

Cultural
Contradictions of
Post-Communism:
Why Liberal Reforms
Did Not Succeed
in Russia

A Paper from the Project on Development,
Trade, and International Finance

Nina L. Khrushcheva

A Council on Foreign Relations Paper

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FOREWORD

In the wake of the 1997–98 financial crises in emerging economies, many prominent thinkers focused their energies on what went wrong, how it could have been prevented, and what reform measures are required for the future. While some concentrated specifically on financial markets within the economies in question, others examined the larger system-wide implications. The Council on Foreign Relations Project on Development, Trade, and International Finance convened a Working Group in an attempt to look at the problem from both levels, to investigate the problems in the world economy that led to the crises, and to propose policy options calculated to prevent future large-scale disturbances.

Specifically, the goal of the Working Group, which began in 1999, was to promote discussion of different perspectives about the necessity for change in the world economic system, and to look at concrete forms that change might take. These included, but were not limited to, discussions about reforming the international financial architecture to facilitate a transition from export-led growth to internally or regionally demand-driven development strategies that offer the populations of the developing world an improved standard of living.

One of the Working Group's several undertakings was to commission papers from the participants on a broad range of subjects related to the international financial architecture. The authors come from a variety of backgrounds, and their papers reflect a diversity of perspectives. However, we believe that all of them provide useful insights into international financial architecture, and that they represent collectively factors that should be considered by both U.S. and international economic policy makers.

Lawrence J. Korb
Maurice R. Greenberg Chair, Director of Studies
Council on Foreign Relations

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Things that I admire elsewhere, I hate here [in Russia]... I find them too dearly paid for; order, patience, calmness, elegance, respectfulness, the natural and moral relations that ought to exist between those who think and those who do, in short all that gives worth and charm to well-organized societies, all that gives meaning and purpose to political institutions, is lost... here...

—Marquis de Custine, *Empire of the Czar*, 1839

We wanted for the better, but it still turned out as usual.

—Victor Chernomyrdin, on the Russian financial crisis, 1998

INTRODUCTION

One goal of Russia's economic reforms during the last ten years has been to establish a new class of businessmen and owners of private property—people who could form the foundation for a new model post-Soviet citizen. However, the experience of this post-communist economic “revolution” has turned out to be very different from the original expectations. For as people became disillusioned with communism due to its broken promises, the words “democracy” and “reform” quickly became equally as unbearable to large sectors of the Russian public after 1991. Such disillusion was achieved in less than ten years—a record revolutionary burnout that would be the envy of any anti-Bolshevik.

Only a few years into the reform process disappointed analysts were already posing stark questions: “Why have democratic and market reforms turned out to be such an arduous process? Why has Western-style liberalism, embraced almost everywhere in theory, proved difficult even to approximate in practice? Why has freedom not yet been established, even though the totalitarian state has been torn down?”¹ Indeed, many analysts assess the results of the past ten years as a nearly complete failure, and blame either corruption, or Western institutions such as the International Monetary Fund and the World Bank. The blame attached to the international institutions may be too simplistic, as the Bretton Woods Institutions have been around for fifty years, and many of their projects have proved successful. In addition, corruption is part of every political economy and exists to greater and lesser degrees in every country. What is significant is the consensus that Russia’s political economy is corrupt on all levels. According to numerous sources², Russia has ranked among the ten most corrupt nations in the world for each of the past eight years. International investors complain about corruption regularly. Moreover, the 1998 financial crisis made matters much worse, inciting discussion as to whether Russia’s developing economy was in fact a form of developing capitalism, or simply “oligarchism,” a system where a narrow elite has “stolen the state, and everything else.”³

That question has drawn attention around the world. The U.S. Senate held hearings on corruption in Russia on September

¹Stephen Holmes, “Cultural Legacies or State Collapse?” in Michael Mandelbaum, ed., *Post-Communism: Four Perspectives*. (New York: Council on Foreign Relations, 1996), p. 25.

²Transparency’s International 1998 and 1999 Corruption Perceptions Index ranks Russia 76 out of 85 countries. Denmark had the top ranking as the least corrupt country, and the United States shared 17th place with Austria. On a ten-point scale, with Denmark having earned a 10, Russia scored 2.4. The United States and Austria both had 7.5, while Cameroon earned only 1.4, the lowest score; (Berlin: Transparency International, 1998 and 1999); www.transparency.de.

³Kenneth Murphy and Marek Hessel, “Stealing the State and Everything Else: A Survey on Corruption in the Post-Communist World,” (Prague: Project Syndicate, Winter 1999); www.project-syndicate.cz.

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30, 1999. Public speculations about “Who Lost Russia?” triggered debates within the IMF and World Bank, inspiring a restructuring process of both institutions; Boris Yeltsin resigned; and new President Vladimir Putin has declared a “dictatorship of law and order” in his fight against Russia’s lawlessness.⁴

The question of corruption only highlighted Russia’s complicated transition, but its general problem with liberalism and capitalism goes beyond politics and into history and culture. According to the political scientist Stephen Holmes, corruption is not a cause but a consequence of what he calls “*cultural legacies*, those habits acquired in the past which are difficult to shake and which purportedly obstruct the successful creation and function of democratic and market institutions. Habits die hard and mentalities change slow...”⁵

A number of aspects within the Russian “national character”—the “cultural legacy”—explain the failings of liberal policies in Russia since 1991. Among these are the influence of Asian culture and the values that linger from the previous system, both of which reinforce the special role of family and friendship relationships for a Russian. The influence of these factors leaves little hope for a “faceless bureaucracy” that would operate without regard to personal preferences and sympathies, applying the law and regulations equally to all. Until now, a complete understanding of the problems posed by cultural obstacles to a properly functioning market has not been at the heart of most discussions of Russia’s liberal economic reforms. However, the mixed results of the reform process, as well diverse assessments⁶ by Russian actors and outside participants and analysts, suggest that the problems go much

⁴Jonas Bernstein, “Party Lines: Dictated by Law, or Nods,” *Moscow Times*, March 4, 2000.

⁵Stephen Holmes, “Cultural Legacies or State Collapse,” p. 26.

⁶Today only a few reformists insist that the road to capitalism that they chose by way of “shock therapy” has proven itself successful. Yegor Gaidar, Anatoly Chubais, Anders Aslund, and a few others remain confident that reforms could not have been done differently. In his book *Privatizatsiya po-rossiiski* [Privatization Russian Style], Chubais argues that the way reforms were implemented was defined by the necessity to neutralize the Soviet-style bureaucracy, because the command system never wanted to admit that

deeper than only the issue of bad policies, inefficient implementation, or the supposedly corrupt nature of the Russian state. “What deserves careful thought is the reform-hampering role of inherited attitudes and patterns of behavior. People do more easily what they are used to doing than what they have never done... Habits and expectations, which perversely constrict freedom of choice, can be handed down from generation to generation and survive for centuries by sheer inertia.”⁷ Moreover, Jeffrey Sachs, Harvard economist and early advisor to Boris Yeltsin, suggests that it is not just behavioral patterns, but also geography which, although not entirely deterministic, “conditions events” and keeps “a powerful hold even in our supposedly globalized economy... Proximity to the West induced better policies...”⁸ throughout the post-communist region.

The two epigrams by de Custine and Chernomyrdin that introduce this essay suggest a simple but powerful conclusion: Russia’s culture has a deep impact on any reform effort, meaning that the country is not easily susceptible to change. Why is it that the late czarist system, late communism, and post-communism all failed to generate viable alternatives other than changes that appear destructive and malfunctioning? Why is it that replacing the old regime always results in a crippled successor regime? One possible answer here is a great paradox of “tyranny,” in which a “weak state” provides too much government, depriving people of the basic liberties needed to make their own decisions.⁹ Such a state is ever impotent to solve the fundamental problems facing it, remaining effective only at weakening and discrediting alternative leaders. This pattern held true even after 1991, when the reform team led by the

a Soviet man like every other man was nothing more than ‘homo economicus,’ fully engrossed in the economic interests: interest in money, interest in property and profit.”; see Anatoly Chubais, “Rozhdenie idei” [“Birth of the Idea,”] in Anatoly Chubais, ed., *Privatizatsiya po-rossiski* (Moscow: Vagrius, 1999), p. 29.)

⁷Stephen Holmes, “Cultural Legacies or State Collapse,” p. 26.

⁸Jeffrey D. Sachs, “Eastern Europe Reforms: Why the Outcomes Differed so Sharply,” *Boston Globe*, September 19, 1999.

⁹See, for example, Edward Kennan, “Muscovite Political Folkways,” *The Russian Review*, vol. 45, no. 2 (April 1986).

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English-speaking Yegor Gaidar (deputy prime minister and later minister of economy and finance under Yeltsin) and Anatoly Chubais (deputy prime minister under Yeltsin, on and off) tolerated no alternative to themselves.¹⁰

This point brings to the fore another paradox: while enduring some of the worst despots in world history, the Russian people developed an almost apocalyptic fear of change, especially change of power. Change is never welcome in Russia. The end of a regime engenders not hope but a fear of cataclysm. Thus, more than in other cultures, power in Russia is subject to inertia, which creates a favorable environment to autocratic rule. The person wielding power embodies power and is followed by the population regardless of the kind of policies he implements, often even despite these policies. This attitude marked people's devotion to Stalin. It was also the secret behind the reelection of Boris Yeltsin in 1996 when, despite poll numbers that showed his popularity at its lowest point in his presidency, the Russian people nonetheless voted to reelect him, most likely reasoning, "Better the devil we know." This attitude is very often something held subconsciously rather than consciously, and is part of a centuries-old tradition, which only time and different (positive) experience could change.

The contemporary Russian scholar and cultural historian Yuri Lotman, in his final work before his death, *Culture and Explosion*,¹¹ offers a perspective that Russian culture, unlike the cultures of the West, embodies an underlying binary logic of opposition. With-

¹⁰Anatoly Chubais insists, "Of course our privatization was not without "minuses," however if we followed the slow A-B-C process suggested by the 'soft' reformers, we would have had much more negative outcome... Criminalization would have been *absolute*." (Anatoly Chubais, ed., *Privatizatsiya po-rossiiski*, p. 32.) It is comforting to know that the level of criminalization could have been more absolute. Now, however, there has been evidence that reforms could have taken a less radical turn if the reformers and their Western advisers had been less rigid in understanding the reforms. Traditional structures would not have been destroyed, appropriate new structures would have been built, and Russian cultural values and peculiarities of the Russian national character would have been taken into consideration. See, for example: Giulietto Chiesa, *Proshchai Rossiya* [Farewell Russia] (Moscow: Geia, 1997), pp. 35–60; Jeffrey D. Sachs, "Betrayal," *The New Republic* (January 31, 1994); Michael Ellman and Vladimir Kontorovich, eds., *The Destruction of the Soviet Economic System* (Armonk, N.Y.: M.E. Sharpe, 1998).

