
The Collapse: 1988–91

After two years of attempts at radical economic reform Mikhail Gorbachev concluded that little could change in the Soviet Union without profound political reform. He wanted to move toward democracy, but he was always ambiguous whether he wanted a full-fledged democracy as we understand it in the West. His purpose was to undermine the orthodox party apparatus, but he was unclear about whether to transform or demolish the party. Naturally, if he had said openly what he intended to do, he would have been ousted in short order, but what is not said is not clear.

For two and a half years, Gorbachev had been the most radical among the Soviet leaders. In November 1987, however, he was outflanked by one of his appointees, Boris Yeltsin. By ousting Yeltsin, Gorbachev made him the popular alternative to himself, and a long duel between them ensued. Eventually, Yeltsin won because he was a true revolutionary who radicalized at pace with public opinion and he was prepared to face the judgment of the voters. His ultimate victory was to be elected president of Russia in June 1991.

The period between 1988 and 1991 was extremely intense. The stage was set by the divide between three top leaders, Gorbachev, Yeltsin, and Yegor Ligachev. Gorbachev's dominant endeavor was democratization, but he faced one unexpected event after the other. National revivals surged and disputes erupted. When central planning evaporated, massive rent seeking evolved. The reformers composed a foray of reform plans in 1989–90, but in the end no plan was adopted. In 1989, the outer Soviet empire in Eastern Europe collapsed with Gorbachev's consent. In parallel, a multi-faceted and profound economic collapse took place. Hapless, Gorbachev was left on a political middle ground that was rapidly disappearing, while Yeltsin rose as the master of the democratic revolution. In late 1991,

the Soviet Union collapsed, an implosion that was overdetermined by multiple causes.

Elite Division: Yeltsin, Ligachev, and Gorbachev Part Company

Gorbachev appointed Yeltsin the first party secretary of Moscow in December 1985.¹ Yeltsin had spent a brief spell as Central Committee secretary and before that had been first party secretary of the Sverdlovsk region in the Urals for nine years. The Moscow party leadership was a big job, usually lending its holder a full membership in the Politburo, although Yeltsin to his chagrin was only a candidate (or alternate) Politburo member.

Living in Moscow at the time, we could feel a fresh wind after Yeltsin had come in. He broke with the privileges of the *nomenklatura*, the Soviet ruling class, taking the metro and visiting ordinary shops. Soon, complaints arose that Yeltsin had sacked so many city officials for sloppy work and corruption that the city's reserve of personnel was exhausted. Somewhat amateurishly, he set up booths in the streets to supply goods to the population, but they worked poorly because price controls and the old centralized supply system persisted. Yeltsin became very popular among Muscovites for his vibrant activity and ruthlessness against the old apparatchiks, but it was unclear whether he was a populist or a democrat.

When Gorbachev was on holiday in the summer of 1987, Ligachev chaired the Politburo and clashed with Yeltsin. After a skirmish over *nomenklatura* privileges, Yeltsin wrote to Gorbachev, submitting his resignation as first party secretary of Moscow and as a candidate member of the Politburo. His letter contained no specific political reason, only cryptic complaints about Ligachev's "unsystematic and crude" work (Yeltsin 1990, 4–7). It gives the impression of a severe collision between two strong-headed and ambitious leaders. Yeltsin later protested that Ligachev was dogmatic and authoritarian.

Gorbachev tried to ignore this conflict, but at the Central Committee plenum in October 1987, Yeltsin violated party protocol by ex promptu asking for the floor. This time his speech was political. He complained that "nothing has changed in the style of work of either the secretariat of the central committee or of Comrade Ligachev." He objected to coercion by party bosses, advocating democracy within the Communist Party, including in its highest organs. Yeltsin also criticized undue flattery of Gorbachev. He complained that perestroika had slowed down and that "people's faith began somehow to ebb." Yet, he appealed for the restoration

1. Overall sources for this section and the next are Aron (2000), Brown (1996), Ligachev (1993), and Yeltsin (1990).

of Leninist principles and did not abandon communism (Yeltsin 1990, 144–47). Yeltsin sensed the radicalization of the public mood, which soon mounted to a revolutionary wave, and he realized that the reforms were insufficient.

Gorbachev, obviously surprised, summarized Yeltsin's critique and invited other members of the Central Committee to comment. One after the other, the old party hacks savaged Yeltsin in lockstep in an old-style communist onslaught. Even liberal Aleksandr Yakovlev and mild Prime Minister Nikolai Ryzhkov joined the attack. Gorbachev ordered a vote and the Central Committee unanimously condemned Yeltsin's speech as "politically erroneous." A couple of weeks later, he was hospitalized with severe chest pain. While Yeltsin was in the hospital, Gorbachev ordered him to come to the Moscow party committee on November 11, 1987. Pumped with tranquilizers, Yeltsin was forced to run a political gauntlet led by Gorbachev. All the speakers scolded Yeltsin for unimaginable mischief. Yeltsin was shocked and devastated by their virulence. He confessed his guilt in the old party fashion, and the party committee sacked him in great unity (Aron 2000).

In this ugly moment, Gorbachev succumbed to typical old Stalinist persecution. But, to quote Talleyrand, it was worse than a crime, it was a blunder. This was the political turning point for perestroika, marking the split of the liberals from Gorbachev. For the first time, Gorbachev had been outflanked by a top liberal and he would never retrieve his position as a leading radical. Yeltsin, with his strong political instinct, would continue to ride the wave of radicalization.

After this party meeting, however, Gorbachev returned to his usual mild manner. He phoned Yeltsin himself and offered him a position as a junior minister of construction, which Yeltsin accepted, disappearing from the public stage for some time. Two years later, Yeltsin (1990, 2) commented magnanimously:

In Stalin's time ex-politicians were shot; Khrushchev pensioned them off; in Brezhnev's 'era of stagnation' they were packed off as ambassadors to distant countries. Here, too, Gorbachev's *perestroika* has set a new precedent: a dismissed politician is given the chance of returning to political life.

On March 13, 1988, the hard-line communist newspaper *Sovetskaya Rossiya* published a full-page article by Nina Andreeva, an unknown lecturer in chemistry in Leningrad. Tellingly, the title was "I Cannot Forsake My Principles." *Sovetskaya Rossiya* was an authoritative party newspaper, and this article was obviously approved by the Politburo. Cleverly, Ligachev had let this article be published when both Gorbachev and Yakovlev were going abroad, although he denied that was the case. The liberal intelligentsia was stunned because this was a Stalinist manifesto, repudiating in detail every element of glasnost and perestroika, presenting them as treason against good communism. Was perestroika dead?

Three weeks later came the relief. *Pravda*, the foremost party organ, published an equally large article that repudiated the Andreeva article. Yakovlev was the main author, but it was published without signature, which implied full party authorization. The Nina Andreeva affair was only a hiccup, but it showed how tenuous perestroika, glasnost, and Gorbachev's hold on power were. Glasnost was no longer the privilege of the liberals. They had to contend with vocal hardliners as well. The result of this affair was that its instigators, notably Ligachev, were demoted (Ligachev 1993, 298–311; Brown 1996).

At the turn of 1987, the Gorbachev group in the party leadership had fractured. Yeltsin was about to emerge as the leader of the democrats, whereas Ligachev had become the leader of the hardliners. Yakovlev and Shevardnadze stayed with Gorbachev, but Gorbachev had become a man of the political center that was going to shrink fast, although not quite yet.

Democratization

As early as December 1984, Gorbachev pronounced his desire for “democratization” (*demokratizatsiya*), but, as with everything else he said, it remained a guessing game for years what this oracle meant. To begin with, Gorbachev seems to have desired little but “to breathe new life into existing institutions and to remove the formalism of intra-party life and in the activity of the soviets,” as Brown (1996, 155) saw it, which was hardly “democratization” but political liberalization.

Over time, Gorbachev grew more radical, as he realized how difficult it was to revitalize Soviet society and economy. In January 1987, the Central Committee held a plenum, which became the starting point for Russia's democratization, and Gorbachev's speech was a radical departure: “Perestroika itself is possible only through democracy and thanks to democracy. It is the only way to give scope to socialism's most powerful creative force—free labor and free thought in a free country” (Gorbachev 1987c, 317). Gorbachev proposed real elections within the party. The plenum did not make concrete decisions about democratization, but it decided that a rare party conference was to take the issue further.

The 19th Party Conference in June–July 1988 marked a new degree of glasnost. For the first time, Soviet citizens could see Politburo members being attacked on national television. Yeltsin and Ligachev indulged in a public duel, and Ligachev's words—“You are wrong, Boris!”—became a popular saying. Ryzhkov accused Yeltsin of “political nihilism.” Gorbachev let radicals and conservatives fight it out, balancing one another, and he towered over the proceedings. The road lay open for the destruction of the CPSU and the democratic transformation of the Soviet Union. Gorbachev's power had reached its peak.

The resolutions of the 19th Party Conference incredibly introduced real elections. The bogus parliament, the Supreme Soviet, which met ceremoniously twice a year for a couple of days to rubber-stamp one or two laws, was to be replaced with a large new USSR Congress of People's Deputies. It would have 2,250 members, of which 1,500 would be elected and 750 selected by political or social organizations, such as the CPSU. Any candidate could be nominated and free elections were supposed to prevail, but no political party other than the CPSU was permitted. The Congress, in turn, would within itself elect a bicameral Supreme Soviet that would be convened as an ordinary legislating parliament for eight months a year.

This solution was pure Gorbachev. It was a compromise that was somehow accepted by everybody but drove developments in the direction he desired. The hardliners thought they could manipulate the elections and maintain their dominance, while reformers saw a big step forward. A major reform required plenty of legislation and the new parliament offered substantial legislative capacity. The problem, however, was that the large Congress of People's Deputies was too cumbersome to work. Nor was it representative, as the elections/appointments were not very democratic, and the Supreme Soviet was even less representative. Gorbachev had built a house of cards that was a transitional solution, and it was unclear how it would evolve.

Gorbachev was equally radical in his treatment of the party. In all but name, he abolished both the Politburo and the Central Committee Secretariat. Although the secretariat persisted formally, it stopped meeting, because Ligachev remained its chair. It was replaced by six Central Committee Commissions, which worked independently of one another. Gorbachev also slashed the size of the Central Committee apparatus, the heart of the party, halving its number of departments. Ligachev (1993, 109–10) commented:

The commissions were established, and the secretariat's meetings simply ended of their own accord. The Party was deprived of an operating staff for its leaders. This had a deleterious effect on the activity of both the Central Committee and the regional Party committees. Executive discipline decreased sharply, and control weakened. . . . The center seemed to vanish and vertical ties as well.

Gorbachev was destroying the CPSU from the top, but since the party remained his center of power, he was sawing the branch upon which he sat. Reformers advised him to abandon the party altogether. By staying the head of an organization that he had discredited and failed to reform, he undermined his own power. Furthermore, by weakening "democratic centralism," that is, the dictatorship within the party, he gave party hardliners free sway to attack liberals and himself.

The first semi-free parliamentary elections to the Congress of People's Deputies of the USSR were held on March 26, 1989. One-third of the

deputies were appointed by social organizations, including 100 top officials by the CPSU, headed by Gorbachev. Other political parties were not permitted, and the possibilities of campaigning were very limited. The elections were reasonably free in the western parts of the USSR, the most nationalist republics, and the big cities. The turnout was Soviet-like at nearly 90 percent, and 87 percent of the candidates elected were members of the CPSU. Yet, by this time party membership did not mean all that much. About one-third of the deputies were reformers. The leading drama in the elections was Yeltsin's election as a deputy for the city of Moscow, winning almost 90 percent of the votes after a magnificent grassroots campaign. Yeltsin had established himself as the democratically elected political leader, whereas Gorbachev was appointed by the CPSU.

Somewhat foolhardily, Gorbachev became chairman of the USSR Congress of People's Deputies. In May-June 1989, the first session of the Congress marked the breakthrough of freedom of speech in Russia, and Gorbachev as its active chairman was scolded by liberals and hardliners alike, which undermined his authority. In addition, its long sessions demanded far too much of his time.

