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CRCE

CENTRE FOR RESEARCH
INTO POST-COMMUNIST ECONOMIES

A Russian-Slovene Conversation:

Memorial Edition

**Yegor Gaidar and Ljubo Sirc
discuss international economic
co-operation and other topics**



Yegor Gaidar – 1956-2009

Price: £8.50
ISBN: 978-0-94807-58-1

Occasional
Paper **10**

Two decades have now passed since the communist political and economic systems of Eastern Europe broke down, to be followed a year later by the collapse of the Soviet Union. The communist countries in the Third World too have been changing, if less dramatically.

The transformation from the communist system to a system based on markets, financial discipline and private entrepreneurship has proved to be difficult. In the transition period the dismantling of the artificial structures of communism required the elimination of useless output, resulting unfortunately but nonetheless inevitably in a change from concealed to open unemployment of varying levels of severity and the need for millions of people to find new jobs and learn new skills. The populations must understand what is happening, and the Centre wishes to contribute to this understanding.

Research must seek to offer recommendations and guidance to policy makers, primarily in Eastern Europe and the former Soviet Union but elsewhere in the world too, who have to tackle the problems left behind by the communist system. New challenges have arisen since many of the former communist countries have become part of the European Union.

To judge the success of systems and policies by reference to the spread of prosperity and freedom involves a value judgement, which can hardly be avoided. Any system or policy must be evaluated by reference to stated criteria, and it is natural to compare results with those attained in liberal-democratic countries. The leaders of communist countries did not dispute the aims of prosperity and freedom; they just claimed that these aims could be achieved only if the Communist Part was in power – a claim now clearly refuted by history.

THE RESEARCH CENTRE

The Centre for Research into Post-Communist Economies was founded at the end of 1983 as a charitable educational trust. It is financed by donations and subscriptions. The Centre has a Board of Trustees responsible for general and financial supervision and Advisory Council composed of academics to supervise research and publications. Day-to-day management of the Centre is in the hands of the Executive Director.

The Centre organises research on the problems of transforming the former communist economies into prosperous and free market economies using outside collaborators, many of whom have become prominent in their countries during the transformation.

The Centre publishes the results of research in a series of paperbacks and, since 1989, a quarterly academic journal, *Post-Communist Economies* (previously *Communist Economies and Economic Transformation*). This research output has been featured in the press and other media. The Centre also organises symposia and seminars, sometimes with other institutions.

A Russian-Slovene Conversation:

*Yegor Gaidar and Ljubo Sirc
discuss international economic
co-operation and other topics*

*In Affectionate Memory
of Yegor Gaidar*

The Constitution of the CRCE requires that its Trustees and Advisers dissociate themselves from the analysis contained in its publications but it is hoped that readers will find this study of value and interest.

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A BIRTHDAY CONVERSATION

On 19th April 2000 Ljubo Sirc, the Director and co-founder of the CRCE, celebrated his 80th birthday. Friends and colleagues in Slovenia arranged a special dinner in his honour, and Yegor Gaidar flew in from Moscow to speak at the dinner.

Earlier in the day Yegor Gaidar and Ljubo Sirc, together with France Bucar, took part in a wide ranging discussion at the invitation of Niko Grafenauer. The discussion was recorded at the Nova Revija Klub in Ljubljana. We are grateful to Niko Grafenauer for providing the tapes from which the text was transcribed as a CRCE pamphlet.

This new edition marks Ljubo Sirc's 90th Birthday and is in memory of Yegor Gaidar, a dear friend, who died far too young on December 16th 2009.

ABOUT THE CONTRIBUTORS

France Bucar taught at the University of Ljubljana but was dismissed for his dissident views. He was the first Speaker of the freely elected Parliament in Slovenia. He is President of the Slovene branch of the Pan-European Union.

Yegor Gaidar was an economist and author of numerous books. He served as Prime Minister and Economics Minister in the Russian Government under Boris Yeltsin. He was Director of the Institute for the Economy in Transition in Moscow. He was closely connected with the CRCE since the late 1980s.

Niko Grafenauer is a poet and also Editor of Nova Revija (New Review) based in Ljubljana.

Henri Lepage is an economist working with the EPP in the European Parliament. For several years he was the Director of Institut Euro'92 in Paris. He is the author of *Demain le Capitalisme* ("Capitalism Tomorrow") and serves on the CRCE Advisory Council.

Ljubo Sirc is the Founder of the CRCE in London. Born in Slovenia in 1920, he participated in the resistance and Yugoslav Army 1941-45, was sentenced to death for political opposition and imprisoned from 1947-54, and escaped to the United Kingdom in 1955. He has taught at a number of universities, and has written extensively on economic issues.

Helen Szamuely is a Historian and a CRCE Research Fellow.

INTRODUCTION

by Ljubo Sirc

The report of Yegor Gaidar's death in the Slovene Daily *Delo* opened with the words: "People will remember the Russian economist mainly as a consequence of inflation, high prices and unemployment". The Slovene newspaper was not alone in making such critical remarks, and some others mentioned that the Russians lost all their savings because of Gaidar.

It may be inappropriate to quote such comments when introducing a publication in memory of a leading liberal economist, but the stories about inflation and loss of savings are sheer nonsense. It was all an unavoidable consequence of how the Soviet economy functioned or rather did not function. Inflation was in the first place not a consequence of Gaidar's reforms, but a natural outcome of how the Soviet economy worked or rather did not work.

If prices are fixed at a low rate regardless of demand, some of the money paid to the population cannot be used for buying anything and necessarily remains in the earners' pockets. Consumers would gladly spend these 'savings' for current purchases if anything was available to buy. Because there was not, the demand for low-priced goods was excessive and queuing became the way of distribution. After working long hours, citizens had to stand in line because of the disproportion between supply and demand.

In addition to everything else, these arrangements broke the link between supply and demand, which should have made it possible for the producers to know what they would want most as consumers. While it is easy to understand what market prices higher than production costs imply, nobody tried to measure the lengths of consumer queues, let alone add them together throughout the country.

Obviously, the reforms that Yegor Gaidar introduced were not those that a fanatic would inflict on the population, but changes necessary before the economy can function properly providing the population with its wants and needs. Of course the transition

from a 'planned' economy to an economy based on what people demand is difficult, but the end of hours of queuing must be worth much.

Regrettably, Yegor Gaidar's reforms were only the first step, albeit a very important one. The next step should have been an effort to create conditions under which capable citizens would act as entrepreneurs, starting from the bottom. In Russia, this is particularly difficult because communism there lasted at least twenty years longer than elsewhere. At any rate, it is very difficult to develop a network of smallish flexible enterprises in a country, which for seventy years has tried to concentrate production in very large establishments. Furthermore these were run by members of the Communist Party, on orders from the party leadership which had no way of co-ordinating their activity or adapting it to the people's real needs.

Yegor Gaidar provided overnight, so to speak, the means for co-ordination and response to needs, but had no time to push for the development of, as we said, small enterprises coordinated through prices and run by independent entrepreneurs aiming at profits. In addition to everything else, even while he had a say, his efforts and those of his friends were continually frustrated by the remaining power of old-timers who could not understand what changes were needed to move forward.