¹¹Yury Lotman, *Kultura i Vzryv* [Culture and Explosion] (Moscow: Gnozis, 1992).

out necessarily being aware of these patterns, individuals and groups conceptualize social lives in terms of sets of absolute alternatives that admit no compromise. There is no neutral ground—either one alternative or the other must be chosen. In this choice, either one or the other must be absolutely victorious.¹² In terms of human values, Lotman gives the following sets of polar, obsolete, and stark oppositions: charity versus justice; love versus the law; personal morality (ethics) versus state law; holiness versus politics, etc. A fateful result of binary thinking, according to Lotman, is that the victor, after defeating an opponent, must always seek to annihilate the past. The past is regarded not as the foundation for organic growth, but as a source of error to be destroyed before it infects the new regime. Total destruction precedes creation; creation thus takes place in a void. Means and ends are divorced,¹³ as the longed-for new world can only be constructed on the ruins of the old.

Yeltsin, Gaidar, Chubais, and their colleagues, it appears, acted in accord with this classical script of Russian history, repeating its binary logic of opposition. Reformers defined a mythological West, which was understood primarily in terms of opposition to the Soviet Union. The reason for this absolute vision followed upon Sachs's "geographical proximity" idea: it derived from the fact that, for centuries, Russia was separated from the rest of the world by physical and psychological borders, although its rulers always saw those borders as under threat. Thus the post-communist reformers, despite their liberalism, accepted the usual totalitarian formula of "we know best" when attempting to transform the old Soviet society. Communism failed because it was a bankrupt ideology. They reasoned that Russian society and economy would begin to work only by quickly adopting a viable ideology, the free-market model. Never mind that such change could only be imposed by the autocratic techniques of "ends justifying the

¹²This may also be the reason why many reformers keep insisting that their policies were ultimately the right ones.

¹³All Russian revolutions have operated by the rule, *tseĭ opravdyvaet sredstva* ["the end justifies the means"].

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means.” What Isaiah Berlin called “the mixture of utopian faith and brutal disregard for civilized morality”¹⁴ when discussing the Bolshevik policies, could also be relevant when assessing the Russian liberal reform process, which ruled more often by presidential decree than democratic consent.

The essence of democracy, however, is to secure public support for government policies, which the Yeltsin government consistently failed to do. One cannot auction, privatize, or even simply redistribute the assets of a huge country among the citizens without wide citizen involvement, particularly when the populace was well aware of the high (often bloody) price paid to develop those assets.

Economic liberties, if they are to be supported by the public, can only be possible when the public and the authorities have a firm social contract with definite goals, set procedures, regulations, and codes. Although the Russian—and then Soviet—system never had such a written code, it had a strict tradition of rituals and “informal formalities” that were followed by the elite and the common people alike. When the traditionally accepted systems were formally destroyed in 1991, rituals were no longer functional either within the power elite or in between people and the government. The former unwritten set of rules was replaced by *bespredel* [limitless lawlessness], as Yeltsin’s government overlooked the necessity to replace old autocratic rituals with the new modern regulation of “societal protocol.” Thus, the separation between the state and society suppressed anything that Russia has even known before. Deprived of the familiar patterns and structures, people have become greatly confused about what formal functions and responsibilities mean for citizens, government officials, and businessmen in the new “capitalist environment.”¹⁵

¹⁴Isaiah Berlin, “Political Ideas in the Twentieth Century,” in Isaiah Berlin, *Four Essays on Liberty* (Oxford and New York: Oxford University Press, 1969), p. 17.

¹⁵Some analysts call it “a crisis of morality,” but I would suggest that it is rather “a crisis of modernity,” in which the old paternalistic system is being forced to give way to a new, modern system of “shared responsibility.”

Yeltsin's post-Communist government failed to set up a social contract between itself and the people. Russians were unaware of the price they had to pay for liberalism and were unsure of why they had to pay it. It was unclear what kind of services the government planned to offer in exchange for citizens' responsible economic behavior. People were told that they had to pay taxes, buy expensive social services and education, and not simply receive a salary but earn it. They were told to not just collect pensions but to accumulate savings throughout their lives. Before all these services had been provided for free. There was a "minor" inconvenience of the dictatorship, of course, but the trade-off was nonetheless clear. This time around, the government was asking people to support the free market economy while not giving anything in return. Witness the arbitrary officials, protection in the form of corruption, unpaid wages and pensions, etc.

To reform without clear democratic consent for the process of renewal placed the entire program at risk from the start because of the "democratic deficit" of *glasnost*.¹⁶ That lack of support, indeed, proved to be the greatest boon to re-empowering the most reactionary—i.e., Stalinist—forces in the country. The post-Communist reformers insisted, however, that the changes to be undertaken were primarily of a technical and economic nature. Connecting these reforms, and making them comprehensible within the terms of the wider culture, was deemed unnecessary.

Indeed, far more than 50 percent of the economic reform initiatives were promulgated by presidential decree and not by any vote in the Duma (legislative assembly), where cultural and political consensus would have been necessary¹⁷. The reason for such neglect of the Duma is obvious. The liberal reformers led by Gaidar and Chubais reasoned that conservative deputies would block change, so it was in the interests of the country to go around them, executing decisions single-handedly. Therefore, from the start the process of economic reform consisted of a few

¹⁶*Glasnost* was widely used to make known the crimes of the past, but had no application to the processes of the present.

¹⁷Praim-TASS (December 21, 1998).

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good men leading the way without democratic consent for their program. Later, one or two reformers sensed problems, but such insights usually arrived only after they were out of power. In his post-ministerial incarnation, for example, Sergei Kiriyenko admitted that cultural concerns should have been taken into consideration: “When the Russian people gave Yeltsin the authority to end communism, they were far away from thinking that they were supporting the end of social welfare provided by planned economy.”¹⁸

From 1991 onward, policies imposed from the top clashed with expectations arising from the bottom, primarily because the average Russian held to long-established ideas of social justice that most people deemed more valuable than any idea of democracy or capitalism. For centuries Russians have been taught that the interests of society and the state are far more important than the interests of any individual: collectivism and solidarity should be valued more than individualism. Thus, the values of wealth, competition, and the necessity of social inequality were not accepted as inevitable by the majority of the population. Spirituality and personal ethics remained much more significant qualities.

¹⁸Transcript of Sergei Kiriyenko’s lecture at New York University School of Law (November 30, 1998).

RUSSIA'S BOTTOM: THE CULTURE OF ENVY

Russian mistrust toward markets and the unconventional attitude of most Russians toward money have their roots in Russian spirituality and personal ethics. “Self-interest has no warranty in morality; material gain, a purely quantitative individual good, excludes the qualitative dimensions of life centered around service to the community,”¹⁹ said the nineteenth-century Slavophile Alexey Khomyakov. These roots are manifested in the distinction Russians draw between ‘greed’ cultures and “envy” cultures.²⁰

In Russian eyes, a “greed” culture tends to respect personal accumulation of money and goods, and rewards its citizens for this practice, both morally and materially. It requires working out sensible tax structures that provide for a public safety net. It also encourages philanthropy, and in general considers inequality inevitable and prosperity a sign of not just providential favor, but also a deserved result.

However, in Russia, “envy” culture is opposed by the widespread egalitarian impulse that personal economic gain is illegitimate and hurts the communal interests of the collective. The nineteenth-century revolutionary writer Alexander Herzen once exclaimed that the “Petite bourgeoisie are incompatible with the Russian character—and thank God for it!”²¹ This means that instead of following the “greed” culture motto of “keeping up with the Joneses,” in “envy” communities more satisfaction comes from “keeping the Ivanovs

¹⁹A.S. Khomyakov, “O starom i novom” [“On the Old and the New”], in M.A. Maslin, ed., *Russkaya ideya* [*The Russian Idea*]. (Moscow: Respublica, 1992), p. 58.

²⁰See, for example, Johanna Hubb, *Mother Russia: The Feminine Myth in Russian Culture* (Bloomington and Indianapolis: Indiana University Press, 1993).

²¹Alexander Herzen, *My Past and Thoughts* (Berkeley: University of California Press, 1982), p. 285.

down.” In Russia, “equality of outcomes,” a belief that material conditions in society should not vary too greatly among individual and classes, wins out over “equality of opportunities,” which tends to tolerate and even encourage the open flourishing of class distinctions. There is, indeed, a signature joke that Russians like to tell about “envy” cultures: A fairy godmother approaches a poor peasant and promises him anything he desires with only one stipulation: that his neighbor get twice as much of it. The peasant thinks for a long time, and then finally says: “All right. Blind me in one eye.”

“Envy” cultures aim to guarantee the survival of the group at a subsistence level, but ruin the ambitious. The very idea of profit, of tangible reward for taking an economic risk, is associated with the inequality imposed by human beings. Meanwhile, justice is identified with protecting the integrity of the helpless, disadvantaged, and weak in a given collective against the indifference and self-promotion of the strong. It is thus important to remember here that Russian culture was traditionally hostile to political democracy altogether. In the words of one of its proponents, “It is clear that the principle of majority is a principle, which does not need harmony; it is a compulsory principle, which wins only through physical superiority; those who are in the majority overwhelm those who are in the minority.”²² That Russia traditionally belongs to an “envy” culture has nourished the strong and often very attractive values of egalitarianism, compassion, inefficiency, and the dislike of consumerism.

Given such attitudes, “Homo economicus” could neither survive nor be happy in Russia’s so-to-speak “Left-handed Civilization.”²³ The left-hander, suggests cultural historian Alexander Panchenko, is a Russian national hero.²⁴ This is why, according to

²²Konstantin Aksakov, *Sobranie sochinenii v trekh tomakh*, [Collected Works in Three Volumes] vol. 1 (Moscow, 1910), p.292.