The Brezhnev constitution of 1977 was the first Soviet constitution to mention the CPSU, and its Article 6 enshrined its leading role and thus its monopoly of power. At the USSR Congress of People's Deputies in December 1989, Academician Andrei Sakharov, the saint of the liberal opposition, called for the elimination of Article 6. Gorbachev rebuffed Sakharov and loud deputies jeered him away from the podium. Sakharov shook his head sadly and died a few days later. Gorbachev attended his funeral. The Central Committee made the decisive recommendation to abolish Article 6 in February 1990. Gorbachev caught up with Sakharov's demand, but rather than being the trailblazer, he had become a reluctant acceptor always lagging behind the revolution that was about to gain momentum. The public dispute with Sakharov just before his death damaged Gorbachev's reputation.

Finally, Gorbachev decided to "legalize" his own position and become president of the USSR rather than only general secretary of the Communist Party. He had replaced old Andrei Gromyko ("Mr. Nyet") as chairman of the USSR Supreme Soviet in October 1988. In March 1990, the Congress of People's Deputies instituted the new office of president of the USSR. Gorbachev made his perhaps most fatal mistake when he decided not to go for a popular election of himself. The president was to be elected by the USSR Congress of People's Deputies, which had a guaranteed communist majority. Gorbachev was elected, but humiliatingly only 59 percent of the deputies voted for him and 495 of 1,878 votes cast were against him in an uncontested ballot (Aron 2000, 371-72; White 1993, 66). According to the best opinion polls, he still enjoyed the approval of 49 percent of the Russian population in December 1989, but one year later his rating had fallen to 14 percent, never to recover (Brown 1996, 271).

National Revival and Disputes

An age-old concern of Soviet leaders had been the national question. Like the Habsburg Empire, the multinational Russian Empire had been called “a prison of nations.” Each Soviet leader had his own pertinent understanding of how to handle this intrinsic problem.

In his Machiavellian style, Stalin made sure to divide territories so that each troublesome nationality faced another problematic nationality in its own territory, having to appeal to Moscow for support. During World War II, he deported 11 large ethnic groups altogether to Siberia and Central Asia, notably the Volga Germans, the Crimean Tartars, the Chechens, and several other people in Northern Caucasus. In addition, he carried out mass deportations and massacres of elites. After the Baltic nations and Western Ukraine were incorporated into the Soviet Union during World War II, large parts of their populations were deported to Siberia or executed.

Brezhnev, by contrast, tried to keep everybody happy in their own corner. He allowed the titular ethnic group in each republic to dominate the local politics as never before, even accepting discrimination against ethnic Russians in all the union republics. Yet, manifestations of national revival were clamped down upon with as much violence as was necessary, and many nationalists were imprisoned.

When Gorbachev became Soviet leader, the share of ethnic Russians had declined to only 53 percent of the Soviet people. French historian H el ene Carr ere d’Encausse (1978) argued that the greatest threat to the Soviet Union was that most newly born Soviet children would soon be Muslim. While she rightly focused on the national threat to the Soviet Union, it came from the more developed nations in the western and southern part of the union rather than from the underdeveloped east. Unlike his hardened predecessors, Gorbachev was uniquely na ive about national issues. His 1987 book *Perestroika* illustrates his delusions:

The Revolution and socialism have done away with national oppression and inequality, and ensured economic, intellectual and cultural progress for all nations and nationalities. . . . If the nationality question had not been solved in principle, the Soviet Union would never have had the social, cultural, economic and defense potential as it has now. Our state would not have survived if the republics had not formed a community based on brotherhood and cooperation, respect and mutual assistance. . . . Socialism, which has helped each nation to spread its wings, has all the conditions for solving nationality problems on the basis of equality and cooperation. (Gorbachev 1987b, 118–19)

Gorbachev repeated old Soviet propaganda, but his actions indicated that he believed this propaganda. He persistently ignored national problems. When they exploded he tried to explain them away as unrelated to nationalism. As a consequence, his reign was shaken by one national con-

flict worse than the other, and Gorbachev was invariably caught off-guard. He did not understand that if he eased political repression, not only democracy but also national struggles would erupt.

Cautious Brezhnev had selected the first party secretary from the dominant ethnic group in each union republic. In December 1986, however, Gorbachev replaced an old Brezhnev protégé as first secretary of Kazakhstan with a Russian outsider, Gennady Kolbin. Riots broke out in Kazakhstan's capital of Alma-Ata, and Moscow responded with its old repressive tactics, leaving some people dead and many injured. Although Kolbin's appointment was an obvious mistake, he was not replaced until 1989, with a Kazakh, Nursultan Nazarbayev (who remains Kazakhstan's president).

The three Baltic nations, Estonia, Latvia, and Lithuania, had all been independent in the interwar period. Because of the Molotov-Ribbentrop Pact between the Soviet Union and Nazi Germany in August 1939, they were occupied by the Red Army in July 1940 and forcefully incorporated into the Soviet Union. A hopeless guerilla war continued for many years after the end of World War II, and these nations never accepted their occupation, although a large part of the population was deported or executed. Humanely, Gorbachev reacted against the repression in the Baltics and eased it, but the Balts showed him no gratitude, demanding independence instead. In 1988, broad anticommunist national fronts were formed in all three republics. They held huge, peaceful manifestations centered around their traditional song festivals. From 1989, they openly stated their aim of national independence. Baltic nationalism was so strong that it penetrated the republican communist parties. In December 1989, the Lithuanian Communist Party departed from the CPSU. The Estonian Communist Party took the same course in March 1990, and the more hard-line Latvian Communist Party split (Lieven 1993).

In the Baltic countries, Gorbachev demonstrated that he did not understand nationalism. He appreciated the Balts' liberalism, and seemed personally hurt that they still wanted to secede from his country. During repeated visits, Gorbachev was perplexed and infuriated, but most of all sad. Unlike Gorbachev, the Balts knew what they wanted, and they got it. In the first reasonably free republican parliamentary elections in February–March 1990, the popular fronts won landslide victories with more than two-thirds majority in each of the three national parliaments, and they assumed executive power. They declared their independence from the Soviet Union, which responded with an oil embargo on Lithuania. The Balts were ready for an endgame that could only lead to national sovereignty.

In the Caucasus, Orthodox Christian Armenia and Muslim Azerbaijan harbored old animosities. Stalin had left an Armenian exclave, Nagorny Karabakh, in neighboring Azerbaijan in his endeavor to aggravate national conflicts. In February 1988, the regional council of Nagorny Karabakh demanded their territory be transferred to Armenia, their ethnic homeland. Hundreds of thousands of demonstrators gathered in Arme-

nia's capital of Yerevan to support their demand. Azerbaijanis responded with a popular pogrom against Armenians in the industrial Azerbaijani city of Sumgait, in which at least 32 people died. The Kremlin insisted that no borders must be redrawn, which alienated both nations (Brown 1996).

After the Sumgait massacre, the Soviet Union was caught in a hamster's wheel of aggravating national conflicts. The small elite troops, the special forces (*spetsnaz*) of the Ministry of Interior, were sent to quash one national wildfire after another in escalating bloodshed.

Georgia was another ancient Caucasian nation. Although it had belonged to the Russian empire for nearly two centuries, with a brief interruption in 1918–21, it harbored a strong nationalist opposition against the repressive local communist leadership. On April 9, 1989, the Soviet military attacked a peaceful demonstration of thousands of Georgian nationalists in the capital of Tbilisi with poison gas and spades, killing 20 demonstrators and injuring hundreds. This massacre attracted considerable publicity. Gorbachev and his associates denied responsibility, which remained murky. The local hard-line communist leaders were blamed and sacked, but the massacre was probably instigated by conservative communists in Moscow. Nationalists won the relatively free parliamentary elections in the spring of 1990 and assumed executive power (Slider 1997).

In January 1990, a sudden and vicious pogrom of the city's large Armenian community occurred in Azerbaijan's capital of Baku. As usual, Soviet internal troops were flown in. Subsequently, I spoke with a Soviet major in the special forces. He estimated that some 600 to 700 people had been killed in a massive bloodletting during one single night and thought Moscow had provoked it. This was the worst massacre Soviet forces carried out under Gorbachev's leadership, but it received little public attention because the Azerbaijani nationalists might also have been guilty. As a consequence, the Popular Front of Azerbaijan lost out, and strict communist dictatorship prevailed in that republic. In Armenia, on the other hand, the nationalist opposition won the upper hand. After Armenia and Azerbaijan had become independent, full war broke out between them over Nagorny Karabakh in February 1992.

National strife was aggravating ever faster, as law and order broke down. One of the most absurd, and awful, incidents occurred in the Osh region in southern Kyrgyzstan in the summer of 1990. Regional party officials gave a collective farm where ethnic Uzbeks worked to ethnic Kyrgyz. Kyrgyz and Uzbek peasants started slaughtering one another, and before the authorities had gotten the situation under control, some 300 people had been killed.² This happened in the fertile but poor and overpopulated Fergana Valley. Worries arose that this region would explode into warfare between the Kyrgyz, Uzbeks, and Tajiks who shared it. Fortunately, that has not happened yet.

2. According to conversations with local officials in Osh in 1998.

In short, Gorbachev's nationality policy was nothing but a disaster, because he never recognized nationalism as a force. By the summer of 1990, Moscow had lost control of the three Baltic countries, Armenia, and Georgia. Armenia and Azerbaijan were about to go to war, while Tajikistan, Georgia, and Moldova were on the cusp of civil wars of varying severity. Yet Gorbachev used as little violence as possible, and Dominic Lieven's (2000) judgment holds that no empire has collapsed with so little bloodshed, for which both Gorbachev and Yeltsin should be honored.

The Demise of the Plan and the Rise of Rent Seeking

Gorbachev's economic reforms were eclectic but driven by a strong sense of direction.³ After all the minor reforms had failed, Gorbachev wanted to proceed with more radical economic reforms, with decentralization within the state system and liberalization on the margin. These ideas pertained to a socialist market economy, although rarely stated, because the reformers avoided an ideological conceptualization to escape the wrath of hard-line communists. They spoke about "marketization" but added the attribute "socialist" and they never talked about a "free market." Eventually, they proposed "de-statization" (*razgosudarstvenenie*), but never privatization (*privatizatsiya*). Soviet reformers frowned upon macroeconomics as wicked capitalism, which explains their near-complete ignorance of this subject. Major Marxist dogmas, such as the necessity of nationalization and the dislike of money and free prices, remained strong.

American capitalism was continuously condemned as cruel and inhuman. Instead, the Gorbachev reformers praised three other capitalist models, the Swedish, German, and Japanese models.⁴ They sought a maximal social welfare state, with huge social transfers that required high progressive income taxes. They also focused on two Soviet experiences, Alexei Kosygin's partial reforms of 1965 and Lenin's radical New Economic Policy of the 1920s.

In reality, however, the Soviet reformers did not choose any economic model, but cherry-picked. Soviet economists were surprised by Gorbachev's radicalism and poorly prepared intellectually for real market reform. They had not been allowed to travel abroad or study foreign economic literature, and few knew foreign languages. The top academic

3. An overall source to this section is Åslund (1991).

4. In 1988 and 1990, I participated in a Soviet-Swedish roundtable on economic reform in Sweden and Moscow, respectively. It involved senior Soviet reform economists, notably Leonid Abalkin, Abel Aganbegyan, and Anatoly Milyukov, and primarily right-wing Swedish social democratic reformers. The Soviet reformers were earnest about learning about the Swedish experience. They held similar roundtables with Japanese economists.

economists had been used to criticizing shortcomings in their existing system and offering incremental improvements. Foreign advice was not acceptable until 1990. Under these conditions, the Russian reform was bound to be a tortuous process of trial and error.

Reformers tried to undertake all ideologically permissible reforms. They could make headway when their reform proposals found support among state enterprise managers, who had become a key constituency, but the managers accepted only what benefited their material interests. The unintended consequence was that the naïve Soviet reformers contributed to the building of an extraordinary machine of rent seeking.⁵

On the one hand, each reform undermined communist dogmas and helped liberalize both the economy and society. On the other, the reforms contributed to the enrichment of a small elite of state enterprise managers and related operators. These partial reforms actually aggravated economic performance and caused an extraordinary macroeconomic crisis (Boycko 1991; Murphy et al. 1992, 1993). But this policy also drove a wedge between the newly rich and the old party ideologists, dividing the *nomenklatura* (Dobbs 1997). Large-scale rent seeking caused a horrendous economic crisis and facilitated the peaceful collapse of the Soviet Union.