In the end, Yegor Gaidar ended up as the head of a research institute while the running of the Russian economy was turned over to political experts, not to say police, who think that firmly controlling the population is the most important task of government. Since this does not exactly encourage entrepreneurship, the at least temporary economic solution is selling Russian oil to countries that can produce sophisticated manufactured goods. Without much doubt, this is not leading to real developments especially as the Russians even have difficulty in expertly pumping rare oil.

Unfortunately, the present Russian rulers can use nationalism to support their dictatorship. They can even half defend Stalinism by referring to the magnificent fight of Stalin's Russia against

Hitler's Germany. It is true that Russia's enormous distances were necessary to exhaust the German strength, which also gave the Russians and especially others in the Soviet Union time to realise the true nature of Nazi Germany.

On the contrary, Yegor Gaidar, and with him Boris Yeltsin, came to the conclusion that life would be easier for the Russians if they cut the Soviet links with their component nations and thus dissolved the communist union.

In spite of the rhetoric that was underlining different interpretation, it seems that the present Russian rulers realise the sheer necessity of Yegor Gaidar's changes. An indication of their acceptance was the quiet but full respect with which he was buried.

As the London Times put it: "Eventually, Yegor Gaidar may be considered a beginner of a better Russia".

THE BIRTHDAY CONVERSATION

Niko Grafenauer: Let us start the discussion, which is also being published in Nova Revija, the Slovene monthly journal. I am critically glad to meet Yegor in these surroundings, The Nova Revija Club. Such eminent guests are very rare in this room! I am particularly interested in your views and those of the Russian elite, so to speak, regarding the unification of Europe and the relationship between Russia and Europe.

Yegor Gaidar: I think that the problems of European unification had a very serious impact generally on the development of transition in the post-socialist world. A large share of the success of the transition of the Central European countries stemmed from the fact that there was, from the beginning, a general agreement among the elites about the strategic goal of transition. What was that strategic goal of transition for the Polish, Czech, or Estonian elites? It was reintegration with Europe from which they were extracted after the Molotov-Ribbentrop Pact or after the Second World War.

The goal of membership of the European Union really recreated the basic foundations for all the transition policies. How should you conduct your financial policy, your monetary policy, your legislative programme, your property legislation, etc? But if you want to be part of the European Union, much is practically determined for you. You can have many political struggles and populism at elections, but after the elections are over the government in office, knows that the scope for manoeuvre is extremely limited.

So they were happy enough to have this general consensus of the elites about the general goal of transition being membership of the European Union. Of course, in itself European Union membership creates some problems, because the European Union is a club of relatively developed, rich countries with very high standards in various directions. It is thus a little bit over-regulated for the younger, less mature, less developed economies, and so the membership negotiations are difficult, and

probably not all the influence of membership will be positive. But that is another story.

In Russia, a very serious feature of the transition was the fact that our country had no such strategic goal, and no such strategic agreement between the elites. Because Russia was the centre of the socialist empire, there was always a strong division between those who really wanted Russia to be a modern market democracy – friendly to developed democracies and well integrated with them – and those who continually dreamt of re-establishing an empire which would once again expand, control other nations, and compete with the West for world domination. That was the essence of the struggle. It was impossible, for instance, to ratify a Strategic Arms Limitation Treaty for eight years after it was signed, because there was no agreement about what Russia's relations with the world should be. That made Russian politics much more volatile, and room for manoeuvre much broader. It left many problems unresolved and made the transition far less smooth than in Eastern Europe.

So if we are realistic about Russia's role in the world, economic possibilities are limited at present. We will need a lot of time, even in the best-case scenario, to increase our share in the world GDP and close the gap that emerged in the last decades between ourselves and most of the world. This does not mean that I think these problems are insoluble. It means that we shall need at least two or three decades to resolve them. So from my point of view, the strategy of creating some kind of central power based on Russia, or Russia in alliance with China or India, was entirely unrealistic and harmful to our own interests. We should not be interested in re-establishing an empire. It is bad for Russia from any point of view – economically, politically.

We must, of course, defend our interests. They are, first of all, economic interests – access to the markets, protection of our market share, elimination of various types of discrimination, membership of international trade organisations – these are the practical priorities for Russian politics. From this point of view, Europe as our nearest neighbour is an extremely big trading partner. The choice of strategic policy towards Europe is

extremely important for the landscape of Russian second-generation post-transition politics.

My position on the issue is that the strategic goal of Russia should not be European Union membership, impractical at least in the next ten to fifteen years. Instead our goal should be to create a free trade zone with Europe, similar to that between Norway and the EU. Such an arrangement would not include any kind of financial transactions between the partners, or implementation of the not-too-effective policies of the European Union, like the Common Agricultural Policy. Elimination of the trade barriers, and unification to various standards, is not a goal for the next two years; it is for the next fifteen. But if in 2017 – 100 years after the 1917 revolution – we were in a position to establish a close relationship between Russia and Europe. It would be extremely good for both Russia and Europe. Frankly, I do not believe in a stable Europe with a hostile, unstable Russia on its borders.

Niko Grafenauer: This is a follow-up question. You mentioned the Soviet Union based on ideology: at present you have the European Union based on a different ideology – markets and globalisation, which you have described very clearly. But what happens to those countries which left the Soviet Union, yet still remain in Russia's neighbourhood? As a Russian, what do you think should happen to these countries? Would you also advocate the integration of the market? What position is it possible to take in this respect?

Yegor Gaidar: First of all, there are very important distinctions between the various countries that were formerly part of the Soviet Union. The Baltic States have the clear goal of becoming European countries. Chechnya is quite a separate issue because it is now a soviet republic instead of an autonomous republic, as in Stalin's time, and most unhappy. If you like, we can speak about Chechnya later, but it is a separate issue. Then there are Ukraine, Belarus, the Central Asian republics and trans-Caucasian republics; and it is different for each one. I think, strategically, that we are interested in the stable development of these countries as independent states, which will be integrated in whatever fashion they prefer. Of course they will be different,

because Turkmenya is clearly a totalitarian dictatorship for example. Possibly, if I understand correctly, it will be run as a totalitarian dictatorship for sometime, but frankly I would not advocate imposing some other rule on the Turkmenyen people; that is how society there is organised. Tajikistan is an extremely unstable regime, and the most important thing is to avoid civil war and to some extent Tajikistan is another version of Chechnya. Kazakhstan has enormous problems, because it is a divided society with half being non-Catholic speaking people with Russian, German, Ukrainian heritages and so on. So these are the differences. In Ukraine you have a very strong internal division between the West, which is as European oriented as Hungary or Poland, and the east, which is Russian speaking with very strong ties to Russia and no distinctive national identity.

But in the vast majority of all these cases, it is important for Russian public opinion and for the Russian elites to understand that these countries' independence is not just a temporary phenomenon created by some mistakes or betrayals. It will remain. We are no longer interested in running these places, and especially not subsidising them anymore. We do have our own economic interests there, and we may have to defend these countries. We have our own human rights issues; for instance in the Baltic States where we have made some progress. In Estonia, and Lithuania, there have been some good achievements but we still have enormous problems in Latvia. So in general, the less policy is imperial, the more it will be pragmatic – oriented to Russian interests – and humanitarian that is protecting everyone's human rights, including Russian-speaking people – the better it will be for our country.