²³The title derived from a famous story, “The Left-handed Man,” by the nineteenth-century writer Nikolai Leskov. Its hero, *Levsha*, the left-handed blacksmith, is capable of doing work that none of his Western counterparts can do, despite their technical equipment, modern appliances, and scientific knowledge. With his able left hand he shoed a flea, while his foreign visitors could not see the flea without a microscope, not to mention the flea’s legs.

²⁴“The Left-handed Civilization,” [Tsizilizatsia Levshi] interview with Alexander Panchenko, *Novskoe Vremya*, March 5, 1993.

Panchenko, when Russians left the countryside and the wholesome Russian soil—which in its modesty and goodness gave them the only really satisfactory life—they realized that they were “left-handed.” When they moved to the city, they did not know how to reconcile their harmonious but somewhat “left-handed” qualities with the competitive, modern urban civilization, where life and business are calculating and cold and where emotions are concealed and even disdained.²⁵ Panchenko argues that, for Russians, little of real human value depends on the economy; all that truly matters depends on the soul and consciousness.

That sensibility, indeed, is at the root of Russia’s literary tradition, from Tolstoy, Turgenev, and Chekhov to Solzhenitsyn, who loathes individualism and market values as much as any Bolshevik. To the pragmatic civilizations of the West, Russia is a developing society. Panchenko asserts that Peter the Great and Lenin tried to force on Russians the individualistic and economic values of the West. But in general Russians fear that form of civilization. Now, many Russians think that the country’s spiritual strength as well as her authentic ethical civilization has been destroyed and that her great land is now so much smaller. Unable to be “Great Russians” any more, they seem to see no alternative to adopting the ways of the West. Panchenko’s argument may be exaggerated and simplified, given that Russia is no longer a patriarchal culture based on agriculture, and its social and political structures bear little resemblance to the old peasant society. However, the spiritual despair that this cultural deracination has inspired is real, for cultural legacies are hard to change, and only if and when society has been presented with a positive experience that it can trust, will it be able to transform.

²⁵Mikhail Zadornov, formerly Russia’s minister of finance and a current Duma member, thought the argument wrong, since, as he put it, “70 percent of the Russian population live in the cities.” Another economist Alexey Makushkin responded, “*Propiska* [residency permit, stamped in Russian passports] doesn’t necessarily change mentality.” Even today, rural Russians treat Muscovites “with an illogical mixture of mistrust, servility and ill will. Their attitude towards foreigners is similar.” See Luibov Brezhneva, *The World I Left Behind* (New York: Random House, 1995), pp. 595–96.

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Russia has had no such experience. Russians—the ordinary Russians who did not get their philosophical education from Milton Friedman’s books—insist that there is an almost unbridgeable gap between the entrepreneurial spirit and the Russian soul. Indeed, Russians have always considered themselves a separate civilization. Evil comes to it from “without,” from the outside—from the West and from those Russian rulers who would recast Russian institutions in the West’s image. Gaidar and Chubais with their “rational” policies represented just that type of figure to a majority of Russians. This point was made emphatically in an interview, entitled “Russia is not just a country, it is the whole civilization,” with the contemporary Russian scholar and academic, I. Shefarevich. He explains why competition and capitalism go “against the spiritual makeup of this country...”

The competitive situation would just come into conflict with the world-view, which has been established in the course of a thousand years. If one considers even the existing [Russian] sayings, they are all based on the idea that wealth is not an end in itself. It is not a sin, but presents at least a dangerous moral situation in which a person must be very careful in order not to harm his soul.²⁶

Characteristically, when concluding the interview, Shefarevich found an even more authoritative and radical voice to support his position: “As Marina Tsvetaeva says, ‘the notion of the basic falsehood of money is ineradicable from the Russian soul.’”²⁷

Material possessions were understood to harm the spiritual wealth of people and thus should never be pursued and wished for.²⁸ Therefore, traditionally, money did not have much significance in Rus-

²⁶V. Agafonov and V. Rokitskiy, “Rossiya - eto ne prosto strana, eto - tsivilizatsia” [‘Russia is not just the country, it is—civilization’], *Novoe Russkoe Slovo*, August 1–2, 1992, p. 5.

²⁷Ibid. Corruption, the scourge upon the country, skyrocketed, indeed “harming a person’s soul” in the post-Soviet years because Russians discovered money. Rather than the traditional barter of privileges, goods, and services, which ultimately were limited by the actual position of a bureaucrat on the official “ladder,” money has become the prime factor. Before every step of this “ladder” presented a certain set of benefits, movement up the ladder offered greater privileges, but the process was not without surveillance and some systemic control: everyone could get only as much as his position allowed him to. Money transactions now are not limited to positions and privileges, therefore the possibility of acquiring huge windfall profits has become the focus of corrupt trade.

²⁸G.P. Fedotov, *Sud’ba I grekhi Rossii [Fate and Sins of Russia]* (St. Petersburg: Sofia, 1991), p. 202.

sia. Culturally, Russians have been very suspicious of money (*prezrennyj metall* or “contemptible metal,” as they call it), and wealth almost always has been considered a negative value. The old Christian idea that a rich man has more trouble passing into heaven than a camel does through the eye of a needle, corresponds with the overwhelming Russian belief that concern for money somehow reflects smallness of soul and a reluctance to trust in providence. Marina Tsvetaeva, the rebellious and anti-material spirit of Russia’s intelligentsia, wrote a poem entitled “Praise to the Rich” (1922), which nicely captures this sentiments. The more generous toward the rich the poet pretends to appear, the more condescending the poem means to be:

And so, making clear in advance/I know there are miles between us/... I proclaim it: I *love* the rich./For their rotten, unsteady root/for the damage done in their cradle/... for the way their softest word is/obeyed like a shouted order; because/they will not be let into heaven.../I say that among all outcasts/there are no such orphans on earth...²⁹

Whatever Russian reformers might say, wealth in Russia is far from being perceived as a noble achievement; it is a curse, a misfortune, something to be ashamed of and sorry for. It is also a subject of complacent envy, because not many Russians are able to become rich: fortunes require stability in evolutionary development, as well as persistent efforts and consistency. “Our national characteristics: a natural inclination to anarchy (which seen from outside, is commonly mistaken for barbarous or immature behavior), fluidity, amorphousness, readiness to adopt any mould (‘come and rule over us’), our gift (or vice) of thinking and living artistically, combined with an inability to manage the very serious practical side of daily life. ‘Why bother? Who cares?’ we ask. In this sense Russia offers a most favorable soil for the experiments and fantasies of the artist, though his lot, as of a human being is something very terrible indeed...”³⁰. Culturally, it is forgivable to be wealthy, but only

²⁹Marina Tsvetaeva translated by Elaine Feinstein, *Selected Poems*. (Penguin Books, 1994), p. 39–40.

³⁰Abram Tertz (Andrei Sinyavsky). *A Voice from the Chorus* (New York: Farrar, Straus and Giroux, 1976), p. 247.

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if wealth is brought about in a “good way”: by virtue, by divine miracle, by inheritance, even by gambling, as a challenge “to test one’s fate.”

The gambler, indeed, is the same as the fool in a fairy tale: shrewder than anyone else, more agile than anyone else. There is certain logic in fate’s protection of the carefree man: after all, who else would worry about someone like him? And there is a Christian method to support the theory: the last shall be first! American folktales, on the contrary, are imbued with a rational spirit; there is not too wide a gap between dream and reality. Heroes do not just wait for help from above, they don’t spend endless hours in contemplation, but constantly work and struggle. Paul Bunyan, for example, is direct, straightforward, and full of initiative. He is not miserly, but careful and precise. In Russian folklore, by contrast, work is not a constant effort, but an unpredictable burst of activity.

Therefore, working for money, a virtue so respected in the West, is not a “good way” in Russia. Russians can be great workers, as long as labor is done not for profit but for some spiritual or personal reason,³¹ or is done as a heroic deed, which performs wonders, knowing no limits. For centuries the conscious, calculating accumulation of wealth has been in conflict with other Russian cultural values, such as unlimited hospitality, humility, belief in miracles (fate takes care of those who can’t take care of them-

³¹According to cultural historian Mikhail Epstein, when a Russian “take[s] up the trade, he takes it up with all his heart as if he is marrying it.” Work in Russia is becoming a mysterious dedication, “a tormenting but happy wedding ring, an unbreakable connection with the world of object, the mystery of a human being and an object becoming one’s flesh... The product then carries the stamp of love, a sign that the made object is the fruit of privation...” See Mikhail Epstein, “Labor of Lust,” *Common Knowledge*, vol. 1, no. 3 (Winter 1992), p. 99. This type of work, which is always connected with love, can easily produce revolutions, but hardly amounts to practical, sustainable, and considerable results in routine, everyday life. “Homo Sovieticus, successor and predecessor of Homo Russicus, labored long and willingly, but his labor somehow lacked a foundation... There was no firm, lifelong tie with the object and the product of labor. His love was general, public and belonged to no one... [as] Russians are supposed to be a mystical people who find rational knowledge about the objective world alien. (Ibid., pp. 92, 102.)

selves) and in material sacrifice.³² Therefore, Russians are capable of sending a man into space, of developing Sputnik or the best (albeit one) computer for the KGB to use in its monitoring, but are absolutely incapable of establishing consumer production of decent washing machines.

To revisit Jeffrey Sachs's "geographical" idea, perhaps it is the vastness of the Russian land that encourages such a mindset. Over the centuries Russia acquired eleven time zones, but it did not have the strength to stop, to map out a border, to build homes for many people: "We Russians still look and act like travelers. No one has a defined sphere of engagement; we have no rules for anything; we don't even have a home. Nothing that can tie us up, that can evoke everlasting sympathy and love, nothing durable, nothing permanent; everything flows by, goes by, without leaving a print either within or outside us."³³ The renowned philosopher Nikolai Berdyaev explained Russia's neglect for the discipline necessary to make the surrounding reality comfortable: "The Russian people, in accordance with its eternal idea, have no love for the ordering of this earthly city and struggle toward a city that is to come, toward the new Jerusalem."³⁴ Like its land, Russia's interests are sporadic and spontaneous and spread everywhere, dilettantism without methodology and any other obligation except to its fabled size, enormous spirituality, and legendary soul. Russians "raised neither to seed corn nor children. Our hero was the jack of all trades: he

³²In Russia the world is not so "disenchanted" (in the famous term that Max Weber used with respect to modern Western societies). Miracles and mystery still inhere in daily life. Such beliefs provide a person with a certain kind of freedom from constraints and authorities of institutions and social structures. They are nonbinding in Russia as they are only phantoms of their true essence. People depend on their wits and their friends much more than on the fixed procedures and routines, which they find petty and boring. There is little authority in the formal authorities of the world, for Russia is a literary world where appearances seldom correspond to reality. Hence disregard for the rule of law.