By 1987, Gorbachev's patience had run out. He organized a Central Committee plenum on economic reform in June 1987, which made the most important economic decisions of his reign. The Soviet leadership adopted the principal documents on the reform of the state economy, namely the Law on State Enterprises and Basic Provisions for Fundamental Perestroika of Economic Management. They were complemented with 10 decrees on major functions of the economic system and published as a book (*O korennoi perestroiki* 1987). This first attempt at a comprehensive reform came into force in January 1988. However, the outline of this reform compared poorly in quality, clarity, and consistency with the similar Hungarian socialist market reform of 1968, because many basic principles were muddled by compromise.

The outcome of the reform was very different from what Gorbachev had intended. From 1987 until 1991, he built a hothouse of rent seeking, undoubtedly without realizing that he was doing so (Yasin 2002, 118–21). The economic reforms contributed to this rent seeking by minimizing central oversight over state enterprises without demanding accountability, introducing free-wheeling cooperatives, accepting unregulated banks, and partially liberalizing foreign trade (Åslund 1996). The adverse results of all these partial reforms led to a continuous radicalization of the emerging economic thinking on markets.

5. Rents can be defined as “profits in excess of the competitive level” (Brealey and Myers 2000).

Partial Foreign Trade Deregulation

One of Gorbachev's first reforms was a partial liberalization of foreign trade. It started as early as August 1986, long before the domestic market was liberalized. Its primary goal was to break the foreign trade monopoly of the Ministry of Foreign Trade to the benefit of large state enterprises.

By 1988, more than 200 corporations had been granted the right to pursue foreign trade, and by 1990 their number approached 20,000 (Åslund 1991, 141). This liberalization was very popular among the managers of big state corporations, because they obtained an opportunity to make money through arbitrage on the enormous differences between low domestic prices and many-times-higher world prices.

In parallel, up to 3,000 so-called currency coefficients were introduced, as every significant foreign trade good was assigned its own exchange rate. The ratio between these currency coefficients varied from 1 to 20, offering extraordinary opportunities for arbitrage. In late 1990, these coefficients were replaced by a unified commercial exchange rate, but even so the Soviet Union had one official rate, one commercial rate, and one plummeting black market exchange rate, permitting ever greater arbitrage gains.

State Enterprises: Freedom Without Accountability

The Law on State Enterprises changed everything for state enterprises. It did not abolish central planning, but it brought about a stalemate. The state could no longer govern enterprises, but nor could enterprises rely on any market. The Soviet economy was neither here nor there. It was about to fall into a deep chasm between two systems.

An eternal ambition of all bureaucrats is to perfect administration. Several organizational changes were attempted. At the top, the aim was to improve central coordination by introducing superministerial bodies or by merging ministries. The reformers wanted to weaken the industrial ministries. Therefore, the number of union ministries was reduced from 64 in 1979 to 55 in March 1988 to 37 in July 1989. The staff of the ministries was reduced by no less than 46 percent, from 1.6 million in 1986 to 871,000 in 1989 (Goskomstat SSSR 1990, 50).

A traditional Soviet dilemma had been how to link enterprises to ministries. An array of intermediary associations had been tried, but Gorbachev wanted to do away with them to emasculate their "petty tutelage" of enterprises. As a result, each ministry would supervise about a thousand industrial enterprises, which was impossible. Gorbachev responded by calling for a merger of the 37,000 industrial enterprises into several thousand large production associations. The outcome was that the branch ministries, which had virtually owned the state enterprises, could no longer supervise them, so enterprises gained great autonomy. However,

no market could evolve amidst huge and rising shortages, and the result was chaos rather than a more market-oriented order.

Workers' self-management was a vital part of the Law on State Enterprises, and by the end of 1987 more than 36,000 managers had been elected in industry and construction. Gorbachev himself had taken a clear stand in favor of workers' self-management as early as December 1984:

Marx, Engels, and Lenin considered a transition to self-management by workers a practical task for the proletariat from the moment it assumed power. The main content of this idea was to assure an ever larger mass of workers' real, practical participation in management. (Gorbachev 1987a, 82)

Initially, "self-management" transferred the power over enterprises from ministries to local party committees, which organized "elections" through actual appointments, but this aroused such public criticism that the managers won. By 1989, managers could no longer be removed and had effectively become quasi-owners of state enterprises. The dream of workers' democracy, however, never became a reality in the Soviet Union.

On paper, the Law on State Enterprises abolished central planning: "Annual plans are elaborated and confirmed by an enterprise independently on the basis of its five-year plan and concluded economic agreements."⁶ Yet, enterprises were admonished to consider control figures, state orders, long-term economic normatives, and quotas, which allowed the central planning authorities to command enterprises as before. This turned out to be one of many Pyrrhic victories of the conservatives, because glasnost allowed an extraordinary public reaction against Gosplan for its failure to implement the reform. By 1990, this central tutelage had collapsed. The enterprise managers were free to do what they wanted.

Both Soviet conservatives and reformers chose pricing as the central battleground for a genuine public debate. Reformers rightly saw price liberalization as critical for the success of market reform, while the conservatives felt confident of political support from the bureaucracy, the public, and communist ideology. Given the prevalence of shortages, price liberalization would mean much higher prices, which was naturally unpopular. To the public, price reform meant higher prices of heavily subsidized meat. As a result, the price reforms adopted in 1987 were partial and contradictory. Prices for enterprises could be raised but not prices of consumer staples. Prices of the most important products remained centrally fixed, but more prices could be set independently. The idea was to reduce state subsidies and bring prices closer to world market prices. In reality the opposite happened because of aggravated macroeconomic imbalances, the plummeting exchange rate, and the prohibition against any significant adjustment of consumer prices. Enterprises could alter their production mix to products with higher margins, which led to aggravated economic

6. *Pravda*, July 1, 1987.

performance, hidden inflation, and shortages. Why produce more if you could raise prices instead?

Gradually, finances and money became relevant to enterprises, but here the ministries held sway in the formal economy. They refused to standardize taxes, and corporate profit tax rates varied by enterprise from 0 to 90 percent (Shmelev 1988, 166). Nor were these tax rates stable, but adjusted by the ministries at will. Well-managed enterprises were penalized, while loss makers benefited.

After a couple of years, the managers assumed supreme control over “their” state enterprises and were not accountable to anybody. They possessed the cash-flow rights but not the control rights, which meant that they could tap money from the enterprise but not sell it. Through its very failure, the Law on State Enterprises demonstrated the need for a fundamental reform of the very economic system.

Cooperatives: The First Real Private Enterprises

In 1986, the Law on Individual Labor Activity legalized a multitude of microenterprises designed for craftsmen. In May 1988, the revolutionary Law on Cooperatives was enacted. Its contents were amazingly liberal, representing the real breakthrough for private enterprise in the Soviet Union.

The Law on Cooperatives was the first legal act with consistent market economic thinking. Any three adults could open a cooperative, and they were allowed to hire as many people as they wanted. These cooperatives were truly self-managing, self-financing, and profit-oriented. They operated freely on the market without plans, centralized supplies, or price regulation. The law explicitly permitted cooperatives to engage in any kind of activity not forbidden by law. They could even set up banks and pursue foreign trade. The only formal requirement was to register their statutes with the local authorities, who were compelled to decide within one month whether to approve them. Unlike individual labor, the cooperatives benefited from very low tax rates, even if tax practices were unstable.

This was a complete victory for the reformers. Gorbachev declared unequivocally: “We need highly efficient and technically well-equipped cooperatives that are capable of providing goods and services of the highest quality and competing with domestic and foreign enterprises.”⁷ Reformist Academician Leonid Abalkin argued that cooperatives would saturate the market demand for goods and services of high quality, mobilize additional labor, and stimulate state production to become less bureaucratic.⁸

Soon, stunning cooperatives emerged that looked like modern Western companies. In Moscow, one of the first new cooperatives was a wonderful

7. *Pravda*, March 24, 1988.

8. *Voprosy ekonomiki*, no. 11, 1987, 142.

Russian restaurant on Kropotkinskaya Street. Unlike Soviet restaurants, it was cozy, had excellent service, and served the best of Russian food, but its prices were Western. Because of their economic freedom, these new enterprises offered better services and products of higher quality, and their economic efficiency was invariably impressive. The government promoted cooperatives as a success in a propaganda campaign.

Regardless of excellent economic results, a massive popular reaction against the first cooperatives and private enterprises surfaced as early as the summer of 1987. Most upsetting to this still-socialist society was the sudden emergence of large, unconcealed private earnings. On March 21, 1987, a harbinger was a headline in the popular broadsheet *Komsomolskaya pravda*: "They Will Become Millionaires!" The few bold entrepreneurs who skimmed the market did very well. Another concern was high cooperative prices, which were probably three to four times higher than state prices because of massive shortages. The very idea of free pricing was as incomprehensible as it was indecent to many Soviet citizens. Naturally, complaints about economic crime and immorality emerged. Competition and taxes were minimal and regulations vague. Nobody knew how long this bonanza would last. The whole setup appeared designed to make a few people rich, but Abalkin explained that these cushy conditions had been established "deliberately to enliven and develop that sphere."⁹

The new cooperatives were real capitalist enterprises, running counter to all the principles of the socialist economy. Repercussions were multiple. They made enterprise money real money. A black market for the "wooden" account rubles for transactions between enterprises developed, valuing them at one-third of ordinary cash rubles in early 1990.

As state enterprise managers were becoming increasingly independent of the ministries, they wanted to channel the fortunes in their state corporations to themselves. Managers established private cooperatives on a mass scale and attached them to "their" state enterprises to transfer dead enterprise money into their own pockets. They sold attractive goods at low state prices to their private cooperatives, which accumulated the profit. Soon, they passed on the profit to offshore companies to keep it safe abroad. This management theft mechanism was fully established by mid-1988. From that moment, it was only a matter of time before the economic system would collapse (Yasin 2002, 118; Solnick 1998). Not only the state enterprise managers but also most of the later oligarchs started their businesses as cooperatives in 1988. Legalized theft from state enterprises through cooperatives and foreign trade was the name of the game.

Other forms of nonstate ownership emerged as well. The Law on State Enterprises allowed various forms of self-management, blurring the distinction between cooperatives, self-managed units of state enterprises, and leaseholds. At the end of 1987, joint stock companies with private owner-

9. Soviet Television, Foreign Broadcast Information Service, April 1, 1988, 55.

ship were also formed without any support from new legislation. Thousands of enterprise managers “leased” their state enterprises, which became a means of gradual spontaneous privatization.

Complete polarization prevailed in the debate over ownership. Reformers made cooperatives the centerpiece of their attack on the command economy, with ample support from state enterprise managers, whose strong material interest explains the political success of cooperatives. Another reason was that the Law on Cooperatives was so lucid and categorical that it was difficult to roll back. The hardliners understood the danger and mounted a determined struggle, but they lost.

The Rise of an Unregulated Banking Sector

Peculiarly, the Law on Cooperatives even allowed the formation of commercial banks as cooperatives. Soon cooperative banks mushroomed without any regulation. At the time of the collapse of the Soviet Union, Russia already had 1,360 registered commercial banks (Johnson 2000).

Throughout the world, banks are the most regulated companies, but not so in the late Soviet Union. People were allowed to set up banks with minimal knowledge and tiny capital. These banks became means of activating dead enterprise money and many banks were attached to state enterprises. The old state banks joined the spoils by multiplying through splits.

In 1990, inflation started to rise, but the government refused to increase state interest rates from the low single digits. As a consequence, private commercial banks gained huge inflationary profits. They extracted vast state credits at minimal nominal interest rates, effectively usurping the mounting inflation tax.

Eventually, the Soviet Central Bank, Gosbank, tried to regulate the new commercial banks, but in 1990 it encountered competition from the newly formed Central Bank of Russia. These two central banks started competing for bank registration by driving down both taxation and reserve requirements for banks, leaving the banks the most deregulated companies in the Soviet Union. They also competed in the issue of credit. Any serious budding future capitalist established his own commercial bank. With such a banking sector, hyperinflation could hardly be avoided.

A Perfect Rent-Generating Machine

A perfect rent-generating machine had been constructed. The liberalization of foreign trade allowed state enterprises to carry out arbitrage between low domestic prices of raw materials and high world market prices and between greatly varied exchange rates. The Law on State Enterprises permitted enterprises to keep the remaining profits, which had previously been confiscated by the state at the end of a year. The new cooperatives

made it possible for enterprise managers to transfer the profits of their state enterprises to their private companies. The new commercial banks provided them with cheap state credits to finance their business.