Generally speaking, Russian politics are slowly moving in this direction. In 1991, the vast majority of the Russian elite would never have regarded Ukraine's independence as anything permanent – it was just an accident, something funny – but now it is accepted, even by those who do not like the idea. Even this nonsense about the territorial claims to Ukraine, which I think could be extremely dangerous – it is the understanding that Ukraine really is an independent state and that should exist as

such. So despite all the problems, developments here are moving in the right direction. And the more rapidly the better it will be for Russia and the region's stability.

The fact that we were able to dissolve the Soviet Union peacefully, without territorial claims, was one of the greatest, if not the greatest, achievements of the Yeltsin era. If, in 1985, you had asked "when and if we have the collapse of the socialist regimes in Yugoslavia and in the Soviet Union, who will have the nastiest internal war?" I do not think many people would have answered, "Yugoslavia". For me, as Russia's prime minister during the time of Yugoslavia's break-up, this was the most serious danger; the problem that I most wanted to avoid. I really think the fact that we were able to do so, despite all the problems that emerged in Ngorno-Karabakh and Tajikistan and now in Chechnya, was a very serious achievement on Yeltsin's part.

Niko Grafenauer: I am wondering about the standpoint of the Russian intellectuals. In these circumstances and what chance they have to shake the cultural development of the country? What is their viewpoint, what are their positions, and how does that influence their party allegiance? Do they become members of a particular party, or are the more informal links between them?

Yegor Gaidar: The greatest part of the Russian intellectual elite during the years of transition supported my party, Russia's Democratic Choice with a smaller proportion supporting Yabloko. Then there was always a minority within the Russian intellectual elite with a very strong nationalistic orientation. They were prepared to support the communists after the collapse of the Soviet Union, not because they were mainly communist, but really because they were moving towards National Socialism. But among the intellectuals you could find anyone: splendid people and very nasty people.

Most of the traditional Russian intelligentsia supported Yeltsin's reforms, despite all the problems – they supported Yeltsin and Russia's Democratic Choice in the fight against the communist. As Yabloko had no clear position, the minority supported it, and a smaller minority supported the communists. That was the

landscape during these nine years, when the key point of Russian politics will support the democracy rather than the return of the communists. When that was the key issue – and of course the Russian post-communist party was quite specific and rather a nasty party – it created some kind of general consensus among most of the intellectuals.

Now that this part of the story is finished, I think there will be a regrouping of these intellectuals, with some of them simply withdrawing from politics. Many intellectuals are not very politically active, because every day policy in the democratic world is not the most splendid thing with which to be involved. Some will support our party, but there will be a change in the political landscape. There will be a serious re-shuffling of intellectual allegiance in this political sphere within the next few years.

As to the general attitude of intellectuals to political and cultural developments, it was pretty mixed. Most of them were confronted with two conflicting stimuli. First of all, of course, freedom and democracy in Russian were things about which most of them had dreamed about for years, perhaps decades. Thus the very fact that transition brought press freedom, absence of totalitarian control, etc, was an enormous achievement, and attracted support. But on the other hand, the Soviet way of running intellectual life was very specific. It imposed controls, but also resolved a lot of problems. The authorities were able to impose their will, but at the same time they financed films, theatres, books – not many of which would be easily financed under market conditions.

So transition brought freedom, but also serious problems of adjustment, new ways of life, new threats and new problems. Of course the most capable intellectuals usually find a way of dealing with the new realities. It is proven that while some books will not be published under market conditions, good ones will be published. There will be no equality between the tens of thousands of members of the Writers' Union of the Soviet Union, because among them you could find ten great writers, fifty good writers and a thousand who can hardly write at all! So all these problems have emerged. But what was important, from my point

of view, was a general feeling that freedom was important, and that you had to pay for it. Amongst those really were intellectual elites, and not just part of some socially established quasi-intellectual club, that was the most important thing of all.

Niko Grafenauer: What about the journals, the magazines?

Yegor Gaidar: They had their own problems. What applies to the Communist Party running the cultural field applied also to the management of their journals. Finance was decided; the chief editor was nominated and dismissed if not loyal by a central committee. This limited the field of manoeuvre, but also solved financial problems. The publications were not well financed, but they were financed. But in the market, with few or no subsidies, you have to try and survive, apply for the grants, struggle to increase sales, etc. This was a serious crisis for the big journals but somehow they managed.

Circulation is much lower now. In socialist times a major literary journal's circulation would be in the order of 150,000-200,000 copies. Now it is 15,000 copies. But the libraries are still buying them, and they are accessible to those who would like them. New journals are emerging – some of them better, some worse. Adjustment was easier when expensive cultural organisations were run as enterprises.

Theatres were able to survive transition much better than the cinema, but now good cinema is beginning to re-merge. It was a period of extremely bad cinema, partly for financial reasons, and partly due to specific cultural changes. The interesting story of socialist cinema and socialist theatre, especially in Russia, was a forbidden topic – that was the best part of it. There were some boundaries you could not cross, but could go very close, and maybe even take half a step across. This in itself is an enormous achievement for a society that is sick of all these boundaries, and likes people crossing them. The art of Taganka was a splendid example.

But just think what happens when the boundary ceases to exist – when there is none in any field. Politics – One can think about Lenin, the Communist Party, Derzhinsky, sex – no boundaries!

But if all your life experience has been based on a play with boundaries that suddenly disappear, then you have to push further and further until they cease to exist. You need time just to understand that there is another world, and that the previous experiences are over and of no interest to anyone any more. You have to readjust your culture, and it takes some years to do it. This happens much more rapidly in the theatre. In my view there was a crisis in the theatre around 1988-1990, followed by some serious progress from around 1990-1993 and this continues.

In cinema crisis lasted longer, and I think there was practically no good cinema from 1988 to 1995. Only during the last few years has some re-emerged in Russia.

Niko Grafenauer: I would like to know more about the relationship between Moscow and St Petersburg. Is there really an antagonistic relationship between the intellectuals in these two cities, these two great cities? Also what is the role of the Orthodox Church in the present situation?

Yegor Gaidar: There never was a really antagonistic relationship between St Petersburg and Moscow, and I doubt it would emerge now. To a major extent it could be said that there is a significant feeling in the rest of the country against both capital cities. Both capitals – Moscow to a large extent, St Petersburg to a lesser extent – are regarded as not being real Russia. This is similar to what you find in the United States, where the American population is not very enthusiastic about Washington and New York; or in France with the majority of the French population not keen on Paris. So there were some personal problems between Moscow and St Petersburg but never genuine antagonism.

As to the Orthodox Church, this is a very complex question, because the Orthodox Church was a part of Soviet society. It also suffered from the experiences of the Soviet era in many ways I would prefer not to discuss. There are many different influences in the Orthodox Church as throughout society. There were really good liberals with a broad vision of the world, often close to the communist movement, which was usually in the minority there. There were genuine fascists, in high-ranking positions in the Orthodox Church, whose influence

was extremely unpleasant. There were also a lot of pragmatists who only wanted to be on good terms with the authorities of whatever political persuasion. So the Russian Orthodox Church is, to a great extent, part of the post-socialist society, with all the same problems as the post-socialists.