³³Pyotr Chaadaev, "Filosofskie pisma" ["Philosophical Letters"] (1831). Quoted from P.S. Taranov, *Filosofskaya aforistika*. [*Philosophical Aphorisms*] (Moscow: Ostozh'e, 1996), p. 553.

³⁴Nicolas Berdyaev, *The Russian Idea* (New York: Macmillan, 1948), p. 255.

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sews, he mows, he plays the oboe. Each hand does miracles: incredible dress designs, incredible harvests, incredible melodies—while in reality we had convicts in rags, starving millions...”³⁵

Western businessmen coming to Russia right after the Soviet collapse experienced a stunningly unusual way of doing business. In Western-style hotels like the Sheraton, Metropol, and the Palace, one could easily have a chance breakfast with a stranger who would offer a large oil refinery for sale. Russia has always looked with disdain at small deals. Although Moscow has always been “desperate for vegetable stands, restaurants, car washes, dry cleaners, and hardware stores... many people in business are selling oceans of natural gas, tons of gold, timber concessions the size of Michigan, or used MIG crafts.”³⁶

A nation of sweeping revolutions and generalizations, where everyone is an artist who creates his or her own grandiose reality of extremes, where all artists long to write gospels instead of novels, Russians have no respect for detail. Abram Tertz, a famous dissident and contemporary Russian philosopher of culture, in his *A Voice From the Chorus*, asserted that even Russian misers do not hoard money so much as weave fancies around it. Porfiry Golovlev, Pliushkin, Pushkin’s Covetous Knight³⁷—all these are very Russian characters. For the most part they merely give rein to their imagination, sitting on their coffers. They get all worked up about the idea of money, but they are not really concerned with either profit or loss.³⁸

This unconventional, almost dreamy and irrational behavior only coheres into a sensible cluster if a state is rich enough economically to guarantee all citizens minimal material security at some

³⁵Mikhail Epstein, “Labor of Lust,” p. 99.

³⁶Matthew Stevenson, “Dealing in Russia,” *The American Scholar* (Autumn 1993), p. 501.

³⁷The first character mentioned is the protagonist of *The Golovlev Family*, a novel by Michael Saltykov-Shchedrin. Pliushkin is one of the landowners in Nikolai Gogol’s *Dead Souls*. The Covetous Knight is a character from Alexander Pushkin’s *Little Tragedies*.

³⁸Abram Tertz, *A Voice From the Chorus*, p. 106.

welfare level.³⁹ The enormous richness of Russia's resources has enabled the country to survive for so long through a mere redistribution of wealth without really producing much that is new. Kahka Bendukidze, president of the UralMash factories and a leading Russian businessmen, once pointed out, "Russia has the curse of a rich country, so rich with raw materials that it never had to bother to create a structure of services or a sturdy line of production."⁴⁰

As Russian cultural historian Mikhail Epstein explains:

At the root of word ownership is the concept of 'one's own.' And the first miracle is that ownership can be not 'one's own' but no one's, collective: an oxymoron, equivalent to a white raven or to black snow. We Russians didn't think up this most miraculous of miracles, but we worked hard to make of all humankind a collective miracle worker; and, in the meantime, as an example and a lesson to the world, we showed what can be done with our fabulous nation. Ownership was removed from the sphere of 'one's own' and became 'othership.' The peasant community of the artel, the mir of the collective farm, the landowner or the party secretary, the pre-Revolutionary bailiff or the post-revolutionary bureaucrat—all worked in concert to make it impossible for anyone to work for himself.⁴¹

To the Russian way of thinking, the individual was always inferior to the community because the communal way of life was so near to the ideal of brotherly love, which forms the essence of Christianity and thus represents the higher mission of the people.⁴² "A commune" was seen as "a union of the people, who have renounced their egoism, their individuality, and who express their common

³⁹Even today "Russia presents a classic example of a 'welfare state': federal, regional, and local legislation presently provides 336 various social benefits, for which 449 various categories of population are eligible..." See Tatyana Maleva, "What Sort of Russia Has the New President Inherited? Or Russia's Key Social Problems," Carnegie Endowment for International Peace Moscow Center, Briefing no. 4 (2000), quoted in *Johnson's Russia List*, no. 4307 (May 17, 2000). However, in the current neoliberal conditions "the inadequacies in the social welfare system directly follow from a social policy which [still] identifies the notion of a 'welfare state' with government paternalism..." (Ibid.) This "vicious circle" needs to be broken.

⁴⁰*Nezavisimaya Gazeta* (August 2, 1997).

⁴¹Mikhail Epstein, "Labor of Lust," p. 92.

⁴²See, for example, Isaiah Berlin, *Russian Thinkers* (London: The Hogarth Press, 1978).

accord; this is an act of love, a noble Christian act... A commune thus represents a moral choir, and just as in a choir a voice is not lost, but follows the general pattern and is heard in the harmony of all voices: so in the commune the individual is not lost, but renounces his exclusiveness in favor of general accord—and there arises the noble phenomenon of harmonious, joint existence of rational being (consciousness); there arises a brotherhood, a commune—a triumph of human spirit.”⁴³ In Russia, where cultural attitudes have proven more durable and resilient than in other countries (as it has been only ten years since centuries-closed Russian borders opened for free travel and exchange), ethical values, appropriate for communal life in the village, suitable for somewhat narrow relations based on personal acquaintance, were simply transferred to the whole society. Community was seen as opposing law, abstract associations, formal organizations and personal interests. Law especially was denied any value in and of itself in comparison with the inner truth and internal ethics: “Law and custom rule the social life of people. Law, written and armed with compulsion, brings the differing private wills into conditional unity. Custom, unwritten and unarmed, is the expression of the most basic unity of society.”⁴⁴

This kind of logic, which perceives as unnecessary any social contract between the state and the people, makes sense, of course, only when a ruler embodies the symbol and the essence of Russian life. As he sees himself ruling over people united in devotion to him, he is seen as the embodiment of the faith, the highest law (religion), and the protector of the Russian way of life.

The idea of the “culture of envy” recognizes only vertical hierarchy—czar versus slave—in contrast to the “greed” culture with its horizontal hierarchy of competitive individuals. This assumes, by the state in the first instance and followed by the individual citizens in the second, that “private” benefits always come at the expense of the “public” and state. This means that if you (singu-

⁴³Konstantin Aksakov, *Sobranie sochinenii v trekh tomakh* [Collected Works in Three Volumes], vol. 1 (Moscow, 1910), pp. 291–92.

⁴⁴Alexey Khomyakov, *Sobranie sochinenii v trekh tomakh* [Collected Works in Three Volumes], vol. 3 (Moscow, 1916), p. 75.

lar) are rich and powerful, that condition comes at our expense—we are poorer and weaker. The nineteenth-century revolutionary poet Nikolai Ogarev looked upon the peasant community as the equivalent of universal slavery. For him it was “the expression of envy of all against the individual.”⁴⁵ In such conditions, “for most of Russian history, the state was for all practical purposes the property of the czar.”⁴⁶ Therefore the czar, like God, has the right to punish for sins of physical or spiritual rebellion. He is a humble sufferer for his people (power is an evil burden and the fewer men who had to carry it, the better), and he has to carry burdens of power, property, decisions, responsibilities. People on the other hand have only one responsibility—to serve their God and their czar.⁴⁷

Unlike the Western structure of the suzerain and some free vassals, Russia followed the Byzantine tradition, in which there was only the ruler and the serfs: the ruler does not provide guarantees or laws, but gives amnesty, mercy, and forgiveness of sins. The czar, as God’s governor, does not need explanations and proof; everyone is equal in front of him, as they are in front of God.

As Thomas Graham, former U.S. diplomat and currently senior associate of the Carnegie Endowment, pointed out: “There was no formal distinction between sovereignty and ownership, between the public sphere and the private sphere. Almost by definition, public possessions were exploited for private gain.”⁴⁸ Disdain for the virtue of private property and ownership also stems in part from the arbitrariness. The lack of definite laws for economic or human

⁴⁵Valery Blagavolo, “Nikolai Ogarev. Russkie Voprosy,” [“Nicolai Ogarev: The Russian Questions”], in *Svobodnaya Mysl*, vol. 2 (1993), p. 110.

⁴⁶Thomas E. Graham, Jr., “Testimony on Corruption in Russia and Future U.S. Policy Before the Senate Committee on Foreign Relations, September 30, 1999.” Quoted in *Johnson’s Russia List*, no. 3538 (October 1, 1999).

⁴⁷Another important part of the chain between the people and the ruler is a class of landowners, clerks, commissars, and nomenclatura bureaucrats. In a communal structure the excess of wealth was rejected for the sake of the village, as the land was to belong to God, and everything else belonged to the czar, so nothing could be appropriated by any of the intermediary classes. Owning property was ethically and spiritually illegitimate.

⁴⁸Thomas E. Graham, Jr. “Testimony on Corruption in Russia...”

