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## Yegor Gaidar: Pragmatic Economist or (and) Romantic Revolutionary<sup>1</sup>

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*The article reflects upon the legacy of Yegor Gaidar (19 March 1956 – 16 December 2009), Russian economist – academic and political leader, the key figure of the initial stage of post-communist transformation in Russia in early 1990s.*

### ***The Controversy***

Immediately after the life of any very prominent person comes to the end, unalloyed tributes normally follow. Not surprisingly this happened for Yegor Gaidar, both in the Western media and on the Russian internet sites of all political persuasions. There was just one difference. From the comments under obituaries, both in English and in Russian, one could see how divided public opinion has been on Gaidar's legacy.

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*"If a new Managing Director took over a large sluggish company and caused its value to shrink drastically, you'd call them a bungler, or at best unlucky. So why is Gaidar viewed as a hero?"<sup>3</sup>*

*"I admire such strong personalities as Yegor Gaidar was – who is able to perform a great deed and not be afraid of the responsibility."<sup>4</sup>*

These are from a Western source. In Russia, the former Mayor of Moscow, Gavriil Popov, and the current one Yury Luzhkov claimed that Yeltsin appointed Gaidar as Acting Prime Minister in 1992 only under pressure from USA and promise of tens of billions of dollars in aid<sup>5</sup>. They added,

*"The failure of Gaidar's model was inevitable because it was based on a wrong theory, and did not correspond to the fundamental reality predetermined by socialism in Russia."<sup>6</sup>*

In response, one of the most prominent Russian liberal journalists and dissidents Valeria Novodvorskaya writes:

*"...Gaidar [is] our personal Saviour who opened the door for us to the capitalist Paradise."<sup>7</sup>*

The fierce debate, after almost 20 years since Gaidar's rather short term of several months as the leader of the first post-communist government, about his contribution to both the building of the new Russian statehood and to theory and economic history of post-communist transformation, only reflects how important Gaidar was to Russia as both a politician and an academic.

This article attempts Gaidar's role in contemporary Russia beyond a partisan debate. It is predominantly based on Gaidar's own key publications [Gaidar, 2000-2007] and also reflects authors' personal recollection of Gaidar's intellectual and professional environment of 1970s – early 1990s.<sup>8</sup>

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<sup>3</sup> *The Economist*, 17 December, 2009. Accessed at <http://www.economist.com/node/15125467/comments>, 17 December, 2009

<sup>4</sup> *Ibid*

<sup>5</sup> Gavriil Popov and Yury Luzhkov, "One more Word about Gaidar, *Mosckovskiy Komsomolets*, 21 January 2010 (In Russian), Accessed at <http://www.mk.ru/politics/article/2010/01/21/416001-esche-odno-slovo-o-gaydare.html>

<sup>6</sup> *Ibid*

<sup>7</sup> Valeria Novodvorskaya, "The Reforms that Choose Us", Accessed at <http://www.grani.ru/opinion/novodvorskaya/m.176038.html>

<sup>8</sup>The Author personally knew Yegor Gaidar since the years of studies at Moscow State University, throughout 1970s-1980s in Moscow professional economist circles, and had the latest chance of meeting him for a lengthy conversation during his visit to Australia in 1996.

## *The Life*

Yegor Gaidar was born in 1956, the son a prominent military journalist Timur Gaidar. The history of Soviet Russia and Gaidar's family heritage were closely interrelated. Both his grandfathers Arkadiy Gaidar<sup>9</sup> and Pavel Bazhov<sup>10</sup> fought with the Red Army in the Civil War. Both became very famous Soviet writers, in fact iconic ones, whose books have been widely read by several generations of children and adolescents. Both were living through Stalin's industrialisation, the Great Terror and World War II. Arkadiy Gaidar fell in the war against German Nazi's as a member poorly equipped home guard that was hurriedly recruited to defend Moscow in the Autumn of 1941. Pavel Bazhov, a school teacher, miraculously avoided imminent arrest in 1938<sup>11</sup> and was living secluded life of a writer never leaving home ever since.