Niko Grafenauer: What is the relationship between Russian intellectuals and Solzhnitsyn?¹ Do they respect him?

Yegor Gaidar: First of all, there are different positions in society. Mainly there are two different attitudes: one is respect for Solzhnitsyn and his historical role, and the other is admiration for Solzhnitsyn and his present writings. Solzhnitsyn and his historical role, of course, are greatly admired and were extremely important for the disintegration of the communist regime. His writing was very good, of high quality and influential, especially his works of the 1960s. Solzhnitsyn was abroad for approximately 20 years – 20 years, during which time Russia experienced an enormously important and difficult transition. He left one country, not because he wanted to, and returned to another country with a different history.

Some people can understand changes in a country but others are unable to comprehend this even with the best will. From my point of view, which is shared by many of the Russian intellectuals, Solzhnitsyn returned to a country he no longer understood, and he was never able to understand what happened here. Most of what he said after his return was just irrelevant to the present reality. But on the basis of his previous history and of his role, he has every right to express his opinions even if they are irrelevant to the developments in Russia.

Niko Grafenauer: This is my very last question. Thinking of the parallel between Solzhnitsyn, on one hand, and Brodsky and other dissidents, on the other hand, what remains of dissidents like Brodsky² in present-day Russia?

1. Aleksander Solzhnitsyn, 1918-2008, Nobel Prize-winning author whose novels chronicled the daily horrors of life in Soviet gulags.

2. Joseph Brodsky, 1940-1996, Dissident Russian-American poet and essayist; he also was a Nobel Laureate

Yegor Gaidar: There is no such thing as a group of dissidents anymore, because the part of history when they were dissenting is now in the past. These days there are new policies and new realities. You could find Zinoviev, who now says that Stalin was the greatest statesman and was a jolly nice fellow. You could find Solzhnitsyn, whom we have just discussed, and Sakharov who was one of the key players in the Russian transition. There is Voinovich, a member of our party and so on. All of them have split into different camps. Brodsky was not active in politics but in my opinion he is the greatest Russian poet of the second half of the 20th century, but he never had Solzhnitsyn's habit of teaching other people. He never tried to, but he wrote extremely good, indeed splendid poetry, and that is an excellent approach.

Niko Grafenauer: Do you like Tolstoy?

Yegor Gaidar: Tolstoy liked to teach, and Solzhnitsyn follows his example, but not Brodsky. Brodsky is like Pushkin – Pushkin never told anyone how to live!

Niko Grafenauer: Is Brodsky still published?

Yegor Gaidar: Yes indeed; he is much published.

France Bucar: Were you at school in Belgrade?

Yegor Gaidar: Indeed, I was at school in Belgrade; you are never wrong! It was from 1966-1971. Since then I have visited the city a few times, but never for very long.

Ljubo Sirc: Niko says he is finished, but if I may I shall start. It was interesting that Solzhnitsyn when in the United States lived like a recluse. He did not have much to do with America, and he could have lived the same way anywhere surrounded by walls. He did not wish to absorb the American way of life. This surprised me, because I have had some experience of Russian dissidents. One of them was my colleague Sergey Utechin, who later migrated to the United States. He always said, "they are two big countries and I feel as if I were in Russia when I'm in the United States. Everything is enormous".

I believe it is a pity that Solzhnitsyn did not open his ears to what one has learned from – and I shall start talking about my second home – the so-called Anglo-Saxon or Anglo-American influences. We talked about the various revolutionaries, such as Washington, etc. Washington – was he a revolutionary? He was a moderate man, a tolerant man. He tried to produce a constitution that would allow everyone to live together, and that brings me back to Europe.

As far as Europe is concerned, a very important question is whether Britain is really going to work with Europe. If so, that means the United States will also be present in Europe, because Britain and United States are not really going to be divided, whatever happens. Even if they are divided on paper, the people are so closely connected that they lived together, in spite of the later immigrants.

My idea, my picture of the world, which I wrote down some years ago when at a NATO seminar, is of a free trade area almost around the upper part of the globe – North America, Europe, Russia, Siberia. One hopes that this could later extend – when those fundamentalist Islamic regimes become less aggressive – to the southern part of Asia and perhaps further still. I believe this is very important, and Europe must not try to limit itself, because in a certain way both the United States and Russia are also European. Europe should open and should not exclude anyone of European origin. I consider it almost morbid when some West European chauvinist authors talk about defending ourselves against United States, and how they must compete. There is no need for that; United States does not want anything from Europe, as far as I can understand. There is even a danger that they would withdraw without anyone really wanting them to do so. So one thing I want to stress is, that when in 1988 I met Anatoly Chubais. I felt completely at home with him, with you both, and with all our friends, Sergey Vasiliev and others such as Gregory Glazkhov from St Petersburg. There was no problem communicating with any of you. I once brought two Americans to meet Anatoly Chubais when he was head of the presidential administration. They were from the East West Institute, connected in some way with the State Department. I just wanted to propose to them that

whatever happens to NATO, it should not happen in such a way that Russia and the West would become antagonistic.³ If they were enemies, which God forbid, what would happen to the world? That would be the end of transition. Russia would once again start closing in instead of opening up for us all.

I always feel that Russia and the United States are on the flanks of Europe, and in a way part of Europe. We do not want to confront the rest of the world; indeed we would like to help it. At present this is possibly a defensive position, but let us hope -- this is now idealism running away with us! -- to unite the world to make it one of tolerance and moderation. What is your reaction to all this?

Yegor Gaidar: Generally speaking, I very much support the idea: of a free trade zone of the northern part of the world from Canada and United States to Europe and Russia. This is probably the best picture I can imagine, for the whole world, including Russia, if you are speaking about the next 20 to 30 years. I hope very much that developments will push us in that direction, as from a Russian point of view it is the best possible strategy. Of course when we discuss such strategic problems of the modern world we have to keep in mind how it is changing, and it confronts us with the usual problems of decision-making processes in democracies.

Many of the problems connected with Russian and East European transition were connected with the fact that the West was never able to agree and implement a strategy. That is, to some extent, connected with the problem of American democracy. The problem is that America, a great country with enormous influence in the world, is also very much an inward looking country. The greatest part of the population is very inward oriented, and has limited interest in information about the outside world. Being a democracy, run as a democracy, it means that it is run by the wishes of the people who are ill informed. That is why, for instance, the problems of NATO expansion are so difficult. The two tendencies are not compatible with any kind of reasonable strategic approach but a more or less an integral part of American policy, simply

³ However, a decade on: New Russian Military Doctrine Opposes NATO Enlargement: see *Eurasia Daily Monitor*, February 10 2010

because that is the way in which it is run. There are no easy solutions to this.