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rights emerged from a world where, for many centuries the individual in charge—czar, landowner, or commissar—had sole power to determine who owned what, lived where, or even whether someone lived or died. Ideally, the perfect czar establishes a perfect rule; in reality he remains a human being and his verdicts are often far from perfect, because there are no institutional checks upon them. They are willful because they are products only of the will. Thus, the commune obeys an ideal image of the czar and mistrusts the reality of his rule. Therefore, most people still don't believe that it is worth working to acquire ownership, since it can be taken away at any moment.⁴⁹

The case of Grigory Lopakhin in Anton Chekhov's *Cherry Orchard* is instructive here. Lopakhin's father was a *muzhik*, a slave at the Ranevskaya estate, which his entrepreneurial son, a millionaire through his own cleverness and efforts, is buying from the former owners. His plan is to cut down the cherry orchard, build small houses, and rent them out as *dachi* (vacation houses). Ranevskaya, the landowner, insists that the market value of her property is far less important than its beauty and age. According to Chekhov, Ranevskaya

⁴⁹It is worth noting here that Russia is by no means a hopelessly dishonest nation. The sweeping scale of cronyism and corruption during the last ten years was first of all a consequence of traditional cultural behavior of the Russians: disregard for morality in favor of ethical relations (trust in personal ethics); disbelief in the social contract, seen as a Western invention of individuals who mistrust each other and therefore have to document their every transaction; the fact that rules and laws were established individually by the ruler in each individual case; mistrust of authorities, because rules usually depend on the leader's personal qualities rather than generally accepted, documented notion of justice. In such a society, each member of his/her commune (clan, family, circle, etc.) fends for him/herself (within the clan) as if there is no tomorrow, ever suspicious of whatever any change of power or the arbitrary mood of the one in power might bring. Secondly, when the state ceased to be either the property of the czar or the Communist Party of the Soviet Union, "various key pieces of the state remain the private preserves of specific individuals, managed primarily for private gain rather than for the public good. Moreover, unlike the Soviet period, when 'property owners' derived profit from the state's strength and control of society, today's proprietors... enrich themselves by preying on the weakness of the state, by stripping assets from property that once belonged to the state as a whole" (Thomas E. Graham, Jr., "Testimony on Corruption in Russia..."). And finally, the grandiose scale of corruption also stemmed from the routinely extreme, absolute revolutionary manner, which Russians assume in all trades they are engaged in. Thus, corruption and "oligarchism" reign supreme yet again, as did previously absolute monarchy or dictatorship of proletariat.

and her family live in a past that is vanishing. But the present, as represented by Lopakhin and his like, offer a future that is even more deadening to the soul. Although the latter deserve credit for their entrepreneurship, their coldness, calculation, and disregard for beauty are by far qualities unworthy of human life. Needless to say, this Russian ambiguity of what it really desired—beauty or rationality—contributed directly to the events of 1917, when the cherry orchard would end up belonging to neither “the past” nor “the present,” but to no one. Instead, it would be owned by the state, which would waste this land, depriving it both of its beauty and of the practical use to which Lopakhin would have put it.

For all these reasons personal ownership has been considered undignified, difficult, burdensome, but also useless. In fact, for most of Russian culture the concept of “personal ownership” remains as unsettling as it was for Chekhov as it is reassuring for Americans. Abram Tertz suggests that:

The most important quality of a Russian person is the belief that he has nothing to lose. Therefore he is disinterested and unselfish. And the straightforwardness of the people is not just hospitality but despair of a gambler. Readiness to share his last bit, because it is the last one indeed and there is nothing left, and everything is on the verge, and almost at the end... And there is lightness in thoughts, in decisions. Nothing has been saved and stored, nothing has been learnt.⁵⁰

In a country where property and personal ownership are seen as acts of usurpation, it is no surprise that even human rights as understood in the West—i.e., political and civil rights—have always been shunned in Russia in favor of a communal idea, i.e., freedom *from* economic risks, and not freedom to invest, achieve, and retain profit. To the West, “human rights” imply freedom of individual expression against the potential tyranny of the majority: freedom of speech, press, assembly, religion, and then the intuitive sense that the right to own property guarantees all the others. In Russia, however, where profit is considered profiteering, and where even

⁵⁰Abram Tertz (Andrei Sinyavsky), “Mysli vrasplokh” [Thoughts Caught Unawares], in *Sobranie Sochinenii v drukh tomakh* [Collected Works in 2 Volumes], vol. 1 (Moscow: SP Start, 1992), p. 321.

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legitimate gains are terribly vulnerable to disappearance, the “tyranny of the crowd”—being *kak vse* (like everyone else)—would be the only way to protect oneself from the tyranny of the calculating and greedy individual.

Freedom in the West means opportunity, in which a society openly embraces differences in individual talents and initiatives, understanding that there might be unequal results. Not so for Russia. There freedom meant security, not only material security but the psychological security of knowing that no one else—no one else living anywhere near you—has much more than you. For instance, under the old Soviet Constitution, Russians had the “right to rest,” twenty-four-day vacations were guaranteed to everyone by his or her employer. There was also a “right to living space”: a fixed number of square meters per family member. There was the right for “free education and medical care”: not always of the highest quality, not always the best, but in principle it was available in equal measure for all.

Perhaps the most appreciated constitutional right was the “right to work,” which meant the right “not to lose your job.” The right to keep your job, no matter how shoddy your worked or how unnecessary the job itself, was the essence first of Russian communal security and then Soviet socialist security. In Chekhov’s *Three Sisters* the old peasant nanny is too old to work as she once did. The sisters, however, insist that she stay in the house and help as much or as little as she can, pretending that everything remains the same. Having a job was rarely a matter of money, but rather a matter of personal belonging to a group, being *kak vse*.

This notion was driven home in 1991, the last year of Soviet rule, when a group of American businessmen of considerable wealth went on a study tour to St. Petersburg and Finland.⁵¹ They met with high-ranking managers and officials in a various candy-production plants. During one such visit, the group was astonished to see hundreds of old women at tables wrapping little candies by hand. “This is inefficient, unsanitary, costly, unnecessary,” the

⁵¹Story told in 1996 by Princeton University professor of Slavic studies Caryl Emerson in one of her lectures on Russian culture.

U.S. visitors told the manager. “In the West there are machines...” But the manager waved his hand impatiently and took the Americans into the warehouse where a candy-wrapping machine from East Germany was gathering dust and cobwebs. “We purchased this machine five years ago, but no one has the heart to install it. Those old women have a human right to a life that includes the dignity of work,” the manager said.

For the Westerners this most likely seemed to be a useless, unprofessional, even harmful practice, an obstacle on the way to progress and prosperity. Scenes such as this also convinced Anatoly Chubais, who in the early 1980s was just out of graduate school in St. Petersburg (then Leningrad), to experiment with Western business methods. In the mid-eighties one of his test projects, *Payment and Reward Practices for Engineers* in St. Petersburg, proved that change could be positive if done gradually and supported by the majority: “We felt we were walking on air, so good the results were. The amount of *lishnie liudi* (unnecessary, superfluous people) was reduced, production went up, people worked more effectively... Then I became absolutely convinced that regular market mechanisms are universal. They work in the hotel business, as perfectly as they do in the turbine construction business... And one more thing, it is absolutely useless to insert the market mechanisms step by step...”⁵² Because this microeconomics experiment worked well when applied to a few plants in St. Petersburg, the results convinced reformers to repeat the experiment undeviatingly on the whole country five years later. The results of that experiment proved different, however. The dignity of work (as a cultural condition on a larger scale), so useless from the rational point of view, is more valuable in the “left-handed civilization” than the rationale of work results, because it always comes without the indignities and difficulties of personal responsibility and personal ownership.

There could have not been a culture more out of touch with Adam Smith.

⁵²Anatoly Chubais, “*Chubais na vashi golovy! vmesto vvvedeniya*” [“The Last Thing You Needed was Chubais! Instead of Preface”], in Anatoly Chubais, ed., *Privatizatsiya po-rossiiski*, pp. 9–10.

RUSSIA'S TOP: PRIVATIZATION RUSSIAN STYLE

Russia has always reveled in its uniqueness, taking pride in being separated from the rest of the world by its spiritual concepts. In 1991, however, pro-Western reformers made a decision to approach Russia's economic problems in a very rational way.

When Poland was declared a success story after applying shock therapy to its economy, it was immediately decided that what worked for Poland would also work for Russia. But Poland, as did most East European countries, remained an entirely different case. It was closer to the West, it had endured fewer years under socialism and planned economics, and private property and civil society had not been destroyed. Indeed two powerful private institutions, the Catholic Church and the Solidarity trade union movement, defied and then toppled Communist power.

Seemingly blinded by Poland's success in adopting Western economic models, Russia's liberals refused to note the difference. Pyotr Aven, who was then the minister of foreign economic relations, asserted in 1992, that "there is no such thing as a special country or a special case. From the point of view of an economist, if economics is a science with its own laws, from this point of view all countries are [*odi-na-ko-vye*] e-q-u-a-l."⁵³ Although Russia's policies during the last ten years were based on the preceding concept, the results suggest otherwise. The lack of context and the failure to connect methodology for change with inherited cultural values distorted the reform process from the very beginning.

Before leaving his post as chief economist of the World Bank at the end of December 1999, Joseph Stiglitz pointed out that "there was much discussion about the proper pacing and sequencing of reforms...but traditional economic theory has even less to say about the dynamics of transition than it has to say about equilibrium states; and yet it was issues of dynamics of transition that were central

⁵³*Nezavisimaya gazeta* (February 27, 1992).

to the debate over pacing and sequencing.”⁵⁴ That question of sequencing should have been paramount in the mind of Russia’s reformers, but apparently it was not. According to Anatoly Chubais, Russian privatization chief from 1991 to 1996, “the aim of privatization was to build capitalism in Russia. And not just that, it was to build capitalism in just a few [*udarnykh*] shock years, meeting the norms of production which the rest of the world spent hundreds of years achieving.”⁵⁵ Anders Aslund, a former Swedish diplomat and current Carnegie Endowment for International Peace associate who helped design Russian economic policy from the start, was blunt in explaining the program’s haste, “In Russia privatization should be implemented as quickly as possible. Russia’s peculiarity is that if property would not be redistributed quickly between people, it will simply be stolen.”⁵⁶ The idea was undoubtedly correct, but for the reasons explained in the previous chapter—Russian disregard for formal laws and procedures—speed became an encouragement for theft rather than a recipe to avoid it. Inexperienced property owners were too experienced in mistrusting the regime, which used to change or alter its mind any minute, and were stealing big to protect themselves from the unexpected.

In his recent book, *Privatization Russian Style*, Chubais explains the need to rush ahead regardless of opposition, and admits that in order to destroy the old system he made a choice to accept “Leninist” methods in eliminating the old regime. “From the start of our active privatization efforts we immediately knew that we had to follow the opponent’s rules of the game. Most of the bureaucrats

⁵⁴Joseph Stiglitz, “Whither Reforms? The Years of the Transition.” Keynote Address at the Annual World Bank Conference on Development Economics. Quoted in *Johnson’s Russia List*, no. 3317 (June 1, 1999).

