russian soul:" the extremes tend to dominate.

The second reason for the high variance of opinion is that Russia is big and complex, and profoundly contradictory evidence abounds. Poverty and wealth coexist, growth and stagnation coexist, opportunity and risk coexist. As Keynes observed in the 1920s, "almost everything one can say about the country is true and false at the same time." This is not a trivial point. Sizing up a country as big as Russia (or China or India) is difficult. And Russia has been untethered from its decades-old, if not centuries-old, moorings. It is in flux, it is an open text. There are many Russias, some fighting for ascendancy, some fighting for survival. The balance of Schumpeterian "creative destruction" is still up for grabs, even as it moves to the tipping point. Thus, in addition to a possible case of national schizophrenia, there is an element of Heisenbergian uncertainty at work here. To push the physics metaphor a bit further, one could say that those who study the "location" of the Russian economy often don't see its "direction," and vice-versa. The hard part is giving the right weight to the available evidence, understanding its meaning, and remaining open to contingencies.

Another way to look at the uncertainty principle as applied to Russian reform is that there is a degree of discontinuity between diagnosis and prognosis. Things can look grim (e.g., debt default, financial collapse), but outcomes can still turn out positive (e.g., high real GDP growth). Contrariwise, even if things look good (e.g., fiscal surplus, reserves accumulation, high medium-term growth prospects), the trends could reverse (e.g., oil price collapse, demographic implosion). Uncertainty is another way of saying that, compared with other periods of its history, Russia is still in a phase of radical transition; the transition is malleable, plastic, and indeterminate. Policies matter, choices matter, and luck probably matters, too. Things could go very well (boom), or very badly (bust), or in between. Nothing is written in stone or preordained. Nothing is inevitable, until it is—because of choices already made and options thereby foreclosed.

Notwithstanding this inherent uncertainty and ambiguity, U.S. policymakers must of course make choices in real time. What accounts for the way available information about Russia was interpreted at the highest levels in the U.S. government in the 1990s? How was U.S. policy crafted in the face of divisive debates and conflicts about what was happening in Russia? The best answer one can give is that the winning interpretations tended to involve coherent and concrete plans of action in line with a strategic normative commitment to advancing Russia's rapid post-Soviet stabilization and process of political-economic transformation.

Certainly the Clinton Administration made some mistakes vis-à-vis Russia in eight years, perhaps sometimes paying too little attention to bad news, as the critics accuse, and hyping "success stories." Doubtless, we made interpretive mistakes, preferring the Lexus of globalization to Russia's olive tree, to borrow Thomas Friedman's phrase. That is, we deliberately promoted the power of global integration over the peculiarities of culture, and we were impatient with notions of Russian exceptionalism. But, from what I witnessed at senior levels in three foreign policy agencies, the Clinton team tried to be realistic about Russia's options and our own, while always tying our policies to U.S. national security interests. In this context, as the current Bush Administration is likely to appreciate, it is important to remember that U.S. interests can be well served by a less than perfect transition in Russia. In foreign policy, the best is not the enemy of the good.

Cognizant of these methodological issues let me turn to a few substantive lessons I have learned from the zigzags of Russia's journey away from the Soviet system and its attempt to become a market-based economy integrated into the global economy.

The first lesson relates to one of the strongest correlations of region-wide transition, namely that the faster reformers have recovered faster in terms of real GDP growth, a theme well studied by Anders Åslund, among others. Russia's record supports this thesis. Russia turned in a mediocre reform performance in the 1990s—compared with some other transition economies such as Poland, the Czech Republic, Hungary, Slovenia and Estonia—and has not recovered as quickly as they have. Things are looking a bit better now, with positive real GDP growth for the last three years, as some long-delayed structural reforms (e.g., tax, land codes) begin to affect productivity.

But, for Russia, the big news of the last ten years is different. It is that, despite the deep dislocations from a dark, dishonest decade of half-reforms, stops and starts, Russia has stayed the course of market-oriented change. This could not have been predicted and must not be taken for granted. Given the hardships endured by average Russians, it is remarkable that no political faction, not even the relatively well organized Communist Party, managed to turn widespread economic misery into a winning electoral or revolutionary strategy. (True, a couple of coups were attempted, but they failed.) Indeed, against the backdrop of the ravages of hyperinflation of 1992-93, the proliferation of criminal investment schemes like "MMM," the rapid mass privatization of 1992-94, the insider "loans-for-shares" scheme of 1995-96, the financially and politically promiscuous conduct of the rent-seeking oligarchs, the cynical machinations of Yeltsin's various handlers, the *veksel* scare (which was forecast to trigger a Gresham's Law displacement of the ruble), the perils of the value-subtracting "virtual economy," the financial malfeasance of Russia's many bad banks, the crash of the GKO debt juggernaut and the massive financial collapse in 1998, two dirty wars in Chechnya, and the accession to power of a former KGB officer in 1999—it is remarkable that Russia's economy is where it is today. If anything, the pro-market trend has only intensified since the financial collapse and in the last two years under President Putin. All should be hopeless; and yet there is more than hope for Russia today. The new Russia has a real chance to succeed.

The second lesson is that market transition—the road away from serfdom—must be multi-dimensional to succeed. To begin with, the purely economic dimension of market transition is itself richly layered. For macroeconomic aggregates do not tell us everything we need to know about economic sustainability. Balanced fiscal policies and a sound monetary stance are necessary but not sufficient conditions for macroeconomic sustainability. Successful transition entails both profound changes in *macro*economic management and completely new patterns of *micro*economic behavior responding to decentralized market incentives and new, law-based institutional and structural arrangements (e.g., state administration, market regulation, industrial organization, social sector, accounting standards, etc.).

Furthermore, transition across Eastern Europe and the former Soviet Union has given the old field of "political-economy" a new lease on life. The post-communist challenge has been systemic and organic in nature. It has called for the root-and-branch revision of the "organizational capital" of entire societies. Thus, for an economy's performance, political infrastructure can be as important as economic policies. For example, functioning federalism in Russia (as elsewhere) is both an economic and a political issue. Equally, the capacity of the state to impose appropriate regulatory and administrative authority is of key economic relevance. Putin's emphasis on the "vertical of power" and the need for a "strong state" can be understood in this way, at least in theory. The prevalent theory in the Yeltsin era that the decentralization of power was an unadulterated virtue for post-Communist Russia was understandable but wrong.

The nexus of politics and economics relates not only to the architecture of power but also to the processes of power. As in all the other transition economies that have instituted democratic practices, or reasonable facsimiles thereof, the emergence of political pluralism in Russia has complicated the business of "reform from above"—because it turns out that the economic losers can fight back at the ballot box, in parliament, in the courts, and through other channels of resistance. Indeed, the risk is that the losers from economic reform can at times credibly threaten to scupper the whole venture. This is not to say that Russia has a well functioning democracy—by G7 standards, it plainly does not. But neither does Turkey or Argentina or Indonesia, three emerging markets roughly in Russia's financial weight class. Russia's "democratic deficit"—the manifest weakness of its political parties, media, courts, and civil society, its rampant corruption—is not unique or exceptional in the world of developing nations. In fact, such deficits are widespread in the developing world. Still, in Russia today, the public, voters, and civilian interest groups have unprecedented influence in the ebbs and flows of policymaking. How quickly they can consolidate and institutionalize this new influence is an open question.

The deeper point is that it is unwarranted to draw a straight line between democracy and economic development. Hayek was certainly right that open markets and open societies perfect each other. Yet, while the philosophy and functioning of open markets and open societies go hand in hand, progress in history toward these two goals in any given country is not necessarily correlated in a linear way. The developmental relationship between political and economic liberty appears to be more complex. They are closely related, but incommensurable goods. They can also conflict as tools of development. China is a case in point. China has experimented with economic liberalization as a gradual path to wider political freedom. Compared with China, Russia's economic performance has been slower over the past decade (lower real GDP growth rates, lower flows of foreign investment, etc.), but its democratic progress has been impressive. Perhaps Russia was fortunate, contrary to the critiques from some Sinologists who favored gradualism, that Mikhail Gorbachev launched simultaneous (if highly inadequate) reforms in economic management and political pluralism in the twilight of the Soviet period, a dual direction and a holistic path that carried over into the new Russian chapter.

Also, with respect to the second lesson, all of these dimensions of political-economic development have an impact on what financial analysts call "country risk." Particularly after the global financial crises of the 1990s originating from emerging markets, the investment community learned to assess country risk more rigorously, examining not only the invidious risk to macroeconomic stability (such as current account deficits, debt service mismatches, exchange rate vulnerability), but also insidious risks stemming from the political, institutional, and social texture of countries. In consequence, the transition economies and emerging markets such as Russia, which wish to attract external capital, must seek to reduce their own country risks even as the world outside raises the standards of assessment and the level of scrutiny based on received experience. The markets are getting smarter, or so they like to think.

The third lesson is about what Kant might have called "false antinomies." Such apparent contradictions abound in the recipe book of transition. The most famous one by far is the dichotomy between "shock therapy" and gradualism. On the surface, the shock therapy school—which favors "big bang" or "cold turkey" methods to affect systemic change—is supported by the empirical conclusion noted earlier that the faster reforming economies in the former Soviet bloc have recovered and grown faster. In the same vein, a former U.S. Treasury Secretary used to warn visiting finance ministers whose domestic reforms were not moving fast enough: "You can't jump over a chasm in two leaps." This elegant warning was perhaps more helpful psychologically than it was entirely accurate as a practical analogy for most developing countries most of the time. Indeed, what we have learned from these economies is that, too often, slow reform means no reform. You must begin the change process somewhere, change will usually be quite painful, and delay can be measured in terms of greater pain later. In this sense, the caution against gradualism was well placed, and shock therapy was the right medicine.

But gradualism, defined not as delay but as systematic reform through all the intersecting dimensions discussed above, is in fact the key to—not an enemy of—sustainable development, primarily because people and institutions matter. And people and institutions do not change fast. This is why, almost in the same breath as we encouraged reformers to leap centuries in a single bound, we also predicted that transition would be a matter of "generational change" and that the proper sequencing of reforms was important. There are important considerations of political legitimacy and legal development at work here as well. On one hand, it usually takes time to achieve "buy-in" for reform from enough of the relevant societal stakeholders. On the other, without the rule of law, the laws of economics will not work well in practice. And we know that the roots of law grow slowly. As Holmes wrote in *The Common Law*, "the life of the law has not been logic: it has been experience." Thus, the antinomy between shock therapy and gradualism is false because transition economies need both. They need *both* systemic reform *and* systematic, organic development.

One of the best and most contentious examples of the shock vs. gradualism debate relates to the process of privatization. Not a few commentators have noted that the experience of privatization in the post-communist economies across the region has illuminated what Proudhon meant by his axiom that "all property is theft." The dubious genealogy of ownership and title, usually hidden over generations in advanced industrial countries, was laid bare in the messy process in the 1990s throughout the region. But privatization has been essential to transition, because private property is indeed an indispensable building block of a modern market economy, and perhaps also of a democracy, as Pipes has argued. The question is how to go about it *de novo*, with little or no living memory of the idea of private property (or privacy).

In Russia and the other transition economies, privatization of state-owned assets on a national scale has responded to multiple strategic objectives: to depoliticize a once centrally planned economy by decisively breaking the link between ministries and industries; to promote efficiency, productivity and competitiveness through restructuring of firms at the microeconomic level; to democratize, decentralize, and ideally legitimize new principles and patterns of ownership; to promote the development of capital markets; to improve the national fiscal outlook through asset sales and long-term tax-based revenue streams.

In view of this matrix of related but sometimes-competing objectives, it should be apparent that there can be serious tensions between the quantity, quality, and speed of privatization. In a climate of uncertainty, such as the immediate post-Soviet years, it is understandable that Russian reformers would want to move quickly with privatization, while it was still politically feasible, and that this could have some serious costs for the quality of the process. As Joseph Stiglitz has observed, there is nothing particularly difficult about privatization as a legal fact; that is, transferring state assets to new owners. The hard part has to do with the web of public and private institutions, laws, regulations, norms, and expectations—the culture of trust—that determine the operational patterns of private enterprise. And this cultural web takes time to develop. You cannot merely legislate changes of institutional and legal culture. Thus, here again the antinomy between shock therapy and gradualism breaks down: both modes may be necessary.

The fourth lesson of Russia's experience with economic reform is that "ownership" matters. Shortly after the August 1998 crisis, Mayor Yuriy Luzhkov festooned Moscow with signs saying "Nobody will help Russia except for us ourselves." This patriotic slogan, perhaps tinged with an element of lonely recrimination against Russia's erstwhile Western partners, was something of a mental breakthrough. It had an Emersonian ring of self-reliance. And it signaled what the international financial institutions would approvingly refer to as a country's leadership taking "ownership" of its problems, not waiting around for bailouts, and designing its own solutions. True, parts of the Russian elite seem to have reached this conclusion only after exhausting all the other options, but better late than never.

What has been particularly impressive about Russia's reform program under Putin—exemplified in the 2000 plan put forth by Economy and Trade Minister German Gref—is that it is home-grown. It was not crafted by a team of fine macroeconomists from the International Monetary Fund or by seasoned development experts from the World Bank, though it drew on much of their received wisdom. The thorough indigenization of Russian reform is an important milestone in Russia's transition, and it bodes well for the future. One can call it learning on the job or "x-efficiency," but it has real economic value. Russia now has the human capital to save itself. That is big news.

This is an appropriate place to note a complaint about the philosophical or spiritual tenor of Russian reform, namely its lack of wholeheartedness. Indeed, it has rarely seemed that the Russian leadership or a majority of Russians have craved economic or political liberties the way some of their counterparts in Eastern Europe have done. Without a law of "lustration" such as that used in the Czech Republic, Russian reform has depended for sponsorship largely on the emergence of reconstructed cadres from the ranks of Soviet-era apparatchiks (Yeltsin being the patron saint) and on the younger generations. The current commander-in-chief of reform, Vladimir Putin, is almost certainly not a natural democrat or a neoclassical liberal. He has endorsed—not embraced—market-oriented reform based on cost/benefit analysis. He seems to have endorsed it not because of metaphysical commitments, but on utilitarian or pragmatic grounds. Putin seeks the results of modernization. But he is still learning how to use modern methods to get there. Putin is still a work in progress, and a passable track record since 2000 does not guarantee good outcomes in a second term. Indeed, one might ask whether "Putin risk" (is he at heart really a *chekist* or a pragmatic reformer?) will tend to increase after he has secured reelection. What is particularly worrisome about the current political scene in Russia is the absence of credible political opponents, in a chilled media environment compared with the Yeltsin era. For example, gone or seriously deflated are the Lebeds and Yavlinskys of the last decade. The heavy-handed manner in which certain oligarchs have been "depoliticized" and separated from their financial-media empires by Putin's Kremlin only fuels the general concern. The risk is that Putin's "managed democracy" (not his words) may have started out as enlightened and responsible, but may end up looking (to us) more like a form of despotism.

This brings us to the fifth lesson of Russia's transition: methods matter. In a sense, countries in transition require not just new hardware, but also software upgrades. Perhaps the most fundamental paradigm shift the Russian political economy faces is the movement from a culture of command and compulsion to one of persuasion and attraction. Another way of saying this is that Russia will not realize its potential until it establishes trust as a basis for social organization. As Francis Fukuyama has argued, trust is central to modern society and modern economics. Without it, no state can evolve beyond the Hobbesian state of nature: nasty, brutish, and short. Building trust is a process deeply linked with establishment of the rule of law and the practice of citizenship, which in a modern society unite all actors in the construction of the common good. But again, describing the glorious end-state does not automatically help illuminate how to get there.

The trust deficit in Russia and the other transition economies can be measured in the prevalence of criminality, corruption, and cronyism in private and public life. How to contain and extinguish this legacy of the communist system, which was held together by mistrust? First of all, it is important not to be smug in assessing the problem. Corruption, like all the human vices, is part of all societies. The critical difference between the advanced post-industrial countries of the West and the developing countries is the presence in the former of law-based mechanisms to expose and clean out corruption. Rejuvenation, instead of denial. And here the link between democracy and development may indeed be strongest: transparency is a tool of both political accountability and economic efficiency. Yet, like the rest of a rule-of-law culture, learning how to institute and implement the practices of transparency takes time. The G7 economies did not become transparent overnight.

The sixth lesson of transition is about a different kind of pollution, the physical kind. Any assessment of the economic condition of Russia and other transition economies must recognize the grave negative externalities of the Soviet legacy on the environment and on the quality of human life. The much-catalogued "eco-disaster" and the related demographic pathologies of Russian society are the quiet killers. But killers they are. The land, water, and air of the Russian Federation are in many places degraded beyond comprehension. Infectious diseases such as TB are running out of control. The devastating impact on the average life expectancy of Russians is well known. Russia ranks 55th according to UNDP's 2001 human development index, behind the European economies it aspires to associate with. This is an economic issue of enormous significance for Russia's prospects. It is also a political issue. The best laid macroeconomic and structural reform plans will amount to little in terms of human development unless due attention is paid to the social sector and environmental protection. A recent UN study concluded that by 2050 Russia's population, now about 145 million, could either shrink to 100 million or grow to 152 million. Determining which scenario will prevail depends heavily on the policies of political-economic transition in the present period.

The seventh lesson of Russia's reform story cuts closer to home. It relates to the limits of outside aid. For over a decade, the Russia *agonistes* in the West have struggled to design the ultimate aid package. It started with talk of a "Grand Bargain" in 1991 either to forestall the collapse of Gorbachev's reforms or to turbo-charge the post-Soviet transition through large-scale bilateral and multilateral aid packages. Such assistance plans were inspired by the legacy of the post-WWII Marshall Plan, notwithstanding all the important differences (e.g., unlike defeated Germany, there was no military occupation, nor living memory of market mechanisms, etc.). Whatever the opportunities might have been to do more at an earlier stage, the real magnitudes of external financial assistance were not so grand and came slowly. Over a decade, Russia received about $30 billion in conditioned debt financing from the IFIs. It has also received modest debt rescheduling (though there is occasional discussion of more substantial debt forgiveness).

Fundamentally, the role of foreign assistance has been limited by practical and prudential considerations. A country can usefully import capital for balance of payments support; it can import technical assistance to learn from other countries' mistakes (that is to say, best practices); but it cannot import political will. Thus, the grandeur of the bargain has always been limited by the size of the bargain the Russians have been willing to make, not only with the West, but also with themselves.

The smart strategy for the U.S. with Russia as with the other transition economies has been to help speed their conversion into bona fide emerging markets capable of competing for cross-border private capital flows, which have far exceeded available official development assistance (ODA) flows for at least the past decade. Of course, attracting private capital, especially for direct investment, typically requires management of country risk. In light of this, one could look at much of the U.S. aid program to Russia and the other transition economies as an effort to help systematically reduce country risks through improvement of macroeconomic policies and support for structural, legal, and institutional reforms consistent with international investor standards.

In its day, the Clinton administration's support for Russia's economic reforms earned a great deal of criticism from political opponents and academic experts alike because of its tendency to "lead the markets" by consistently hyping and over-promising as to the speed and scope of reform. Perhaps the best that can be said about the Clinton administration record is that, despite the hype, U.S. decisions to support or withhold support for IMF programs were based on what Robert Rubin termed "probabilistic analysis" based on a convincing interpretation of the best data available, in real time. Foreign policy must play the odds. Providing large-scale financial assistance is like placing a strategic wager in at least two senses. First, it is a bet that the combination of financing and pre-conditioned policy measures will be enough to maintain macroeconomic stability. Second—and subtler—because money is fungible in a national budget, it is also a bet that the overall policy conduct of the recipient government will move in a net positive direction. After all, one can find abominations in any budget.