One example illustrates how outrageous the distortions and rent seeking were. In 1990, a pack of Marlboro cigarettes cost \$1 or 30 rubles in the street, which was also the black market exchange rate on the dollar. Incidentally, the official Soviet wholesale price of one ton of crude oil was exactly 30 rubles. However, the wholesale price was set in bank money, and one could purchase three bank rubles for one cash ruble at that time. Therefore, with the right contacts, a Soviet operator could purchase three tons of crude oil, worth \$300 on the world market, for \$1 or one pack of Marlboro. Little wonder that oil trading became the main source of early fortunes. Similarly, Yegor Gaidar (1999, 122) noted that at the end of 1991, someone with an official export quota for oil could pay as little as one ruble for one dollar, when the free exchange rate was 170 rubles per dollar.

Ironically, this rent-seeking machine had been formed by earnest reformers who wanted to establish a market economy, but they believed in gradual reforms. They sought support from state enterprise managers against dogmatic communists, but the businesspeople only accepted reforms from which they could benefit personally. These practices are often blamed on Yeltsin and his economic reformers, but Gorbachev and Ryzhkov established them between 1987 and 1990.

A Parade of Reform Programs

The evident failure of the Gorbachev reforms of 1987–88 passed a severe judgment on partial and gradual reforms. A broad understanding evolved that economic reforms had to be more radical and comprehensive. For one year, from October 1989 to October 1990, Moscow was enamored with an intense discussion of economic reform programs.¹⁰ None of these programs was implemented, but they had great intellectual and ideological impact because they introduced normal market economic thinking in Russia.

In early 1990, a young economist, Yegor Gaidar, published his annual economic policy review in the journal *Kommunist*. Gaidar stood out because he was almost the only Russian economist who wrote about the Soviet economy as a Western economist reviewing the macroeconomic situation. His judgment on economic policy in 1989 was severe: “The traditional administrative management system is no longer able to serve the economy, but conditions for the effective functioning of a market economy have not been created. A strange situation with an absence of economic management has emerged” (Gaidar 1990, 23).

10. This section draws on Åslund (1991, 206–12).

After the 19th Party Conference the CPSU apparatus lost most influence over economic policy. The Council of Ministers and its subordinated Gosplan took over. In July 1989, a Reform Commission was established under the Council of Ministers. It was headed by a leading reform economist, Leonid Abalkin, who also became deputy prime minister. In 1990, a new center of economic policymaking emerged around the president's office. In January 1990, Nikolai Petrakov, a leading reform economist, became Gorbachev's personal economic advisor, and in March 1990, when Gorbachev became president, he appointed a Presidential Council, which included Academician Stanislav Shatalin, another prominent reform economist.

The first comprehensive Soviet reform program—the Abalkin Program—was presented by the Reform Commission in October 1989. It was stunningly radical, opting for a full-fledged market economy and breaking a whole range of communist taboos. “From our own experience, we have been able to convince ourselves that there is no worthy alternative to the market mechanism for coordinating actions and interests of economic subjects.” Moreover, the market had to have “free prices and economic competition to function efficiently.” The Abalkin program also made advances on ownership, but it stopped short of private ownership.¹¹

In parallel, Gosplan worked out an alternative, more conservative program that was presented by Prime Minister Ryzhkov in December 1989.¹² No marketization would be undertaken for three years, and the Ryzhkov program took exception to private ownership and denationalization.

In early 1990, three young economists connected with Abalkin's Reform Commission—Grigori Yavlinsky, Mikhail Zadornov, and Aleksei Mikhailov—presented their sensational “400-day program,” which was inspired by the radical market reform that had just been launched in Poland. It advocated rapid and massive privatization and full marketization within 400 days to stabilize the economy. Its authors argued: “The time for gradual transformation has been missed and the inefficacy of partial reforms has been proved by the experiences of Hungary, Yugoslavia, Poland, and China.”¹³ Reflecting the swift political radicalization and the aggravation of the economic crisis, both Abalkin and Ryzhkov spoke approvingly of this purely capitalist program, whereas Gorbachev talked more vaguely about the need for the “radicalization of economic reform,” “a full-blooded market,” and “a land reform.”¹⁴

But in March 1990, the CPSU suffered a severe blow in republican parliamentary elections. Many Soviet leaders realized that they had nothing

11. *Ekonomicheskaya gazeta*, no. 43, 1989.

12. *Izvestiya*, December 14, 1989.

13. *Delovoi mir*, July 31, 1990.

14. *Pravda*, March 28, 1990.

to gain from radicalization. In May 1990, Ryzhkov presented a second government reform program, which was merely a concretization of his December 1989 program. Foolhardily, this document detailed the planned increases of retail prices, unleashing a massive run on the already nearly empty shops and extraordinary hoarding, which lasted until the government announced that it would postpone the price hikes.

In June 1990, the Russian Congress of People's Deputies under Yeltsin's leadership embraced the 400-day program, which had been renamed the 500-day program. Gorbachev stunned the public by meeting Yeltsin in July 1990, seemingly giving in to Yeltsin. They agreed to form a joint working group, which would prepare a new "concept of a union treaty" and "the transition to a market economy." The economic reform debate had reached its crescendo. Gorbachev and Yeltsin sent off their top economists to a dacha outside Moscow for the month of August to write such a program. Gorbachev selected his two most liberal economists: Shatalin, who became chairman, and Petrakov. Yeltsin sent a brash band of young and radical economists, including Yavlinsky, Zadornov, and Boris Fedorov. A third group of participants was made up of outstanding economists from the Academy of Sciences. A leading liberal economist from Abalkin's Reform Commission, Yevgeny Yasin, was also included. These were the best and brightest of Russia's economists, though still no foreign input was permitted. Abalkin, however, refused to participate. He had parted company with the radical reformers. Ryzhkov was even more hostile.

The popular expectations were enormous, and the Shatalin group did not disappoint. After three weeks of perpetual work it published two books, which became a sensation. One contained the actual program and was called "Transition to the Market: Conception of a Program" (*Perekhod* 1990a). The second volume contained 21 draft legal acts (*Perekhod* 1990b). The Shatalin program advocated a rapid financial stabilization and transition to a market economy as well as large-scale privatization and a broad delegation of powers to the union republics. It contained a concrete schedule for such a transition in the course of 500 days. The word socialism was not even used. The Shatalin or 500-day program stands out as the breakthrough for nonsocialist economic thinking in the USSR. The liberal gauntlet was cast.

The government felt the heat. Without much attention, Ryzhkov and Abalkin sat with the government's top economists at another dacha outside Moscow and worked on their own program, which was ready a few days after the Shatalin program. Its tellingly bureaucratic title was "The Government Program for the Formation of Structures and Mechanisms of a Regulated Market Economy" (*Pravitel'stvennaya* 1990).

These two alternative reform programs were presented to the USSR Supreme Soviet in September 1990, and the general expectation was that Gorbachev would adopt the Shatalin program. Instead Gorbachev orga-

nized a political circus, an art in which he was far superior to Yeltsin. First, he criticized the government program because of its absence of a credible financial stabilization plan. Next, he favored a compromise between the two programs, although both sides stated that their approaches were irreconcilable. Then, he asked the highly respected liberal Academician Abel Aganbegyan to produce a synthesis. Obediently, Aganbegyan did so, but his synthesis coincided largely with the Shatalin program. Now, Gorbachev turned critical, complaining that the Aganbegyan program contained “controversial clauses.” In the end, the Supreme Soviet did not adopt any program. In all likelihood, Gorbachev engaged in the 500-day program only to kill it. He waited because it was too popular and Yeltsin had embraced it, but by October 1990 he might have felt that his obfuscation had done the trick and deflated its popularity.

By October 1990, Moscow’s political mood had changed, as hard-line communists went on the offensive. The reform discussion ceased. The popular sentiment was that the Soviet Union had seen too many reform programs (ten), but that nothing was done. The Soviet Union was sailing into a devastating economic crisis without a strategy. Actual economic policy became a mixture of desperate measures within the framework of the old Soviet system.

Gorbachev’s politicking in September 1990 was irresponsible in the extreme. This was his last opportunity to salvage his country from hyperinflation, and he intentionally missed the moment to adopt a comprehensive program of market reform for his political intrigues. By October 1990, a consensus had evolved among serious Russian economists that hyperinflation was inevitable and that the Soviet Union was bound to collapse. The thoughtful liberal insider Yevgeny Yasin (2002, 166) reckons that Gorbachev’s departure from power was set in motion by his rejection of the 500-day program. “At this moment, he gave in to the group of conservative party colleagues,” who would instigate the coup in August 1991.

Gorbachev had destroyed the CPSU as a policymaking machine, and nobody ever figured out what he wanted the Presidential Council to do, so it never did anything. The Council of Ministers stopped at routine management. The Soviet Union was left without serious policymaking and thus without policy. The lonely and increasingly desperate Gorbachev devoted his time to long and empty televised speeches and to foreign policy. Not only Shatalin and Petrakov, but even Abalkin and Ryzhkov, abandoned the rudderless sinking ship within the next three months. So did Yakovlev and Shevardnadze. State administration was taken over by the conservative lower rungs of the CPSU.

Effectively, Gorbachev’s presidency was over and he could as well have resigned. The only questions left were how and when the collapse would occur. At that very time, Gorbachev was awarded the Nobel Peace Prize.

Collapse of the Outer Empire

Gorbachev spent much of his time on foreign policy, especially preoccupied with summit diplomacy with the US presidents.¹⁵ After the Intermediate-Range Nuclear Forces (INF) Treaty between the United States and the Soviet Union was concluded in 1987, Soviet military expenditures had been capped. Other agreements were less vital for the Soviet Union. To a considerable extent, they aimed at keeping the Soviet military-industrial complex at bay.

Gorbachev signed several important international agreements, notably the agreement on the reunification of Germany and the Treaty on Conventional Armed Forces in Europe, but they laid him open to accusations of giving away too much to the West. He seemed primarily interested in reconfirming the superpower status of the Soviet Union and his own position as world leader. He toyed with the idea of a “common European house,” but he never imbued this concept with real substance. His prolonged love fest with the West seemed increasingly like a celebration of himself.

The main development in foreign policy in the last years of the Soviet Union was the collapse of the outer empire, the Soviet bloc in Eastern Europe—East Germany, Poland, Czechoslovakia, Hungary, Bulgaria, and Romania.¹⁶ After the Soviet invasion of Czechoslovakia in 1968, the Soviet Union officially declared its commitment to the defense of socialism in any part of the socialist bloc. This policy was named the Brezhnev doctrine. It meant that no country that had come under Soviet dominance could become free again. The Soviet withdrawal from Afghanistan was the first harbinger of the end of the Brezhnev doctrine.

On December 7, 1988, Gorbachev made a dramatic speech to the United Nations in New York. In nonideological language, he clarified that the Brezhnev doctrine was over and that the socialist countries could choose for themselves:

For us, the necessity of the principle of freedom and choice is clear. Denying that right of peoples, no matter what the pretext for doing so, no matter what words are used to conceal it, means infringing even that unstable balance that it has been possible to achieve. Freedom of choice is a universal principle and there should be no exception. (Gorbachev 1988)

With the bad luck that became Gorbachev’s hallmark during his last years in power, a severe earthquake shook Armenia and killed some 50,000 people at about the same time that Gorbachev made his earth-shaking speech at the United Nations. He had to rush back to the Soviet Union the next day, unable to elaborate on his great speech. The Armen-

15. The excellent memoirs of his foreign policy aide Anatoly Chernyaev (2000) are a general source to this section.

16. The best source on the liberation of Eastern Europe is Ash (1990). See also Åslund (2002).

ian earthquake exposed the dysfunction of the Soviet system. New apartment buildings collapsed like houses of cards because the builders had stolen cement and replaced it with sand. Rescue operations were bungled in every conceivable way. What Gorbachev had designed to be his greatest moment of international glory became a national humiliation.

The Eastern Europeans needed no explanation of Gorbachev's speech. They understood it was meant for them. Soviet rule in the region had never been legitimate, and none of these countries had chosen communism or alliance with the Soviet Union. Stalin had imposed Soviet power and the Iron Curtain upon them at the end of World War II. They had revolted repeatedly, but one at a time—East Germany in 1953, Hungary in 1956, Czechoslovakia in 1968, and Poland in 1956, 1970, 1976, and 1980. Soviet forces had quashed the popular uprisings in the first three countries, whereas the Polish communist government had done so itself. After the failure to reform Soviet socialism to adorn it with a human face in Czechoslovakia in 1968, communism had lost the little appeal it had. After 16 months of Solidarity in Poland in 1980–81, it was only a matter of time before communism in Eastern Europe would collapse.