Ljubo Sirc: Niko asked how this can be translated into globalisation and trade relations between countries, but first I would like to join you in regretting that the United States is inward looking as it most certainly is. That is the problem of a big country without external problems. If they said, "go to hell, all of you", they could survive for at least at the next fifty years with no difficulty whatsoever. But, at the same time, cannot see that far to when the trouble will start. It is indicative that twice America felt compelled -- against the people's wishes -- to come to Europe. They are still in Europe and they want to leave. The Europeans at times want to kick them out, but when they depart we shall regret their absence. That is the anomaly, let us say, of present times, and I hope that democracy is strong enough to resolve this problem. So far it has been resolved with difficulty, but in a democracy most things work with difficulty!

In Washington yesterday there were tremendous demonstrations against the International Monetary Fund, the World Bank, the World Trade Organisation and so forth. Unfortunately, you could explain trade theory to your university students, but even then there is the question: have they understood it? It is very difficult to convince even the well-educated people, who do not make economics a special study, what in fact is involved. One thing, which most people do not understand, is that the economy continuously develops and you cannot stop, because if you do then you could not ask for higher wages. If you ask for higher wages, you have to go further. Here is quite a simple example: let us say that productivity, which is certainly a part of higher wages, increases. This does not mean that you will sell twice the product from that same activity -- you will have to take a different direction. Internationally it is the same. In the 1920s and 1930s, the textile industry was the best choice Slovenia had, and it was very successful. Today the textile factories are completely ruined and totally unprofitable. Production has moved to India and elsewhere. You cannot, at the same time, regret that the poor countries are impoverished, and prevent them from starting new industries. Everyone has to move on, because if

you do not move on, neither will they. That is entirely clear. Well, maybe when I am 85 I shall write an article about that!

France Bucar: We started with your vision that Russia should turn to Europe, that Russia is a part of Europe, and so on. My point is that Russia is not yet part of Europe. I wish it would be, and I think with more Russian participation in Europe this continent will be quite different from what it is now. I think that Russia has to enter Europe, but meanwhile I have the impression that Russia is becoming more inward looking. As a big country – we have just dealt with this topic – America is interfering in Europe, although America has no special interest here. I agree with you that Russia does have an interest but is practically outside Europe and is also turning inwards. I think this is due to the collapse of its economy. As long as its economy is in such disarray, Russia will be no match for Europe. I have what may be a superficial question, but nevertheless an important one. What are the reasons for the collapse of the Russian economy? I think that we can judge Russia in any way we want, but all the same the country had a level economic standard that has now collapsed. What are the prospects for Russia to regain its former economic strength? I think it is the key question.

Yegor Gaidar: We had a socialist economy, not the market type of socialist economy, but the full-scale, totalitarian command type – a completely integrated system. It could exist only in the framework of the existing totalitarian political control. You are speaking about the collapse of the Soviet economy, the Russian economy. You are mostly comparing the levels of GDP; for instance the GDP on its own is only about one thing, and that is the amount of economic activity, not the results of it.

From my point of view, the life of the ordinary Russian is better now than in the 1990s. If it were the other way round, then they would not support Yeltsin, and the fact is that now before the parliamentary campaign, there is no party with the simple slogan: "Let us build a socialist economy once again. The market is so bad and you suffer so much. Let us finish with markets". Not a single political party with such a slogan would have any chance of election to the Duma. So somehow, despite this nonsense about

the economy's collapse, no one is prepared to say, "well it was so bad, let's try socialism again". It is all very well to say how much we all suffered and how wonderful the past was, but then you remind everyone of what the past was really like, of the realities of socialist life. You remind everyone of the time when they had to wait twenty years to buy a badly made car, when you had no idea of goods available elsewhere; when you had to eat such awful salami that your dogs and cats would not touch it. We had a secret state honour given to the working collective or the specialists who were able to include huge amounts of non-meat products in Soviet salami. But it would look like salami and therefore was calculated as high-quality meat in socialist statistics!

Of course if you are speaking about the number of products, remember this was a country which produced more tanks, more guns and more iron than the entire world put together – producing 16 times more harvesters than the United States, but of such terrible quality that they could not be sold on world markets. At the same time they still imported 40,000,000 tons of grain from the United States – this was the enormous amount of production that was somehow senseless.

So all these integrated structures could survive only under conditions of strict political control, not in the market, because you are extracting all the raw material reserves, building a huge foreign debt and using up your hard currency reserves. Then, when and if people stop believing in the system, when you have the key structures of political control collapsing, it is not only the problem of political collapse, as was the case in Yugoslavia, but also the problem of the disintegration of all economic arrangements besides. There are no markets, no marketing institutions, and no way for bread to be in the shops, because if no one is afraid of the KGB and the Communist Party district committee anymore then there are no stimuli to encourage the collective farm director to sell grain for worthless money. He will just store it. Then you have the collapse of all the old institutions, and all structures start to disintegrate.

France Bucar: You describe the reasons for the economic collapse in the Soviet Union. How would you compare this with the situation in Slovenia?

Yegor Gaidar: Slovenia's situation was rather different. You had the markets, you had the elements of civil society – private agriculture for example – and you had the enterprises exposed to competition on the foreign markets; so there was the management, which was integrated to the markets. You also had much closer ties with other countries, and Yugoslavia was to some extent an open society to the world. Your experience of socialism was much briefer than in the Soviet Union. Let us think too about the factors that determine the difficulty or ease of transition: the development of market institutions under the socialist regime, the existence of civil society within it, and the level of contacts between its society and that of the world and the duration of the regime. For all these reasons, Slovenia was the best positioned from the point of view of its socialist past. It could more or less smoothly accommodate itself to the market conditions. But for these same reasons you can see why Russia, together with Kazakhstan, Ukraine and so on, was facing the worst possible conditions. Why then should we be surprised that Russia is in greater trouble?

France Bucar: We are exposed to suggestions from the West. I would say there is a very serious prospect that Russia could collapse and deteriorate into chaos. You have practically answered this question, but what are the prospects that Russia could recover more quickly? Without this recovery I do not think that Russia can play a decisive role in Europe.

Yegor Gaidar: We have seen that recovery from the socialist crisis comes much later than you expect. But when it comes, it is much more rapid than expected. Nobody anticipated the economic growth in Russia in 1999, when it was 3.2%. Nobody expected that Russian growth would be dynamic in 2000. Now the IMF and all the international economic institutions are changing the forecast from 1.5% to something like 4% to 5% of the GDP growth. Of course nothing is guaranteed, but we have stayed within that up to now.

Niko Grafenauer: If I may intervene, it is very important that people must understand they are responsible for themselves. If they want something, they must find it for themselves, but there

must also be some help to start this. I think this way is already obvious in Russia on a small scale at present, and in my view that is the future.

Yegor Gaidar: Well, even the level of integration in world society is incomparably higher than it was ten years ago, which in itself is enormous progress. Ten years ago, the number of people who had ever visited or had ever seen the market economy with their own eyes was extremely limited. Pretty well everyone had no understanding whatsoever of how markets worked.

Unlike Slovenia, the Soviet Union lived under communism to seventy five years – it is quite different. In Slovenia, those who lived in capitalist conditions were the most active generation. In our case, no one had this experience, and by the time transition had begun the sons of those who had experienced capitalism had already retired.

Niko Grafenauer: The whole question is certainly very complicated; what about the development and influence of technology?