In retrospect, it is not hard to disagree with the $22 billion, U.S.-backed, IMF-led support package commenced in late July 1998, but it is hard not to agree with the decision to withhold disbursements under this package a couple of weeks later in August 1998. It may have been a strategic error to try to defend a fixed ruble peg at that point (though there were reasons for doing so). But, contrary to popular myth, there was no bailout in the sense commonly understood. The Russian Duma blocked key structural reforms required by the IMF, and Yeltsin and Kiriyenko were too weak to overcome the opposition. The next IMF tranche was withheld and instead of a bailout, Russia defaulted on its domestic debt, devalued the ruble, and suspended inter-bank forward contracts. Thus, contrary to the conventional wisdom, the Russian case proved false the prevailing expectation among many emerging market investors of a "moral hazard play."

It is worth noting that Russia remains current on all its IMF and World Bank obligations, and has steadily reduced its exposure to the IFIs since 1999 including through early repurchases (repayment) to the IMF in 2001. Furthermore, one can now say with some confidence that the era of large IMF and World Bank financial programs for Russia is past. Their utility was in providing the G7 some policy leverage and in buying Russia some precious time, a little "breathing space" to work out some of the knotty problems of political-economic transition. These are limited tools, and Russia is by no means the only recent emerging market case that reveals the difficulties of IFI conditionality and the so-called "Washington Consensus."

Other key criticisms of U.S. bilateral assistance also include an over-focus on Moscow, St. Petersburg, and the central government, to the detriment of Russia's far-flung regions and localities, as well as an over-focus on economics, to the detriment of civil society, institution-building, and people-to-people exchanges. These grievances are generally well taken and have been heeded in some measure, though perhaps not enough.

To reach its goals of modernization and integration, Russia has yet a long journey ahead. It bodes well that the current leadership in Moscow appears to have made a sober assessment of the deficits and challenges. These areas include the need to lose no more time on the long-delayed structural reform agenda, including the restructuring of natural monopolies and the banking sector, better corporate governance, protection of property rights, and agricultural land reform; to encourage the diversification of the productive economy away from reliance on the extractive industries; to continue the demilitarization of the economy; to build a "knowledge economy" conducive to the growth of services industries; to attract new orders of magnitude of foreign direct investment; to "go global" by integrating with the international rules-based trading and financial institutions, especially the WTO. Reviewing a similar list of reform challenges, a Western investment bank analyst recently commented about Russia that there is "reason to believe." Of course, one may be tempted to ask how much money that bank made or lost last time the markets were looking up in Russia. (Reportedly, it did well by shorting the ruble at the right time.)

Ten years on, what have we learned from and about Russia's transition? Reflecting on the course of history, Hegel wrote that the owl of Minerva spreads her wings at dusk. It is part of the human condition to learn lessons only late in the day. If we could turn the calendar back, knowing what we think we know today, Russia might have had better maps for its journey. History may provide such insight, but it does not afford such luxury. We must make decisions based on imperfect information. Going forward, the challenge for policymakers, investors, and analysts alike in dealing with Russia is to keep a sense of historical perspective and to maintain realistic expectations, but without missing the opportunities for breakthroughs, big and small.

Panel Two Summary: "Assessments of Russian Reform Programs"

Mikhail Zadornov, Deputy, Russian State Duma, and former Minister of Finance, Russian Federation

Mark Medish, Partner, Public Law and Policy Practice Group, Akin, Gump, Strauss, Hauer & Feld, LLP

Discussants:

Peter Reddaway, Professor, Department of Political Science and Elliot School of International Affairs, George Washington University, and former Secretary, Kennan Institute

Anders Åslund, Senior Associate, Carnegie Endowment for International Peace

Chair:

Blair Ruble, Director, Kennan Institute

The second conference panel brought together divergent and informative voices on the issue of Russian economic reform during the 1990s. This first post-Soviet decade has been one of wrenching economic and social change. While a handful of Russians have risen to astonishing wealth, millions have been reduced to abject poverty. Russian economic reforms have been credited with destroying the centrally planned economy of the Soviet Union, and blamed for causing an unprecedented economic depression in its wake. As Russia emerges into a post-transition period under President Vladimir Putin, debates over the advisability of "shock therapy" reform versus a more gradual approach are still heated, if less urgent. Another controversy centers on Western advisors and the value of their advice to the Russian government, Western policymakers, and international financial institutions. These controversies and others were fully argued by the panelists.

In the following summary, only conference panelists listed on the agenda are identified by name.

Mikhail Zadornov summarized for the audience his paper describing the course of economic reform in Russia during the 1990s. He perceived four distinct stages in Russia's transition from a centrally planned economy:

1990-91—reaching a conceptual base for economic reforms
1992-93—price liberalization and opening the economy
1994-98—attempts at macroeconomic stabilization and early structural reforms
1999-2001—macroeconomic stabilization and growth

Zadornov noted that early on the Russian government failed to open up the economy or maintain budgetary discipline. It maintained regulations on energy prices and continued providing substantial fiscal subsidies, while at the same time the Russian Central Bank provided loans to industrial and agricultural enterprises and, until mid-1993, to the national banks of the former Soviet republics, creating the so-called "ruble zone." The result was hyperinflation, budget deficits, and a loss of public confidence in the government.

The Russian government achieved a level of macroeconomic stabilization after 1994, Zadornov continued, by closely following IMF-prescribed action plans. These policies achieved stability at a high cost: extensive internal and external borrowing, a tight monetary policy that retarded economic growth, and an artificially high ruble-dollar exchange rate that rendered many Russian enterprises uncompetitive at home and abroad. The August 1998 financial crisis, during which the Russian government defaulted on domestic debt and allowed the sharp devaluation of the ruble, hurt many private depositors in Russian banks. It also helped identify economic distortions and set new economic trends in motion. The Russian economy has grown each year since 1999 and the government has run budget surpluses in the last two years.

It would be difficult to overestimate U.S. influence on Russia's development over the past decade, stated Zadornov. It accomplished this through such tools as technical assistance, bilateral lending, its influence within the IMF and World Bank, and direct political pressure on the Russian government. At the same time, Zadornov emphasized, some general lessons have emerged from Russia's transformation that are applicable to all post-communist economies. These lessons include the necessity for political will on the part of the reforming government, the importance of popular support for reforms (as opposed to reforms by decree), and the importance of considering, monitoring, and adjusting to the social impact of reforms.

Zadornov concluded by warning that while the economic situation in Russia at the moment is positive, the concentration of financial resources in a few large financial groups combined with the concentration of political power in one set of hands could pose a very serious threat not only to economic growth, but also to Russia's still weak democracy.

Mark Medish summarized for the audience a number of lessons and observations he has taken away from his experiences in helping to form and implement U.S. foreign policy towards Russia during the 1990s. By way of explaining how difficult it was to confront the issue of economic reform in Russia, Medish cited John Maynard Keynes, who wrote in 1925: "The economic system of Russia has undergone and is undergoing such rapid changes that it is impossible to obtain a precise and accurate account of it. Almost everything one can say about the country is true and false at the same time."

Medish raised four points before discussing his observations on Russian reform. First, it is important to remember the magnitude of changes that have taken place in Russia, and that Russia traveled down an unmarked path to achieve these changes. Second, he cautioned the audience to be wary of the phrase "lessons learned"—while it is important to learn lessons from history; the phrase suggests that some hard and fast script may have been available. Moreover, lessons may vary depending on one's perspective, whether as a foreign investor, Russian worker, or U.S. official. The third point is that while the laws of economics are clear, the laws of economic development are less so. Medish pointed out that while we are good at describing equilibrium states, we are less good at describing how to move from one equilibrium state to another. Finally, Medish warned the audience to beware the high variance of opinion about Russia: "…the number of times that Russia has either been lost or found in the past decade is truly mind-boggling, and it suggests that there are a variety of motives behind the interpretation of Russia." Russia is fundamentally headed in a positive direction, he argued, but has not reached a stable end state.

Medish next listed a number of substantive lessons that he has drawn from Russian reform during the 1990s.

First, Anders Åslund was correct in writing that throughout the formerly communist nations, the faster reformers have been the faster growers. If Russia has been in the middle of the pack of reformers, the big news is that its direction has been fundamentally correct.

Second, macroeconomic indicators are not enough to understand Russia's transition; it is vital to look also at microeconomic processes and institution building.

Third, the very premise of the debate between shock therapy advocates and gradualists is wrong—both are necessary. Shock therapy is needed to start reform in the right direction, and must be sustained with gradual processes of institution building.

Fourth, ownership of policy matters. You can import technical assistance or balance of payment support, but you cannot import the political will to sustain reform.

Fifth, Russia is shifting from a paradigm of command and compulsion to incentive and attraction. In achieving this shift and building trust within society, reform methods matter.

Sixth, the Soviet legacy of environmental and demographic degradation places an enormous burden on Russia's growth prospects—sick people cannot build a strong economy.

Seventh, U.S. external assistance to Russia was highly necessary (if not essential), quite imperfect, but nowhere near as bad as most critics would claim. Assistance could not take the place of political will (as argued above), but it played a crucial role at key moments in the previous decade.

The large financial packages to Russia from the IMF are things of the past, observed Medish. Incentives to reform Russia will come from inside Russia, and one of the more important incentives is to join the WTO. Many of the long delayed structural issues that have been on the IMF and World Bank agenda for years are requirements in the WTO accession process.

Going forward, Medish concluded, the challenge for policymakers, investors, and analysts that deal with Russia is to maintain a historical perspective, to try to maintain realistic expectations, but not miss opportunities for breakthroughs both big and small.

Peter Reddaway, the first panel discussant, began by drawing out the broad conclusions that he drew from each of the preceding presentations.

Medish, according to Reddaway, favored the rapid, top-down reforms conducted during the 1990s. While he later appreciated the costs and pitfalls of this approach, Medish nevertheless believes that the chosen course has been belatedly corrected and will probably, though not definitely, be vindicated in the long term.

Zadornov's position, according to Reddaway, is very similar to Medish's, but is less optimistic. Zadornov gives more weight to the costs of rapid, top-down reforms and to the loss of legitimacy that resulted from these reforms, especially during the loans-for-shares episode. Zadornov concluded that these factors, plus the trends towards authoritarianism in Russia, make the future uncertain. Particularly notable is Zadornov's conclusion that "there is a palpable threat of stagnation."

Looking at the presentations in greater detail, Reddaway commented that if Medish considers himself a short-term skeptic and long-term optimist, then it will be up to future historians to judge whether the staggering short-term social, economic, and political costs are worth the long-term gains.

Reddaway noted that Medish argued on the one hand that the needed legal, cultural, and social change would take a generation. On the other hand, he holds that carrying out privatization and key liberalizing economic reforms in a single bound was right, and he doesn't criticize the sequencing of reforms as carried out in Russia. Medish failed, argued Reddaway, "to consider the key point raised by Joseph Stiglitz, and also of Dmitri Glinski and myself in our book, and I think this is also implied by Mr. Zadornov, which is that if radical privatization is done before the rule of law and the web of institutions has been built up then the legitimacy of the whole system is likely to be severely undermined." Long delayed structural reforms may now be underway, but those reforms, as many liberal Russian economists argue, are being completely undermined by the bureaucracy.

Reddaway disagreed even more sharply with Medish's positive evaluation of democracy's prospects in Russia. The roots of the problem of illegitimacy, stated Reddaway, extend back to 1991 and

Yeltsin's decision to make an alliance with elements in the nomenklatura and some of the new entrepreneurs. The trend towards illegitimacy continued and deepened with the increasing manipulation of a series of elections. Recently, new laws on political parties, combined with the decline of media freedoms and civil liberties, raise serious worries about the future of democracy in Russia. These worries seem to be absent from Medish's presentation, concluded Reddaway.

Turning to the paper by Zadornov, Reddaway quoted one passage as particularly striking, but insufficiently explored in the paper: "The concentration of financial resources among the lucky few who own and manage the 15-17 largest companies in Russia, combined with the concentration of political power in a single pair of hands, is laying the ground for an economic system whose sole purpose is to collect and redistribute resource rent." One implication of this statement, according to Reddaway, is that liberal Russian economists are right in saying that recent reforms remain largely on paper. A second implication is that democracy is so undermined that political power has been concentrated in "a single pair of hands." These two processes combine to produce, in Zadornov's words, "the palpable threat of stagnation."

Reddaway then expanded on a concern that was not emphasized sufficiently by Zadornov and not at all by Medish, which is the role of the Russian bureaucracy. Quoting a Russian economic liberal, Reddaway warned:

"In reality, the oligarchs and the major companies hire the armed and judicial organs of the state in order to resolve their business problems. A year ago, when President Putin had his first meeting with the oligarchs, he directly accused those in the room and all of big business of themselves corrupting the organs of law and order. He said that one half of the criminal cases, investigations, and raids on enterprises conducted on all levels of government were initiated by business rivals, and that if this continued no president or head of government would be able to guarantee the sacred right to private property or even the personal freedom of many captains of Russia's economy."

Only these individuals and groups, Reddaway stated, have the resources to hire whole departments of the justice system. This raises the question of whether the dubious quality of marketization in Russia will, as Medish argues, work itself out in the future. Reddaway agreed instead with Zadornov's observation that the threat of stagnation is palpable and even worse scenarios can be imagined. Reddaway concluded by saying that he hoped Medish's analysis would prove correct, but that it doesn't seem likely.

Anders Åslund began his comments by reminding the audience of the lessons from the first panel on how distorted and destructive the Soviet economy was. Nobody thought that the transition would be an easy task, and in fact Russia has had an annual average growth of 6 percent for the last three years. This growth is actually rather early, argued Åslund, when you consider how Korea was considered hopeless for a decade after the conclusion of the Korean War. Russia's post-communist transformation is one of the greatest revolutions of all time, and it should be judged in this context. "We don't judge the French Revolution on the growth rate after 1789," Åslund stated. Instead, a revolution should be judged by its outcome—dictatorship or democracy, market or state economy, privatization or state ownership.

We now have more than twenty former communist countries that started off with the Soviet system, noted Åslund, and they have all come out different. Some are fairly modern Western democracies with 80-85 percent privatization, while others are full-blown dictatorships. In all cases, however, democracy, privatization, and liberalization have gone together.

The first panel described very well the peculiarities of Soviet Russia that influenced the path of reform in that country. The central issue, Åslund argued, was that the state dominance in all facets of economic life, particularly the dominance of the nomenklatura, created a state that was both lawless and omnipotent.

Five policies were needed to overcome this. First, democracy is essential to provide checks and balances over both the state and nomenklatura. Second is swift liberalization of prices and trade to avoid expensive distortions of partial reform. Third is reforming fiscal accounts to reduce the flow of public means to private interests. Fourth is adhering to strict monetary policy to avoid the exploitation of the state through subsidized credits directed through political influence. Fifth is privatization to get property out of the hands of politicians and bureaucrats and lay the foundation of a law-based society. The alternative to this platform of radical reform was a gradual reform that would benefit rent-seeking forces and the nomenklatura. The only real alternative development example for Russia, therefore, is Belarus.

Recounting the experience of Russian reform, Åslund agreed with the episodes listed by Zadornov. If you look at each episode, Åslund continued, you could say that most of the major initiatives went only half way. Yeltsin's ability to capitalize on his early democratic legitimacy was undermined by a pre-democratic obstructionist parliament. While some prices were liberalized early on, commodity prices and commodity exports were not—this was the initial big money source for the new rich, not privatization. On fiscal accounts, Åslund continued, Gaidar's ability to cut arms procurement constitutes a tremendous, if forgotten, success. By contrast, monetary policy was a failure; the ruble zone lingered on until late 1993 and became a zone of hyperinflation. Finally, privatization was a great success for Russia, argued Åslund, if you consider what the political possibilities were: "Chubais' option was either to accept [privatization] as the state directors demanded or not to privatize, and he chose to privatize."

On the role of the West, Åslund commented that the West played no role in Russian reforms in 1992. "This was the biggest sin of omission and [the first Bush] administration should pass into history as the administration that slept when the Soviet Union collapsed," declared Åslund.

The period of 1994-98 was a missed opportunity, an era when policymaking in Russia was dominated by critics of reform. By contrast, "the crash of 1998 turned out to be the most successful reform package for Russia that the outside world came up with," stated Åslund. The IMF and the Kiriyenko government agreed upon policy cures, the parliament failed to legislate the necessary measures, and the IMF then let Russia fall. This is a good, but frightfully hard, lesson, declared Åslund, and is how conditioned assistance of international financial institutions should work.

On the one hand, concluded Åslund, we see the corrupting costs of slow reforms that are likely to continue haunting Russia. Complaints about the bureaucracy are in fact complaints that too little change was made. On the other hand, Russia has now adopted a quite liberal economic model, even more liberal than the Central European countries now joining the European Union. Russia's economic model looks pretty similar to the East Asian model, and that should lead to more economic growth.

Panel Chair **Blair Ruble** gave the panelists the opportunity to respond to each other.

Zadornov disagreed with Åslund's assessment of Russia's experience with privatization. The Russian government received not more than $4 billion from privatization between 1993-99, yet Gazprom has over $20 billion per year in revenue and the oil industry brings in a collective $25 billion per year in revenue. A counter-example to Russia's approach is Brazil or Argentina. These countries established special state banks to finance privatization sales, allowing the state to collect a more real price for privatized assets. Another failure of the Russian approach was the exclusion of foreign capital from competition. "No foreign capital meant no real price," declared Zadornov.

Zadornov also questioned the IMF's success in accomplishing its "clear goals" of promoting economic growth and maintaining a stable balance of payments in the former Soviet Union. Smaller countries without Russia's oil and gas resources, such as Moldova, Georgia, and Kyrgyzstan, have foreign debts close to 100 percent of GDP. This debt burden cannot be repaid by these smaller countries and is preventing economic growth. The conclusion, according to Zadornov, is that the IMF made mistakes and failed in its mission in this region.

Medish disagreed with the criticisms leveled against his assessment of economic reform and democracy in Russia. He repeated that radical change is necessary at first, but requires a gradual process in order to consolidate that change. He agreed with Åslund's case for early privatization, and that the relationship between democracy and economic reform is fundamental but not linear.

Medish also agreed with Reddaway's view that legitimacy is a real concern and that it takes time to build, and on the report card of deficiencies in Russia's reform record. He disagreed on what the significance of those deficiencies is for the overall report card. He repeated his view that on balance, the progress that Russia has made is really quite remarkable. "There were many possible Russias that have been avoided that were much worse than the one we see today," concluded Medish.

Reddaway affirmed that there is a difference in perspective. Medish believes that the undermining of democracy and inadequacies and failures of economic reforms are all things that can be adjusted and corrected over the course of time under Putin. Reddaway stated that he is more skeptical and shares the concern of Russian economic liberals for the future of democracy.

"Although I disagree with Mr. Åslund on just about everything," continued Reddaway, "I do agree with him about the enormous desirability of holding new elections to the Russian parliament in late 1991." A new parliament would have facilitated carrying out a serious economic debate about the government's future economic strategy.

Medish reminded the audience that decisions on Russia policy were hotly contested behind the scenes in the administration; this included the 1998 IMF package. As for the IMF itself, Medish disagreed that the institution has "clear goals" as Zadornov stated; rather, the IMF has too many goals. It originated as an institution concerned with the stability of exchange rates, and evolved into an institution that is used by the shareholders to promote development and transition.

Åslund disagreed with Zadornov's assessment of Russia's privatization program as costing the state revenue, comparing Russia's program to the expensive privatization of East German enterprises. Further, he argued, the worst privatizations occurred late during the 1996 "loans for shares" scheme. A successful privatization needs to be as fast and as widespread as possible to create strong core owners. Not only do privatized industries receive fewer subsidies than state enterprises, democracy and private property go together.

Reddaway countered that it is difficult to draw a clear line between privatization and stealing in Russia. The "loans for shares" could be described as a mechanism for the oligarchs to steal the major assets of a state legally.

Ruble opened the discussion to questions from the floor, urging the panelists to relate their answers to the lessons raised from the morning panel.

Igor Birman challenged the idea that privatization in Russia was successful, and asked the panelists to comment on the issue of a middle class in Russia.