Gaidar's father had a military rank of 'one star' admiral, a very high, but not an absolutely unusual rank for Pravda's military correspondent. With Yegor Gaidar's death, speculations have resurfaced that his father's 'real' occupation was intelligence service. Such speculations cannot be proved or rejected outright. However, considering Timur Gaidar's military rank and the array of postings to 'hot spots', one can assume that, if his affiliation with intelligence service was true, then his real master, most probably, was GRU (Military Intelligence Directorate), not KGB. Military journalist or military/naval attaché was their usual cover up. GRU officers used any opportunity to distance themselves from the political spy activities of KGB, and regarded themselves as high level professional intelligence community. They were indeed more liberal in mind and more outspoken. Meanwhile, reinforcing the understanding of Yegor Gaidar's upbringing within the elite Soviet establishment, this is also an indicator of relatively non-orthodox critical thinking within Yegor Gaidar's family circle.

As a child Yegor Gaidar travelled to Cuba, with his father on a posting and was living there during the Missile Crisis of 1962. He later wrote of his personal recollections of "revolutionary and enthusiastic" Havana of that time<sup>12</sup>. Gaidar, as most of the children of his generation, believed that the Soviet Union was the best country in the world. That is why he was surprised when in 1966 he arrived with his family on another father's posting in Yugoslavia – to discover a socialist country with a market economy, open public discourse and full shops. That was the first time Gaidar started to follow economic news and ask questions about Yugoslavian economic reforms. In addition, his father who noticed son's fluency in crunching numbers entrusted the 10 years old with keeping monthly business expenditure reports. That was the beginning of Gaidar-economist.

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<sup>9</sup> <http://www.gaydar-arcadia.com/index.html>

<sup>10</sup> <http://bazhov.ural.ru/bazov/biografy.html>

<sup>11</sup> Y. Gaidar, *Days of Defeat and Victory*, University of Washington Press, 2000, Chapter 1

<sup>12</sup> Ibid

As for many youngsters of Gaidar's time a comprehensible and intellectually comfortable childhood in a privileged family and a beautiful country was broken in August 1968 when Warsaw Pact member countries led by the Soviet Union invaded Czechoslovakia to suppress the Prague Spring movement. Gaidar asked himself the question, what kind of truth needed to be imposed on people with the help of tanks<sup>13</sup>.

### *A Scholar and Politician*

The generation of young Russian intellectuals of late 1960s – early 1970s, who had to come to grips with the Yugoslavian deviation from the Soviet model, with Euro-socialism, with Prague Spring, and finally with the radical economic reform in Hungary, still did not lose their belief in 'socialism proper'. Not surprisingly, they were initially seeking answers through comprehensive studies of the Marxist literature. This was also facilitated by the liberal and creative atmosphere – despite strict ideological control – in the best educational institutions in the capital and major provincial cities. Paradoxically, the elite layer of the educational system, established mostly for the children of the privileged members of the Soviet society, created the generation of people who ultimately rejected the very principles of the Soviet system.

Yegor Gaidar graduated from the Economics Faculty of Moscow State University. By all accounts it was the best school of economics and one of the sources of liberal economic thought in the Soviet Russia of 1960s-1980s. This was only possible because the controversial and eclectic structure of the curriculum included both orthodox Marxian theory, as interpreted by Soviet ideological apparatus and contemporary Western economics. Along with studying almost by heart the works of Marx, Engels, Lenin, and the Communist Party of the Soviet Union, students were exposed to the variety of courses in modern conventional economics behind the screens of titles that were inoffensive to "ideological controllers". So, under the title "Critics of the Western Economic Thought", a decent program in contemporary economic thought was taught; under "Mathematical Economics" – contemporary neoclassical microeconomics; under "Advanced Macro-econometrics" – contemporary monetary economics; under "Socialist Planning and Forecasting" – principles of macroeconomics, and furthermore, why the Soviet planning system did not work. Professor Shatalin who lectured the latter course (and who later became the mentor of both Gaidar and the author of this article) behind the closed doors dared to explain his students already in early 1970s, that the Soviet economy was about to collapse, and the only reason it had not collapsed by that time was the oil export revenue.