Ljubo Sirc: If I could answer a few points, the first is that you were quite right. There is an enormous difference between a planned economy and self-management economy. The problem with Slovenia was that the banks did not function, and we did not have any hard budget constraints. If an enterprise could not make both ends meet, it borrowed from the nearest bank. This mentality still survives. First of all, the bankers do not know how to judge the projects submitted to them. Partly they are still politically directed into subsidising, or rather supporting, old-fashioned large enterprises. Maybe that cannot be helped, but it will I hope pass at some stage.

The crucial point is investment. Because if you have this possibility of borrowing and then investing – I mean borrowing without rhyme or reason – then the chances are that you will invest into the wrong branches are very high, and you end up with the same white elephants as before. Certainly Yugoslavia was in a much better position to restart, and might have done so, had it not been for the aggression and war, which is a very painful subject. So for Slovenia, the organisation of banks and private

capital, and the responsibility for investment are crucial issues. It is the same everywhere, but in Slovenia it is particularly important.

Now, if I may turn to technology, which is sometimes overrated. Your countryman, Alexander Bilimovich, was my Professor, and he always said, "we are economists; we are not engineers." The best technology may be wrong for a country which has developed only to a certain point. You have to find the technology that produces whatever you want to produce in the cheapest possible way. That certainly is still valid. Of course you have to develop technology if you want to increase productivity, because otherwise you cannot carry on, but you have to be very careful. One of the strange things I heard in Yugoslavia before the war, but also in Slovenia after the war, is that in some instances those from humanistic secondary schools became the best engineers. They said the same is apparently true in Britain as well, because they all study old languages and in the end they become managers. It is really teaching discipline of thinking; you stick to a logic. You cannot wander all over the place, you need imagination, but you must also discipline it.

So we must not forget the human being; the human being decides in the end. Even if there is a mass of information, it is sometimes very difficult to decide which information you will use, and what would be your conclusion. Now I shall say another thing. Of course you have Hayek's law, so to speak, of dispersed knowledge. No one knows everything – that is why you cannot plan. So you have to leave those with the most knowledge, in a particular field, to do whatever is necessary in that corner of the world, but it must be co-ordinated by the market. So in a way I do agree with you: technology is very important, but far more important is the co-ordination and calculation of what you will do with it.

Niko Grafenauer: In Slovenia at the beginning of the 1970s we had a technocratic phase under Kavcic, which was then halted by Belgrade.

Ljubo Sirc: Well, the word 'technocrat' was just a word. They started pursuing managers. I mean, any manager was the people's

enemy because they were almost half capitalist. Kardelj wanted real self-management, and self-management only handed power to the managers – that was all – and then he disliked the fact that managers had power and wanted them under political control. That was why we had this upheaval in the 1970s, which again led back to complete confusion.

At some stage, *Ekonomska Politika* clearly stated that in self-management we have no people responsible for a factory, and there is no way of ever devising an institution with someone responsible for factory management, which is what the market demands. Even the Americans have in many cases overdone it, because the large enterprises – all right, for financial reasons large enterprises are necessary because there are certain economies of scale – but at the same time you produce managers who have different interests from the enterprise and that is not good.

But we must not forget, of course, that everywhere – in Western Europe and in United States – a large part of production is still in the hands of small and medium-sized enterprises where the responsibility is more or less clear. So the key is getting back to responsibility, returning to well-decided business projects, with the help of the banks. The banks must know what they are doing. If anyone has special knowledge and enough initiative, he can mark this knowledge. You see, management schools are wonderful if you can recruit people who already have a feeling for management. If somebody is a complete 'anti-talent', then you will never teach him anything. In the past there were people who, if you met them in the street, you would give two dinners because they were badly dressed and looked poor, but then they started enterprises. I can give you a few examples, but that is another story! There is the difficulty. I never believed there would be a new man, but there is a new man now who is totally different from what we had imagined the new man to be, and now we must undo the new man in order to work normally.

Yegor Gaidar: I think you are absolutely right. There was a new man, but it was not the new man of ideology. For instance, here is an interesting story about Russia. I do not think it was the same in Slovenia, but in Russia, because the oppression was much

greater – as you know, there is much discussion about the specific psychology of the Russian person which is communal – our studies in the modern Russian countryside has shown that the socialist history entirely destroyed all the spirit of the self managed inter-communal help. It became impossible for them to agree about anything, even the most elementary, because the economy had been run in a way where any kind of activity not party or state managed was bad and might be punished. So now it is an extremely individualistic society – an unusually individualistic society in the Russian countryside.

France Bucar: Let us turn to a completely different subject. As long as Russia is weak as it is now, you are always inviting foreign intrusion. I would also say in this connection that the aim of the West is to push into the integrity of Russia by way of the Caucasus and Central Asia. I would also mention the question of Chechnya and so on, because I think it is not only a question of human rights, but also a very important part of international politics.

Yegor Gaidar: First, I shall quote Bismarck's famous phrase, that Russia is never as strong as it looks, but neither is it as weak as it looks. To some extent the Chechnya problem was not even a problem of the weakness of the Russian state. It was a problem of the consequences of the fall of the Soviet Union, because Chechnya is part of the Russian state. We thought that if it were possible to free all the Soviet republics, we might be better off without them. Of course we had this legal problem in Chechnya, which was formerly an autonomous republic with a very bad history, and what has happened there will create a dangerous precedent. But this should not be decided on the battlefield with great loss of life and much suffering.

Whether or not the Chechens have the right to self-determination is an open question, and not one that should be resolved with bloodshed, and that is really what was behind Russian public opinion during the first Chechen War. That is why the Government had no choice but to make some kind of deal with the Chechen authorities in 1996. Russian society would not support the war, and soldiers were well informed that they were fighting a war which society did not support. They hid their faces

because they did not want their neighbours to see that they were there. But from 1996 to 1999, Chechnya was more or less free in practice, if not in law. During that time, Chechnya became an enormous problem for all its neighbours, including Russia – kidnapping and enslaving people, and then of course Russian attitudes towards Chechnya changed. But when the Chechens invaded Dagestan – a Russian territory averse to being enslaved by the Chechens – and Dagestanians took up arms, requesting Russian military support, this changed the situation absolutely and radically. It was no longer a question of whether Chechens had the right of self-determination. It was the problem of whether Russian citizens have the right to be protected. You must understand why Russian society, so much against the first Chechen war, is so much in favour of this one. Of course the army fought quite differently when it was evident that it had the people's support. That was why it was possible to crush relatively quickly the resistance of the very well organised, well-armed, very brave Chechen fighters.

I think that now we have passed through the most difficult part of the transition, the Russian state will be strong; it is inevitable. We shall have to see whether it will be able to keep the democratic constitution working, because waging war and all the accompanying problems do not combine well with a high level of support human rights, democratic institutions, etc. It has pushed Russia in the direction of supporting the expansion of institutions such as special emergency powers etc, which is not healthy. As far as I am concerned this is the most serious danger. I am quite sure that the Russian state will be able to deal with the problems of Chechnya, the Central Asian republics and so on. I am not absolutely sure that Russia will be able to keep democracy working in this process. That is where I see a danger.