Medish again defended the idea that privatization had to be accomplished quickly, or it would never have happened at all. The Polish example, where large-scale privatization was delayed and growth came from the Greenfield private sector, was not a feasible approach for Russia, given the political and cultural differences between the two countries. In Russia, Medish argued, breaking the back of the nomenklatura and ministries was absolutely essential.

Reddaway commented that the middle class is closely linked with small business, and, as President Putin has pointed out, small business development in Russia is very weak. Reddaway cited two reasons for this weakness. First, the parasitic nature of the Russian bureaucracy at the federal and regional levels discourages entrepreneurs from starting or maintaining small businesses. Second, organized crime imposes a kind of tax on the operation of small and medium businesses.

Zadornov agreed with the negative assessment of Russian privatization, arguing that the real share of private enterprise in the Russian economy is 50 percent rather than 70 percent because "Gazprom, Aeroflot, and the larger Russian enterprises are really state managed enterprises." Zadornov suggested that the panel did not address the issue of the Russian middle class because there is no middle class in Russia in reality. Two groups of people are traditionally identified with the middle class—small business owners and professionals such as health care workers and teachers. As already noted, small business owners face tremendous obstacles in bureaucracy and organized crime, and in fact small enterprises provide only 10 percent of Russian GNP. Professionals such as educators and health care workers, on the other hand, earn a salary of $200 per month. "With this level of salary rates, it is impossible to be a real middle class," concluded Zadornov.

A series of questions and comments were fielded from the audience. The first question centered on Russia's weak banking system, and whether sustained economic growth is possible without a safe banking system.

The next question addressed the issue of U.S. assessment of Russian reform: The personnel responsible for administering the U.S.-sponsored programs in Russia were evaluating these same reform programs. Since they were under political pressure from Washington to report success, and had careerist interests in reporting success, was the process corrupted?

One audience member commented that Russia's privatization represented a "feudalization of the system," where people in the private and public sector abused the public trust for private gain. He then directed a question at Medish, asking who were the influential sources of perception on how reform was progressing, given that U.S. intelligence did not have a central role.

Medish, responding to the question on Russian banking, stated that banks in Russia would not become real banks until there is a critical mass of trust. So far, Russian reforms have not built an atmosphere of trust. One of the lessons of the East Asian crisis, Medish observed, is that while the East Asian miracle occurred on the backs of unsafe banks, it was those unsafe banks that brought down most of those economies in the late 1990s. Another growth source in the absence of safe banks is directed lending, which is the Chinese model.

On the issue of political pressure from Washington, Medish emphasized that his recollections from government service during that time were of candid and acrimonious debates at high levels. He stated that in a hostile funding atmosphere in Washington, the administration did have to "lead the market" in selling the story of the possibilities of Russian transition. "I think our advertising about what was happening in Russia tended to be hyperbolic," Medish acknowledged. On the issue of sources of information, he confirmed that open sources, such as investment bankers and journalists, became a much more important source of information for policymakers than was the case in the Soviet era.

Åslund noted that the semi-privatized companies like Gazprom are performing badly compared to fully privatized companies: "The Russian big economy is now driven by about twenty big enterprise groups where you have a core group of owners who control 75 to 100 percent of the shares."

Zadornov pointed out that people don't trust banks because of their experiences over the past decade. During that time, depositors have lost money through hyperinflation, pyramid schemes, and the 1998 default. There has been recent progress, but banking reform, bank restructuring, and capitalization are still needed. On the issue of whether the Kremlin has been "privatized" along with state assets, Zadornov argued that democracy is the only counterbalance to financial groups' influence over the Kremlin: "We need a healthier parliament, political parties, freedom of the press, because these are real checks and balances not only for the Kremlin but also for all power."

Reddaway stated that in his experience the Clinton administration was not receptive to his dissenting opinion: "They appeared to me to have extremely one-sided sources and they couldn't understand how anyone could have a different one." Congress was more open to hearing different viewpoints, but in they end they bought into the arguments from the administration when appropriating funds.

The next comment from the audience came from a specialist who works on a program to help Russian research institutions convert from biological warfare research to pharmaceutical research. She argued that any "lessons learned" must include lessons on the ground. In her experience, technical assistance must be long-term and done in partnership with the target institution.

Robert Campbell returned to the issue of long-term consequences of Russian privatization. Economic theory says that if property ends up in the hands of non-enterprising officials, true entrepreneurs will eventually buy out the officials. "That will have distributional consequences," concluded Campbell, "but it has no consequences for efficiency."

Campbell raised the issue of the relationship between law and economics. One theory is legal practice over time conforms to what makes sense economically. Another theory is that it is the function of law to codify and validate insecure property relationships that have grown up through power. If the latter theory were correct, it would have serious implications for the consequences of privatization in Russia.

Another question from the audience raised the issue of whether open sources of information on Russia were reliable, given that they may also have an interest in "leading the market" in reporting on Russia.

Medish clarified his characterization of the administration leading the market on Russia. There are two competing schools of thought on development assistance. One school believes that assistance only delays hard choices and helps a country avoid the real challenges confronting it. Another school believes that development agencies, both U.S. and international, can make a big difference in helping a country in trouble. To succeed in getting appropriations for these institutions in this atmosphere of debate you have to tell a big story about aid. The Bush administration, which recently announced its intention to increase foreign aid, is about to learn this lesson, Medish commented.

On the issue of the reliability of open sources, Medish stated that the solution is to be a critical analyst of the information you are given. An investment banker's analyses may be promoting his own portfolio, for example. The point is that in the 1990s open sources became much richer than they had been in the past, and they were important sources of information that shaped the perceptions of policymakers in the U.S. government on the Russian economy.

The next comment from the audience centered on the Russian state budget. By the estimate of Russia's Minister of Labor, Aleksandr Pochinok, if all budget-funded employees were paid at a subsistence level, it would consume the entire state budget. Similarly, the OECD points out that if all the social benefits on the books, even excluding wages, were implemented, that would also consume the entire state budget.

Åslund responded that Russian public expenditures have been stable at around 33 percent of GDP, which is very similar to the U.S. level. Given the poor functionality of the Russian government, and its lower level of development, it would be good if expenditures fell to 25 percent. Minister Pochinok, Åslund argued, has been in office for two years complaining about how hopeless things are, and should resign if he cannot prove that he has done something about it. "Russia has millions of bureaucrats and public employees," concluded Åslund, "cut them by two-thirds, raise the remaining salaries accordingly, and do something about corruption."

Zadornov noted that the official position of the federal government on privatization is case-by-case privatization. Some recent privatizations have achieved good results, including Onako Oil Company and Rosgostrakh (the state insurance company).

Reddaway concluded the panel discussion with the observation that Campbell was right in seeing a danger in law cementing the monstrously unjust divisions of property that exist at the moment in Russia. The recent fates of Boris Berezovsky and Vladimir Gusinsky do not imply otherwise, because there are special reasons that they have been threatened. "What is important to keep in mind is that Putin was chosen as a representative who would consolidate the Russian elite and the Russian state after the chaotic and "revolutionary" years under Yeltsin. He sees this as his job; he has said many times that there should not be any re-division of property."

Panel Three: Understanding the Underlying Social Aspects of Soviet and Post-Soviet Russia

An Attempt at Understanding Social Problems Associated with the Transformation in Post Soviet Russia
by Yuri Levada

This report can naturally only touch upon a few problems associated with the complex developments in Russian society during the last ten-plus years. To illustrate my points, I will use data obtained from public opinion surveys taken by the Russian Center for Public Opinion Research (VSIOM).

The social and political development of the Soviet state during the last years of its existence and that of post-Soviet Russia (as well as the entire so-called post-Soviet area) has involved a series of unexpected, unpredictable cataclysms and changes in direction. Several forks in the road (situations involving an important choice of future direction) can be noted in the development of events during that period. The choices made certainly did not always prove to be rational or expected. It is not surprising that such progress has reinforced Russia's reputation for unpredictability.

However, on closer examination, it is clear that in many instances scholars and observers—as well as the actual participants in the events themselves—were not prepared to explain the unexpectedness and unpredictability of Russia's changes, nor to analyze the relevant factors, conditions, or alternatives. This applies not only to our own Soviet or Russian experts, but also to foreign observers and scholars regardless of their political or ideological position. Neither the supporters of the totalitarian model of the Soviet regime nor the supporters of evolutionary models expected such a rapid and such a complete collapse of the Soviet system and empire.

A thorough analysis of the reasons for this phenomenon, in my opinion, would be of a great deal more than mere historical interest. After all the changes of past years, Russia is still not on a course of steady, evolutionary development. An understanding of why the changes that occurred in Russia continue to appear incomprehensible is extremely important in explaining the further development of events in the near and distant future. It is very likely that some of these future events will also result in unexpected rapid changes.

Many weaknesses in the analyses of recent transformations in Russia can be attributed to narrowness in scholarly approaches. It is understandable that until recently Western observers were most interested in the military and political aspects of Soviet development, evaluations of the veracity of the claims made by the Soviet leadership, and of the possibility of some liberalization of Soviet policy (primarily with regard to the outside world). The significant problems involving the structure and succession of the ruling elite, their social base, public opinion, etc. remained in the shadows. A more sociological analytical approach to examining post-Soviet reality has not yet been utilized sufficiently. This is especially true now that the opportunities to obtain extensive social information using, among other methods, regular surveys of public opinion, are extremely great.

After the Breakup

The breakup of the Soviet Union in late 1991 was to its citizens even more unexpected than the precipitous collapse of the Communist regime several months previously. While as many as 40 percent of Russians regret the loss of the Soviet system, more than 70 percent (74 percent in 2001) regret the breakup of the USSR. The negative consequences of this breakup throughout the last decade have seriously impacted the position of Russia among the other former Soviet republics, and the social and national self-image of all these nations. In late 2001, 31 percent of those polled believed that independence benefited Russia and the other former Soviet republics, while 49 percent perceived only adverse consequences. Some of those polled explained this with reference to the severance of contacts with their friends and families, the difficulty of crossing the new borders, etc. Others referred to the loss of pride in being citizens of a great world power. Many find the loss of their former status as a great world power even more painful than the economic crisis and decrease in living standards.

Of all the countries that emerged from the wreckage of the USSR ten years ago, only Russia failed to officially mark the tenth anniversary of the events that led to the collapse of the Soviet Union. This demonstrates that neither the authorities nor society are capable of defining their own place in the historical processes and the changes occurring in recent times. The very description of Russian society as "post-Soviet" presupposes the indeterminate nature and instability of the social institutions that were formed after the collapse of the Soviet system. Speaking figuratively, we in Russia (as in other countries of the former Soviet Union, except, perhaps, the Baltic nations) are still not living in our new home, but rather in the ruins of our old one.

Boris Yeltsin, judging from his character and biography, was significantly less prepared to assume the role of reformer than his predecessor, Mikhail Gorbachev. However, his desire to separate himself from the party elite that had created him, and from Gorbachev, whom he personally despised, forced him to take up a position in support of the most radical—and far from the most promising—alternatives for breaking up the Soviet system. In practice this meant that during each of the crises throughout his regime, he selected the most primitive, brute force response. In each of these cases, the long-term consequences seem not to have even been considered. Probably, he decided to support the radical economic reforms proposed in 1991-92 by Gaidar's team in this style.

However, epochs as well as people should be judged by what they have accomplished. During Yeltsin's presidency, Russia—despite all the costs and difficulties of the transition—firmly established itself on the road to a market economy and had assimilated such principles and values of democratic society as freedom of speech, multi-party elections, freedom to leave the country, and private entrepreneurship. Russia had joined the worldwide community. These principles had been proclaimed earlier during Gorbachev's regime, but they were put into daily practice only under Yeltsin. The break with the Communist past became essentially irreversible. Currently the majority of the population and even a significant portion of Communist Party supporters acknowledge that.

The high degree of adaptation to the changes that occurred in the country is even more remarkable, since it has been accompanied by constant deprivations, a decrease in production and the standard of living, and a succession of political crises that have shaken weak government institutions. The power of anti-Communism as an ideology to mobilize or frighten the public was virtually exhausted by the mid-1990s. Only through crude manipulation of the mass media and the creation of artificial political crises (including preparation of a coup d'etat by the president's team in 1996, in the expectation that they would lose the election) did Yeltsin manage to get elected to a second term. After years of political intrigues within the ruling camp, blatant manipulations of public opinion, the shameful collapse of the Chechen campaign of 1994-96, Yeltsin's physical incapacity during and after his reelection, and finally the financial and economic crisis of 1998, the regime had fallen into in an extremely critical position. Yeltsin's popularity reached new lows. This was not only a reaction to Yeltsin as an individual, but also to the profound shortcomings of the political system in operation since the Soviet regime self-destructed in 1991. For this reason, the problem of succession of power towards the end of Yeltsin's regime demanded, essentially, nothing less than a shift to a new model of political organization.

Characteristics of the Current Transition Period

After a series of searches within Yeltsin's inner circles of power, Yeltsin and/or those surrounding him chose a complete unknown: a St. Petersburg native and officer of the KGB (and its successor agency the FSB) named Vladimir Putin, who had no political experience, no team, and no clear political sympathies. September 1999, when Putin was appointed Prime Minister, marked the start of the current, new, and, in my opinion, still incomplete "political transition" to a new political regime in Russia.

The transition has proved to be prolonged and difficult. The struggle among different groups for influence in Yeltsin's team continued even after Putin succeeded Yeltsin as president of Russia in 2000, with intrigues accompanying virtually every executive action. After some time the political elite, observers, and the general public grew increasingly familiar with the personal style of the new leader. Yet no one could concretely identify his program, team, social base, or the methods he was likely to use to solve Russia's most painful problems. To this day approximately half (46 percent) of those surveyed acknowledge that President Putin remains a mystery.

The new generation of leaders, currently symbolized by Putin, is virtually free of the "anti-Communism" baggage of their predecessors. These leaders are searching for other means of self-definition. They are open to practical and ideological compromises with the forces or symbols of the past. For example, the "presidential" party (Edinstvo) reached a series of parliamentary deals with the Communists in 2000, resulting in power sharing and the adoption of the old Soviet national anthem.

Economic liberals have maintained close contacts with the Putin administration, and hope with the help of presidential authority to succeed in pushing the country along the road of radical market reforms, to some extent repeating the situation in 1991-92. In fact, President Putin has been compelled—both by economic considerations and the need to maintain his image in the West—to demonstrate that he supports a free market. The radical economic reformers, however, do not have the same level of influence as they did in the early Yeltsin administration. The political situation and forces active in Russia are significantly different from those that existed ten years ago, as two powerful forces have emerged. The first is the phenomenon of large semi-privatized businesses with high-level political connections—the so-called oligarchs. The second is the phenomenon of "enforcement" agencies, mainly the Federal Security Service (FSB) and the Prosecutor's Office, acting as an instrument of coercion in the hands of those in power. Under these circumstances, even the most well conceived steps toward a free market frequently end up stifled under rigid police surveillance. Instead of an evolution of normal rules of economic behavior, we have witnessed a series of frightening—often deliberately so—actions against individual firms or oligarchs who have fallen out of favor.

According to public opinion polls taken in December 2001, the perception of 31 percent of respondents is that President Putin represents first and foremost the interests of the "enforcers" (i.e., members of the military and security forces); 20 percent believe that the interests of the bureaucracy are predominant under Putin; 20-21 percent cite the "middle class" and "poor people," and 15 percent the "Family" of political insiders that surrounded former president Yeltsin. During Putin's first two years in office, the influence of the "enforcers" on those in authority has unquestionably grown, in spite of some setbacks and perceived attempts at opposition from influential groups. For example, attacks on the influence of the military (i.e., the punishment of a large group of senior officers for the loss of the "Kursk" submarine) are soon followed by concessions (i.e., an increase in military pay or increased harshness in the Chechen campaign). Similar balancing tactics are clearly used in other situations: for example, after steps are taken that many perceive as limiting democratic freedoms (the closing of a central television channel, elimination of the president's pardon commission), gestures are made to honor the democratically-minded intelligentsia (with special presidential meetings, awards, etc.)

The mobilizing effect of the second Chechen campaign played an enormous role in building Putin's popularity, contributing greatly to his landslide victory in the presidential election in 2000. Soon it turned out that, in order to support his public image and to maintain control over the political elite, Putin was constantly compelled to create similar "mobilizing events." Thus began loud attacks on local governors and oligarchs, pressure on the mass media, intrigues against and prosecution of businessmen who were in Putin's way, dubious "spy cases" launched against inconvenient scholars and activists, etc. Such actions today no longer are able to create an environment of mass terror reminiscent of the Stalin era. However, such "pinpoint" strikes at seemingly randomly selected targets create a mood of uncertainty and anxiety for one's professional future in the fields subject to persecution—business, journalism, academia, and human rights advocacy. Moreover, they give rise to a certain style of maintaining law and order using enforcement agencies and scare tactics that are not very conducive to the normal development of business and social activism.

Two and a half years after his ascension to the ruling elite of Russia, Vladimir Putin enjoys the stable support of the majority, as more than 70 percent of the population approves of his overall performance as president. However, assessments of particular attainments of his administration in various areas—maintenance of law and order, improvement of the economic situation, solution of the Chechen problem—remain significantly more restrained or even negative.

Thus, in November of 2001, 51 percent (vs. 45 percent) believed that the president was successful in his attempts to maintain law and order in the nation; 39 percent (vs. 55 percent) said that he was successful in improving the economy and well being of the population; but only 24 percent (vs. 64 percent) agreed that Putin had been successful in regulating the Chechen conflict. Nevertheless, in January 2002 more than half (between 50 and 70 percent) of those polled expressed confidence in Putin's ability to manage the remaining problems. This means that the public's confidence in the president is rooted not so much in the results of his actions, as in its hopes for the future. The effective absence of alternative or competing figures on the political scene no doubt adds to these figures.

Today scarcely anyone is disturbed by Putin's past. Thus, according to January 2002 data, only 20 percent express unease about the fact that the president previously worked for the KGB/FSB, and 36 percent about the fact that he was associated with Yeltsin's "Family." The same number (36 percent) are worried that Putin might become a rigid military dictator. However, more than half (55 percent) are disturbed by the fact that Putin did not propose a single specific economic or political program. The largest percentage (74 percent) express concern that the president has not yet been able to put an end to military actions in Chechnya.

It is noteworthy that Putin's high ratings have boosted the public's evaluation of Prime Minister Mikhail Kasyanov (49 percent approve of him), but not of the government, the parliament, or other government institutions. These institutions receive predominantly negative ratings in public opinion polls, with the exception of the respondent's "own" local governor. The prevailing opinion is that the government is not capable of improving the country's situation in the near future. In a public opinion poll taken in 2001 more respondents considered the federal authorities, as compared to Soviet rule, to be less "for the people," less legitimate, and less effective.

With Putin's rise to power, the political scene in Russia's parliament changed significantly. The confrontation between the Communist and the various "democrat" groups in parliament, which had seemed to be the main axis of the political battles under Yeltsin, eventually evaporated under Putin. A number of hurriedly assembled pro-presidential groups, merging in the new United Russia party, came to the forefront in the State Duma and substantially deprived the "old" parliamentary factions of independent deputies and influence. The parties and forces that were traditionally considered democratic (Yabloko, The Union of Right Forces) were significantly demoralized and unable to strongly oppose presidential authority. To maintain its influence and to some extent its continued existence as the largest parliamentary faction, even the Russian Communist Party was forced to avoid confrontation with the president's team. If current trends continue, in future parliamentary elections factions and groups that are close to the Kremlin will either win an outright majority or have little difficulty in controlling parliament through exerting pressure on small coalitions of deputies.

The attempts of those in power to form a guided political system (i.e., a "managed democracy") have not yet been met with any notable protests on the part of the Russian people or public opinion, and this is unlikely to change. A significant portion of the population, exhausted by the insecurity and lack of law and order during the previous decade, is ready to sacrifice a number of freedoms in the name of law and order, especially if the initiative were to come from an authoritative leader.