Meanwhile, even the most liberal economic tendency in Russia originated from 'intelligentsia' educated within the Marxian ideological environment and for this reason tried to explain the failure of the Soviet system and find the way for its improvement, initially, within the Marxian paradigm. That is why, the concepts of the socialist economy or socialist planning were essential for the liberal economic discourse. Furthermore, Gaidar's and his fellow young reformers were educated with the 'Marxist'

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<sup>13</sup> Ibid

belief that it was possible to reform the economy by revolutionary socio-economic engineering. In fact, the community of progressive economists was implicitly divided between two major schools of thought (both of them, of course, considered as 'heretic' by the orthodox Marxists). One of them, founded by a prominent mathematician the Nobel Prize winner Leonid Kantorovich, was essentially socio-economic engineering due to both its philosophy and proposed technology of planning. It suggested that a large scale optimal planning model could be seen as a prototype of the national optimal plan; and the price variables of that model – as the prototypes of regulated prices. Therefore, the national planning process could be formalised as the optimal solution of a large scale optimisation problem making a centrally planned economy as efficient as a market one<sup>14</sup>. As utopian as it sounds, this approach, nevertheless, opened the door to studies in Western microeconomic theory and with that - to the understanding of infeasibility of optimal planning. And so, way was paved to the second alternative school of thought. The latter one suggested introduction (and, once again, socio-economic engineering), of some elements of a market mechanism without dismantling the foundation of the socialism. And this is where Gaidar as many of his fellow students started to ask themselves further difficult questions – about the feasibility of market socialism.

For Gaidar, those questions were even more difficult and important because of his experience with Yugoslavia. How to make sure that firms under workers' management create new jobs? How to make sure that the capital is re-distributed to new more efficient ventures? How to solve the problem of sharply differentiated wages? Is it possible to avoid accelerated unemployment and inflation that were endemic to Yugoslavia for decades? Gaidar was fluent in English, Spanish and Slovenian. However, he apparently was unaware of the well known, among Western economists, theory of labour-managed firms. Such firms maximise profit per employee, but not the volume of profit. Consequently, if they prevail in an economy, as it was in the case of Yugoslavia, they restrict employment, accelerate inflation, and also are a major impediment to economic growth<sup>15</sup>. Despite being unaware about this gloomy theoretical prediction, Gaidar came to the general conclusion that any form of socialism imminently destined to fail: while the state socialism was a base for the absolute power of bureaucracy, the market socialism obviously demonstrated its inefficiency<sup>16</sup>. However, paradoxically, as a scholar Gaidar never broke up with the Marxian methodology. Even during his time as after politics, one of the greatest reformers of his time, who rejected the Marxian criticism of capitalism and adopted transition to a market economy for his country, he maintained the Marxian deterministic explanation of the genesis of economic systems

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<sup>14</sup>L.V. Kantorovich, *Ekonomicheskii raschet nailuchshego ispol'zovaniya resursov*, Izdatestvo Akademii nauk SSSR, 1959. English translation: LV Kantorovich *The Best Use of Economic Resources*, Harvard University Press, 1965

<sup>15</sup> B. Ward, "The Firm in Illyria: Market Syndicalism", *American Economic Review*, 1958

<sup>16</sup> Y. Gaidar, *Days of Defeat and Victory*, University of Washington Press, 2000, Chapter 2

by the development of productive forces, despite the recent historic experience and contemporary literature<sup>17</sup>.

As a young university graduate Gaidar was lucky to start making living as a full time researcher at the Institute of System Research – an elite think tank in Moscow – in the area he was mostly interested in. He continued to research in liberalising economic reforms in the socialist countries. However, it would be incorrect to think that from his young age Gaidar was developing into a dissident-anticommunist-market economist. On the contrary, for one and a half decades, he was an insider of the official establishment, a member of the Communist Party until its dissolution in August, 1991. Furthermore, during the time of Gorbachev’s liberalisation, Gaidar was working for the official party’s daily “Pravda” and for its three-weekly “Communist”.