Niko Grafenauer: Obviously the question of human rights is very important – there will be much discussion about that – but we must know how things are developing in Russia. What is your personal and professional contact with Putin?

Yegor Gaidar: I have of course met Putin a few times in recent years in a variety of different capacities. I have never heard him say

anything stupid, but my personal experience is not serious enough to make any kind of judgement. I was, for instance, Prime Minister when he was deputy mayor of St Petersburg. We were not in a position to spend much time asking each other “what are you thinking?” and so on. I have a few friends who have worked with him extensively, and generally their opinion is favourable. Their opinion is that he is modern, clever, has good instincts, and that he is pragmatic and earnest. Perhaps they are mistaken – I cannot judge, but they know him better than I do.

Putin has two sources of experience. One is his sixteen years in KGB intelligence, which of course will influence his approach to the world. The other is his work in the relatively liberal St Petersburg mayoral office in the early 1990s, alongside many sensible people. This gives him the experience of running the market economy and being exposed to markets and other influences in this field. So my judgement is that in the economic field I am not expecting anything bad, and may be a lot of good. They have a sensible government, and for the first time in years they will be able to push all the legislation through the Duma, because they have a majority now. So in a worst-case scenario in the economic field, they will not be bad, and in a good scenario they will be extremely good. If you're asking me about foreign policy, it looks as if he is pragmatic – this decision to build a good relationship with Blair, to choose London as the first place to visit, is sensible. In internal policy, I shall have to see whether he is serious about keeping democratic institutions. All his words about this are encouraging but I would prefer to see the deeds.

Niko Grafenauer: Finally, perhaps you could say a few words about the connection between the people of Slovenia and Russia?

Yegor Gaidar: Of the countries that will be members of the European Union in a relatively short time, I think Russia's relations with Slovenia were the best. At least there was never a bad history between us, which is extremely important because history matters.

A LITTLE KNOWN PART OF RUSSIAN HISTORY

by Henri Lepage

Here is the story¹. In 1983, Ralph Harris, Ljubo Sirc and Antony Fisher founded the Centre for Research into Communist Economies (CRCE – later to be renamed Centre for Research into Post-Communist Economies). Sometime in 1990, just before the tragic events that were to spread throughout the Balkans, Ljubo organised a three day seminar at Lake Bled, in the former beautiful summer residence of Marshal Tito. This was the first time he had invited such a strong delegation of soviet economists to meet western free-market experts. Among the Russians were people like Yegor Gaidar and Anatoly Chubais. At that time Gaidar was a close adviser to Gorbachev and member of a team of economists sent by Soviet authorities on overseas missions to inform the outside world about the aims and developments of Perestroika, and to demonstrate a more open minded attitude toward the West. Gaidar had a peculiarity: he had studied Samuelson's basic text book and took it on himself to initiate his fellow soviet economists, in a clandestine way, to the basis of modern western neo-classical economics. This was the reason he was selected by Gorbachev. He was one of these rare soviet economists able to discuss economics in modern micro and macro economic terms with his western professional counterparts.

Several months later, as Gorbachev's Perestroika was unfolding, surprisingly Ljubo and Ralph came to me asking whether the Institute I was then managing in France – Institut Euro 92, founded and chaired by French politician Alain Madelin – would agree to join the CRCE in funding a common Russian venture. This was to be a partnership with the economic department of the Soviet Sciences Academy. Institut Euro 92 was able to bring some money and assist the CRCE in creating ICRET – International Centre for Research on the Economics of Transition.

¹ *Ralph Harris: A Tribute by the CRCE*, Centre for Research into Post-Communist Economies, London, June 2008, pp 21-27.

The new institute was located in Moscow and co-chaired by Gaidar and Ralph Harris. It benefited from new legislation allowing the formation of Soviet-Western academic and research joint ventures.

In fact, this particular joint venture responded to a very specific motive. Being close to Gorbachev, Yegor Gaidar was getting worried about a possible reactionary move from the old Soviet communist guard. A communist coup against Gorbachev's policy was then looming as a possible event, with a move back to a more traditional dictatorship. Backed by an endowment in dollars, ICRET was a sort of survival kit that would help our new Russian economist friends to maintain western connections should a communist dictatorship be re-established.

We thus had the pleasure, Ralph, Ljubo and myself, along with Lisl, who ran the London CRCE office, of travelling to Moscow in order to sign the incorporation documents for the new institute, and to prepare for a first ICRET conference the following year. This was the time when Russian winter was finally falling upon the Soviet capital. There was no snow but it was deadly cold – around minus 20 to 25 celsius. I had never been so cold and nor had Ralph. I still have the lively vision of Ralph shivering in his totally inadequate Burberry raincoat, with his red waistcoat, his pipe and his legendary marine cap on Red Square, when queuing at Lenin's Mausoleum. We discovered that western leather shoes were really the last thing to wear when it is so cold. We could not even put our feet on the floor of the antique Soviet Ziss car, with its broken heater, that carried us around Moscow.

In Moscow we had an interesting experience of the Russian way for making deals. Once the documents were signed, our main purpose was to prepare for the Paris ICRET meeting that we had decided to organize. Who were going to be the speakers? Which topics? And so on. Not really exacting, but we needed to have a real working session with our ICRET counterparts – in that case the newly appointed ICRET secretary-general, an economist from Gaidar's team, who later became the first Russian representative to the IMF. For two days we pressed him, but to no avail. In order to really get to the agenda he had to take us to a very soviet-style night club and drink a great deal of vodka before we finally

discussed what we had come to talk about in Moscow.

The ICRET meeting took place in Paris, in March 1991. A dozen Russian economists attended the conference. At that time the group had no formal organisation. Outside Russia, the best known among them was Anatoly Chubais, then deputy mayor of St Petersburg. But none of them would recognize him as *their* leader. The same was true for Gaidar. Other members of the group thought of themselves as having a professional position at least as important. This was for example the case of one man who later became Minister for the Economy in Gaidar's government, and even outlasted him in government positions.

Institut Euro 92 organised a press conference and a gala dinner at Hotel Georges V, one of the Paris palaces located near by the Champs Elysées. For both these events we needed a group spokesman, someone who would talk to journalists on behalf of the whole group and, then, give a formal speech addressed to a select audience of top Paris people. Quite naturally Alain Madelin settled on Yegor Gaidar to do the job. He spoke English fluently, and, to our eyes, he was the only one to have a natural political leadership profile.

This unplanned and last minute choice was to have important political consequences. On the last day of the Paris meeting the Russian group met in one of the conference building rooms and decided officially to acknowledge Yegor Gaidar as leader of their group. They would then travel around the world with Gaidar at their head (after Paris they went to Chile to learn more about its liberal economic policy in which they showed a great interest).

But events kept accelerating in the Soviet Union. In June 1991, Boris Yeltsin was elected to head the Russian Federation. Acting as his own prime minister, he appointed Gaidar at the Russian Ministry for Economic Development. Two months later, the old Soviet rearguard attempted its coup against Gorbachev. They failed. The Communist Party and the Soviet Union were dissolved. In February 1992, Yegor Gaidar was appointed to the Finance Ministry. Then from June to December 1992 he became Yeltsin's first Prime Minister. While in government, Gaidar

advocated liberal economic reforms. His most well known decision was to abolish price regulation by the State, a decisive move that amounted officially to allow a market economy in Russia.