The idea that maintenance of "law and order" in Russia requires rigid control by an authoritative leader has been prevalent in virtually all strata of society and at all levels of the government for a relatively long time. The following table shows the Russian public's attitude toward the statement that "a strong leader can do more for the country than the best possible laws."

Year	1995	1997	1998	1999
Agree	66	72	78	76
Disagree	24	20	14	15
Cannot say	10	8	8	9

In April 2000, almost three quarters (72 percent) of those polled agreed with the statement "Russians cannot get along without a powerful leader's strong hand to guide their actions." It seems very likely that a significant portion of the population associates hopes for authoritarian order with the figure of President Putin. Although public opinion registers a concern over the possibility of a military dictatorship (or even worse, a Stalinist totalitarian regime), these are in fact pitiful reservations as there are no institutional limits on the regime that would curtail totalitarian action. Furthermore, today's presidential authority hardly needs to resort to the methods and conditions of the past. As the last two and a half years have shown, mass repression or totalitarian control over words and thought are not necessary to transform a political regime. All that is needed are selective actions against a few disobedient figures for the requisite degree of obedience to be attained.

The Population Status

According to various polls, no more than 15 to 20 percent of the Russian public today believes that it has benefited from the changes that have occurred in recent years. Approximately 70 percent believe that their material and social position has worsened. At the same time, however, somewhat more than 70 percent assert that they have already adapted to the new situation or believe they will soon be able to do so. It is this paradox ("we lost out but we have adapted") that defines the main character of the public's perception of its position. This is also the source of people's lack of confidence in tomorrow and their nostalgia for the tranquil past.

In evaluating this mood, it should be remembered that the attention of the public tends to be focused primarily on unresolved, painful, acute problems. What has already been achieved becomes familiar and is no longer noticed (if these gains were threatened, that would be another matter). Such historically significant changes as the new abundance of consumer goods and services, the opportunity for consumer choice and travel abroad, multiparty elections, freedom of speech, etc., now seem almost natural. This is particularly true because these achievements were not long-sought goals of public demand, nor the results of a hard-fought struggle, but instead suddenly appeared as if they fell from heaven. An additional factor to consider is the typical Russian suspicion of anything unexpected.

According to official statistics, after a decade of economic setbacks, the mean income per capita has only now approached its 1990 level. A significant sector of the population—at least 30-40 percent—has a lower standard of living and is poorer than 10-12 years ago. The overwhelming majority of the apartments, cars, overseas travel packages etc. that are acquired by Russians are bought by the richest 20 percent of the population. The dramatically increasing income differential, which is becoming more and more obvious, is generating a great deal of dissatisfaction. However, in the last few years, the attitude of the general public to the rich, and the newly rich, has become more relaxed and now indicative more of envy than hostility.

A number of recent polls present a picture of the life style and outlook of various groups of the Russian population.

As Table 1 shows, a significant majority has difficulty adapting to the new economic reality and has been forced to accept a decline in financial and social status. Only a very few, primarily young people, have succeeded in discernibly improving their lives. It should be remembered, however, that, as is generally the case with public surveys, the social extremes (the poorest and richest people) are underrepresented.

Recently, the ratio between the number of people who profess themselves in favor of market reforms continuing (in January 2002—37 percent) and those who favor their rollback (in January 2002—22 percent) has been relatively stable, while a plurality of the population (41 percent) declines to answer. This suggests the public's lack of confidence in the choice they were forced to make.

Freedom of Speech and the Position of the Mass Media

The only area in which the majority of the population considers that things have improved significantly during the years of transition is in the information sector. The level of public confidence in the mass media is very high—in fact, it is higher than in the U.S. In rating the importance of various institutions in the life of the country, people polled in January 2002 placed the mass media in third place (after the president and oligarchs).

However, the majority of the population has yet to develop the ability to think critically about the information disseminated by media. The predominant attitude to the mass media is passive and nonselective. This creates a situation where it is possible to exert pressure on public opinion through television channels that are under government control or dependent on government. This is the lesson to be learned, in particular, from the presidential election campaigns of 1996 and 2000, when the influence exerted on the voters via television ensured the election of the candidate favored by the government.

Censorship was officially repealed in our country under Gorbachev in 1990. However, many methods of pressuring the media are still available to the government at the federal, regional, and provincial levels. Examples of these methods include registration procedures, court decisions (delivered by judges that are subordinate to the executive branch), and pressure on station owners. The Russian press and journalists have no true legal guarantees of independence that prevent government and corporate interference with their work. The government retains financial control over the vast majority of large television channels. Other mass media are either financed by large corporations (oligarchs) or by the local authorities (governors).

The most famous example of federal government pressuring media was the scandal surrounding the independent NTV television channel as well as print media, which were previously owned by media oligarch Vladimir Gusinsky. Without question, the reason for the government's attacks was the critical position that Gusinsky's media outlets adopted towards the new president, his team, and his policies. After a year of various kinds of pressure, including law suits, actions by the procurator, tax raids, and detentions, control over Gusinsky's media outlets passed into the hands of individuals and corporations who were directly dependent on the authorities, and the leading journalists working there were forced to leave. For example, after a long legal battle, NTV was taken over by Gazprom, an energy company in which the government has a large ownership stake. We can learn a lot from the public reaction to these events. More than a third of the Russian citizens polled (36 percent) and more than half the Moscow residents expressed dissatisfaction and outrage at what had happened. However, the majority of those polled were willing to accept the official version of events (i.e., everything that happened was purely a business dispute among shareholders, which was duly resolved in the courts).

The attack against the less well known privately-owned channel TV-6, where a number of journalists from NTV had fled, was a direct continuation of the scandal surrounding NTV. After a few

Table 1

		% of those polled	Mean age	Per capita income ($/month)
I	"I am absolutely unable to adapt to life as it is today."	15	56	27
II	"I am reconciled to the fact that I have had to give up the standard of living to which I was accustomed and that I have to deny myself in large and small ways."	30	52	30
III	"I have to scramble, seizing every opportunity to make money, just to provide myself and my family with a tolerable standard of living."	26	38	26
IV	"I have succeeded in taking advantage of the new opportunities to achieve a better life."	7	31	43
V	"I live as I did before—not much has changed about my standard of living in the last few years."	16	41	41

November 2001, 2400 people polled.

months of trials in various courts regarding the complaint of a minority stockholder (the pension fund of Lukoil, another energy company dependent on the government) about the company's losses two years before, the channel was forced on a legal technicality to close at the end of January 2002. When polled in February about this event, 47 percent of respondents expressed perplexity and outrage, 5 percent satisfaction, and the remaining 48 percent declined to give an opinion. But, again, the majority agreed that what had taken place was merely a dispute among stockholders. No protest meetings like those held prior to the destruction of NTV took place this time.

In February 2002 there were signs of a new pressure campaign—this time directed at the popular radio station "Echo of Moscow," which was known for its critical positions and connections with the embattled television channels. Possibly, the next step will be actions against the few remaining critically disposed newspapers and weeklies.

This whole series of events, which the government-controlled media tries to portray as normal legal disputes between companies, is of critical importance to the current situation in our nation. These are new examples of the "pinpoint" strikes on a few "uncooperative" individuals and organizations in the mass media that are the modus operandi of the authorities. The majority of the professional colleagues of these victims and of previously prominent reformers believe (or pretend to believe) that these actions do not have an impact on them. They try to justify the persecution with references to the real or imagined mistakes of the previous leadership of NTV, TV-6 etc. The disarray of the journalistic (and intellectual) elite and its confusion in the face of these challenges from the authorities is very typical of the current social situation in Russia. Also typical is the passive attitude of the majority of viewers and citizens in general, who acknowledge that they do not feel themselves to be citizens, but merely subjects of the state.

The Dead End of Chechnya

The conflict in Chechnya has remained a painful test of the political maturity and democratic orientation of Russia's leadership and all of Russian society. It would seem that the whole problem stems from the political forces, agendas and intrigues in Moscow, within and surrounding the Kremlin leadership.

The second Chechen campaign served as an important means for uniting the public around Vladimir Putin, who had just appeared on the political scene as the newly appointed Prime Minister. In the wake of a series of apartment bombings blamed on Chechen terrorists in the fall of 1999, not only did the top political and military leadership succumb to the illusion of "putting an end" to the problem through a decisive strike, but so did a significant portion of the public, including many of those of democratic orientation. The further course of events forced people to reassess this view. Starting in late 2000, the desire to move from military action to negotiations became relatively firmly entrenched in Russian public opinion. In a poll conducted in January 2002, 38 percent came out in favor of continuing military operations, while 52 percent were for negotiation. At the same time, 35 percent of those polled considered the recent actions of the Russian forces to be successful and 52 percent unsuccessful. Both before the start of the second Chechen campaign and more recently, less than a quarter (23-24 percent) of Russian citizens were confident in its success. The majority sees no future in it, and many (37 percent) express the fear that the military actions will last for many years and spread to the rest of the Northern Caucasus. Only 25 percent think that Chechnya's withdrawal from the Russian Federation should be opposed at all costs, the remainder are more or less ready to accept some version of secession. They do not feel this way because of sympathy for the Chechen separatists (public opinion is sharply negative toward them), but out of a desire to get rid of this "trouble spot."

In Russia, and evidently in the West, there are attempts to justify the actions of the Russian troops and special services by referring to the cruel acts of the rebels, their reluctance to negotiate (even on humanitarian issues, for example, temporary cease-fires to allow evacuation of the wounded and civilians), and to the fragmentation of the Chechen rebel army and the lack of authority of the elected president, Maskhadov. Such reasoning cannot be accepted. The pitiless actions of the Russian forces do not frighten, but rather enrage the rebels and the majority of the Chechen population. At the same time, lawlessness corrupts the Russian army and spreads weapons and the violence far beyond the boundaries of Chechnya itself. According to one poll (May 2001) only 23 percent of respondents believe that the current military campaign in Chechnya will "strengthen the military spirit of the army and the entire Russian people," while 63 percent tend to believe that this campaign "will lead to the weakening of the moral foundations of society and the spread of violence." There is constant violence and unauthorized reprisals against the peaceful population of Chechnya, as well as looting. Even the Russian authorities, judges and prosecutors, have been forced to acknowledge this.

Unfortunately, attempts to justify the cruelty and unauthorized reprisals against the peaceful population are accepted by a significant portion of the Russian population. A very dangerous desensitization is developing in society—an indifference to violence, cruelty, and the suffering and deprivations of others. The effects of such attitudes reach far beyond the conflict in Chechnya.

After the events of September 11 in the U.S., the Russian authorities have been attempting to convince the public that their actions in Chechnya are part of the fight against international terrorism. President Putin himself stated this more than once, and increasing fear of terrorist attacks affected the public's attitude to the Chechen war for a certain period of time. In September, the percentage of people supporting continuation of military action increased compared to August; however, subsequently, opinions on this issue returned to their previous level.

It is growing increasingly clear that there is only one course of development possible for post-Soviet Russia—moving towards a contemporary civilized society. Attempts at returning to the Communist past or constructing some kind of nationalist patriarchal utopia do not have the slightest chance of succeeding, regardless of what percentage of the population might support them. It is important to note that acceptance of that reality is now evident in official declarations as well as in public opinion. Yet according to a poll taken in November 2001, 71 percent of Russians still believe that Russia does not belong to the West but to a separate Orthodox Slavic civilization. Very few fear a return to the old Communist form of government and society. There is a more realistic and more dangerous possibility: a rebirth of half-forgotten Soviet mechanisms to "mobilize" society under the slogan of maintaining law and order. The attributes of such a "mobilized" society, or martial law society, would be autocracy, encroaching dictatorship, enforced unanimity of thought, and control over the mass media and public opinion by a ruling individual or junta. Such a society would have no separation of powers, no real opposition, no freedom of thought, or any other attributes of a civil society. Martial law would subordinate the life of society, social institutions, and individuals to the solution of extreme problems, either real or imagined, through purely military or militaristic approaches.

The difficult choice Russia faces today is no longer a choice between Communism and capitalism, or between modern civilization and a patriarchal utopia. It is rather a choice between different types of market-oriented societies, with modern Europe or America at one extreme and struggling Latin America at the other. To put it metaphorically, the question is where our "time machine" is going to land – at a spot where there is a developed democratic society or a spot where there is some kind of primitive, "dictatorial" capitalism. This will be decided in the nearest future.

Western Assessments of Soviet Society: Missing the Forest for the Trees

by Judyth L. Twigg

This paper[1] takes as its mandate a review of Western assessments of Soviet society during the Brezhnev and Gorbachev eras. It examines scholarly and journalistic accounts from the mid-1960s through the late 1980s, along with available analyses from the U.S. intelligence community during that time period. Ultimately, its aim is to make a judgment about what we got "right" and what we got "wrong," to compare the performance of the scholars with that of the intelligence analysts, and to derive lessons potentially applicable to future examinations of the post-Soviet world.

A framing of this task that dwells primarily on August 1991 and its immediate aftermath presents a significant interpretive challenge. Hindsight is not yet, and perhaps never will be, 20/20 when it comes to defining the role of "society" in the course of those events. From one perspective, a focus on the unleashed energies of the masses supporting Boris Yeltsin in front of the Russian White House, the questions seem obvious: Why did "the people" finally rebel? Did we or did we not detect those undercurrents of frustration and anger that led thousands to risk their freedom, and perhaps their lives, in protest of the abortive coup against Gorbachev and in support of democracy and the overthrow of the old regime? Why didn't we see "it" coming? But a focus on the millions who stayed home from August 19-21 generates quite a different array of questions: Why weren't more people out in the streets? Why did most Soviet citizens remain so politically inert, when presented with the immediate opportunity to topple the system responsible for decades of Brezhnev-induced insult and Gorbachev-induced turmoil? Why was so much of Soviet society so tentative, when "it" finally came? The jury is still out on the role "society" played in triggering and steering the ultimate course of those fateful days and months.

More importantly, a narrow view that captures only the final act of the Soviet drama obscures the far more significant larger picture. Asking who foretold the precise timing and mechanisms of the Soviet collapse, who didn't, and why, is counterproductive. That approach insists that the Sovietological community should have been able to predict specific events whose detailed contours were perhaps inherently unpredictable.

This paper will therefore tackle the issue more broadly, in a manner that ultimately should prove more useful for deriving "lessons learned." It will ask: Did the Western scholarly and intelligence communities comprehend the magnitude and breadth of the social challenges confronting the Brezhnev, and later the Gorbachev, regimes? Did we understand the social dimensions of the larger imperatives that led Gorbachev to unleash his reform efforts? Did we correctly assess the policy and political implications of those social challenges? Did we draw the synergies between the social, the economic, and the political? In sum, did we grasp the nature and strength of the broad social forces that may have helped ultimately to pop the lid off the Soviet cauldron?

Source material for this review includes books, articles, and government documents written and published between 1965 and 1990. Clearly it cannot claim to be comprehensive, since literally thousands of books and articles on the subject were written during this twenty-five year period.[2] The goal is therefore to be reasonably representative of the most significant literature in the field, with detailed coverage of the journals that routinely covered Soviet society and social issues—*Problems of Communism*, *Soviet Studies*, and *Studies in Comparative Communism*—and a sampling, where appropriate, of other major journals, monographs, and edited volumes. The paper also relies on contributions to the compendia on the Soviet economy commissioned every few years by the Joint Economic Committee of the United States Congress. For analysis of the work of the intelligence community, the paper draws primarily on formerly classified Central Intelligence Agency documents released to the public since 1996.

Soviet Society: Passive and Inert?

Most observers of the Brezhnev era viewed Soviet society as essentially stagnant, the Soviet people unable or unwilling to countenance even the possibility of significant change in their lives or of the regime. Feuer (1970, p. 13), for example, wrote that "a mood of socialist pessimism grips both the intellectuals and the Soviet masses…they find it hard to be confident of any alternative, more than a half-century of Soviet rule having stifled the sense of an alternative…it is a feeling that history has reached its end: the socialist revolution has been made, a new world has been created, and lo! it is not good." Other accounts stressed the passivity of the public mood, but for the opposite reason, due to a "marked improvement in their own living standards" and a sense that "sufficient progress has been made to keep most people relatively happy and content" (Knight, 1979). In essence, stability was guaranteed by an implicit social contract, where the regime contributed a gradual improvement in living standards within a context of relative social calm (meaning the absence of arbitrary terror), and the population returned the favor with complacency and acceptance of consumer shortages and political emasculation (Connor, 1975; Hough, 1976; Lapidus, 1983; Colton, 1984; Bialer, 1986).

The conviction that Soviet society was essentially passive and stagnant began, of course, with the totalitarian model. Over subsequent decades, the consensus built around that interpretation of Soviet society evaporated, and new paradigms developed, summarized by Jerry Hough (1972) as the "directed society," with the Communist apparatus still trying to create the new "Soviet man;" "oligarchic petrification," focused on an aging group of leaders bent on retaining control over their own political positions and over a stagnant, decaying society; and "institutional pluralism," portraying a significantly more dynamic system in which fragmented and energized administrative and intellectual classes played an active role in policy formation and implementation. Later, in the early 1980s, corporatist models emerged as another alternative view, describing constituent interest groups as having been recruited and granted representation by the state in return for a variety of limitations on their access and activity (Bunce and Echols, 1980). To the extent that scholars moved away from the totalitarian model, however, they still dwelled almost exclusively on the interests and activities of the elite strata of society and on the relationship between those elite strata and the state (Green 1966; Skilling and Griffiths, 1971; Janos, 1979; see also Hough, 1977).

A survey of the literature explicitly intended to draw the Soviet Union into the mainstream of comparative politics bears out this observation. Fleron's 1969 effort *Communist Studies and the Social Sciences*, for example, included case studies only of elite groups and behavior (similarly in Barghoorn, 1969). Attempts at class-based analysis similarly focused primarily on the "ruling class" (Nove, 1970, 1975; Hirszowicz, 1976). Even Atkinson, Dallin, and Lapidus' 1977 edited volume *Women in Russia* dealt almost exclusively on the regime's policy *toward* women, rather than on the roles and behavior of Soviet women themselves and the potential larger implications of women's situations. The vast majority of the Soviet population was still viewed as essentially weak and passive, still being acted upon by the forces of a dominant regime whose decisions were unceasingly forced upon them.

Even those who focused on the most visible manifestations of dissatisfaction with the Soviet system—dissidence and labor unrest—dismissed the masses as plagued with a "traditional passivity" (Gidwitz, 1982, p. 42). The varied and active dissident movement was simply too disconnected from the fatalistic majority of the population to foment significant systemic change or overthrow (Feuer, 1970; Sternberg, 1976; Kerblay, 1983; Reddaway, 1983).

Signs of Life beneath the Surface

Beneath the radar of the Kremlinologists obsessed with leadership pronouncements and the minutiae of the high-level policy process, Soviet society *en masse* was in fact displaying quite observable evidence of dissatisfaction with the regime. Jerry Hough and Moshe Lewin have lambasted the Sovietological community for blindness to the possibilities for change in Soviet society. In Hough's words, "The major literature of comparative political science has been strikingly limited in recognizing and evaluating societal inputs in the Soviet Union" (Hough, 1977). Lewin is even harsher: "The rich and complex social fabric of the USSR was very little studied; Soviet culture and the countercultures and subcultures that shape minds, attitudes, and expectations were largely ignored. And the interrelation of society and culture with the economy, the state, and the party remained unexplored…In sum, what has been missing was the idea of a Soviet 'social system' and, in turn, the conceptualization of a dynamic historical process in which all the subsystems interact in time and space, yielding ever more complex and intricate patterns" (Lewin, 1988, pp. 3-5).