When Gorbachev came to power in 1985, Poland and Hungary had already introduced market socialism, and their authoritarianism was mild. East Germany, Czechoslovakia, and Bulgaria, by contrast, were strict Soviet dictatorships with gerontocratic leaders. Politically, Romania was more independent from the Soviet Union, yet it was the most atrocious dictatorship, nicknamed “socialism in one family.” Gorbachev showed little interest in the region and even contempt for the dogmatic Eastern European leaders. He saw them as little as protocol allowed.

Arguably, Gorbachev never had a clear policy on Eastern Europe. He was against the use of military force, and as early as 1986 he reassured the Eastern European leaders that the Soviet Union would not use armed invasions against them again (though they were hardly convinced). Gorbachev wanted good all-European relations to build his nebulous “common European house,” to which the Iron Curtain and the division of Germany were serious impediments. The costs of the large Soviet garrison in East Germany seemed excessive to him. Yet he did not want to rock the boat. Until 1989, little happened in Eastern Europe, and the received wisdom was that nothing could change there without Moscow's consent.

Gorbachev's UN speech in December 1988 sounded the signal the Eastern Europeans had been waiting for: a convincing commitment that the Soviet Union would not use military force against them. Their response was swift but not what Gorbachev had expected. Within one year, the Soviet outer empire had been liquidated.

Poland and Hungary were the front-runners in reform. Gorbachev's UN speech informed their liberal communist leaders that they had better democratize to maintain authority and power. These two countries competed over democratic reforms. The Polish communist leaders convened

a roundtable with the opposition and agreed to hold partially democratic parliamentary elections on June 4, 1989. That day the outer Soviet empire broke. Sixty-five percent of the seats were reserved for the communists and their allies, but Solidarity won all the free seats in a landslide victory. The Communist Party's authority was finished. Its allies started defecting to Solidarity, and by September, Solidarity was able to form a coalition government, which soon launched a radical market economic reform. Poland had carried out a peaceful transition to democracy.

The Hungarian government organized a roundtable with the opposition in the summer of 1989 that led to full democratization with free parliamentary elections in March 1990, when the communists were thoroughly defeated.

The most contentious country was East Germany. Under Erich Honecker, its regime was most dogmatic, and Gorbachev did not even try to hide his disdain for Honecker. At the 40th anniversary of the German Democratic Republic in October 1989, Gorbachev stated publicly that "life punishes those who come late." He made clear that the Soviet Union would not defend Honecker's regime. One month later not only Honecker but the whole state was gone. East Germany's political destabilization started when Hungary opened its border to Austria on September 11. Thousands of young East Germans fled through that border to West Germany, where they were welcomed as citizens. The East Germans who remained behind reacted with democratic demonstrations, which culminated on November 9, when large numbers of demonstrators, chanting "Gorby! Gorby!," stormed the hated Berlin Wall and made their way to the West. The feared East German security police were not ordered to shoot because of the restraint imposed by Gorbachev.

The East German state had no legitimacy. In parliamentary elections in March 1990, the rightwing Christian Democratic Union won, and in October 1990 East Germany acceded to the Federal Republic of Germany. The two Germanys, the Soviet Union, the United States, France, and the United Kingdom engaged in intense negotiations for almost a year on the reunification of Germany, which Gorbachev accepted with remarkable ease. Gorbachev even conceded to East Germany joining the European Union and the North Atlantic Treaty Organization (NATO).

West Germany contributed some financing, which was extremely limited, only 12 billion deutsche marks in grant financing for the transfer of Soviet troops out of East Germany plus 3 billion deutsche marks in an interest-free loan, a total of less than \$12 billion (Zelikow and Rice 1995, 351–52).¹⁷ This paltry sum may be compared with the \$80 billion that West Germany poured into East Germany every year since 1990 (World Bank 2002). Even so, Gorbachev had to bargain hard for this pittance.

17. At the time, 1 deutsche mark was equal to \$0.78.

The large Soviet tank armies in Europe were both redundant and obsolete. The West insisted on a multilateral treaty on Conventional Armed Forces in Europe (CFE), which Gorbachev accepted. It was signed in Paris in November 1990 by the United States, Russia, and 20 other countries. The collapsing Soviet Union committed itself to the withdrawal of Soviet forces from Central and Eastern Europe, which was already under way. This treaty ensured that the Soviet forces in Europe, including European Russia, would be halved and remain so restricted for the foreseeable future. It specified how many troops Russia was allowed to have in various regions. By 1994, more than half a million soldiers, dependents, and civilians had been withdrawn from Germany (Zelikow and Rice 1995, 364–65).

In Bulgaria, Todor Zhivkov, the communist dictator since 1954, was overthrown in an internal coup on November 10, 1989, the day after the fall of the Berlin Wall. The putsch appeared instigated by Moscow, but it began a democratization process that was led by reform communists. A roundtable negotiation in early 1990 led to democratic elections in June 1990, which resulted in a narrow communist victory (Bell 1997).

On November 17, 1989, the so-called Velvet Revolution started in Czechoslovakia. Hundreds of thousands of Czechs took to the streets, and after three weeks the hard-line communist President Gustáv Husák was forced to resign. Parliamentary elections were held in June 1990 and parties arising out of the opposition Civic Forum won.

The last Eastern European satellite to go was Romania. On December 21, 1989, its ruthless dictator Nicolae Ceaușescu ventured to give a speech on the balcony of the party headquarters to tens of thousands of people on a wintry day in Bucharest. Suddenly, the crowd starting booing and stormed the party building. Ceaușescu escaped from the roof by helicopter, and wild shooting broke out in the capital. A few days later, the fugitive dictator was arrested and summarily executed. Democracy ensued, but the brusque regime change favored the communists, who managed to maintain power as in Bulgaria after democratic elections.

A year after Gorbachev had told the Eastern Europeans that they could do what they wanted, they had done so. All of them had opted for full democratization, which was more than Gorbachev desired. They also wanted full market economies, unlike Gorbachev. They immediately turned their backs on the Soviet Union, abandoning the Warsaw Pact and the Council for Mutual Economic Assistance (Comecon), the Soviet bloc trade organization. Both organizations were abolished in short order. Instead, the East European nations applied for membership in the European Union. The only consolation for Gorbachev was that Bulgaria and Romania were led by reform communists, that the Soviet Union had received limited compensation from West Germany for East Germany, and that he was enormously popular in the West.

When he was awarded the Nobel Peace Prize in October 1990, Gorbachev was honored “for his leading role in the peace process which today

characterizes important parts of the international community.” The West and Eastern Europeans all have reasons to be grateful to Gorbachev. He allowed the peaceful democratization of six countries to the benefit of over 100 million souls.

Fortunately, Soviet hardliners were taken by even greater surprise than Gorbachev by the demise of communism in Eastern Europe and did nothing. In March 1990, Ligachev wrote a letter to the Central Committee: “The Party expects an analysis of the events in Eastern Europe from the Central Committee. The socialist community is falling apart and NATO is growing stronger. The German question is a priority.” Ligachev drew the logical conclusions with considerable foresight: “The Party and Motherland are in danger, I would say in great danger. The possible breakup of our federation would be a world shock, an irreparable blow against socialism and the international Communist and workers’ movement” (Ligachev 1993, 117).

The collapse of the outer Soviet empire in Eastern Europe reinforced all the anti-Gorbachev constituencies in the Soviet Union. The hardliners cemented their opposition to reform. The 500-day program was rejected at the time of Germany’s reunification. Multiple nationalist movements prepared for secession. Liberals started hoping for real democracy and a market economy. As polarization intensified, Gorbachev was left hanging in the disappearing center.

In the midst of these earth-shattering events in the Soviet front yard, Gorbachev focused on arms control. Another arms control treaty—the Treaty on the Reduction and Limitation of Strategic Offensive Arms, subsequently called the START I treaty—was signed in July 1991, followed by the START II treaty concluded in 1993. START I required further deep cuts in both countries’ nuclear arsenals, but unlike the INF, it did not call for the elimination of an entire category of armaments. Instead, it contained different ceilings for how many strategic nuclear weapons each side could deploy. By reducing the number of the most threatening ballistic missile warheads and substantially cutting the aggregate missile throw-weight, the START I treaty reduced the risk of nuclear attack and also allowed the superpowers to decrease their military spending significantly (Goldblat 2002, 91).

Economic Collapse

By 1989, the signs of economic crisis amassed, and in 1990 the Soviet economy entered a terminal crisis.¹⁸ The chronic shortages became unbearable and prompted extensive rationing. The only good in surplus was money, and people hoarded whatever they could buy. Every Soviet home was filled with basic durable staples such as sugar, soap, and toilet paper. In

18. This section draws on Åslund (1991, 182–202) and Åslund (1995, 47–50).

Table 2.1 USSR budget revenues, expenditures, and balance, 1985–91
(percent of GNP)

	1985	1986	1987	1988	1989	1990	1991
State expenditures	49.7	52.2	52.2	52.5	51.2	51.3	n.a.
State revenues	48.0	46.5	45.9	43.3	42.6	47.2	n.a.
Budget balance	-1.7	-5.7	-6.3	-9.2	-8.6	-4.1	-31 ^a

n.a. = not available

a. For Russia, European Bank for Reconstruction and Development (EBRD). Different sources give highly varying numbers.

Sources: Author's calculations from Goskomstat SSSR (1991, 15–16); EBRD (1995, 205); Åslund (1991, 193–94).

1989, coal miners went on strike when the state could not even supply them with soap.

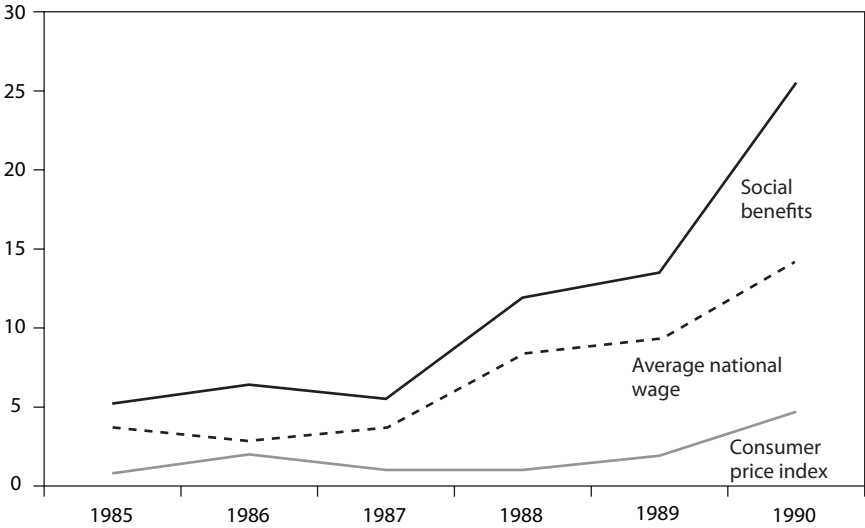
In the early perestroika period, the traditional Soviet budget deficit of 2 to 3 percent of GDP had risen to 6 percent in 1986 (table 2.1). Expenditures on state investment, consumer subsidies, and social expenditures each increased by about 1 percent of GDP. At the same time, revenues declined because of smaller alcohol sales and lower world market prices for oil (resulting in lower foreign trade taxes). These fiscal problems were serious, although reparable, but the government just ignored them.

In the second stage of macroeconomic destabilization, 1988–89, the paramount problem was that annual wage increases more than doubled as a consequence of the Law on State Enterprises (figure 2.1). Managers concentrated on products with large profit margins, which boosted hidden inflation, and they happily passed on their inflationary gains to their workers as wage hikes. With lower tax rates, enterprise tax revenues declined by 3.7 percent of GDP from 1986 to 1989, and foreign trade taxes shrank with lower oil revenues by 1.8 percent of GDP from 1985 to 1989 (Goskomstat SSSR 1990, 612). Meanwhile, consumer subsidies grew by 3.4 percent of GDP from 1985 to 1989, because producer prices rose more than consumer prices, which were more strictly controlled. As a consequence, the budget deficit expanded to 9 percent of GDP in 1988 and 1989. The government was still able to act, drastically halving public investment expenditures from 1988 to 1990. Strangely, public expenditures remained roughly constant as a share of GDP from 1986 to 1990. The financial problems were grave but still manageable.