Together with many younger and progressive members of the party Gaidar embraced the changes that became possible at the Gorbachev’s time, when radical economic reforms were not only discussed in liberal academic circles, but were also on the agenda of the government of the day. He found himself at the right time and the right place when the commission was established, under the umbrella of the Politburo of the central Committee of the Communist Party, to look at how to improve the management of the economy. The scientific support of the Commission was entrusted to the Institute of System Research, and more specifically to the department Gaidar was working with. Together with his colleagues, Gaidar became not just a witness but also one of the facilitators of gradual introduction, into the official language, of such terms as “radical economic reform”, “market”, “individual entrepreneurship”, “cooperative”, “joint venture”, and also “unemployment”, “inflation”, “poverty”, “social stratification”, and “budget deficit”.

At the same time, the practical official decision making was incompatible with economic reforms. The acceleration of capital investments and growth were declared as the key strategies. Gaidar was trying hard to promote the idea that liberal reforms and financial stabilisation should become first priority, not the growth or new ambitious investment projects leading to further destabilisation. He wrote one submission after another and several times met Gorbachev. Unfortunately, while Gorbachev was looking favourably at numerous proposals from liberal academics, he was also under ideological pressure from his conservative Party apparatus, and yielded to compromised unworkable solutions. This led to an inevitable disaster.

By the late 1980s the Soviet Union was facing deep economic crisis and collapse. For quite a long time before that, the economy had been able to survive primarily due to the export of energy resources. However, world prices for crude oil, which had been sharply increasing in the late 1970s, fell more than two times between 1981 and 1987<sup>18</sup>.

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<sup>17</sup> V. Shlyapentokh — “Is Egor Gaidar a Marxist?! (on the Book by E. Gaidar “A Long Time”)”, *Voprosi Ekonomiki*, No 10, 2005 (In Russian)

<sup>18</sup>Oilnergy, <http://www.oilnergy.com/1opost.htm#since20>, accessed 14/04/2002.

This created a threat of total deficit of final consumer goods, as Russia was substantially dependent on energy exports for importing some basic consumer needs, such as food.

Moreover, Russia's situation could not be salvaged by its gold reserves. The communist regime inherited, from the pre-revolutionary Russian government, about 1300 tons of gold. In spite of massive investments in the production of gold, after 74 years the first post-communist government was left with only 286 tons<sup>19</sup>. Neither did the \$US63 billion of western credit help. However, it tripled the level of foreign debt. Starting from the second half of 1991, grocery shops became empty. Even the queues disappeared - there was nothing to queue for. Famine seemed to be inevitable.

This was the situation in the country when Gaidar embarked on his short but historically influential career as a top public servant. In 1991 he 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 became Acting Prime Minister for a few months in 1992. However, the position was not confirmed twice by the anti-reform majority Congress of People's Deputies, and that was the beginning of the end of his career as a politician. Subsequently, he was active in advising the government, was a member of the right wing political movement, for some was a member of the Parliament (Duma), but mostly concentrated on academic work as the founding director of the Institute for the Economy in Transition and a prolific writer on the theory of reforms and economic history of Russia.

Why did Gaidar "fail" to become a career politician? That was because by no means he was a naturally born one. Since his university student years he had an image of a typical scholar. He was a softly speaking, quite, introvert person. He was confident in what he believed in. He could impress those valuing knowledge and logics, but he lacked charisma required for convincing a broader audience. He spoke an economic and political science jargon, but he could rarely translate it into the language of slogans and spin. He was definitely an academic leader, but not a leader of a mass political movement, that would be able to embrace the majority of the nation. He was born into the official establishment of the country, but he was a stranger to it, and was rejected for his incompatibility with either the prevailing system or prevailing persuasion of the day.

### ***The Transition***

In order to understand currently debated Gaidar's role in the revolutionary economic transformation of early 1990s, let us have a look at facts. The imminent catastrophe of 1992 could be addressed in only one of two possible ways - introducing traditional rationing supported by way of introducing a more or less strict martial law, or radically liberalising the economy. Neither of the options was absolutely free of risk of mass unrest, and loss of human lives. Gaidar chose liberalisation. He considered that a lesser risk, and the only way to prevented a civil war, riots and a

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<sup>19</sup> Here and below, unless otherwise stated, the data are from, or estimates are based on, the Goskomstat WWW site at [www.gks.ru](http://www.gks.ru).

possibility of returning to Stalinism. Indeed the country was saved from collapse, but Gaidar was never praised for that by the majority of Russian people. At the same time, Russia was plunged into an inevitable transitional depression, and Gaidar has been blamed for this ever since.