Lewin and Hough may have been correct in the degree to which the Sovietological community failed for decades to comprehend the "big picture" of Soviet society. But we certainly cannot fault scholars for their lack of attention to that society's turbulence at the molecular level. The "trees" were, in fact, described in excruciating detail; the problem is that almost nobody stood back to paint a picture of the forest. A survey of the literature reveals extensive attention to the turmoil brewing underneath the apparent "stagnation" of Soviet society. But virtually all of these treatments remained focused narrowly on their individual subject areas. To the limited extent that they tried to cross-fertilize with other issue areas, or to draw broader conclusions about the relationship of the object of their study to the condition of society at large, these were generally limited to a few throw-away sentences at the end of a published article. And those concluding after-thoughts virtually always dealt with the limited policy options available to Soviet leaders for coping with social problems, never with the (apparently unthinkable) proposition that the existing Soviet system could not accommodate a working solution to the problems at hand.

Specific Social Issues

It was in the treatment of these specific social issues, as compartmentalized as they were, that Soviet society was most accurately revealed as something other than malleable and passive in the face of an all-powerful communist regime.

The Economy, Consumer Frustration, and National Psyche

Although a straightforward statistical analysis might have indicated that Soviet living standards were steadily increasing throughout the Brezhnev period, and in some categories may even have approached Western levels, those numbers masked a reality in which the majority of products offered to Soviet buyers were completely unusable. Quantity trumped quality as the issue of primary concern, an artifact of Soviet investment choices and of the perverse incentive structure governing Soviet industrial behavior. Schroeder and others (Schroeder, 1973, 1982; also Bronson and Severin, 1970, 1973, and Teckenberg, 1987) repeatedly demonstrated that Soviet living standards consistently fell far below even Eastern European levels, while Matthews (1978, 1986) highlighted the structure and extent of Soviet poverty—a prevalence as high as 40 percent in the late 1970s.

Most of these studies relayed some version of the Catch-22 involving low consumer satisfaction and the performance of the Soviet economy as a whole: even if there were some financial rewards to be had from working harder under an improved set of labor incentives, the lack of anything worthwhile to buy with additional rubles negated any incentive to work harder. Without improved labor productivity, however, consumer goods worth buying could never appear on the shelves (Denton, 1979). Yet the authors of most Brezhnev-era studies of the consumer economy either presented data without extending their writings to include broader political implications, or limited their analyses to a fairly narrow horizon. For example, the 1981 Joint Economic Committee study *Consumption in the USSR* concluded: "The Soviet government may have to face some difficult choices in areas related to the population's welfare. Because of severe resource constraints, leisure may have to be curtailed and wider income differentials sanctioned in an effort to strengthen work incentives and to spur production" (p. 31). Schroeder and Severin (1976) and Schroeder (1973, 1982) ventured slightly further, with discussions of broad policy alternatives that might raise output and quality of consumer goods, and the political implications of an attempt to introduce limited market arrangements in the consumer sector, but even here the discussion focused on elite policy making rather than on the broader societal implications of continued consumer frustration.

Some authors focused squarely on that consumer frustration, expanding it to observations about the general emotional state of the Soviet people and drawing conclusions about its economic, demographic, and even psychological implications (eloquent on this score is Smith, 1976, pp. 52-80). A similar line of argument surrounded the frustrations of dealing with the oppressive Soviet administrative bureaucracy (Osborn, 1966). Goldman (1983) was certainly the most comprehensive academic chronicler of these everyday insults. He detailed the types and extent of consumer shortages, summed up perhaps best by one glaring fact: "Soviet consumers cannot find enough ways to spend their money" (p. 98). He then proceeded to relate the shortages to alienation of the work force, poor labor morale, alcoholism and other health problems. Furthermore, the meaninglessness of the ruble implied that other mechanisms must be in place for the allocation of scarce goods, in the Soviet case political status or connections (*blat*). Goldman likened Soviet society to a caste system, where those without *blat* suffered a life routinely subject to "abuse, inefficiency, and inequality in the system as a normal course of events" (p. 107).

But it was a grave error to assume that Soviet citizens were passive victims in the face of these frustrations. Quite the contrary, they continually displayed sometimes astonishing creativity and initiative in "beating" the system. Of course, the "second" or "colored" economies were the most evident manifestations of this phenomenon, and a small community of Western economists studied them extensively (Katsenelinboigen, 1977; Grossman, 1977, 1979; O'Hearn, 1980; Rumer, 1981).

Although many observers correctly observed that this active resistance to the Soviet system was, in essence, privatized—it did not appear in forms that overtly threatened the public existence of the regime itself—surely over time its extent and patterns undermined the legitimacy and even the operational mechanics of the most basic Soviet ideologies and institutions (see Kerblay, 1983, pp. 283-285). Clearly, long before Gorbachev's *glasnost* policies made possible a widespread public unleashing of private thoughts, the failure of Soviet ideology to permeate the psychology and dictate the behavior of millions of Soviet citizens was apparent. At minimum, although a surface tolerance of "Soviet" values may have been visible, just beneath that veneer was a society rejecting "integration into [the Soviet] value-system, sharing values apart from it and labeled deviant from it" (Biddulph, 1979, p. 431).

Not surprisingly, an increasing number of observers detected the underlying active societal frustration during the Gorbachev years, as *glasnost'* made possible an open discussion of these problems. Most of these writings detailed the degree to which the old social contract would no longer satisfy the strata of society on which Gorbachev would have to rely most heavily in order to revitalize the economy, relatively well-educated urban professionals and skilled workers (Ludlam, 1991). Lapidus (1987) noted a shift in fundamental societal values, particularly of the elite, away from the ideological and political passivity of previous years. Hough (1988) drew direct political implications from this evolution, stressing the population's new desire to participate in political processes and benefit from a freer circulation of information. And many works of this time period focused on the evolution of a new "civil society," a grass-roots, organized and quasi-politicized manifestation of the "social energies that were marginalized or suppressed under Brezhnev, [now providing] much of the impetus to today's [1988] economic and political reforms" (Starr, 1988; see also Lewin, 1988; Shlapentokh, 1989; Brovkin, 1990; Bonnell, 1991). But before the Gorbachev era, few scholars dared speculate about potential political consequences of the social pressures engendered by consumer frustration and its psychological implications.

Health and Demographics

The scholarly community achieved some remarkable successes in its study of the Soviet health and demographic situation. Christopher Davis and Murray Feshbach, for example, extrapolating from limited data following the Soviet decision to stop publishing infant mortality statistics in 1975, correctly deduced that infant mortality had continued to rise throughout the mid-1970s (Davis and Feshbach, 1980). With consistent and exhaustive mining of Soviet data sources, Feshbach (and others) compiled a decades-long record of encyclopedic description and analysis of Soviet demographic trends (Feshbach, 1970, 1982; Feshbach and Rapawy, 1976; also Taagepera, 1969; Leedy, 1973; Rapawy and Baldwin, 1982). Most of these studies focused on the long-term economic and political implications of declining Russian and increasing non-Russian birth rates, and the policy implications in such areas as family allowance and abortion/contraception policy.

Vladimir Treml's (1975, 1982) work on alcohol parallels Feshbach's on health and demography in the ingenuity of its "detective" work and its impact. Treml almost single-handedly, piecing together fragmentary data, uncovered alcohol consumption patterns and their consequences not only for the health and manpower situation, but also for the state budget and its reliance on alcohol-derived revenues.

Other Social Issues

Other scholars similarly zeroed in on a wide array of social and quality-of-life issues: housing, of which there was never enough, and the available stock suffered from dismal quality standards (Barry, 1969; Morton, 1974, 1980; Alexeev, 1987); quality higher education, which soon into the Brezhnev era became stratified and increasingly available only to a self-reinforcing political elite, limiting its use as a tool for social mobility (Medlin, 1968; Goodman, 1970; Carey, 1973); health care, whose universal accessibility remained a positive feature but whose quality led most citizens to seek alternatives to the state system (Field, 1969; Davis, 1982, 1987; Powell, 1985); drug abuse, which apparently did not develop into a widespread phenomenon until the Gorbachev period (Kramer, 1988); youth issues and problems, including an emergent "youth culture" in the 1980s and juvenile delinquency (Hollander, 1969; Connor, 1975; Tempest, 1984; Riordan, 1988); and rural society and decay (Hill, 1975; Kaplan, 1990; Pallot, 1990).

Most of these reports were structured similarly: first a brief historical account, detailing the challenges the problem under examination had presented since the beginning of the Soviet regime, or since the post-war period; then the "meat" of the article, drawing exclusively from printed Soviet sources, describing the current situation in exhaustive detail; and finally a concluding section, again drawn from Soviet sources, chronicling the policies the Soviet government had pursued as coping strategies. In essence, most of these single-issue examinations of Soviet social problems involved little more than translation of Soviet sources, and then presentation of that translated material in a coherently organized fashion. This is not to say that these reports did not serve a useful purpose. It is simply a commentary on the consistent failure to draw broader societal or political implications, or even to attempt to integrate these studies with one another. In Ticktin's words, these works "simply provided descriptions of Soviet reality rather than any explanation of why the system performed in the very odd way that it did" (Ticktin, 1998, p. 84).

The Lack of Comparative or Theoretical Context

Most strikingly lacking in much of this work was a sense of comparative or theoretical context. Scholars rarely applied a rich body of conceptual literature to the Soviet experience, a literature potentially applicable as a tool for "identifying symptoms, for differentiating trivia from essence, and for determining what in fact is unique to a particular society" (Connor, 1975, pp. 80-81). By and large, it seems that the Sovietological community took for granted "the uniqueness of Soviet politics and the futility of comparing it with other political systems" (Skilling, 1983). As a consequence, for example, political scientists or sociologists missed the opportunity to apply a concept as fundamental as the danger of expectations outpacing reality—Gurr's classic account of the causes of rebellion (1970)—to what the economists were saying about Soviet living standards and psychology in the 1970s and in the early Gorbachev period. When data on a society are scarce or their reliability is uncertain, the precision and insight offered by scientific methodology increases in importance. Yet most scholars of Soviet society failed to harness even the most basic conceptual tools the social science disciplines had to offer.[3]

Of course, not all study of the USSR was completely atheoretical. Connor (1975), for example, examined Soviet dissent explicitly through the theoretical lens of social integration and differentiation. Ruble's 1989 study of ethnic friction usefully drew on social theories of derivation of ethnic identity, ending with a call for more explicitly comparative investigation that would place the study of Soviet urban ethnicity in a broader geographical and theoretical context (1989, p. 410). Gaenslen (1986) and Van Atta (1989) uncovered a relatively vigorous, not-so-"weak" Soviet society using the political science literature on state/society relations; in so doing, they not only illuminated additional perspectives on Soviet society, they also used the Soviet case to contribute to further theory-building regarding the implementation stage of policymaking.

Yet far too many other works harnessed a theoretical perspective in the study of Soviet society only in their echo of *Soviet* sociological theory (Connor, 1972). Indeed, this observation reflects a major characteristic of most of the Brezhnev-era work on Soviet society: it relied almost completely on published source material from the Soviet Union.

And Soviet sociology, until the 1960s a politically suppressed field of study, remained such a limited discipline that "its findings did not add up to a coherent picture of what Soviet society is like … the by now massive quantity of surveys and studies produced by Soviet sociologists still do not provide a basis on which one can, without difficulty, attempt to delineate the essential characteristics of Soviet society and social institutions (and their interrelations)" (Hollander, 1976, p. 78). Soviet sociologists, like their Western counterparts, investigated the individual components of their society in intimate detail, being permitted to do so because of the value to the regime of their findings. They kept Soviet leaders informed about social forces and moods, and in particular about trends that had to be "managed" or even "accommodated" in order to maintain a veneer of stability (Katz, 1971). But to assemble those pieces into a larger mosaic would have been politically suicidal for a Soviet scholar.

Western scholars could claim no such excuse. Some rightly decried the problems with "official" data, which was by turn incomplete, inaccurate, or deliberately misleading (Hollander, 1991). Gitelman accurately summarized the limitations of, for example, summary statistics and survey data. "Aggregate data reflect large glacial movements without revealing the turbulence that may be beneath them" (1983, p. 38). But there were other options, largely left underexplored. In general, the academic community favored Moscow-based newspapers and scholarly journals, frequently leaving unmined information and insights to be gained from Soviet books and regional newspapers (Armstrong, 1975, p. 86). In addition to open Soviet sources of any kind, there were also the waves of émigré interview studies (Gitelman, 1977 and 1983; Millar, 1987; Millar and Donhowe, 1987) and of course, the sometimes highly insightful journalists' accounts and interpretations of daily life (Smith, 1976 and 1990; Kaiser, 1976; Shipler, 1983). Other scholars achieved impressive results through creative use of non-traditional techniques: Mars and Altman (1983), for example, living among Soviet Georgian émigré communities in Israel for months at a time to achieve anthropological insight into the cultural bases of Georgia's second economy, or Gerschenkron's (1978) use of Soviet novels as a window onto broader trends in Soviet society. But these innovative efforts were the exception rather than the rule.

The Intelligence Community

The Central Intelligence Agency has come under sharp public criticism since the Soviet collapse for its perceived myopia in failing to predict the events of 1991, or more broadly, for consistently ascribing to the Soviet regime more staying power than it actually had. On matters pertinent to the subject of this paper, however—the underlying social aspects of the Soviet system—CIA analyses appear to have outperformed the vast majority of the scholarly community. From the mid-1970s through the early 1990s, CIA documents presented a complete catalog of the social pressures plaguing Soviet society—social and economic inequality, shortages of food and other consumer goods, consumer frustrations, crime (including the shadow economy), ideologies in competition with the Soviet ideal (religion, nationalism, materialism, cynicism), and problems involving women, the family, housing, health care, and alcoholism (CIA, National Foreign Assessment Center, August 1979; CIA, Office of Soviet Analysis, December 1982, August 1985, and April 1986). The CIA also correctly identified the interrelations between these social pathologies and the protracted, painful deceleration of the Soviet economy, including the economic bases for ethnonationalist tensions. In most cases, it cited the economy as the root cause of the wide array of social ills (CIA, Office of Soviet Analysis, December 1, 1982, p. iv, 34); frequently it also highlighted the negative synergistic relationship between the economic and social spheres.

The intelligence community also, however, committed some of the same sins as the academics. Pre-Gorbachev, its economists neglected some of the fundamental social dimensions of the economic deceleration (CIA, July 1977). As late as 1988, it focused too heavily on elite politics and understated the role of society writ large as a critical factor in the success or failure of Gorbachev's reform efforts (CIA, July 1987; Director of Central Intelligence, December 1988).

And, like the academic community, the dominant faction within the CIA could not bring itself to imagine the complete downfall of the Soviet system. Viewing the economy as the nexus around which all social problems revolved, the intelligence community continued to prognosticate around policy options available to the Soviet regime for mild, moderate, or radical economic reform and the implications of those policies (CIA, February 1987; CIA, Office of Soviet Analysis, September 1989).

By November 1989, however, at least some within the intelligence community were beginning to grasp the scope of the situation and the underlying social factors driving it. An "alternative view" presented within a fairly conservative 1989 National Intelligence Estimate posited that "the next two years are likely to bring a significant progression toward a pluralist—albeit chaotic—democratic system, accompanied by a high … degree of political instability, social upheaval, and interethnic conflict … In these circumstances, we believe there is a significant chance that Gorbachev, during the period of this Estimate [1989-1991], will progressively lose control of events. The personal political strength he has accumulated is likely to erode, and his political position will be severely tested. The essence of the Soviet crisis is that neither the political system that Gorbachev is attempting to change nor the emergent system he is fostering is likely to cope effectively with newly mobilized popular demands and the deepening economic crisis" (Director of Central Intelligence, November 1989). It is difficult to find any academic analysis more definitively prescient than that.

Lessons Learned

Fortunately, the bulk of today's scholarship on post-Soviet society and politics seems to have learned from the mistakes—perhaps better characterized as omissions—of the past. Consequently, much of the current generation's work on Russia, particularly that of younger scholars, already incorporates many of these suggestions:

1. Don't let area studies wither away. Even though the Soviet studies community failed to see the forest, its description of the trees was, on the whole, comprehensive and insightful. The current wave of disinterest in Russia, evidenced by dying high school and college-level language programs and decreased government funding for study of the post-Soviet world, threatens the development of a "next generation" of scholars and analysts whose experience and skills give them an all-important instinct for the region. The most recent swing of the academic pendulum has motivated graduate students away from identification with the study of any one geographic region, toward the narrow methodologies of individual departmental disciplines. But the ability of the academic and intelligence communities usefully to monitor the post-Soviet world depends on the continued reproduction of students and junior faculty willing to immerse themselves in the interdisciplinary study of it.

2. On the other hand, even the most interdisciplinary of area studies specialists should not isolate themselves from the tools of their primary

disciplines. The time for atheoretical "reports from the field," involving little more than translation and organized presentation of Russian-language printed sources, has come and gone, particularly now that so many excellent Russian scholars are contributing to the Western scholarly literature. The theoretical prisms provided by political science, sociology, economics, and even psychology (a field whose absence in the study of Russia is sorely noted) can force otherwise too-narrow, specialized treatises to come to terms with the broader, more significant political and social implications of their own findings.

3. Moscow is not the only game in town. It seems almost trite to include that observation in this list, given the significant number of excellent recent studies of Russian regional trends and developments (and the degree to which the major funders of Russian studies, and the U.S. government itself, are rewarding a focus beyond the capital). But the dangers here echo those of the study of the union republics during the Soviet period: students of the regions must integrate their findings with trends at the federal level. This is particularly true of scholars who become experts in one or two specific regions.

4. There's no substitute for being there. Again, this seems like a rather obvious lesson, particularly given the significantly enhanced opportunities for long-term residence not only in Moscow, but also across Russia, since the late 1980s. But it is important to remember that the most successful prognosticators of Soviet decline were the ones who invested months or years of their time living in the USSR, and who lived outside the world of foreigner-designated hotels and restaurants (such as Marshall Goldman's time on the faculty at Moscow State University). Comprehensive and accurate insight develops only from extended contact with a society, and the scholarly and intelligence communities should endeavor to cultivate that instinctive "feel" for Russia not only within their own ranks, but to consult with others (journalists, businessmen, "third sector" workers and volunteers) who have spent significant time "in country."

5. Don't assume that current trend lines will extend into the indefinite future. Perhaps this, at core, was the most significant error Sovietologists committed in the decades before 1991. The Soviet studies community correctly identified literally every aspect of the social pressures that contributed to the regime's collapse. But it could not bring itself to imagine a future other than dramatic change *within the confines of the existing system*. Perhaps a borrowing from the business world and its "scenario planning" or "strategic forecasting" methodologies would be in order (Ringland, 1998; Schwartz, 1991; van der Heijden, 1996). By adopting explicit techniques encouraging the identification of key driving forces that might lead to plausible but radically novel futures, scenario forecasting—employed with some success by the Royal Dutch/Shell oil company in preparing (in advance) for the oil shocks of the 1970s and the collapse of the Soviet Union in the early 1990s, and also with great energy and imagination today by Russia's Club 2015—encourages unconventional thinking of the sort that both integrates the constituent parts of a society and polity into a coherent whole, and entertains at least the possibility that unlikely paths will coalesce as the way into the future.

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Endnotes

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2. It must also be acknowledged here that a vast array of potentially important source material—unpublished work, conference proceedings, etc.—is not readily available.

3. Of course, not all social science theory is appropriately applicable to every case, and much of social science theory is of questionable utility in any case (in this author's opinion). This paper argues merely for a reasonable and productive balance of the conceptual and the empirical.