Toward the end of 1990, however, the Soviet macroeconomic crisis turned wild. One new driver was a populist social policy. The USSR Congress of People's Deputies suddenly decided to raise social benefits by 25 percent, in competition with the Russian legislature, and in 1991 those benefits surged beyond control by 81 percent in Russia (Åslund 1991, 188; Goskomstat 1996, 116). The communists struggled to maintain power and

Figure 2.1 USSR personal incomes, social benefits, and inflation, 1985–90

annual increase in percent



Sources: Goskomstat (1996, 116); UN Economic Commission for Europe (1992, 105, 298); EBRD (1994, 167); Åslund (1991, 188).

hold the Soviet Union together by opting for populism, sacrificing any remnant of fiscal sanity. Like state enterprises, the USSR Congress was allowed much latitude but no responsibility. Wage increases continued to accelerate, and they skyrocketed by 97 percent in 1991 (Goskomstat 1996, 116). The summer of 1990 was the last time when the Soviet economic collapse could have been averted, and when Gorbachev dismissed the 500-day program in October 1990, he sealed the fate of his country.

In 1991, state finances broke down during the final stage of macroeconomic destabilization. The decisive blow came when the union republics that had declared themselves sovereign or independent in 1990 refused to deliver their revenues to the union treasury. They did not honor Soviet legislation, competing with the union in cutting taxes. The statistics for 1991 are sketchy because the Soviet accounts for 1991 were never completed and all crises were galloping. In any case, union revenues collapsed and the budget deficit skyrocketed to 31 percent of GDP, according to the European Bank for Reconstruction and Development (EBRD 1994). By the summer of 1991, the Soviet Union was no longer a financially viable state.

The Soviet government had ceased to pursue economic policy, limiting itself to certain acts of desperation. On January 14, 1991, Minister of Finance Valentin Pavlov replaced Ryzhkov as prime minister. His preoccupa-

pation was quick fixes to improve the market balance. He instantly shocked the public by declaring large ruble banknotes null and void, causing panic. At the same time, he partially liberalized producer prices, but not retail prices. In April 1991, the Soviet government at long last raised retail prices. The average consumer price level surged by no less than 70 percent, but that was by no means sufficient to clear the market (Koen and Phillips 1993). A free commercial sector evolved with prices several times higher and it absorbed some excess demand, but it remained marginal. Because prices were not liberalized, shortages continued to aggravate. Even so, by the end of the year the consumer price index had risen by 144 percent in Russia (EBRD 1994, 167).

In 1990, after the union republics had declared themselves independent, they established their own central banks. They started issuing credits in Soviet rubles, which meant that the Soviet Union had no less than 16 mutually independent central banks issuing ruble credits in competition with one another. This monetary competition was a guarantee in itself of the collapse of the Soviet Union. William Nordhaus (1990, 302–03) estimated that in 1989 the general price level had to rise by about 50 percent to eliminate the monetary overhang, and it skyrocketed for the next two years.

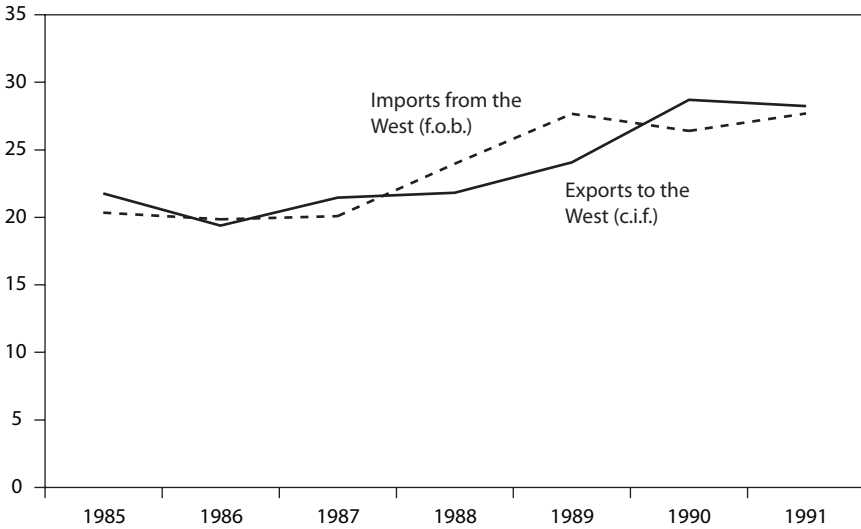
The external account was strained as well, but the trade deterioration was strangely limited, according to available Western statistics (figure 2.2). Presumably, the real situation was worse but hidden from Western eyes through transactions outside the area of the Organization for Economic Cooperation and Development (OECD). Soviet exports to the West were tiny at \$29 billion in 1990. They were dominated by oil, and they suffered three blows. First, world oil prices fell sharply in 1986 and stayed low. Second, Soviet oil production peaked in 1987–88 and started falling. Third, Soviet production plummeted while Soviet consumption surged, and the government reduced imports of investment goods to boost imports of food to keep popular discontent, and democratic pressures, at bay.

The foreign debt situation was considerably worse. From 1986, international loans were increasingly used to finance the Soviet budget deficit, although most of it was not financed by anything but money emission. The net foreign debt surged from \$14.2 billion at the end of 1984 to \$56.5 billion at the end of 1991 (figure 2.3). The outside world saw the mounting economic crisis, and the country's creditworthiness declined. As a result, foreign debt service was increasingly short term and became alarming in 1990. Soviet foreign trade enterprises failed on a massive scale to pay on time toward the end of 1989, and by the fall of 1990 the accumulated international arrears amounted to \$5 billion (IMF et al. 1991). Soviet foreign debts were not all that large in themselves, but the government's refusal to deal with them until the country had run out of all foreign currency reserves was totally irresponsible.

The foreign trade data and the Soviet national assets do not tally. Something else was going on. Between 1989 and 1991, the Soviet Union used up

Figure 2.2 USSR trade with the West, 1985–91

billions of US dollars



c.i.f. = cost, insurance, and freight

f.o.b. = free on board

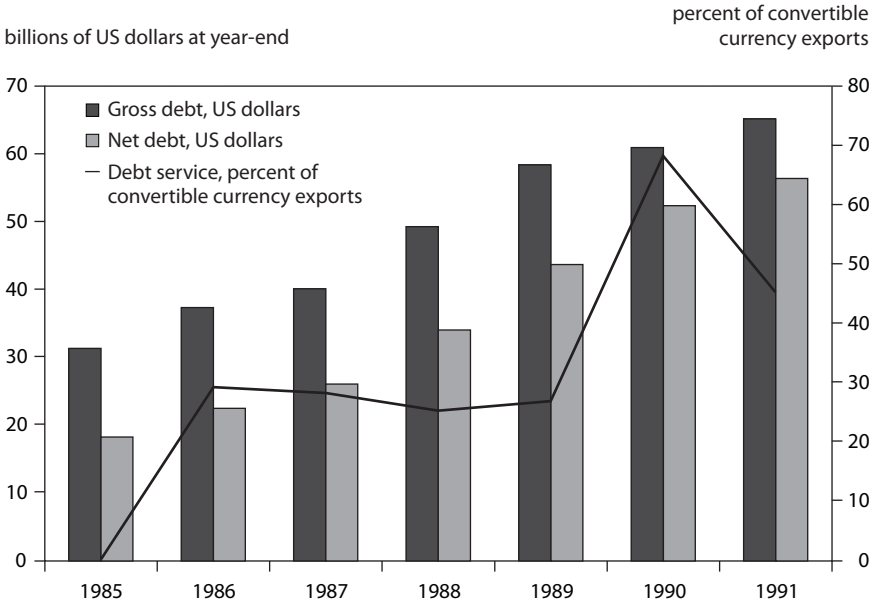
Note: The term “West” refers to the countries in Western Europe (including Turkey and Yugoslavia), North America, and Japan.

Source: UN Economic Commission for Europe (1993, 287).

about \$15 billion of international currency reserves and hit a ghastly low of \$100 million in December 1991. Substantial gold reserves, presumably 1,000 tons, worth \$12 billion, were sold. The considerable monetary holdings of the CPSU were transferred to certain private individuals in 1990 and 1991. A reasonable guess is that they were on the order of \$20 billion. The Central Committee ordered the transfer of the money through the services of the KGB through the Soviet-owned banks abroad to select individuals. The capital flight from the Soviet Union is usually assessed at about \$20 billion in each of the years 1990 and 1991, but all numbers are uncertain. What is clear is that the ailing Soviet state and the CPSU were robbed of tens of billions of dollars in cash, which was taken out of the country if it was not already abroad. The Central Committee treasurer, Nikolai Kruchina, who was in charge of this gigantic money transfer, died after falling from his home window a few days after the August 1991 coup (Klebnikov 2000, 59–66, 76; Gaidar 1999, 117–18). Russia was robbed empty.

Although the exchange rate was not liberalized officially, a partial liberalization occurred and the official exchange rate became increasingly irrelevant. The black market exchange rate was perceived by the public as the

Figure 2.3 USSR foreign debt and debt service in convertible currencies, 1985–91



Sources: UN Economic Commission for Europe (1993, 289); Christensen (1994, 42).

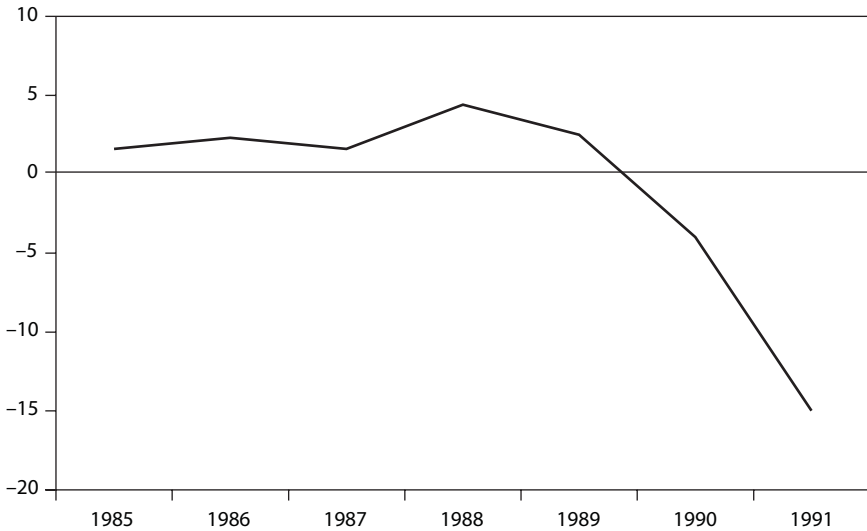
“real” exchange rate. For years, the standard black market exchange rate had been five rubles to the dollar, but in 1990 it moved from 20 to 30 rubles, that is, it rose six times from the end of 1988 to the end of 1990. In November 1989, the government allowed currency auctions for select state enterprises, and this overvalued official exchange rate moved from 10 rubles to the dollar at the end of 1989 to 25 rubles to the dollar by January 1991. By December 1991, the average Russian salary at the free exchange rate had plummeted to as little as \$6 a month, which was a gross humiliation to the Soviet elite. As the ruble lost all value, the public hoarded cash dollars, and a far-reaching dollarization had taken place by 1991.

Officially, output grew slightly in the first five years of perestroika, but in 1990 not even official statistics could claim growth any longer, and in 1991 output approached free fall. The most plausible number is a decline in output of no less than 15 percent (figure 2.4). Because people had to spend ever more time queuing to use their money, it made little sense for them to work to earn more worthless money, and they reduced their real work time. The shortages also harmed production because factories suffered from scarcities of all kinds of inputs.

In the summer of 1990, the Group of Seven (G-7) of the wealthiest democracies in the world requested, with Gorbachev’s consent, that four

Figure 2.4 USSR output, 1985–91

annual change in percent



Note: This figure shows the annual growth of official net material product, a communist concept of national income, which excluded “nonmaterial” services.