⁵⁵Anatoly Chubais in an interview on a Russian television program “Details”, June 29, 1994. Vladimir Putin, in his memoirs, which were published immediately before he was elected Russian president on March 26, 2000, suggests that Chubais is hardly aware of methodologies other than some “ephemeral ideas... He tends to get stuck, such a Bolshevik... this is the true definition of him.” Quoted from the Internet version of the book at www.vagrius.com: *Ot pervogo litsa: Razgovory s Vladimirom Putinyim* [First Person: Conversations with Vladimir Putin] with Natalia Gevorkyan, Natalia Timakova, Andrei Kolesnikov (Moscow: Vagrius, 2000).

⁵⁶Delovoi Mir interview, *Business World* (August 14, 1993).

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that were forced to (and still have to) work had been trained in a certain [Soviet, planned economy] tradition. If we failed to find common language with them; if we didn't use familiar levers of influence, we would not have succeeded."⁵⁷ Thus "democratic dictatorship" became the means to overcome Russia's prevailing conditions, because truly democratic methods would lead only to stalemate. Most Russians were unwilling to accept the pain necessary for the birth of a new economic and political system. So, instead of methodology for explanation and education, the old administrative apparatus of communism was reused for new purposes across the expanse of Russia. Special presidential representatives were sent around the country to oversee the enforcement of presidential decrees—a policy that bore uncanny resemblance to the czar's use of personal emissaries, or to the politburo's use of commissars and representatives.

The reformers, willing to adapt the mechanisms of the state they loathed, were unwilling to seek common ground with widespread Russian cultural beliefs, no doubt for the same reason that previous Russian or Soviet power elites made decisions in the name of the people without consulting these same people. And while "common language" with the previous nomenclatura was indeed found—overriding their authority with the larger authority—the subsequent resentment among the population overrode the possibility of a positive outcome.

"Shock therapy" (macroeconomic stabilization) was considered the only way for Russia to restructure its deteriorating economy, but "shock" as some suggested came with too little "therapy."⁵⁸ In his *Notes of the President* Boris Yeltsin later explained:

Gaidar's reforms provided the macroeconomic shift, the breakdown from the old economy. It was horribly painful, without the surgical precision but on the contrary with a somewhat rusty gnashing, when pieces and parts of the old mechanism are bloodily torn

⁵⁷Anatoly Chubais, "Kak my zashchischchali privatizatsiyu" ["How We Defended Privatization,"] in Anatoly Chubais, ed., *Privatizatsiya po-rossiiski*, p. 143.

⁵⁸The phrase—"too much shock, not enough therapy"—was borrowed from Jeffrey D. Sachs, "Betrayal," p. 14.

away, and change finally does happen. There had been no other economic production [in Russia] except the Stalinist one; it could hardly be adapted to the contemporary environment, so this production genetically required a complete break. As this [past economy] was created in the *avral* (all hands on the pump) way back in the 1930s, we used the same method to break it.⁵⁹

That was Yeltsin speaking in 1995, but from the start of the reform process in 1991–92 there was no transparency. There were very few attempts to explain the concepts of macroeconomics, private ownership, and privatization—as well as the necessity of “shock therapy”—to the general population. There was not even much debate about the strategies to be pursued among economists, except for those in the pro-Western liberal camp of Gaidar and Chubais.

Promises of an improved quality of life or Chubais’s assurance that by the end of 1992 each Russian citizen would be able to receive his piece of state property, equal in price to at least one Volga automobile, took the form of rapidly declining living standards. For the people “shock therapy” arrived in 1993–94 as just that—the government freed prices suddenly, allowing them to increase dramatically at the same time it tried to curb growth in the money supply and increases in wages. These “reforms” were instantly felt in the following way: tens of thousands of people, including pensioners, were utterly ruined by the huge price increases. Many had to sell their personal possessions in order to survive. Equally painful, in both an economic and psychological sense, was the near collapse of the ruble. Yegor Gaidar later defended these strictly monetarist policies by claiming that if tough measures had not been taken, the monetary system might have collapsed altogether.⁶⁰ His reasoning, arriving late, was too complicated for peo-

⁵⁹Boris Yeltsin, *Zapiski Prezidenta* (Moscow: Ogonek, 1994), p. 300.

⁶⁰It did collapse nonetheless in 1998, when the financial pyramid of GKO’s (short-term treasury loans) ruined the Russian market and brought the country to bankruptcy. Due to the pressures on the exchange rate, Russian foreign trade slipped into deficit in July 1997, suggesting that devaluation was overdue. Concerned over the ruble’s stability, possible GKO buyers put on the brakes, leaving more than \$10 billion of falling GKO’s by the end of September 1998. Unable to find a solution, on August 17 the Russian government

ple to understand. An abstract explanation of the needs of the market was an insufficient counterpoint to the fear and blight in many peoples' lives.

When government policies result in such "tears and blood," they are obviously hard to accept without proper explanation, preparation, reasoning, and some trade-offs. Instead of receiving motivation, accounts, clarifications, and updates on the policies of the macroeconomic stabilization and voucher privatization, the Russian people were stunned to hear that the government felt no longer responsible for them and their welfare. Various statements from local and national government officials asserted that people must understand that they are responsible for themselves, that they should not rely on others—not the government, God, czar, not even the IMF—for their salvation.⁶¹ Alfred Kokh, a leading privatization official in Chubais's entourage, went even further, saying that "now is the time of Social Darwinism during which a process of natural selection must take place."⁶² Indeed, a number of reformers in search of a clean slate proudly compared the government's market policy with the actions of a surgeon who operates on a patient without anesthesia.⁶³

As the whole process was more an experiment rather than a fully thought-through policy aimed at improving the conditions of the country and its people, the reformist spirit militantly rejected public discussion of its program, implying that professional scientists should never descend to the level of dilettantes. The "expert ethos" of the Gaidar team was well expressed in Gaidar's own book *State and Evolution*, where he explains that it was more important to select political leaders from those who regarded professional exper-

announced a 90-day moratorium on foreign debt payments and a suspension on GKO payments, and allowed the ruble to devalue from \$6 to \$9. The financial system was frozen, prices increased, and by September the ruble had plunged to \$21. Although Sergei Kiriyenko was the prime minister who announced the 90-day moratorium, he is rarely blamed for the collapse, because Chubais (being advised by Gaidar), was said to be behind the GKO schemes. For more on the subject, see Roy Medvedev, "Obval piramidy GKO," ["Collapse of the GKO Pyramid"] in Roy Medvedev, *Politika i Politiki Rossii [Politics and Politicians of Russia]* (Moscow: Prava cheloveka, 1999), pp. 119–44.

⁶¹*Current Digest*, no. 12 (April 8, 1992); *Rossiiskie vesti* (September 1, 1992).

⁶²*Chas Pik* (October 12, 1992).

⁶³*Rossiiskaya gazeta* (September 1, 1992).

tise as being more important than political vision for the reconstruction of society. No wonder that during his administration far more attention was devoted to economic policy than to other pressing issues facing his government, such as restoration of confidence in the future.⁶⁴ Following this ‘expert’ mode, Anatoly Chubais asserted that the Soviet economy was boring because the only available avenue was microeconomics.⁶⁵ However, he continued, small experiments did not provide the excitement and opportunities of the big sweeping changes.

Guided by the ultimate goal of a complete make-over and driven by the usual Russian idea of totality, the Kremlin reformers of the 1991 generation simply could not go step by step, bit by bit in a slow process of capitalization. Instead they had to “build capitalism in just a few [*udarnyykh*] shock years.” Although this technique of “enthusiasm” was more than familiar from Soviet times, this was also a utopian objective in regard to Russia. First because *avral* [all hands on the pump] already had proved itself to be an ultimately counterproductive policy, and second because the new policies were perceived as Western and not authentically Russian, while the country has always been suspicious of the West.⁶⁶

⁶⁴Yegor Gaidar, *Gosudarstvo I Evolyutsia* [*State and Evolution*] (Moscow: Evraziia, 1995). Also see Yegor Gaidar, *Days of Defeat and Victory* (Seattle: University of Washington Press, 1999).

⁶⁵“While I was in college, we had no serious studies in economics... Only microeconomics was available, to work with concrete factories, well, sometimes with a certain branch of production. But what I was really interested in, was macroeconomics—dynamics of the economic figures, and money relations, and it was really depressing that there was no one to discuss it with.” (Anatoly Chubais, “The Last Thing You Needed was Chubais! Instead of Preface,” in Anatoly Chubais, ed., *Privatizatsiya po-rossiiski*, p. 5.)

⁶⁶For centuries, Russian tradition, from the Boyars, to the Slavophiles to pan-Slavists and from Eurasianists to Communists, has created a nightmare vision of the West as the kingdom of Moloch, where petty individual interests run the show. In the West the upper classes roll in luxury while the landless workers “drink nothing but clear water and live on insufficient bread alone.” [Quoted in Paul Miliukov, *The Origins of Ideology* (Gulf Breeze, Fla.: Academic International, 1974), p. 133]. Thus, Russia cannot follow the West and cannot allow the West to take over Russia’s spirit of equality and commune, because the latter is the key virtue of Russian society. The Russian ethical belief that a good society should be highly egalitarian supports the idea that in Russia “all people, by the kindness of God, the richest as well as the poorest, eat rye bread, fish, meat and drink kvas, even if they lack beer.” (ibid.) It is precisely because of such factors as the lack of private property or the strength of government solicitude that Russian society was seen as being able to avoid inequalities of bourgeois society of the West.

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A recent one-volume compilation entitled *The Russian Idea* gathered writings of Nikolai Gogol, Alexander Herzen, Konstantin Leontiev, Vladimir Soloviev, and other very prominent Russian philosophers and writers. Despite the diversity of approaches, there is an important unity among all opinions: the insistence that Western path can and should be avoided in the name of a harmonious and egalitarian Russian society based on a higher form of belief.⁶⁷ Anything Western in Russia was always approached with caution and mistrust; therefore, because IMF and the World Bank involvement had not been properly explained to Russian citizens, their loan policies were often perceived as imposing pain upon average people. This happened because these organizations were said to be handmaidens to corporate and political interests.⁶⁸ There was little transparency, which meant people simply were not informed that strings were routinely attached to IMF loans: the government was forced to balance the budget, establish a proper tax system, pare down official spending. All were reasonable policies and conditions, but the lack of public discussion tremendously hurt their perception in the long-suffering country.