Panel Three Summary: "Understanding the Underlying Social Aspects of Soviet and Post-Soviet Russia"

Yuri Levada, Editor-in-Chief, *Russian Public Opinion Monitor Bimonthly*, Moscow

Judyth Twigg, Associate Professor, Department of Political Science, Virginia Commonwealth University, Richmond

Discussants:

Arthur Miller, Professor, Department of Political Science, University of Iowa

Richard Dobson, Research Analyst, Russia, Ukraine and Commonwealth Branch, Office of Research, U.S. Department of State

Chair:

Kari Johnstone, Title VIII-Supported Research Scholar, Kennan Institute

The third conference panel examined how well we understood society in Soviet and post-Soviet Russia. While methodologies have changed from the indirect sleuthing of the Soviet era to the more direct measurements of public opinion polling in post-Soviet Russia, the scholars and analysts from both eras painted remarkably accurate pictures of conditions in both societies. Interpreting the pictures proved to be the difficult problem. Whether in terms of focusing on the "forest" or "trees," or reconciling contradictory polling information, measuring society has proven no less challenging, and no less important, than interpreting the economy.

In the following summary, only conference panelists listed on the agenda are identified by name.

Yuri Levada opened by saying that in the twentieth century, Russia had undergone two major revolutions. The first was the amazingly swift collapse of the tsarist regime, and the second was the likewise amazingly swift collapse of the Soviet Union. Neither revolution, Levada stressed, had been predicted in advance. A similar comparison can be made between the unpredictability of Soviet GDP, which Igor Birman described in his struggle to denounce American specialists on the issue, and the Russian economic situation today.

Levada next described the last decade of Russian development through the prism of public opinion data produced by his organization, the Russian Center for Public Opinion and Market Research (VCIOM).

The first conclusion is that the changes of the past decade are irreversible. While half of respondents say that conditions were better before 1985 and Gorbachev, more than three-quarters (76 percent) say that it is impossible to return to those conditions. "In my mind, this finding is the most important measure of public opinion," stated Levada. Furthermore, of those who agree that conditions were better in the past, two-thirds agree that it is impossible to return to the past. Of those that disagree conditions were better in the past, fully 92 percent say such a return is not possible.

Living standards have clearly fallen, with 70 percent of respondents finding it difficult (to varying degrees) to earn a living, and only 23 percent responding that their situation is improved or unchanged. As might be expected, the median age of those in difficulty is higher than those who claim success. Levada cautioned that public opinion data is not proof, but merely an illustration.

In the political realm, public opinion data shows a remarkable disconnect between the popularity of President Vladimir Putin and the unpopularity of his government. This indicates that Putin may be the president of hope rather than result, reasoned Levada. For example, only 14 percent think that Putin has successfully solved the country's problems, whereas 43 percent express hope that he will be able to do so and 34 percent think that there is simply nobody else to rely on. Regarding one of the most pressing problems facing the Russian government, the war in Chechnya, the public is growing tired, with

60 percent favoring a political solution and only 33 percent favoring a continuation of the war.

Various polls have demonstrated some complex Russian attitudes towards the U.S., according to Levada. Approval ratings of the U.S. have fluctuated from very low levels following the Yugoslav and Kosovo crises, to high levels following the terrorist attack of September 11, and back to low levels in 2002 in the wake of the Olympic medal scandals and trade disputes over steel and chicken. "This data shows us that public and mass media opinion, and even a part of government opinion, about the United States are easily swayed in Russia," stated Levada. More alarmingly, nearly 50 percent of the Russian population agreed in late September 2001 with the statement that the terrorist attacks in New York and Washington "served America right for the bombings in Hiroshima, Iraq, Vietnam, etc." Data from February 2002 show that a minority of Russians felt Russian-American relations to be substantially closer, and that most Russians are concerned about further outbreaks of terror and do not view the U.S. campaign in Afghanistan as a success. "It seems to me," Levada concluded, "that the action of September 11 was very important but did not create a turning point in the general relations between the U.S. and Russia."

Judyth Twigg stated that her paper was a study of Western assessments of Soviet society during the Brezhnev and Gorbachev periods, drawing upon books, monographs, articles, and other sources available from the period 1965-90. The goal was to assess the assessments and compare the performance of the academic community with that of the intelligence community on the basis of whether these communities comprehended the magnitude of the social challenges and correctly assessed the policy implications of those challenges.

Some of the retrospective studies on the performance of Sovietologists claim that the Soviet studies community missed the boat when it came to the study of social issues during the Brezhnev and Gorbachev periods. It is true, continued Twigg, that much of the work on society focused on elite processes, even as the field moved beyond the totalitarian model to more comprehensive models like the pluralist and corporatist models. This work largely neglected society as a whole, but it is absolutely incorrect to indict the Soviet studies community for failing to take note of the tremendous changes in Soviet society during these decades, Twigg contended. Scholars in the field did assess in gruesome detail the significant pathologies and dynamics of the society, and many of these studies were stunningly detailed.

Scholars did a good job in documenting the difficulties in the Soviet consumer economy. Study after study documented the low living standards in the Soviet Union as compared to the West, the high degree of consumer frustration, the economic consequences of that frustration in terms of labor productivity, and the second economy. These studies showed a Soviet population that was quite actively engaged in efforts to beat the system with which they were so highly frustrated. Sociologists and political scientists wrote on the privatization of thoughts and values, the need to live a life permeated by constant lying, and the implicit undermining of the regime's legitimacy as a consequence of all this.

Another segment of the literature produced by the field looked at the plight of Soviet women. Scholars documented the rampant misogyny of Soviet society, the stresses of the dual responsibility for work and family, the insufficient institutional and financial support for the care of children, healthcare, and a host of other problems afflicting Soviet women during this period.

Some of the most striking successes of scholars on the Soviet Union were in the fields of health and demographics. "In particular, we can point to the study done by Chris Davis and Murray Feshbach on infant mortality, where through very clever massaging of available statistics they were able to predict after the Soviets had stopped publishing mortality statistics that there was indeed a rise in infant mortality through the late 1970s," stated Twigg. This study was so important that it alerted Soviet authorities to what was going on, prompting Soviet demographers and economists to claim, "Feshbach saved thousands of infant lives in the Soviet Union." Similarly, Twigg continued, Vladimir Treml's work on alcohol consumption was equally detective-oriented in piecing together fragmentary data. The study yielded important information on health and manpower consequences of alcohol consumption, as well as the state budget's reliance on alcohol-derived income. Other quality of life issues, including housing, urban transportation, education, health care, drug abuse, and crime, were also well documented.

The work that Sovietologists performed on the Soviet republics and the nationality question was unlike most of the other studies on Soviet society in that it actually did ask the big picture question, argued Twigg. It asked whether ethnic stresses and strains would lead to the downfall of the Soviet Union. Yet while the question was at least asked, the focus up until 1989 was not on the probability of a downfall, but instead on the Soviet Union's considerable staying power in terms of the non-politicization of national identity, Moscow's cooptation of the regional elites, and Moscow's physical instruments of control. Still, Twigg concluded, at least the question of the possibility of regime change was asked in this field of Sovietology.

Why did few of the scholars in the field venture beyond their specific subject matter to assess the broader political implications of their work? Twigg identified three factors. First, scholars were compartmentalized from each other; only a few scholars made attempts to integrate research from different fields to draw broader conclusions. Second, many of the studies produced by Sovietologists were structured similarly: beginning with a historical account of the issue at hand, followed by the main substance of the book or article that drew almost exclusively from Soviet sources, and then concluding with a section, drawing again from Soviet sources, chronicling the policies that the Soviet government had pursued as coping strategies. "This is not to say that these reports were not important or insightful—they were," Twigg stated, "but many of them failed to draw the broader social or political implications of what they had to say." Third, there was a lack of comparative or theoretical context. As one Sovietologist wrote, according to Twigg, "the Sovietological community took for granted the uniqueness of Soviet politics and the futility of comparing it with other political systems."

Many of the Sovietological studies that were theoretical in content or approach did so only in echo of Soviet sociological theory. Soviet sociologists produced work of great use to their political leaders in keeping track of forces and moods within Soviet society. Yet they were politically constrained, if not repressed. To assemble the pieces they produced into a larger mosaic would have been difficult or even suicidal for a Soviet scholar. Western scholars did not operate under those constraints.

While many Sovietologists claimed a lack of data as an excuse, Twigg contended, they left under-explored many approaches to data collection. The academic community largely favored Moscow-based newspapers and scholarly journals as their source material, leaving aside information that could have been gained from books, regional newspapers, émigré studies, and even from the sometimes highly insightful accounts of Western journalists.

The track record of the intelligence community, in contrast, was relatively strong, stated Twigg. The CIA-produced analyses in many instances outperformed what was going on in the scholarly community, cataloguing accurately and fully from the mid-1970s through the early 1990s the social pressures that plagued Soviet society. The CIA went further and correctly identified the interrelations between these social pathologies and the protracted painful deceleration of the Soviet economy. Like the academic community, the CIA could not bring itself to imagine the complete downfall of the Soviet system. Yet an otherwise conservative 1989 National Intelligence Estimate presented an alternate view that read:

> "The next two years are likely to bring a significant progression toward a pluralist albeit chaotic democratic system, accompanied by a high degree of political instability, social upheaval, and inter-ethnic conflict. In these circumstances there is a significant chance that Gorbachev, during this period of estimate 1989-91, will progressively lose control of events. The personal political strength he has accumulated is likely to erode and his political position will be severely tested. The essence of the Soviet crisis is that neither the political system that Gorbachev is attempting to change, nor the emergent system he is fostering is likely to cope effectively with newly mobilized popular demand and the deepening economic crisis."

Twigg offered five lessons to be learned from the track record of Sovietologists in studying Soviet society, some of which have in fact already been learned, as is evident in today's scholarship on post-Soviet Russia.

First, scholars studying the region should not isolate themselves from the tools of their primary disciplines, whether political science, economics, or sociology.

Second, it is important not to let area studies wither away. Doing so would threaten the development of a next generation of scholars and analysts with skills and an instinct for the region. Tying this lesson to the debate from the first panel, analysts need the right impressionist tools to know what questions should be asked, and the methodological skills to apply to those questions.

Third, Moscow is not the only game in town for studying the region. This seems self-evident now—an already-learned lesson—but was hardly mentioned in the first panel, Twigg noted.

Fourth, there is no substitute for being on the ground. The most successful prognosticators of Soviet decline were the ones who invested months or years of living in the Soviet Union and who lived outside the world of foreign or designated hotels and restaurants. Comprehensive and accurate insight develops only from extended contact with a society and the scholarly and intelligence community should endeavor not only to cultivate that instinctive feel for Russia within their own ranks, but to consult with others like journalists, businessmen, third sector workers and volunteers who have spent significant time in the country.

The final and fifth lesson is that it is important not to assume that current trend lines will always extend into the indefinite future. This may have been the most significant mistake that Sovietologists committed during the decades preceding 1991. In terms of borrowing methodological tools, one example comes from the business community and the scenario forecasting methodology that enabled Shell Oil Company to prepare contingencies for the Soviet collapse back in the late 1970s. It is a method that is now being employed by the Club 2015 of Russian businessmen. These kinds of unconventional ways of thinking about problems encourage an approach that both integrates what is known and permits thinking about unlikely paths into the future.

Arthur Miller stated that he wanted to pick up on some of the themes identified by Levada and Twigg utilizing evidence that his own program at the University of Iowa has been collecting not only in Russia, but also in other republics of the former Soviet Union.

When talking about economics, Miller began, one has to remember that official statistics are one set of evidence, and another important set of evidence, as Levada demonstrated, is how the public views the situation. According to University of Iowa data on the perception of the national economy from 1992 to 2000, in every year except 2000 the percentage of individuals saying the economy was worse than the previous year was higher than the percentage of people saying that the economy had improved. In 2000, the percentages were almost equal.

Despite the perception of hardship that these figures indicate, the support for economic reform over this period remains very high. Only in the last couple of years of the survey range is there a growing percentage saying that economic reforms should be cut back. The gap in support between young and old is not as large as might be expected: even the elderly, who are feeling the brunt of economic dislocation, are still supporting economic reform.

On the public's desire for government involvement in providing jobs and security, there is an interesting trend, stated Miller. Back in 1992, the percentages were almost equal between those saying the government should be responsible and those saying the individual should be responsible. Closer to the current period, respondents saying that the government should be responsible (i.e. favoring a return to Soviet practice), increased dramatically. Surprisingly, this trend is also seen among younger people.

Miller noted that Levada spoke about democratic tendencies in Russia in terms of confidence in Putin as opposed to his government. While Russians do not want to give up their new freedoms, they increasingly indicate a preference for a strong leader over a Western-style democracy, according to University of Iowa data. If democracy is going to develop in Russia, there must be institutionalized pluralism. Yet Levada's data shows that there is not much respect for the broader government, including the Duma, ministries, and other agencies.

One aspect of political life that certainly needs further development is that of Russia's political parties becoming more responsible and responsive to the public. There is good literature that suggests that Russians view parties as the fan clubs of those individuals that started the parties. However, Miller stated, our data shows that people are now starting to identify with parties politically.

What are the lessons from the panel's papers? First, Miller concluded, is the importance of using as many sources of evidence as possible. Second, public beliefs and official statistics do not always match up. It is important to compare official statistics with survey results to see where they differ and where they converge. Third, democracy requires institutionalization. Institutionalized pluralism is vital to the development and consolidation of democracy. Finally, no matter how good or bad statistics or analyses happen to be, in the end the leaders make decisions, not scholars or analysts.

Richard Dobson began his commentary by stressing that he was not a spokesman of the State Department, and that the views he expressed were his alone.

Beginning with Twigg's paper, Dobson stated that he disagreed with a number of points. Dobson stated that he disagreed with Twigg's assertion that scholars neglected Soviet society in their analyses. There were innovative approaches to learning about Soviet society as early as the 1959 study *The Soviet Citizen: Daily Life in a Totalitarian Society*, which drew upon interviews with citizens displaced from the Soviet Union by World

War II. Many aspects of pre-war Soviet society, including work patterns, education, social mobility, and attitudes towards the political system, were laid out in this work.

Dobson found it curious that Twigg approvingly cited Moshe Lewin, who wrote in 1988 "Western scholars ignored the vast changes of the Soviet social system, urbanization, industrialization, the growth of the professional and intellectual classes and diagnosed only stagnation and decline. This misguided orientation has led them to oversimplify a very complicated picture and to misinterpret transformations that have taken place in the USSR over the last half-century." Lewin, Dobson argued, also accused Western scholars of over-reliance on the totalitarian model, ignoring the complex history and social fabric underneath the Soviet political system. "Quite frankly," declared Dobson, "I think this is bunk and I think that it should be stated as such."

It is also important to give attention to the historical context in which scholars work, Dobson stated. There seems to be a suggestion that these scholars were inept or blind—how else could they have not understood the magnitude of the social changes that were occurring and their profound implications for the Soviet Union? The idea that a revolt by the leaders of the three most populous republics would lead to the dissolution of the USSR surely would have seemed crazy in 1980, but would not have in 1991. Different standards should be applied to analyses written at different times.

After re-reading some of the work between 1985-91, continued Dobson, much of it appears astute and prescient, even if they did not predict the break-up of the Soviet Union. For example, the 1991 collection edited by Harley Balzer, *Five Years that Shook the World: Gorbachev's Unfinished Revolution*, elucidated the complex changes that were underway and also acknowledged the uncertainty of the outcome.

Should scholarship be criticized for being narrowly compartmentalized and not addressing larger issues? Perhaps, stated Dobson, but good scholarship does not always require generalization. The important thing is for scholarship to be sound; it is up to others to synthesize the findings to assess their implications for society.

In response to Twigg's observation that research was lacking in theory and comparative perspective, Dobson stated that was only partially true. The 1959 study mentioned earlier combined the totalitarian model of elite-driven society with the industrial society model describing how evolving divisions of labor and economic organization shape societies. Both of these models, in turn, are comparative constructs showing how Soviet society was like and unlike capitalist societies.

Dobson stated that he agreed broadly with Levada's ideas and wanted to emphasize some of them in particular. First among these was Levada's contention that the disintegration of the Soviet system and empire was completely unforeseen. Secondly, Russia's democracy remains shaky, in part because there has been no tradition of pluralism and opposition to the regime. Civil society has a limited capacity to stand up for its interests, and in this light Levada's warning of the danger of a "managed democracy" is important.

On the issue of whether Russians prefer democracy or authoritarianism, Dobson again expressed his agreement with Levada's findings. Levada cites data showing that two-thirds or more believe that "a strong leader can do more for the country than the best possible laws." The State Department's Office of Research obtained similar results in its surveys over the years, stated Dobson. However, he cautioned, the question about the need for a strong leader appears to tap support for an effective leader that gets results, rather than an authoritarian leader.

As evidence of this restrictive reading for support of a strong leader, Dobson pointed to some additional survey data. When asked whether restoring order in Russia is so important that they would support a leader who would use military and security forces to establish a dictatorship, a majority opposed the idea of a dictatorship while no more than a third were in favor. In another survey, respondents were asked whether it was permissible for a leader seeking to establish order to do any of the following: 1) cancel scheduled elections; 2) ban meetings and demonstrations; 3) establish censorship of the mass media; 4) disband the Parliament and rule by decree; or 5) limit opportunities for travel abroad. "In repeat surveys," stated Dobson, "the majority of people say that each of these authoritarian measures is impermissible. Only about one-fifth of respondents say that they are permissible. It is difficult to gage support for an authoritarian leader without analyzing nuances of the data, which is possible using multiple measures."

Panel Chair **Kari Johnstone** gave the panelists an opportunity to respond to each other before opening the floor to questions.

Levada, adding to his earlier remarks, stated that in his view the conflict between communism and anti-communism is resolved and the current question is what type of market system should be chosen. This question may not be for the current or next president, but rather for this century and the next century. Levada agreed with Dobson that Russians are much more respondent to one leader than to a democratic system; but at the same time one leader can be successful, as the recent rule of President Putin demonstrates. Political competition may not be between the various parties at present, and the president is therefore influenced through different channels. "It is not an ideal situation," concluded Levada, "but maybe nothing else is possible right now."

Twigg responded to the points raised by Dobson in commenting on her paper. She regretted if it seemed her conference paper approvingly cited Lewin's comments about scholars' supposed neglect of Soviet society. Just the opposite conclusion was drawn in her paper, as she stated in her remarks: "it is absolutely incorrect to indict the Soviet studies community for failing to take note of the tremendous changes in Soviet society." Twigg stressed that her point was not that scholarship in specific subject areas was inadequate—it was that scholars did not move beyond that understanding to see the broader economic and political implications of that very good work that was done on Soviet society.

In response to the comment that we need to understand the historical context in which scholars worked, Twigg disagreed with the implication that scholars at the time should not be expected to have understood the magnitude of the changes that were occurring. Scholars did understand the magnitude of changes that were occurring. The problem was the lack of speculation on the political impact of the changes underway. There was such speculation in the 1991 volume edited by Balzer, Twigg readily conceded, but literature from 1991 was not considered in her paper because "by that point *glasnost* had made everything quite evident and people were starting to put the bigger mosaic together and draw these larger conclusions."

On the question of whether research was too narrowly compartmentalized and, more importantly, whether or not the scholarship was sound, Twigg emphasized again that she felt the scholarship was both sound and overly compartmentalized. Dobson's criticism was that it was up to others to carry out the integration of the sound scholarly material into an assessment of the broader political and economic implications. Twigg's response was that there were too few people carrying out that integrative process.

Finally, on whether the scholarship of the era was atheoretical, Twigg agreed to look again at the literature, especially the 1959 study using the totalitarian model in conjunction with models of industrial society that Dobson cited. Nevertheless, Twigg contrasted the Sovietological work with the last decade's study of Russia, which "has been quite rich, not only in its descriptive tone, but in its theoretical tone as well." Scholars like Michael McFaul, Steve Solnick, and Kathryn Stoner-Weiss are not simply using the theoretical tools of their disciplines to illuminate the Russian case, but also are using their knowledge of the Russian case to illuminate theory and contribute to theory building, Twigg argued.

Commenting on the data presented by Miller, Twigg was struck by the result that the difference in responses between young and old is not as pronounced as might be assumed. Twigg noted that those results were similar to data she had found in countrywide surveys in the health sector, in which the older doctors and health officials expressed positive orientations towards market-oriented health reform and younger ones are more in favor of returning to the Soviet system. Two possible explanations for this result are, first, that the older generation remembers how bad the Soviet system was, and, second, that age brings the older respondents seniority that gains them personal benefits under the market system.