Source: UN Economic Commission for Europe (1992, 105).

international financial institutions undertake a substantial study of the Soviet economy. At long last, the Soviet Union opened its doors to multiple international economic experts. The international financial institutions—the International Monetary Fund, World Bank, Organization for Economic Cooperation and Development, and the newly founded European Bank for Reconstruction and Development—published a comprehensive report in early 1991 that contained a great deal of previously secret information, and they sensibly recommended a radical economic reform as in Poland (IMF et al. 1991). But no Soviet leader was prepared to listen.

In the second half of 1991, the Soviet Union faced financial ruin. Soviet economic policy had evaporated, and no progress in economic policy occurred during the last one and a half years of Soviet government. An economic collapse was under way.

Political Collapse: Yeltsin at His Peak

In the elections to the USSR Congress of People’s Deputies on March 26, 1989, Yeltsin had won in the country’s largest constituency, Moscow, with more than five million or nearly 90 percent of the votes, running against

a decent party representative.¹⁹ From that moment on, Yeltsin was unstoppable, although he possessed neither organization nor media nor money. He was only a member of parliament, but he did not lose a beat. He was a lonely popular hero, but a giant, who stood up against the Communist Party and all its forces. At each turn, he dealt a new defeat to his nemesis Gorbachev and the communist establishment.

Yeltsin was a clever popular politician who played on many themes. One was liberalism and democracy. Another was radical marketization, as expressed in his wholehearted support for the 500-day program. A third theme was Russian nationalism, and a fourth was, paradoxically, sympathy for other nationalities desiring independence from Russia. He also raised populist demands for higher wages and social benefits.

In July 1989, the liberals in the new Soviet parliament formed what was called the Inter-Regional Group. One of its cochairs was Yeltsin, who was received with suspicion by the other cochairs, who were outstanding liberal intellectuals, such as Andrei Sakharov. Subsequently, the Inter-Regional Group would lay the foundation for the broad popular movement called “Democratic Russia,” which was formed before the elections to the Russian Congress of People’s Deputies in March 1990.

Foreigners often consider the Soviet Union a Russian Empire, but, curiously, Brezhnev’s policy of empowering national elites had led to discrimination against Russians in all of the 14 non-Russian union republics. Unlike Russia, all those republics had their own Communist Party and Academy of Sciences, not to mention KGB and Ministry of Interior, while Russia had to make do with Soviet institutions. Aggravated economic hardship also bred Russian nationalism. This nationalism was not aggressive but defensive. It was preached by Russian nationalist writers, such as Vasily Belov and Valentin Rasputin, who praised elementary Russian values, such as goodness and endurance, idealizing the Russian villages (Parthé 1992). These Russian nationalists did not want to rule over foreign nations, but withdraw to a pure Russia, while cutting the expenditures of empire. At the path-breaking first session of the USSR Congress of People’s Deputies in 1989, Rasputin proposed that Russia should leave the Soviet Union (Yasin 2002, 118).

Two streams were apparent among the Russian nationalists, and, although opposites, they were often intermingled. The dominant tendency was liberal nationalism, with Yeltsin as the self-evident leader, leaving Gorbachev as the obsolete Soviet leader. After the semi-democratic elections to the USSR Congress of People’s Deputies, the natural next step was somewhat more democratic elections to the republican parliaments. No deputies were appointed but political parties were still not permitted.

19. This section draws on Dunlop (1993, 16–37), which is an excellent detailed account of these events. Aron (2000) adds tantalizing details of this extraordinary Yeltsin campaign.

The elections to the Russian Congress of People's Deputies occurred on March 4, 1990. Because they were more democratic than the Soviet parliamentary elections held a year earlier, the republican parliaments enjoyed greater legitimacy than the Soviet parliament. This time Yeltsin ran in his hometown of Sverdlovsk, and he won with 84 percent of the vote, cementing his reputation as unbeatable in a democratic election. He became one of the cochairmen of the "Democratic Russia" faction.

The other Russian nationalist stream was hard-line, almost neo-Stalinist. In June 1990, they founded a Russian Communist Party and elected Ivan Polozkov, an outspoken hardliner, their leader. Polozkov defeated Oleg Lobov, one of Yeltsin's close associates from Sverdlovsk, but only with a limited margin. After Polozkov's victory, the Russian Communist Party became the home for hard-line nationalists. Gorbachev was left in the middle between Polozkov's nationalists and Yeltsin's democrats.

The big political prize was the chairmanship of the new Russian Congress of People's Deputies. The two candidates were, logically, hard-line Polozkov and liberal Yeltsin. On May 29, 1990, Yeltsin won with a tiny majority in the third round against a replacement candidate. He proclaimed that Russia must acquire real sovereignty. On June 12, 1990, the newly elected Russian Congress of People's Deputies adopted a declaration of Russian state sovereignty, with 907 votes, only 13 against and 9 abstentions (Yasin 2002, 121). It also declared the supremacy of Russian law over union legislation.

A war of laws between the union and the republics erupted. In Moscow, political legitimacy and initiative moved from the Soviet to the Russian authorities. Yeltsin led sovereign Russia, but he had no real power as yet, and Gorbachev remained Soviet president. Moscow faced dual powers. Yegor Gaidar (1999, 66) has tellingly characterized the situation in August 1991:

Yeltsin had a large reserve of popular trust, unimaginable responsibilities, and almost no levers of control. After all, up to this very moment the Russian republic, as a government structure, had been purely decorative. Nothing in it was connected to anything else. It had no army, no KGB, no MVD [Ministry of Interior], no control over other regions of the country. . . . It effectively had no central bank. No control over the greater part of industry. No customs service. In fact, nothing at all, except the name—the Russian state.

A parade of sovereignties ensued. All the 15 union republics held parliamentary elections at about the same time, and all declared either outright independence or somewhat vaguer "sovereignty" in 1990, and many subordinate territories declared themselves sovereign as well. Rather than reacting against these declarations, Yeltsin embraced them and preached radical decentralization. In August 1990, during a trip to Kazan, the capital of Tatarstan, the biggest of the Muslim autonomous republics within the Russian Federation, Yeltsin made his famous statement: "Take as much independence as you can" (Dunlop 1993, 62). With these words, he disarmed the explosive nationalist issue in Russia.

Gorbachev did not give up. He was still both Soviet President and general secretary of the CPSU. In July 1990, he convened the 28th Party Congress of the CPSU and won an all-out victory against Ligachev and his ilk, who were ousted from the Central Committee. But so was Yakovlev. Gorbachev had undermined the last vestiges of communist power and seemed free to move as he liked, but he had run out of steam. Elegantly, Yeltsin deprived Gorbachev of the laurels of his victory by dramatically departing along with other leading party reformers from the CPSU, making it look politically obsolete.

When Gorbachev dismissed the 500-day program in October 1990, he departed for a hard-line political desert for half a year. The last remnants of his old team either resigned or were sacked and he undertook multiple erratic institutional changes. Gorbachev dissolved the Presidential Council and sacked its relatively liberal members, including Yakovlev, in November 1990. In December 1990, Minister of Foreign Affairs Shevardnadze resigned in protest against Gorbachev's political turn, with good foresight warning against a hard-line coup. Gorbachev appointed a clowns' gallery of hardliners in their places. Mediocre party apparatchik Gennady Yanaev became vice president and Minister of Finance Valentin Pavlov became prime minister (Brown 1996, 269–79). Gorbachev had dug his own political grave.

The main beneficiary of Gorbachev's departure to the hard-line wilderness was Yeltsin, who attracted most of Russia's liberal intelligentsia and reinforced his position as the country's unquestioned democratic leader. As columnist Flora Lewis wrote: "Mr. Yeltsin is collecting a highly competent team, not so much by attraction as by gathering the bright, innovative people Mr. Gorbachev keeps pushing away."²⁰

The old guard was on the offensive, and on January 13, 1991, KGB special forces (*spetsnaz*) stormed the TV tower in Vilnius to suppress the free Lithuanian television station. They killed 14 unarmed Lithuanians, and hundreds were injured. Soon afterward, several Latvian nationalists were killed in the center of Riga. Gorbachev appeared complicit, which was his last straw for many in the Russian liberal intelligentsia. Characteristically, Yeltsin immediately flew to Estonia's capital Tallinn, where he assembled the three Baltic presidents the next day. They issued a common statement in support of the independence of the Baltic states. Yeltsin knew where he stood, and he acted instantly (Aron 2007).

In February and March 1991, both the democrats and hardliners were fully mobilized. In repeated demonstrations in Moscow, the democrats mobilized at least 300,000 and possibly 500,000 people, and the hardliners were not far behind. Large demonstrations were held in other big cities as well. These were the biggest popular demonstrations the Soviet Union ever saw and they remained peaceful. Russia's civil mobilization and ma-

20. *International Herald Tribune*, December 13, 1990.

ture political culture took everyone by surprise. In February 1991, Yeltsin was strangely allowed to speak on Soviet television. He utilized his opportunity fully and demanded Gorbachev's resignation (Aron 2000).

Gorbachev made an attempt to return to political relevance by driving a wedge between Yeltsin's moderate Russian nationalism and his support for the independence of the other republics. He launched a referendum on the future of the USSR, which was held in March 1991. He formulated the ambiguous question: "Do you consider necessary the preservation of the Union of Soviet Socialist Republics as a renewed federation of equal sovereign republics, in which the rights and freedom of an individual of any nationality will be fully guaranteed?" (Dunlop 1993, 33). How could anyone answer such a question? Yeltsin could do nothing but accept it, but he cleverly avoided making this referendum a political issue. In Russia, 71 percent of voters answered yes, but the three Baltic states, Georgia, Armenia, and Moldova, boycotted the referendum, which further alienated these republics from the Soviet Union. Gorbachev won the referendum, but this was another Pyrrhic victory, because nobody understood what the question meant and Gorbachev did not gain anything. Once again, he had proved himself too clever by half.

Yeltsin, by contrast, knew what mattered. He wanted to be democratically elected president of Russia. After having become chairman of the Russian parliament, he stubbornly pursued this course, and he managed to persuade the parliament of the need for a popularly elected Russian president. As the towering candidate, he pursued a third outstanding election campaign, this time across Russia. Although the dominant official media and the Soviet administration opposed him, Yeltsin won an outright victory in the first round with 57.3 percent of the votes cast, and participation was high at 75 percent. The runner-up was no Gorbachev man but former Soviet Prime Minister Ryzhkov, who had recast himself as a hard-line communist and received 16.9 percent of the votes (table 2.2). Yeltsin compensated for his continuing lack of real power with the solemnity of his inauguration as Russia's first president.

Gorbachev finally regretted that he had painted himself into a corner with the hardliners. In April 1991, he returned to the idea of a new union treaty and started intense consultations with the presidents of the eight republics that were still interested in a continued union after the Balts, Georgians, Armenians, Moldovans, and soon also the Azerbaijanis had withdrawn. The negotiations took place at Gorbachev's residence, Novoe Ogarevo, outside of Moscow. The last negotiated version was published in August 1991, and it was supposed to be signed in Moscow on August 20, upon Gorbachev's return from a long and badly needed summer holiday in the Crimea.

Now the hardliners felt betrayed by Gorbachev. On August 19, his closest collaborators staged a coup and set up the State Committee for the State of Emergency (GKChP) with eight members. Formally, they were headed

Table 2.2 Results of presidential election, June 12, 1991

Candidate	Percent of votes
Boris Yeltsin	57.3
Nikolai Ryzhkov	16.9
Vladimir Zhirinovskiy	7.8
Aman-Geldy Tuleev	6.8
Albert Makashov	3.7
Vadim Bakatin	3.4
Against all	1.9
<i>Voter turnout</i>	<i>74.7</i>

Source: Official election results published by the Central Electoral Commission in *Rossiskaya Gazeta*, June 20, 1991.

by Vice President Yanaev. Other leaders were Prime Minister Pavlov, the heads of the KGB, the Ministry of Defense, the Ministry of Interior, the military-industrial complex, a state industry association, and the organization of *kolkhoz* chairmen. The CPSU was well represented though not formally part of the committee.

The timing of the coup was dictated by the planned signing of the union treaty. The GKChP issued a manifesto, "An Appeal to the Soviet People." Its first goal was to stop "the liquidation of the Soviet Union" as well as to hinder the collapse of the state and the seizure of power by the opposition. Another aim was to block market reforms, and a third purpose was to fight crime, "cleansing the streets of criminal elements." Not even the GKChP protested against the political reforms, but favored "truly democratic processes."