It also did not help, of course, that foreign advisers had been let into the “holy of holies” for the Russian populace, the Kremlin—bastion of Russian power. According to Janine Wedel, a vigorous Western critic of the “Chubais clan”:

Chubais assembled a group of Western looking, energetic associates... From the start, the “young reformers” together with their Harvard helpmates chose rapid, massive privatization as their showcase reform. Harvard economist [Andrei] Shleifer became director of the Harvard Institute’s Russia Project. Another Harvard player was a former World Bank consultant named Jonathan Hay. In 1991... Hay became a senior legal adviser to Russia’s new privatization agency, the State Property Committee (GKI)...⁶⁹

⁶⁷V.M. Piskunov, ed., *Russkaya ideya* [The Russian Idea] (Moscow: Isskusstvo, 1994).

⁶⁸CNN.com transcript of the CNN NewsStand, April 17, 2000.

⁶⁹Janine Wedel, “Rigging the U.S.-Russian Relationship: Harvard, Chubais, and the Transidentity Game,” *Democratizatsiya*, vol. 7, no. 4 (Fall 1999), p. 477.

Wedel goes on as to give evidence of Chubais's nondemocratic behavior:

Despite the fact that building democracy was a stated goal of the aid community, many aid officials embraced this [every subsequent major regulation of privatization was introduced by presidential decree rather than parliamentary action] dictatorial modus operandi... As USAID's Walter Coles, a key American official in the privatization and economic restructuring program in Russia, pointed out, 'If we needed a decree, Chubais didn't have to go through the bureaucracy.'⁷⁰

True, in 1993 the Duma consisted of a large number of conservative forces, among them many officials who opposed market reforms. But the decision to rule by decree through chief executives and with the involvement of foreigners lacked political wisdom. By trying to gain control over all political levers of power, Yeltsin's leadership marginalized other political leaders, making them suspicious, defensive, and aggressive. As a result scandal after scandal rocked cities and regions throughout Russia; the media publicized the bribery and corruption stories in which reformers and their Western colleagues appeared in less than a moral light. In this atmosphere of a political decay the Russian population confirmed its worst suspicions of Western ideology, that "it is cut off from everything that lifts the heart above personal interests."⁷¹

Even more so, Western ideology started to be seen as a core of the Russian corruption problem. As Khomyakov, the Aksakov brothers, Berdyaev, and other advocates for Russia's uniqueness warned, money when taken to heart does destroy the human soul. The combination of Boris Berezovsky's shady affairs, the MMM and Chara Banks pyramid-scheme stock funds in the mid nineties,⁷² the GKO schemes of 1997-98, the Bank of New York allegations

⁷⁰Ibid., p. 481.

⁷¹Quoted in Abbott Gleason, "Republic of Humbug: The Russian Nativist Critique of the United States 1830-1930," *American Quarterly*, vol. 44 (March 1992), p. 6.

⁷²MMM and Chara Banks, two of the most popular Moscow stock funds of the early 1990s, were functioning as a classic pyramid scheme: their stock prices depended only on the people who were buying shares, and each new round of investors supplied the money for previous groups.

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last year, on-and-off rumors of the investigation of Yeltsin's family, especially his daughter Tatyana Dyachenko's alleged enormous accounts in Swiss banks—all this convinced the Russians even more that both Slavophiles and socialists might have indeed been right: "The Western way of life is [not only] *meshchanski*, i.e., both bourgeois, philistine and profoundly repulsive,"⁷³ it also represents " 'the greatest evil of all,' the vampire which sucks the blood out of the social body...—commerce".⁷⁴

⁷³Nicolai Berdyaev, *Sub'ektivizm i Individualizm v obshchestvennoi filosofii* [*Subjectivity and Individualism in Social Philosophy*] (St. Petersburg: Elektricheskaya tipografiia, 1901), pp. 147–48.

⁷⁴Alexander N. Tumanov, "Merchant, Entrepreneur and Profit in Russian Literature: The Russian Artistic Intelligentsia and Money," in Anthony Purdy, ed., *Literature and Money* (Amsterdam and Atlanta: Editions Rodopi, 1993), p. 25.

RUSSIA'S MIDDLE: VOICES OF REASON

Not all reformers, however, concentrated on just the “objective” and “scientific” laws of economics when the course for the economic reforms was being implemented in Russia. A few, like Boris Nemtsov, then deputy prime minister, started voicing their concerns about the unsavory nature of Russian capitalism even before the financial crisis of 1998: Russia has turned out to be neither socialistic nor capitalistic, but some “ugly monster” that no one could easily define.⁷⁵ Nemtsov seriously worried about how to replace the “bandit” capitalism that had been built in Russia with its “normal” version. In an interview with the *Novaya Gazeta*, he called for a new approach to reforms:

What kind of capitalism Russia needs is now our choice to make. The first type we have already had: a nomenclatura bureaucratic capitalism, in which power, property, and money belong to the government and other officials. Second is the oligarchic type, when power, property, and money belong to a few corporations, companies, and individuals... The best one to have is when all power, property and money belong to as many people as possible. I would call this people's capitalism.⁷⁶

Sergei Kiriyyenko, in turn, explained the reason for the failure of the reforms by the fact that among other things

Too much emphasis was placed on macroeconomic stability. Indeed, in a country with a developed market economy and a developed infrastructure, the correct distribution, or alignment, of macroeconomic factors can correctly determine the overall situation. But this was not the case in Russia, where there is no developed market infrastructure. As a result, at the macroeconomic level, companies did not try to organize their restructuring in line with macroeconomic realities. Rather, they tried, somehow, to adjust

⁷⁵*Nezavisimaya gazeta* (February 25, 1998).

⁷⁶*Novaya gazeta* (November 24, 1997).

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themselves on a very small scale. As a result, we came face to face with the so-called virtual economy, where we have companies that declare losses, while all they actually do is undermine the general state of the Russian economy.⁷⁷

Not only after 1998, with the rise of corruption scandals and overwhelming “oligarchism” and cronyism, but during the whole period of reforms, there had been voices that warned that “shock therapy” was wrong for Russia. The market economy should not have been attempted as another revolution. Even if Yeltsin standing on a tank in 1991 was enough to bring down communism, it was not enough to successfully build up the ideology of the market. For most Russians the problem with liberal reforms was that they did not go much further than just proclaiming empty slogans, which bore very little resemblance to the world they knew.

Oleg Pchelintsev, an economist from a less radical school, warned against a simplistic understanding of the market:

We often look at the market as a simple, almost automatic transaction, ‘money-product-money.’ In reality the market is simple only in the minds of the propagators of neoliberalism—this Western analog of our homegrown *nauchnyi kommunizm* (scientific communism). In reality it (or better they, for there are many different types of markets) is a very complicated mechanism. There are volumes about various diversions from ‘perfect competition’ and one cannot simply ignore the kind of knowledge based on generations of economic experience. This is the most serious mistake of Gaidar’s team.⁷⁸

In their revolutionary zeal, the Russian “romantics of the market” forgot (or didn’t want to remember) that “developed capitalism” is a system with a very complex structure of institutional and personal relations: difficult, if not impossible, to create in a *Stakhanovite* fashion by way of “shock therapy.”

Economic policy throughout all years of reforms has been criticized for not paying enough attention to basic structural reforms, particularly in the privatization of industry: “70 percent

⁷⁷*East European Constitutional Review*, vol. 8, no. 1/2 (Winter/Spring 1999), p. 56.

⁷⁸Oleg Pchelintsev, *Rossiia na poroge* [Russia at the New Threshold] (Moscow, 1995), p. 179.

of Russia's state-owned industry has been transformed into privately owned joint-stock companies, . . . [thus delivering] assets into the hands of insiders: either Soviet-era industrialists or new-era bankers."⁷⁹ The government—as have all governments in Russia during the last decade—was accused of artificially creating a huge decline in industrial production, and the failure to attend to structural reforms contributed mightily to this outcome. Vyacheslav Nikonov, president of the Moscow-based Politica Foundation, called the reform process “the most entertaining game in the human history, entitled ‘Do Buy Russia,’ when everything from a screw to the nuclear reactors, which formerly belonged to the state, now is being transferred to private hands.”⁸⁰

Although reformers claimed that “structure was the luxury they could not afford,”⁸¹ Igor Yefimov, a political scientist and a Russian émigré to the United States, was warning his former compatriots as early as 1991 about the dangers of the liberal euphoria:

Market! The market economy is said to be our only hope! Give everything to private hands, give factory managers an opportunity to compete freely, give prices the liberalization they want, don't plan, don't control, don't give orders and the country will revive immediately. And there would be no political strikes, and no hunger uprisings in Russia. But why would these things stop happening? What kind of miraculous country is Russia?

In all other countries people for centuries were killing each other in the fight for private property. Is Russia, after 70 years of the most cruel economic and political restrictions, all of a sudden getting the most miraculous type of people, kind and disciplined, people who would calmly get into lines and peacefully distribute

⁷⁹Peter Rutland and Natasha Kogan, “The Russia Mafia: Between Hype and Reality,” in *Transitions*, vol. 5, no. 3 (March 1998), p. 27. Also see Svetlana Glinkina, “The Criminal Components of the Russian Economy,” Working Paper no. 29, Berichte des Bundesinstituts der Wissenschaftlichen und Internationalen Studien, Köln institut für Ost Europa (1997); David Satter, “What Went Wrong In Russia?” Paper presented at The Jamestown Foundation Conference “Russia: What Went Wrong? Which Way Now?” (Washington D.C.: June 9, 1999).

⁸⁰*Argumenty i Fakty*, no. 48 (1997), p. 5.

⁸¹Anatoly Chubais, “Rozhchenie Idei” [“Birth of the Idea,”] in Anatoly Chubais, ed., *Privatizatsiya porossiiski*, p. 28–29.

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things that each of them liked the most—one will take a windmill, another an airport, a third would have an electric line, fourth—the Ostankino TV tower, or a railroad, or even the atomic reactor.