Miller returned to the issue that Dobson had raised of effectiveness versus authoritarianism, stating that his data disagreed with the evidence that Dobson presented. Miller stated that his data shows that not only are Russians more likely than those in other East European societies to prefer authoritarianism, but those that indicated a preference for a strong leader are less likely to support other democratic norms. It demonstrates a tendency to want to follow a strong leader rather than be supportive and think about pluralistic competition. "I think that it is very shortsighted in terms of development to think that just because people today have a lot of faith in Putin that things are going to go well. In fact, that may be exactly the problem," cautioned Miller.

Dobson stated that there was less disagreement between Twigg and himself than he thought. Since Twigg had failed to label Lewin's arguments as bunk, he thought that she had interpreted them as an astute observation. **Twigg** agreed to revise her paper to avoid that interpretation.

Johnstone opened the floor to discussion at this point.

Igor Birman began the question and answer period by requesting that the panelists address more directly the issues of did/does the West understand the Soviet Union and Russia. He added his appreciation for Twigg pointing out "that as early as 1989 somebody said that maybe there are problems with the Soviet economy."

Dobson stated that one conclusion that he had drawn from thinking about what was learned and unlearned relates to the totalitarian model. This model for describing the Soviet Union was harshly criticized and pushed to the side of scholarship in the 1960s and 70s. The irony is that if scholars had kept their focus on the totalitarian model the coming collapse would have been easier to foresee, because it was between 1987 and 1991 that the totalitarian model broke down in the Soviet Union. By 1990, Gorbachev had lost control of the situation, and without centralized control there was a breakdown in the system. Even though there was a lot going on in society, ultimately it came down to collapse within the ruling elite.

Levada pointed out that there had been plenty of speculation about the ultimate failure of the Soviet Union. In the 1920s one prediction was that the Soviet state would end because of a conflict between Russia and Ukraine. Another prediction stated that the Soviet Union would perish in a conflict with communist China. "It seems to me," concluded Levada, "that the cause of the fall of the

Soviet Union was not economics, the weakest part of this great body was not its stomach but its head. Its political head was weak and this crashed in the end of the 1980s and early 1990s."

An audience member suggested that Twigg refer to unpublished conference proceedings, as there were ideas expressed during conferences that never found their way into print. Twigg agreed to do so.

A former Foreign Service officer commented that in his experience some individuals and institutions fell into a trap of thinking that the Cold War would last forever because the Soviet Union was the culmination of Russian history. Those who specialized exclusively in Soviet studies had the most difficulty in breaking out of the Sovietological mode, believing that the Soviet Union was unique and could not be comparatively studied with any other society. Others, who in addition to their background in the Soviet Union had studied pre-revolutionary Russia or had experience in other parts world—often time chaotic parts of the world—were able to deal with the idea of change much better than those who were a bit too specialized.

A former ambassador commented on the character of Soviet studies in the United States, noting that during the 1960s and 70s students who were strongest in the quantitative aspects of political science, sociology, and other social sciences tended to gravitate towards other areas of the world that did not pose the data collection problems presented by the Soviet Union. While working in the government during the 1980s, he noticed that different camps argued over the quality of data as well as the nature of assessments in marshalling support for their points of view. He stated that his experiences speaking with people in Russia and other former Soviet republics supports Levada's contention that people believed that they "had it better" before 1989, but realized that it was impossible to go back to that time. Finally, after talking with Russian elites, he interprets Putin's high approval ratings as disillusionment with Yeltsin's rule, and not necessarily as attachment towards any policies Putin may be advocating.

Twigg responded that if data is poor or misleading, then you have an even greater need for incisive methodological tools to cope with the poor data.

Robert Campbell noted that Dobson referred to the Harvard Interview Project that resulted in the 1959 study, and asked whether anyone had considered the Soviet Interview Project from the early 1980s.

Dobson answered that soon after the project was completed opportunities to do research in the Soviet Union had eclipsed the study, which was a very expensive project by social science standards. Another reason that the study did not achieve great prominence was that it largely confirmed what was already known. It was also less integrated than the 1959 study.

A Russian scholar questioned Levada on measuring attitudes towards democracy in Russia, arguing that these attitudes are fragile. He feared that a consensus among political and economic forces in Russia could combine to transform Russia's political system into an authoritarian system.

Levada replied that he agreed with that concern, pointing out that it is difficult to measure the degree of democracy within a country. Levada related how a French diplomat recently asked him how close Russia was to being a democracy after ten years of transition. Levada asked in turn whether the diplomat thought that Russia was closer to democracy than France was under the Jacobin dictatorship after the French Revolution. The diplomat laughed and said that it was difficult to say. Levada then asked how many years had France needed to build a democracy after the French Revolution. The diplomat responded that it took more than one hundred years, though he tried to explain that Russia is in a different situation. Still, Levada concluded, it is a useful comparison to make in trying to understand the state of Russian democracy.

Miller commented further on the question of democracy in Russia, addressing the issue of party formation and party loyalty. When asked in general about political parties or the government, Russians will express negative orientations. Yet if asked whether there is one party that best represents their views, 70 percent will say there is, and that figure is rising. This is not a measure of support for political parties, just an indicator of whether individuals feel there is a party that represents them. The problem with this high response, however, is that there are 30 to 40 parties. You have to have fewer parties so people can make sense out of that party space and be responsible, Miller argued. Eventually, in the development of institutionalized pluralism, political parties ought to be one of those institutions that develop.

The next question from the audience returned to the issue of Russia's supposed desire for a strong leader. One interpretation is that it is in the Russian mentality to desire a strong leader because of Russia's history. Is that enough of an explanation?

Levada responded that surveys throughout the past decade show that Russians desire a strong leader, one that would manage the various elites, governors, and other officials. Putin has at times tried to play this role, but an autocratic leadership in Russia is no longer possible because the mechanisms of coercion are no longer in place. Stalin had a strong base in the party and the KGB, Levada pointed out, and China's system is likewise built on a strong dictatorship and caste system.

Miller added that if you ask people in the U.S. whether they want George Bush to be a strong leader, they will of course say yes. The real question is not whether a president is a strong leader, but whether there are other checks and balances in the system.

Twigg added her concern that the promising emergence of a quasi-civil society in Russia in the form of over two hundred thousand non-governmental organizations (NGOs) may be threatened by the Putin regime trying to create a "top-down" construction of civil society.

Birman declared that the project interviewing Soviet émigrés was terrible. One example of its reasoning was that Soviet trade was so bad because those working in the trade industry were paid too little. In response to Levada's earlier argument that the Soviet Union collapsed for political and not economic reasons, Birman asked what was the cause of that political turmoil? "What [the Soviet elite] saw abroad compared to what they had, and especially Star Wars, [showed them] that they could not compete, that their economy did not allow them to. That is why they collapsed."

Levada replied that argument has its own logic, but repeated that the Soviet system was a pyramid standing on its head (the elite), and when this head became weak the county collapsed. He reminded the audience that in the Soviet period the operating practice was that political matters are more important than economic matters.

Miller returned to the question of the "strong leader." He noted that everyone wants a strong leader, but in the U.S. you have alternative power centers, such as independent governors and the private sector, with independent sources of revenue. The NGO sector is important, but it lacks independent revenues and this makes it a very limited thing. Therefore the question for Russia is whether independent power centers are something we can look forward to.

Levada stated that Putin has tried from the beginning of his rule to manage the local governments and oligarchs, but has met with limited success. He must have come to some arrangement with them, Levada surmised. Another approach to understanding the idea of a "strong leader" is to consider the leaders during World War II in Russia, Germany, England, and the U.S. All four were strong leaders, but in different senses. This is the question facing Russia with Putin—in what sense will he be strong? It is an open question, and answers will come on a case-by-case basis.

Twigg turned the discussion to the issue of Western policymakers' perceptions about Russia. She noted that Peter Reddaway's comments from the second panel implied that Western policymakers seemed determined to view Russia through rose-colored glasses, and that this has been borne out in her personal experience. She related an exchange following a recent briefing to members of Congress on Russian social conditions that was weighted 75-25 negative to positive. The first question she received from a member of the House thanked her for her "presentation that focuses on the positive things and gives us reason to see the good things that are happening in Russia."

This exchange, Twigg continued, highlights a difficulty in the interactions between the scholarly community and policymakers. "There is a real tension there because there is a perception that if we paint a picture that is too formally negative we will drive funders to think that Russia is a lost cause and therefore abandon their support of studies or research about Russia. I think there is some real implicit pressure on scholars to try to put something of a rosy face on the comments that we make so we provide a reason for the study of and funding of assistance to the region to continue."

The final question from the audience asked whether any of the panelists saw a purposeful placement of stories in the Russian media that advanced feelings of anti-Westernism or anti-Americanism.

Levada responded that the media had played a very unpleasant role during the latest wave of anti-American hysteria in Russia in February 2002. The media were denouncing America with the permission of the ruling elite. "In my mind," Levada cautioned, "it was a very important notice to all of us that it is very easy to turn Russian sympathy to hate." After two weeks of negative press, President Putin stepped in to try to stop those feelings from spreading.

Johnstone gave each of the panelists an opportunity to make a concluding statement.

Dobson said that in his view, the scholarly community was doing quite well in the 1980s, though he was less familiar with the results of the intelligence community. One helpful development during this period was the development of sociology in the Soviet Union, which provided much more detailed information on the particular problems. Finally, it was not Western scholars' adherence to the totalitarian model that led them to fail to appreciate what was going on in Soviet society. Instead, they abandoned that model and did not see it as a key ingredient of the system and were therefore unprepared for the changes initiated under Gorbachev that dissolved the levers of control.

Miller disagreed in part with Dobson, stating that in his view the academic community had blinders on it and many scholars saw what they expected to see based on their own preconceptions. There were exceptions, but in general the academic community failed to predict what happened and scholars were caught up in terms of the methodology and orientations that they brought with them to the work that they were doing.

Levada concluded that plenty of questions remain to be discussed, and thanked the panelists and audience for their input into his work.

Twigg reiterated her assessment that the scholars got the trees right in exquisite detail and largely missed the forest. The surprising finding was that the intelligence community actually got a much more comprehensively correct picture than the bashing of intelligence would lead one to expect. The encouraging news is that many of the lessons to be learned from the failings of Sovietology seem to have already been taken to heart by the scholarly community engaged in the region.

Keynote Address:
The Honorable James Schlesinger
Chairman, MITRE Corporation, and Senior Advisor, Lehman Brothers

Keynote Address by The Honorable James Schlesinger
Introduction by Blair Ruble, Director, Kennan Institute

Blair Ruble

This conference has wrestled with the battle of ideas that took place in the past and is taking place now and that has influenced policy towards Russia and in the past the Soviet Union. We've heard deeply divided opinions about what happened on the ground in the Soviet Union and what happened in the U.S. government community broadly defined. I think it is safe to say that a number of old debates continue and are taking new form, and I think that is healthy. Among the issues raised were: How do you see the forest for the trees, how do you wrestle with measurement issues, and what is the role of intuition? What is the art of understanding a complicated society and place like Russia, and what is the science of it? These are large questions where perhaps the biggest lesson to be learned is that there are no easy answers.

The time has come to try to put all of this in a broader perspective, and we thought the perspective that would be most useful is from someone who has had to wrestle with receiving all this information and making sense of it and at the same time helping to form government policy. And this is particularly appropriate because the Woodrow Wilson Center commemorates our only president to hold a Ph.D., somebody who was the president of a college and a university and someone who was president of the United States—Woodrow Wilson. And therefore we try to reflect here on how one goes about trying to bring together the world of ideas and the world of public policy. Our keynote speaker Dr. James Schlesinger has probably done that as well as anyone in Washington today.

He has wrestled with turning information into analysis in his younger days as a scholar at the RAND Corporation, and he has wrestled with these issues in major policymaking positions. He has a very distinguished public service career.

He was head of the Bureau of the Budget (which later became OMB), he was chair of the Atomic Energy Commission, Director of the Central Intelligence Agency, Secretary of Defense, and the nation's first Secretary of Energy. He played at many moments in past years a critical role in shaping policy towards Russia. Dr. Schlesinger, we welcome your thoughts on what lessons may have been learned and more broadly in general.

The Honorable James Schlesinger

Thank you. One of the 19th century Anglican bishops observed that the only thing we learn from history is that we learn nothing from history, and that observation caries us back to Hegel who had an earlier formulation of that. I might use that as an introductory note. This is less of a keynote, I suppose, than an endnote, and it is appropriate to be here at the Wilson Center. He was not only the only president with a Ph.D., he was the only president that landed troops in the Soviet Union; that did not occur during the Cold War. The debates you have had for the last few days—they will go on to the third generation.

This was a remarkably good set of papers, I found them interesting and revealing. I will proceed with some initial observations; I will then talk a little bit about the Soviet era, followed by some words on the transition and what we see before us today.

My interest was primarily the geostrategic questions, the geostrategic competition. How could an economy apparently as limited as that of the Soviet Union mount such an impressive military capability directed at the United States and the Western world? This is a reflection of what some of the papers referred to as the structural distortions of the Soviet economy, and once it shifted over into a market economy those structural distortions became quite destructive for the prospects for the Russian people. When I was Secretary of Defense I spent a great deal of time talking about the adverse trends and the growth of the Soviet military budget, as opposed to the post-Vietnam steady shrinking of the American military budget, and this was reversed in later periods.

So let me start with some initial observations that bear on the question of lessons learned. William Shakespeare, well-translated into Russian, by the way, says “what a piece of work is man! how noble in reason! how infinite in faculty!” He overstated, as is frequently the case. There are clear limitations with regards to the faculty of the human being. If we turn to the intelligence issues; normally, intelligence tends to be reasonably good for dealing with routine events—that is, in dealing with a world that is slowly evolving, unchanging. Intelligence communities have difficulties in dealing with turning points. If the question is “why did the Soviet Union collapse and did we foresee it?” then the answer is that we were not likely to grasp that kind of catastrophic turning point. Almost every major change comes as a surprise.

Why is that? Because official views develop in institutions, and neither societies as a whole nor institutions expect change. We tend to see things as continuing on an accustomed track, and we tend to extrapolate from previous trends and current times into the future. Indeed, we vary between a normal belief that things will not change very much, and, as we have experienced in the post 9/11 world, that everything has changed as a result of the attacks on the World Trade Center and the Pentagon. That is a substantial exaggeration, by the way. Institutions and societies develop a mainstream view, and institutions, government institutions, do not welcome whistle blowers or mavericks. Mavericks represent a challenge to what holds a typical institution together. When a KGB operative in the good old days wrote back to Moscow, he followed Lenin’s advice—“tell them what they want to hear.” Otherwise, his career was likely to be shorter and less prosperous than he would have hoped. It is hard to go against the prevailing institutional view and that is particularly hard when evidence is skimpy, because it is under those circumstances that the challenger of the institutional view has very little to go on other than his gut feelings which will be substantially demolished by the prevailing keepers of orthodoxy.

Over time, institutional views tend to harden. If you take a typical presidential administration, it comes into power in January, and they’re kind of exploring what they’re supposed to be doing. But over two or three years, one discovers that the views of that administration tend to harden, and there is less room for challenges, including challenges of the intelligence community bringing in new information. Over time it becomes more risky and more difficult to challenge the prevailing views. And we have seen that happen in the interpretation of the Soviet Union. Fifty-five years ago I was a student studying physics, and the physics instructor said one day to the class something very profound that I have never forgotten. He said: “All my life, I have been enormously impressed by the infinite power of the human mind to resist the introduction of knowledge.” And regrettably, that tends to afflict institutions.

What are the lessons learned as we look at the past? First of all is the hardening of institutional attitudes: these tend to harden into axioms that are very hard to challenge. Second lesson—treasure your mavericks. Third—since we don’t know what the future is it is useful to have the kind of scenario building that has been associated originally with Shell and later with the RAND Corporation.

Let me turn to my second subject, which is the Soviet era. Mr. Medish, in one of those interesting papers that were distributed, says that the pictures that we have of other countries tend to reflect our own emotional needs. That is, and this is not his phrase, that our viewing of a society like that of the Soviet Union tends to be kind of a Rorschach test in which we ourselves interpret what they are doing in terms of what we are about. And this was dominated over the years by the fears in the United States that, as Khrushchev said, "we will bury you." Were they capable of burying us? What kind of economic growth did they exhibit on the one hand and how impressive was their military establishment? Was it substantial enough to overrun Western Europe, for example? It is remarkable how little we knew about the Soviet Union in 1945. At that time, it was still, as Winston Churchill had previously described it, "a riddle wrapped in a mystery inside an enigma." We had the illusion of Lincoln Steffens, who had returned from the Soviet Union and said, "we have seen the future and it works." And certainly there were illusions associated with our wartime alliance with the Soviet Union. By 1947 those illusions had pretty well dissipated. Stalin had turned down the offer of economic assistance, not only to the Soviet Union, but also to its newly acquired European satellites, in particular Czechoslovakia and Hungary. In 1948 there was the Czech coup. And so our attitudes in those years shifted from the illusions of 1945-46 to the belief as represented by George Kennan's article that we must contain the Soviet Union.

It is interesting, as I said, how little we knew. We were at that time estimating production in the Soviet Union by picking up clues from those who had seen factories, estimating factory floor space in the Soviet Union, and from that, based upon our own capacity for production, estimating production in the Soviet Union. There was very sparse information. That dearth of information is the father, or mother if you prefer, of the missile gap. And before the missile gap, there was the bomber gap. We were estimating what it was the Soviet Union could produce if they were organized for production of missiles. It was a critical issue during the 1960 election. That period ended with the first flight of the Corona satellite. Actually, it began to disappear with the flights of the U2, but the U2 ended suddenly and not gloriously. Through the Corona satellite we began to get good estimates, not speculation, about production in the Soviet Union and deployment by the Soviet Union of military capabilities, including their missile force. What we found in 1961 after the Kennedy administration came in having advertised the missile gap was that the Soviet Union had deployed four ICBMs. This was far less than had been speculated previously.

Prior to the flights of the Corona, we tended to exaggerate Soviet capabilities. After the flights of the Corona, we tended, as frequently as not, to underestimate those capabilities. For example, we became convinced, as we strove to lure the Soviets into détente of our definition, that the Soviet Union was only trying to match us: Since we had deployed 1000 Minutemen, and the Soviets wanted to match us, they would build up to 1000 Minutemen and would stop, having matched our capabilities. Somewhat to our surprise, since we had come to this interesting conclusion, the Soviet Union continued to deploy ICBMs reaching a total of 1656 before the SALT I agreement.

Let me point to several defects that existed in this period. The intelligence agency was working on a giant computer model of how the Soviet economy worked. And that giant computer model acquired a life of its own, so that instead of looking at what was actually going on, we tended to interpret everything through that model of the Soviet economy. Madame Roland (I heard a reference to the French Revolution earlier) said, "Oh, Liberty! What crimes are committed in thy name?" Well, here was "Oh, Computing! What crimes are committed in thy name?" Through this model we were grinding out detailed calculations about the Soviet Union, and we were failing to look at the realities. Modeling is something you think that you understand, but don't really understand, and that's when it's particularly dangerous. That, incidentally, applies to climate models including the weather forecasts that we get daily. The model acquires a kind of mesmerizing quality. And this tended to mislead us.

Let me turn from the economy to military expenditures, about which I know somewhat more. When I got to be the Director of Central Intelligence, the intelligence community was estimating that the Soviet Union was spending 6-7 percent of its gross national product on defense expenditures. And the intelligence community said that despite the smaller size of the Soviet economy, that in dollar terms (that is, pricing out Soviet military capabilities in U.S. dollars) their expenditures were roughly equal to our own.