The GKChP was reactionary, representing all the losing bodies—the party, state security, and the communist economic system (Dunlop 1993, 194–99). It was a desperate, poorly organized attempt to stop history and reestablish the old regime. It had a flare of tragicomic operetta and failed quickly. The coup makers appeared at one press conference at which Yanaev was dead drunk and his hands were shaking. All the leaders were nervous. They put Gorbachev under house arrest, suspended political activity and most newspapers, and sent some troops into Moscow, but they did not carry out mass arrests or even impose a curfew.

Oddly, the putschists did not arrest Yeltsin, who drove from his dacha outside Moscow to the White House, where the Russian parliament was located, when he heard of the coup. In a dramatic gesture, he wrote an appeal to the citizens of Russia, declaring the GKChP and its coup illegal. Since all media were closed to him, Yeltsin went out of the White House and scaled a T-72 tank to read his appeal himself from the top of the tank

(Aron 2000, 444–45). This was Yeltsin’s greatest moment. He exuded unlimited strength and confidence.

The coup went nowhere. Clearly, its organizers had expected that Gorbachev would join them, since he had voluntarily selected and appointed all of them. But he did not. The putschists commanded troops to attack the White House, and three young men died in its defense, but fortunately the coup organizers were not sufficiently determined to use force, and multiple troops, including top generals, refused to fight and defected to Yeltsin. Yeltsin (1994, 60) saw the weakness of the coup from the onset:

The putschists did not want bloodshed; they wanted to save face with Western governments. And it was this ambiguity in their motive that undid them. They were grossly mistaken in their choice of tactic, and we owe them enormous gratitude for that error.

Tens of thousands of Muscovites came to the White House in support of democracy. By August 21, the coup had collapsed. Gorbachev could return to Moscow, but instead of the triumph he had expected, he was soon to realize that power had moved to Yeltsin and the Soviet Union was over. Yeltsin, by contrast, had a full grasp of the historical importance of this event:

I believe that history will record that the twentieth century essentially ended on August 19 through 21, 1991. The election of the first freely chosen president of Russia was a national event, but the failure of the August coup and the disappearance of the Soviet Union that resulted was a global event of the greatest importance. (Yeltsin 1994, 41)

At the funeral of the three young defenders of the White House, Yeltsin showed his human side:

It was our children who rushed to defend the honor of Russia, its freedom, its independence and its democracy. . . . I bow to the mothers and fathers of Dmitri, Volodia, and Ilya, and express my deepest condolences to them and all their relatives. . . . Forgive me, your President, for not being able to defend, to protect your sons. (Quoted in Aron 2000, 465)

As institutions evaporated, the leading political personalities became all the more important. The Soviet endgame was a duel between two men, Mikhail Gorbachev and Boris Yeltsin.

Gorbachev was the initiator of the revolution. He was the dominant policymaker who brought about the collapse of the Soviet Union. His role was supreme and the outcomes depended greatly on his idiosyncrasies. Gorbachev’s skills were those of a man who can instigate change from within the system. He was charming and likable. His outstanding political talent was compromise. In all major policy decisions from 1985 until 1990, Gorbachev embraced the winning position.

The drawback of his apt compromising was that he never made a clear-cut choice or formulated a lucid strategy. When facing two contradictory

principles, Gorbachev always tried to straddle the center, even when it was impossible. He stuck to a disappearing middle ground, always committed to partial solutions, eventually rendering himself not only unpopular but irrelevant. His nemesis, Yeltsin, delivered perhaps the most telling description of Gorbachev:

He wanted to combine things that cannot be combined—to marry a hedgehog and a grass snake—communism and a market economy, public-property ownership and private-property ownership, the multiparty system and the Communist Party with its monopoly on power. But these things are incompatible. He wanted to retain some of the old things while introducing new reforms. In his latest mistake, he wanted our country to be a single state. That is impossible; that is unrealistic. But he decided to stick to his illusions and bide his time.²¹

Gorbachev's fundamental shortfall was that he believed in Lenin and communist ideology. He was one of the last people to believe that communism could be reformed, but otherwise, he would no doubt have been ousted early on. He was a natural transitional figure, a moderate launching a revolutionary process to be overtaken by radicals. He saw the shortcomings of the Soviet system, but he wanted to reform the system to make it better, refusing to draw the logical conclusion to abandon communism. As Yeltsin (1994, 17) put it: "Gorbachev had always been an advocate of socialism with a human face."

Although he broke down the old system, he failed to present a plausible alternative, falling into a deep intellectual void. "Even the reformer Gorbachev was more afraid of breaking and destroying the system than anything on earth," wrote Yeltsin (1994, 19). Yegor Gaidar (1999, 46) aptly characterized Gorbachev: "He had let the genie of political liberalization out of the bottle but could neither control it nor stuff it back in. Nor could he decide what he truly wanted. And herein lay Gorbachev's most serious weakness—his inability to make the necessary, if risky, decisions and then follow through with them."

As his political standing deteriorated, Gorbachev's peculiar response was to speak for hours on television with ever less substance. In the last years of his rule, he was nicknamed the chatterbox (*boltun*). Still, Gorbachev was strongly committed to peaceful solutions and managed to avoid violence to an impressive extent. His greatest accomplishment was to destroy the Soviet Union, but that was never his intention, leaving him with the aura of a tragic hero.

As multiple crises turned catastrophic, political polarization proceeded. A clear choice had to be made, which was Yeltsin's strength. Gorbachev and Yeltsin were the same age and came from similar backgrounds, but their personalities were very different. Yeltsin was no compromiser, and

21. " 'We Are Taking Over' " (interview with Yeltsin), *Newsweek*, January 6, 1992, 11–12.

his expulsion from the communist leadership in 1987 caused the personal trauma he needed to rethink his direction. From that moment he radicalized with public opinion.

Few people are as free from their prior beliefs and as unprejudiced as Yeltsin. He was an intuitive politician who faced a situation, felt the people, and drew his conclusion with ruthless logic. He had all the characteristics of a revolutionary leader. He surged as the phoenix from 1989 to 1991, as the confusion and crisis grew worse. When others wavered or were afraid, Yeltsin was calm, secure, and evidently happy. When he mounted a tank outside the White House on August 19, 1991, he reached his summit.

An Overdetermined Collapse

The collapse of the Soviet Union was one of the great dramas of the 20th century. Was it inevitable? My answer is not only yes, but that it was overdetermined by several causes, because the collapse was multiple: an empire, an economic system, and a political system collapsed. It was a revolutionary process in which the existing state institutions were gradually undermined and then collapsed.

The Soviet economic system was moribund, and its shortfalls were well known, but this petrified system could have persisted until the next oil boom in the same way as lonely North Korea and Cuba vegetate today. Perestroika brought about the acute economic crisis that moved the USSR from stagnation to fatal crisis. The economic problems that resulted can be divided into three categories.

First, financial policy was patently irresponsible from 1986, with an unsustainably large and rising budget deficit recklessly financed with the emission of money. Gorbachev and Ryzhkov bear the prime responsibility for the exploding budget deficit, which Gorbachev (1990) impressively accepted: “[S]erious errors really occurred. And the very worst among them—that we allowed such a situation in the financial system. . . . For that I reckon that we are responsible. . . .” Gorbachev (1990) defended himself by stating that when his old friend Yuri Andropov was general secretary in 1983, “he did not allow us [Gorbachev, Ryzhkov, and V. I. Dolgikh] to approach the budget and data on military expenditures. But I was at that time Politburo member and chaired the meetings of the CC Secretariat.” This statement clarified not only how restricted access to key information was, but also how ignorant Gorbachev and Ryzhkov were, which is obvious from their memoirs (Gorbachev 1995, Ryzhkov 1992). Macroeconomic destabilization, economic ignorance, and inability to use relevant expertise made a catastrophe inevitable.

Second, the gradual reforms separated control rights from cash rights and bred a machine of rent seeking. Incentives were distorted, and accountability disappeared altogether. Managers were preoccupied with tunneling

state wealth out of public enterprises to private offshore havens. By 1990 this rent seeking made economic collapse inevitable.

Third, the partial national and democratic empowerment of the Soviet peoples bred populism, because nations and their peoples were allowed to demand more economic benefits, but they were not permitted actual power. The Soviet finances collapsed in 1991 because the republics stopped delivering revenues to the union treasury, and much of the inflation was caused by the competitive issue of ruble credits by 16 central banks. This rendered the financial and monetary disasters terminal in late 1990.

Each of these three economic problems was in itself sufficient to terminate the Soviet Union, and together they guaranteed its demise.

The downfall of the Soviet empire consisted of three steps. The outer empire, Eastern-Central Europe, had been occupied after World War II. All these nations were kept in the Soviet sphere through the threat of armed invasion and they waited for their freedom. Gorbachev was both wise and humane in accepting their aspirations, and no decolonization has been more peaceful than the liberation of Eastern-Central Europe.

The second wave of decolonization involved the countries that had been incorporated into the Soviet Union during World War II through the Molotov-Ribbentrop Pact: the three Baltic countries (Estonia, Latvia, and Lithuania), Moldova, and Western Ukraine. None of these territories had ever accepted Soviet occupation, and despite severe repression they waited for nothing less than national independence. Georgia and Armenia slid out of the empire in the same fashion. Gorbachev did not comprehend nationalism, but he allowed only limited use of force, which was not sufficient to hold the Soviet Union together.

The only question is why Russia itself wanted to become independent of the USSR. Gorbachev supporters accused Yeltsin of playing the Russian card and destroying the Soviet Union for his desire to gain power, but that is not very plausible. Yeltsin himself (1994, 35) described the situation after he had been elected Russian president in June 1991:

Gorbachev represented the Union, the empire, the old power, and I represented Russia, an independent republic, a new and as yet nonexistent country. . . . Even the very word *Soviet* was no longer possible to pronounce. . . . The Soviet Union could not exist without the image of the empire. The image of the empire could not exist without the image of force. The USSR ended the moment the first hammer pounded the Berlin Wall.

This is the language of a great intuitive politician. Yeltsin felt that “Soviet” was politically impossible. So did Polozkov, the hard-line Russian communist, as both right and left voted for Russia’s sovereignty. Yeltsin, the revolutionary, felt what he had to do. Linz and Stepan (1992) have offered the most plausible explanation. Russia enjoyed greater legitimacy than the Soviet Union because Russia held more democratic elections than

the Soviet Union did. Therefore, the Soviet Union could not be held together. Yeltsin grasped this, while Gorbachev did not.

Political scientists have raised the most doubts about the necessity of the collapse of the Soviet political system, but the fundamental political explanation is that the Soviet political transformation was a revolutionary process (Aron 2000, Mau and Starodubrovskaya 2001, McFaul 2001). You cannot stop a revolution in its midst. As revolutionary momentum evolves, radicalization proceeds, and only those who radicalize at pace survive politically. This was Yeltsin's prime talent. To demand consistency or moderation from a politician in a revolutionary situation is to call for political suicide.

Another characteristic of a revolution is the temporary collapse of the state. Inadvertently, Gorbachev contributed to the demise of governance, because he absurdly believed that socialism/communism/Leninism was superior and he wanted to reform it. By tinkering with the system, he created a revolutionary situation. Yeltsin's superiority was electoral and Russia's revolution was democratic. Hence, Yeltsin stood in competitive popular elections against the establishment in 1989, 1990, and 1991, and he won them all with big majorities in the first round. McFaul (2001, 6) emphasized the logic of transition once a revolution is under way:

First, a split within the ancien régime occurs between soft-liners and hard-liners. Soft-liners believe that some degree of reform is necessary, whereas hard-liners oppose any reform at all. When the soft-liners gain the upper hand, they initiate a policy of political liberalization, which in turn allows for new societal actors to organize and mobilize. These forces . . . also split into two camps—moderates and radicals.

Yeltsin understood this process and radicalized, whereas Gorbachev stayed moderate, ending up on the disappearing middle ground.

Bunce (1999) presented an original argument about Soviet institutions, suggesting that their very structure brought about the downfall of the system. Her thinking continued on Andrei Amalrik's (1980) famous essay, *Will the Soviet Union Survive until 1984?* Bunce's proposition was that the Soviet system was so distorted and petrified that it could not meet new challenges for long. The Soviet system could not reform, only stay the same or collapse. The problem with this line of explanation is that the timing of the collapse does not follow. In 1919, Ludwig von Mises (1920/1972) made quite a similar argument about the Soviet system not being viable because a market could not function without private property rights. In the end, he proved right, but only after 70 years.