Meanwhile, even among the strongest supporters of Gaidar, the accents on his policies and achievements is somewhat biased. Firstly, Gaidar is both most praised and most blamed for price liberalisation. However, this measure was approved by the absolute majority of votes at the Congress of People's Deputies, in October 1991. It was the consensus of the day of all political forces including the communists, and prices would be liberalised with or without Gaidar. Secondly, he is blamed for devaluation down to almost nonexistence of household savings. Indeed, price liberalisation contributed to the devaluation. However, the fact of the matter is that most considerable devaluation (by 150%) occurred in 1991 - before Gaidar joined the Government.

At the same time, it is almost forgotten, while Gaidar himself reflected on this as his Government's main achievement, that he rebuilt - from the scratch - the country's fiscal system, replacing the crashed Soviet era one. In a few weeks the new package of legislation was drafted, approved by the legislature, and the budget was saved from imminent collapse. However, paradoxically, the right-wing liberal economist Gaidar is now criticised for his soft budgetary policy. Gaidar himself explained that too radical spending cuts would undermine already fragile social stability.

Gaidar is blamed for "shock therapy" that caused deep plunge of the Russian economy. Indeed, deregulation of most prices, as well as sharp measures towards opening the economy and convertibility of the Russian currency allowed for rapid elimination of shortages and queues. At the same time, the economy experienced a severe post-communist stagflation. In the period 1992-96 GDP decreased by 40 per cent and industrial production by 50 per cent. The price level increased up to 26 times, and increases in nominal wages were much slower than increases in the CPI. This caused a decrease in real income by 26 per cent, accompanied by a considerable stratification of the society<sup>20</sup>.

In fact, Gaidar has his time in the Government for only to save the country from collapse by imposing macro-financial **shock**, but was not given a chance or time for undertaking a subsequent **therapy** by restructuring the economy at the micro-level. The implemented method of privatisation was designed on the principles Gaidar did not entirely agree with, and conducted mostly after his time in the government. It led to the ownership structure where by the end of 1990s 70-75 per cent of capital was owned by a mixture of private and government entities. However, only 30 per cent was owned purely by private persons or independent corporate institutions; the government partly owned 45 per cent of capital assets; and totally owned by the government up to 25 per

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<sup>20</sup> Estimations are based on the *Goskomstat* data (WWW site at [www.gks.ru](http://www.gks.ru)), and were first published in G. Kazakevitch and R. Smyth, *Gradualism versus Shock Therapy: (Re)Interpreting the Chinese and Russian Experience* ", *Asia Pacific Business Review*, Volume 22, Number 1, 2005



cent of assets.<sup>21</sup> During Putin's decade of 2000s the government control of the key revenue-earning sectors was consolidated much further.

In order to realise to what extent the reforms have been radical, and the market has been created, the nature and structure of the privatised assets in the industrial sector should be noted. The pre-reform Soviet Union used to be an industrialised nation with a rather well developed production apparatus. This apparatus mostly consisted of large and inefficient industrial giants, which had been established by the orders of the strictly centralised planning system, with the aim of serving the needs of the military machine rather than the final consumer.

Corporatisation and privatisation of large industrial enterprises could not solve the problem of efficiency and competition by itself. A considerable physical restructuring of assets was needed to happen, for meeting the demands of the emerging market. The large government's share of ownership, together with the lack of both domestic and foreign investors' trust in political stability and the future of the market economy in Russia, did not help in efforts to make the manufacturing sector competitive in the domestic or international markets. The level of foreign investment remains today disproportionately low, and the outflow of domestic finances abroad continues. Similar to the Soviet period, the Russian trade balance and the federal budget continues to rely on the export of fuel and some other mineral resources, and, as such, are strongly dependent on fluctuating world oil and gas prices.

In conclusion, in almost 20 years after Gaidar's reform, once again, non-democratic Russia is facing inefficient economy and uncertain future. This is in spite Gaidar's endeavours, not as the result of them.

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<sup>21</sup> Ibid