And then they will all trade with each other and work together in the utmost friendly and peaceful spirit so the rest of the world will die of envy. As there, in that rest, there are still strikes, uprisings, expropriations, gangsterism, confiscation, crises, inflation, bankruptcies, hunger.⁸²

True, the market economy has proven that it is the most effective form of economic development. But in the words of Pyotr Chaadaev, Russia's most prominent philosopher of the Western orientation, "one of the saddest features of our [Russian] peculiar civilization is that we are only now discovering universal truths, which in other places have already become truisms..."⁸³: in order to enjoy the market a country needs to have durable and well-tested structures that will not allow the market to run wild and turn society into chaos and decay. It also required a psychological and cultural climate, in which people are prepared and ready to accept the change. Even the most hardheaded reformers recognized it at times:

If we look at the world around us with our eyes open, we would see that socialism does not affect Sweden's prosperity, while Brazil remains unsaved by its capitalism. Because despite the fact that we were told that there is nothing in the world more important than political economy, there is something more important—the maturity of culture. And I am not talking here about culture which we measure by the amount of books read or poems memorized. I am talking about culture, which is concerned with the building of the environment where the individuals can live together as individuals, not in a usual Russian commune. Creating this kind of culture is a slow process. And if a society speeds up too much, it may explode like once-prosperous Lebanon, or once-industrialized Iran.⁸⁴

⁸²*Nezavisimaya gazeta* (October 17, 1991).

⁸³Pyotr Chaadaev, "Filosofskie Pisma" [*Philosophical Letters*] (1831). Quoted in Alexander Panchenko, "Ja ne khochu nazyvatsa intelligentom" ["I Don't Want to be Called Intelligentsia,"] *Moskovskie Novosti*, no. 50 (December 15, 1991).

⁸⁴*Nezavisimaya gazeta* (October 17, 1991).

Political scientist Alexey Kiva, a strong Yeltsin supporter, was nevertheless warning that

Only people who are not familiar with historical points of view might think that such hierarchy of values [communal interests, egalitarianism, hospitality, ethical responsibility versus the moral one, disregard for wealth and private property, etc.] could be built by chance because of bad czars, unfit leaders, and general confusion. Everything has its logic of development, and Russia too has had reasons to develop this way and not the other way. A political movement, any political party, would never be successful if for one reason or another it would disregard the people's spirits and beliefs. If they ignore the most sacred values of the Russian people, democrats are bound to be disappointed. Capitalism cannot be built on the basis of mere slogans, as this does not evoke good feelings among Russians and has negative associations. By using old methodology one might turn to the origins and build a new Gulag.⁸⁵

Indeed, under the current state of the market economy, Russian citizens found themselves locked *out*, just as Soviet citizens were locked *in* under communism. In the contemporary Russian demonology, the Gulag archipelago of the 1930s labor camps has been shunted aside in favor of a "Gucci archipelago."⁸⁶

As there was little in the old society that was of conceivable use in the construction of the new, a moral and political vacuum came into existence during the past decade, replacing the familiar structures of the old. During the current period of primitive accumulation of capital, this moral vacuum is a heavy price that the present is paying to the future in penance for the past. The Russian government might have been able to develop policies with less painful consequences had they made an attempt to maintain a more honest and perceptive, less ideological and formula-oriented, somewhat evolutionary analysis of the fundamental problems of the transition. But instead, Yeltsin reformers unwittingly reinforced the transition's most difficult qualities. Unable to step away from the traditional behavioral patterns of the elite, they failed to assure that people would constructively respond to their policies of change.

⁸⁵*Rossiiskaya gazeta* (September 2, 1995).

⁸⁶Nina L. Khrushcheva, "Where Does Russia Go?" *IntellectualCapital.com*, April 1, 1999.

CONCLUSION

In his introduction to the volume of articles written by the Russians after the collapse of the Soviet Union, *Remaking Russia. Voices from Within*, Richard Pipes rightly observed “that Russia’s gravest problems are not economic... Economic problems appear as a consequence rather than a cause of Russia’s current predicament.”⁸⁷ The moral and political lessons that Lotman derived from Russia’s history of tragic and ultimately self-defeating negotiations are reinforced by the decay caused by the painful transition from planned to market economy.

The most relevant question derived from the experience of the last ten years is whether Russia is bound to remain warped by its struggle to reconcile a market system with its inherited cultural values. Perhaps it is possible that, after the “revolutionary” mistakes of Yeltsin’s regime, a new order will emerge that can achieve a pragmatic vision equally at home between Russian culture and appropriate institutions. Can ordinary Russians, and especially their political leaders, acquire an authentically evolutionary consciousness and leave behind a past based on polarization, maximalism, explosions, and outdated beliefs? True forward movement requires coming to terms with the past and not simply rejecting it, for absolute rejection leads only to endless cycles of negation and suffering.⁸⁸

The good news is that the financial crisis of 1998—the culmination of the liberal revolution—did contribute to the beginning of this process: attitudes toward money and wealth have been slowly changing. Many now agree that the 1998 default and distress brought some positive results. Immediately following the crisis Sergei Kiriienko suggested that devaluation and withdrawal of international investors would inspire domestic producers to work to

⁸⁷Heyward Isham, ed., *Remaking Russia: Voices from Within*. With an introduction by Richard Pipes (Armonk, N.Y.: M.E. Sharpe, 1995), p. 3.

⁸⁸A. F. Losev, *Strast’ k dialektike* [Passion for Dialectics] (Moscow: Sovetskii Pisatel’, 1990), p. 68.

meet domestic consumer demand.⁸⁹ His predictions were confirmed by Anders Aslund, who suggested that the most obvious reasons for Russia's turnaround was indeed "devaluation, which caused an instant halving of imports and made exports cheaper... The industries that have grown the most, however, are not raw materials but intermediary goods, such as chemicals, pulp, paper, and construction materials, and some manufactured goods... You see the effect in the streets of Moscow. Suddenly, good Russian products are everywhere, while Moscow used to import 80 percent of the goods it consumed."⁹⁰ After 1998 Russians finally realized that the reformers were right in saying that there was no one there to save them—neither God, nor czar, nor IMF, nor government do care. They were then faced with having to save themselves. And although Russia yet again found its way out of the revolution, the price it paid has yet again been too high.

The bad news is that despite all the rationale and logic coming from the West the change is happening as a result of a revolution, with no consensus between the leaders and the people, in truly Russian style. As Alexander Herzen has written, "disorder saves Russia."⁹¹ And although Russia paid a heavy price for its reforms—socially, humanly, financially, politically—it also won't be right to follow advocates of the Chinese model as the only possible path, now after the fact when all others failed.

China is a special case, and so has been Russia.⁹² In fact, we should stop thinking in terms of "models" altogether; otherwise we will not come out of the vicious circle of producing lesser Americas,

⁸⁹Transcript of Sergei Kiriyenko's lecture at New York University School of Law (November 30, 1998).

⁹⁰Anders Aslund, "Has Financial Collapse Saved Russia?" *Project Syndicate* (January 1998); www.project-syndicate.cz.org.

⁹¹Quotation from Alexander Herzen in *Russkie o russkikh. Mneniia russkikh o samikh sebe* [Russian Opinions About Themselves] (St. Petersburg: Petro-Rif, 1992), p. 49.

⁹²Comparing Russia with other transition economies, Fisher and Sahay point out that "the case of Russia was so different from all other countries that for analytical purposes, it was considered as a group of one." Stanley Fisher and Ratna Sahay, "The Transition Economies After Ten Years," *IMF Working Paper 00/30* (Washington, D.C.: International Monetary Fund) p. 13. See also Pietro Garibaldi, Nada Mora, Ratna Sahay, and Jeromin Zettelmeyer, "What Moves Capital to Transition Economies" (Washington, D.C.: International Monetary Fund, 1999).

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Germanys, or Swedens. Already in 1762 Jean Jacques Rousseau warned against such a treatment of countries in general and of Russia in particular: “Peter [the Great] had a genius for imitation... He did some good things, but most of what he did was out of place. He saw his people was barbarous, but did not see it was not ripe for civilization... His first wish was to make Germans and Englishmen, when he ought to have been making Russians; and he prevented his subjects from ever becoming what they might have been by persuading them that they were what they are not.”⁹³ This is to say that China has been more successful in its capitalist development precisely because it disregarded all models and managed to find its own way, understanding that no economic model could function properly unless it is founded upon the traditions of national development.

The lesson Russia and its liberal advisors learnt the hard way is that reform programs require synthetic and creative adaptation, that they are deeply moral and political, not just model-oriented and technical in nature. Another lesson is that “disorder,” which had traditionally always “saved Russia” can and should no more be a solution to its current or future problems, for in the 21st century the country needs a new source of order appropriate to a complex modern society.

The most important issue that Russia faces today, in a new post-reform period, is a change in mentality. Russia’s outdated psychology has to date reduced to zero all previous attempts for political and economic change. This problem has always made Russia a place where stable and predictable life is not a norm, in which the difficulties have been routinely blamed on the evils of the patriarchal state, dictatorship, the West, corruption, or bad human material.

If the country is to continue with democratic and capitalist policies, the next era of transition should be concentrated on reforming the mentality of both the elite and the people, which in turn will provide a viable environment for a new, modern, and respon-

⁹³Jean Jacques Rousseau, *The Social Contract or Principles of Political Right* (1762). Quotation from the Internet version of the book at www.constitution.org/jjr/socon.tht, p. 19.

sible type of conduct on both sides. Future behavior can no longer be based on fear of the authorities or change but should be that of a people who are accountable for their actions and lives. Only then, an agreement for mutual benefit—a social contract—between a respected individual and the government of a law-based state will become possible.

A simple truth that has been long appreciated by other nations has yet to be welcomed by Russian society: “What man loses by the social contract is his natural liberty and an unlimited right to everything he tries to get and succeeds in getting; what he gains is civil liberty and the proprietorship of all he possesses.”⁹⁴

⁹⁴*Ibid.*, p. 8.

NINA L. KHRUSHCHEVA is director of communications and special projects at the EastWest Institute and Senior Fellow of the World Policy Institute at the New School University in New York. She is also senior editor of *Project Syndicate: Association of Newspapers Around the World*, which operates from Columbia University. After receiving her Ph.D. in comparative literature from Princeton University in 1997, she had a two-year appointment as a research fellow at the School of Historical Studies of the Institute for Advanced Study in Princeton.

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