In autumn 1992, Alain Madelin and I went on a trip to Moscow. We called Gaidar's office. Although he was very busy he rapidly responded to our invitation. We had a late dinner in one of the new plush restaurants that were springing up in the capital. During our long conversation he emphatically acknowledged that he would have never become Prime Minister but for ICRET and its Paris meeting: "You made me what I am today."

Gaidar left government before corruption increased on a massive scale, leaving a dark shadow over the return of Capitalism within Russia. Almost all the Russian economists who attended the Paris meeting and were part of the ICRET venture held official government positions during the Yeltsin years. A number of them largely prospered. Gaidar still manages the Institute for the Economy of the Transition, but he retired from political life in 2003.

As a story teller would end, it all started with Ralph freezing cold in the middle of a then deserted Red Square on an early February morning. A short and small story that nevertheless left an imprint, though little known, on modern history.

YEGOR GAIDAR 1956 – 2009

by Helen Szamuely

The news of former Prime Minister Gaidar's untimely death this morning made many of us feel that it was the end of an era². In reality, that era of hope for Russia's economic and political development ended some time ago but Yegor Gaidar's involvement was so crucial that his physical passing reminds us all of it.

Yegor Timurovich Gaidar was born into a privileged Soviet family; a fact that one keeps coming across in the biographies of the first generation of reformers. The reason is simple: who else would have had the access, first, to western economic and political literature and, second, to any position of power in the late Gorbachev and early Yeltsin years.

Gaidar's grandfather, Arkady Gaidar, was one of the best known children's writers in the Soviet Union, author of two of the best read books: *Школа* (School), a fictionalized account of his participation as a youngster in the Civil War, and *Тимур и его команда* (Timur and his team), a story of a red pioneer group, who off their own bat decide to help families of servicemen who are fighting in a war. Which war? Well, it took me a little time in my youth to work out that it was not the Great Patriotic War but the rather less well known one against Finland in 1940.

Gaidar's books were popular with children as well as adults because, though ideologically absolutely pure, there was a hint of rebelliousness about them. Timur and his pals did not seem to be obeying any young pioneer leaders and were distinctly uninterested in adult guidance.

Arkady Gaidar, though a journalist as well as a writer, was unaffected by the peculiar death of his patron, Mikhail Frunze, and survived the purges. Possibly that was because he wrote for

² Excerpt from Dr Szamuely's obituary of Yegor Gaidar, 16 December 2009
<http://yourfreedomandours.blogspot.com>

children and teenagers, possibly, as Robert Conquest put it, because somebody had to. But he did not survive World War II a.k.a. the Great Patriotic War; having become a war correspondent, he was killed in the autumn of 1941.

Timur Gaidar, named after Tamerlane and allegedly the character on whom the fictional Timur was based (not something I can readily believe) grew up to be a successful naval officer, a Rear-Admiral, no less and a friend of Raúl Castro's before he became Pravda's military correspondent. He married the daughter of another writer, as did Yegor himself, the daughter of one of the famous Strugatskys. A highly privileged family, were the Gaidars.

The point is that it is precisely this kind of families that produced people who became oppositionists and, sometimes, dissidents, such as Pavel Litvinov, grandson of Maxim, and his sisters.

Gaidar did not go that far. In fact, he remained outwardly a Communist. The difference between him and his colleagues was that he had read numerous Western economists and had been thinking about their ideas.

In 1991 Gaidar left the Communist Party and joined Yeltsin's government, becoming First Vice-Premier of the Russian Government and Minister of Economics from 1991 until 1992, and Minister of Finance from February 1992 until April 1992. He advocated liberal reforms through a shock therapy, abolished price control, reduced the budget deficit and cut industrial subsidies.

Gaidar became Acting Prime Minister for a few months in 1992 but the position was not confirmed by the Congress of People's Deputies. Subsequently he continued in an active role, advising and even participating in the government. Gradual frustration with the way the economic reforms were not working out and electoral dissatisfaction forced him out of the government in 1994.

Since then Yegor Gaidar dedicated himself to economic research and ideas in Russia and the West. He was forced to watch his

reforms undermined, his legacy distorted and abused and Russia's economic development stymied. The great hopes of the early nineties have gone and will not come back in a hurry. Indeed, those great hopes are regarded with loathing by many Russians.

As we watch the Russian government reverse many of the reforms (though, by and large, price control has not been reintroduced) and retain greater popularity despite being shakier than before, we need to ask why those reforms failed.

Some reasons are obvious: the shock was too great, the chaos was compounded by the fact that oil and gas prices were low throughout the decade; the people did not have the fiscal reserves to survive.

There were other issues as well. The economic situation may have been bad but people were sort of used to that, even if they grumbled. The reforms did not necessarily make life worse for most people but they did not make it better, which is what they promised to do. The loss of savings, devaluation of pensions, sudden rise in prices and unemployment (unheard of in the Soviet Union) brought a curious fact home to the people of Russia: the much vaunted system towards which attitude was ambivalent was a greater disaster than they had realized. This touched a patriotic nerve. How could Russia be such a mess? Whose fault was it? Quite sane, intelligent people told me in all seriousness in the nineties that the Americans had deliberately destroyed Russia, something they had been wanting to do for decades, using the various oligarchs, corrupt associates of Yeltsin and the reformers for their own nefarious purposes.

Then there was the problem of legal structure or, rather, lack of one. The Russian experience has proved beyond any doubt, if proof were needed, that free-market economics does not work without a stringent legal and judicial structure, property rights, and an independent judiciary. What was supposed to produce a property owning democracy produced what Russians call бандитская страна, a gangster country. Mind you, they still call it that for some things did not change under Putin. There are now

other oligarchs and they are all connected with the state and the security services. But the higher oil and gas prices pay people's wages and allow them to buy most things in shops. They still grow a goodly proportion of food in their own dacha gardens and ensure that there is anything in the winter by drying, salting and pickling.

It did not help that a number of reformers though not, apparently, Gaidar himself, seemed to have a very nice life: pleasant housing, admirable and regularly paid salaries, trips abroad whence they returned with more goodies, schooling for their children in Britain and college education in the United States. People who felt that they were struggling for survival made no distinction between those who did have that life and those who did not; nor was there the slightest desire to understand the ideas that were supposed to give Russians a better life but could not do so.

Gaidar was unfairly castigated: there is no question that the alternatives to his policies would have been even more disastrous but those who lived through the nineties do not see it that way and seem to be prepared to surrender all political and much economic freedom for a steady income and a better life than they had known for decades. And who can blame them? Not I, living as I do in the wealthy West.

For all of that, I do not think Yegor Timurovich worked in vain. Eventually, it will become obvious that Russia is still trailing behind the West to everyone, not just the many thousands who praise Putin while carefully send their money and their offspring to other countries, often following themselves. And then, who knows? Maybe the reformist ideas, somewhat modified by reality, will come into their own.

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