I had an experience that was akin to that of Mr. Birman in his written comments in which he said, "the picture is ultimately wrong." This was just a misinterpretation of what was going on in the Soviet Union. And early on, when I was DCI, however briefly, I sat down with the staff, and I said, "how many people do the Soviets have under arms?" Well it was something in excess of four million. And how many do we have under arms? Well something just over two million. And if you price that in dollar terms, what does that imply? It implies that in terms of U.S. dollars, the Soviets are spending double what we are spending on personnel. At that time we were spending about over 50 percent of our military budget on personnel. So right there, if you just looked at the personnel account, you came to the conclusion that in dollar terms that the Soviet Union was spending an amount equal to that of the United States before you got to procurement, research and development and the like.

I thought that was an important point. I went on to point out that in terms of tank production, we were estimating that the Soviets were turning out something like 3600 tanks a year, we were turning out 300; that the Soviet production of aircraft, however inferior they were in terms of avionics to the U.S., that they were turning out something on the order of 3 or 4 times as many aircraft. And thus their procurement account had to be substantially larger in dollar terms than was ours. And so, as we went through this with the CIA staff, we slowly got up to the point where it was clear that their defense expenditures, in dollar terms, have got to be 150-160% of what we are spending, even though they didn't spend as much on operations and maintenance as we did. I said, "Go fix it." That was 1973. I then moved to the Department of Defense, and immediately that challenge was forgotten.

Andrew Marshall came to the Department of Defense as Director of Net Assessment. He stayed on the case, and by 1976 we had an adjustment in the estimated military expenditures of the Soviet Union. It was plain that this was basically a society with a war economy, because they were straining off all their best resources into defense-related activities, including, of course, the nuclear establishment. From that one can learn several things. First, that an institution tends to be defensive about what was previously produced; it has a vested interest in its previous product. When it is challenged, it has to find someplace to hide, and if it is going to change, it will take years to change.

The collapse of the Soviet Union was largely a surprise to us. Ms. Twigg in her paper pointed out that there was an alternative view expressed at the CIA that was sort of an afterthought. Some of these people had this strange view that

Gorbachev might run into some trouble after awhile. It was not the mainstream view. We were ignoring during that period clear signs, though not what is sometimes interpreted as hard evidence—that is, published data and whatnot. Whether true or false, it is published and you can read it. We were ignoring clear signs of serious problems in the Soviet Union. For example, Moscow is a kind of gossipy place, and when one went there one found younger members of the communist party saying at dinner parties: "We cannot go on this way." That incidentally is reflected in Gorbachev's attitude when he took over. And then, in 1983, we had Ronald Reagan's development of Star Wars, which had an immense impact in the Soviet Union. And the impact was not that we were likely to deploy a missile defense very quickly; in fact, the kind of defense that Mr. Reagan was talking about was basically beyond our reach…not basically beyond our reach, beyond our reach.

But what happened was that in the Soviet Union, with all the difficulties that were developing, the reaction was "good Lord, here is another field we are going to have to compete with the Americans, and we just can't do it. Our economy is just not that flexible; the American economy has greater flexibility" and so on.

Let me talk a little bit about the transition after the collapse in 1991. With the best will in the world, we were of remarkably little use to Russia as it went through its problems. Our contribution was that we sent to Russia textbooks describing the infinite beauty of the workings of the free market. This to a society that had previously been overwhelmed by an ideology—that is, the Leninist ideology. And so, they are looking for a new ideology and we were sending them the ideology of Milton Friedman. The problem was that the market economy depends upon substantial institutional underpinnings. So, as Adam Smith in one of his books suggests, it depends on having a moral framework that sustains the market economy; whereas the textbooks all talked in terms of comparative statics. You move from one equilibrium smoothly to another equilibrium. This in a world that was undergoing rapid change and had the problem of the dynamism of transition. Which reminds me of a story—how many economists does it take to change a light bulb? Answer: None, because if a light bulb needed changing the market would have already arranged for it to have taken place.

Some of us followed the lead of former President Richard Nixon, who wanted to have something for Russia that was akin to the Marshall plan. Now we recognized that this was vastly different from the Marshall plan itself in Western Europe, and it required vastly more imagination. The European economies basically understood the underpinnings of the market economy. What they needed, basically, was additional capital with which they could restore their prewar economies. The Russian problem was much more severe, that is they did not have the underlying institutions, they lacked the rule of law as we understood it, they did not understand double entry bookkeeping, they did not understand profit and loss, they did not understand corporate governance. And so it was plain that if we were to help Russia in this transition, that the thing that we could do was provide technical assistance just in explaining these rudimentary elements, such as how balance sheets work and what a statement of profit and loss was.

We did not provide that; we sent them textbooks and a bunch of experts that explained the processes of development and so on. Robert Galvin, who at that time was the head of Motorola, had what I thought was a brilliant idea. Which is that the president of the United States call upon each CEO of each Fortune 500 Company and ask them to invest $1 million in Russia. And the consequence of that, if they were serious about that, would be that they would begin to convey some of the rudiments of how a market economy works, and this would be a kind of seed corn. Nothing ever came of it, regrettably. The United States at that time just lacked the imagination and, if I may say so, we, too, were exhausted after the Cold War. So we were satisfied with the soothing myths of the period that the market economy is something that was self-operating.

Privatization took place in Russia; one of the papers referred to Proudhon's observation that "property is theft," and whether or not that is generally true, it does appear to be true in the case of Russian privatization. We were into the era of the robber barons in Russia, not too dissimilar in some ways from the robber baron era in our country 130 years earlier. Thomas P. Huntington, whose Huntington library you can visit in California, made this interesting observation: "Whatever is not nailed down is mine, whatever I can pry up is not nailed down." Good guidance. So we were faced with disappointments, and I think there are now some danger signs, as we heard in the third panel. But Russia in some ways seems to be getting on track now, and I shall leave it to others to describe that.

What do we learn from all of this? The ability to forecast future events is quite limited, if perhaps alleviated to some extent by the scenario building represented by Shell. Normally what we expect and normally what occurs is a continuation of present trends. Our great difficulties occur when we reach turning points. And typically institutions find it very hard to forecast turning points. What are the lessons that we have unlearned? The hardening of institutional attitudes. We are not hardened in our institutional attitudes towards Russia today, although some people were until recently. But we are hardened in other attitudes, whether it is with regards to China, or possibly towards the Islamic world. These will become rallying points not only for institutions but the society as a whole.

Will we do better? I wish I could be optimistic, but I do not think so. We are missing the forest for the trees, just as in the 1950s, 60s and 70s. We tended to forget about the realities of the Soviet economy, because we were working from this computer model we had ingeniously devised and that pumped out information with regard to the Soviet effort on defense, which was misleading, to say the least. Mr. Levada had a formula that he quoted in his paper: "we wanted to make it better, but it turned out like always."

As I said at the beginning, the only thing we learn from history is that we learn nothing from history, whatever the Harvard historian had to say about "those who fail to learn from history are doomed to repeat it." Let me stop there.

Panelist Biographies

Anders Åslund is a senior associate at the Carnegie Endowment for International Peace in Washington, D.C. since 1994, and is an internationally recognized specialist on post-communist economic transformation, especially in Russia and Ukraine. He has served as a senior economic advisor to the governments of Russia, Ukraine, and Kyrgyzstan. From 1989 until 1994, Dr. Åslund was Professor and Director of the Stockholm Institute of East European Economics at the Stockholm School of Economics. Before that, he served as a Swedish diplomat in Kuwait, Geneva, Poland, Moscow, and Stockholm. A prolific writer, Dr. Åslund has authored six books and edited nine. His most recent book is *Building Capitalism: The Transformation of the Former Soviet Bloc* (Cambridge University Press, 2001). Dr. Åslund has a B.A. from the University of Stockholm, a M.Sc. in Economics from the Stockholm School of Economics, and a D.Phil. from the University of Oxford (St. Antony's College). He is a Member of the Russian Academy of Natural Sciences and an Honorary Professor of the Kyrgyz National University. He has also been a research scholar at the Kennan Institute and a guest scholar at the Brookings Institution.

Igor Birman, a Soviet economist, immigrated to the United States in 1974. He has worked as a consultant to the Pentagon and other U.S. government agencies. During the second half of the 1990s, Mr. Birman was an advisor to the Russian Parliament. He is the co-founder and editor of *Russia* magazine, and has authored, coauthored, and edited 14 books in 5 languages.

Abraham Becker is a Senior Economist, Emeritus, at RAND in Santa Monica, California. He received his M.A. and Ph.D. degrees in Economics from Columbia University, and an A.B. Degree in History and Literature from Harvard University. Prior to his work at RAND, Dr. Becker was the U.S. Representative to the United Nations' Expert Groups on the Reduction of Military Budgets in 1974 and 1976, as well as a consultant to the U.S. Arms Control and Disarmament Agency in the 1970s. He served for 18 years on the Military-Economic Advisory Panel to the Director of the Central Intelligence Agency and as a consultant to the Soviet Affairs office of the Directorate of Intelligence. Subsequently, he was a member of the DCI's International Economic Advisory Panel. While at RAND, Dr. Becker was also a visiting professor at UCLA and served as Director of the RAND/UCLA Center for Soviet Studies, Associate Corporate Manager in the International Policy department, director of the RAND Committee on Soviet Research and Associate Director of the National Security Strategy program. Dr. Becker has conducted extensive research on Soviet economic planning, policy and behavior, as well as military economics. He is the author of two books, edited and coauthored three others, as well as numerous articles and RAND monographs.

Robert Campbell is a Distinguished Professor of Economics, Emeritus, at the University of Indiana. He received his Ph.D. in Economics from Harvard University in 1956, and in addition to his long-term position at Indiana University, Dr. Campbell has taught at the University of Southern California, the University of California at Berkeley, Stanford University and Harvard University. His specialty is analysis of the former centrally planned economies and the problems of transforming them into market economies. Dr. Campbell's publications in the area (eighteen books and monographs and more than forty articles and chapters in books) cover both issues of the economy as a whole and sectoral specialties such as research and development, energy affairs, and telecommunications sector in the USSR and its successor states. In recent years he has combined research and publication on problems of the transition with advising and consulting on economic transition, both for western donors and contractors and for governments and institutions in the former Soviet Union.

Richard Dobson is a Research Analyst specializing in public opinion polling for the Russia, Ukraine, and Commonwealth Branch of the Office of Research, U.S. Department of State. Before joining the State Department, Dr. Dobson worked for 16 years as a researcher for the U.S. Information Agency. Dr. Dobson completed his undergraduate work at Stanford University, and earned his M.A. in Soviet Studies and Ph.D. in Sociology from Harvard University. He taught at the University of Colorado at Colorado Springs for several years and has been a National Fellow at the Hoover Institution and a resident scholar at the Kennan Institute.

Kari Johnstone is a Research Scholar at the Kennan Institute at the Woodrow Wilson Center in Washington, D.C. Dr. Johnstone received her Ph.D. in Political Science from the University of California at Berkeley in 2001, specializing in Post-Communist Politics and International Relations. While at UC Berkeley, Dr. Johnstone held numerous positions, including Head Graduate Instructor in 1996. In addition to her studies at Berkeley, Dr. Johnstone has studied at various institutions throughout Eastern Europe and Russia, including Charles University in Prague, Lviv State University in Ukraine and the Pushkin Institute in Moscow. She has also worked as an OSCE Election Observer of the 1998 and 1999 elections in Slovakia and Ukraine. Dr. Johnstone has been the recipient of many grants and fellowships including awards from the Kennan Institute, National Security Education Program, and the Berkeley Program in Soviet and Post-Soviet Studies.

Yuri Levada is the Editor-in-Chief of the *Russian Public Opinion Monitor Bimonthly*. Before joining the *Russian Public Opinion Monitor* in 1994, Dr. Levada conducted various forms of public opinion research for over 28 years at a number of different institutes in the Russian Academy of Sciences. After receiving his Ph.D. from Moscow State Lomonosov University in 1955, Dr. Levada worked as a researcher at the Institute of Sinology of the USSR Academy of Sciences. From 1960-68, Dr. Levada served as Senior Researcher and Research Chief at the Institute of Philosophy, where he completed his second Ph.D. in Philosophical Sciences in 1965. Dr. Levada also worked as a leading researcher at the Central Economic and Mathematical Institute of the USSR Academy of Sciences from 1972-88, and later joined the Soviet (now Russian) Center of Public Research (VCIOM). While at VCIOM, Dr. Levada held numerous administrative positions and served as Director in 1992. Dr. Levada's articles dealing with public opinion research have been published in Russian, German and French journals and he recently completed his book, *From Opinion Toward Understanding* (2000, Russian).

Mark Medish is a partner in the public law and policy practice group of Akin, Gump, Strauss, Hauer & Feld, L.L.P. in Washington. He is also a principal in Hampshire Partners, L.L.C., a joint venture of Akin Gump and Multinational Strategies, Inc., focusing on sovereign advisory services and direct equity investment in emerging markets. Before joining Akin Gump, Mr. Medish served in the Clinton administration as special assistant to the president and senior director of the National Security Council (NSC), where he assisted the president and national security advisor Samuel R. Berger in forming and implementing U.S. foreign policy toward Russia and the NIS. He also served as Deputy Assistant Secretary of the United States Treasury from 1997-2000. Mr. Medish received his B.S. in economics from Georgetown University in 1984. He received his M.A. in Soviet studies in 1987 and his J.D. in 1990 from Harvard University. Additionally, he did graduate work in philosophy and economics at the University of Oxford, Merton College, where he was a Fulbright Scholar in 1985-86. He has also held Luce, Mellon and Shintaro Abe scholarships. He was a visiting research fellow at the Japan Institute of International Affairs in 1990-91. He clerked on the D.C. Court of Appeals in 1991-92, and is a member of the District of Columbia Bar.

Arthur Miller is a Professor of Political Science at the University of Iowa. He received his Ph.D. in Political Science from the University of Michigan in 1971, and taught at Ohio State University, the University of Michigan, and the University of Chicago before joining the Iowa faculty in 1985. Dr. Miller is the author of the book *Public Opinion and Regime Change: The New Politics of Post-Soviet Societies* (Westview Press, 1993) and numerous articles dealing with measuring public opinion. Dr. Miller has received wide acclaim for many of his articles, and was awarded the American Political Science Association Jack L. Walker Award for the article entitled "Emerging Party Systems in Post-Soviet Societies: Fact or Fiction?" Dr. Miller has also been the recipient of many grants and fellowships, including awards from Fulbright, U.S. Department of State Bureau of Educational and Cultural Affairs, and the National Science Foundation.

Nikolai Petrakov is Director of the Market Economy Institute of the Russian Academy of Sciences. Dr. Petrakov received his Ph.D. in Economics from Moscow State University in 1972, and subsequently taught there before joining the Russian Academy of Sciences in 1990. Dr. Petrakov also served as an economics advisor to Mikhail Gorbachev and helped draft the unimplemented "500 Days" Soviet economic reform program in 1990. His scopes of scientific interests are economic-mathematical modeling, and the theory and methods of economic policy realization in the conditions of market management. Dr. Petrakov is the author of more than 200 scientific publications, including 9 monographs.

Peter Reddaway is a Professor of Political Science and International Affairs at the Elliot School of International Affairs and Department of Political Science at George Washington University. He was educated at Cambridge, Harvard University, Moscow State University and London School of Economics, where he was also a lecturer in Political Science from 1965-85. From 1986-89, he served as Director of the Kennan Institute of the Woodrow Wilson Center in Washington, D.C. In over 20 years of academic teaching and research, Dr. Reddaway has authored or edited six books and numerous articles dealing with Russia and the former Soviet Union. He has received many grants and awards for his academic work, including grants from the Woodrow Wilson Center, U.S. Institute of Peace, and the National Council for Soviet and East European Research. Dr. Reddaway has also held numerous administrative positions, including Director of the Russian and East European Studies Program at George Washington University.

Blair Ruble is Director of the Kennan Institute of the Woodrow Wilson Center in Washington, D.C., where he also serves as Co-Coordinator for Comparative Urban Studies. Dr. Ruble received his M.A. and Ph.D. degrees in Political Science from the University of Toronto, and an A.B. degree from the University of North Carolina at Chapel Hill. Before joining the Wilson Center, Dr. Ruble worked for the Social Science Research Council and the National Council for Soviet and East European Research. He has edited eight volumes, including two reference works and six collections of articles, and is the author of four monographic studies. Among his most recent works is *Second Metropolis: Pragmatic Pluralism in Gilded Age Chicago, Silver Age Moscow, and Meiji Osaka* (2001). Dr. Ruble's articles have been published in numerous journals around the world, as well as *The New York Times*, *The Washington Post*, and *USA Today*, and he has appeared on a number of television and radio news programs in the United States, Britain, Russia, and Japan.

James Schlesinger currently divides his time between the Center for Strategic and International Studies (CSIS), where he serves as counselor, and the investment banking firm of Lehman Brothers, where he serves as senior advisor. Dr. Schlesinger received his Ph.D. in economics from Harvard University in 1956, and served as assistant and associate professor of economics at University of Virginia until 1963 when he joined the RAND Corporation. While at RAND, Dr. Schlesinger served as a senior staff member and later as Director of Strategic Studies. He has held numerous government positions including, Assistant and Acting Director, Bureau of the Budget (later the Office of Management and Budget), and Chairman, Atomic Energy Commission. In February 1973, he was named Director of Central Intelligence, and in July 1973 he was appointed U.S. Secretary of Defense. In 1976, Dr. Schlesinger served as assistant to President-elect Carter, and was charged with the responsibility of drafting a plan for the establishment of the Department of Energy and a national energy policy. In August 1977, he was appointed as the nation's first Secretary of Energy and later served on the President's Commission on Strategic Forces. Dr. Schlesinger has received nine honorary doctorates and is the recipient of the National Security Medal, as well as five departmental and agency medals, and is a fellow at the National Academy of Public Administration and a member of the American Academy of Diplomacy.

Judyth Twigg is an Associate Professor of Political Science at Virginia Commonwealth University. She received a Ph.D. in Political Science and Defense/Arms Control Studies from MIT, an M.A. in Political Science and Russian Studies from the University of Pittsburgh, and a B.S. in Physics from Carnegie Mellon University. Her recent work has focused on health conditions and health policy in Russia, with publications in *Europe-Asia Studies*, *The American Journal of Public Health*, and *Post-Soviet Economics & Geography*, among others. She is the co-editor of *Russia's Torn Safety Nets: Health and Social Welfare during the Transition* (St. Martin's, 2000), and she is currently working on a monograph titled *Critical Condition: The Politics of Health Care Reform in Russia* for the University of Pittsburgh Press. Dr. Twigg has received numerous grants from the National Council on Eurasian and East European Research, the Social Science Research Council, and IREX and has served as a principal investigator for a study of social cohesion in Russia under the auspices of the Russia Initiative of the Carnegie Corporation of New York. Dr. Twigg has advised several agencies of the U.S. government on Russian health and social issues, including the Department of Defense, Department of State, and Congress.

Mikhail Zadornov is a Deputy in the Russian State Duma. Dr. Zadornov received his Ph.D. in Economics from the Institute of Economy of the Russian Academy of Sciences in 1988. He has worked as an expert in the Planning and Budget Commission of the USSR Supreme Soviet, and as a member of the State Commission for Economic Reform for Economic Reform of the Council of Ministers of the RSFSR, and also participated in drafting the "500 Days" program. Dr. Zadornov was elected to the State Duma in 1993 and served as the Head of the Committee for Budget, Taxes, Banks and Finances from 1993-97. From November 1997-May 1999, he served as Minister of Finance of the Russian Federation and was later appointed as Special Representative of the President of the Russian Federation in relations with international monetary institutions. Dr. Zadornov also served as the First Deputy Prime Minister of the Russian Federation and as Special Counselor to the President of the Savings Bank of the Russian Federation. In December 1999, he was re-elected to the State Duma, where he is currently head of the Subcommittee for Monetary Policy.