

# How IMF shock therapy was imposed on Russia

by Konstantin George

The fateful decision to enforce an International Monetary Fund (IMF) shock therapy regime on Russia was put on the agenda of the Houston Group of Seven summit, on July 11, 1990, by U.S. President George Bush and British Prime Minister Margaret Thatcher. A window of opportunity had existed leading into that summer, for Western support of a genuine Soviet move for reform, through large-scale economic assistance and cooperation. But, at the Houston summit, Bush and Thatcher categorically rejected any such approach.

Instead, the G-7 commissioned a special IMF study on the Soviet economy, and announced that they would reach a final decision after the study's publication. From July to December, teams from the IMF, World Bank, and related institutions descended on Moscow, where they were given the "run of the shop," meeting with top officials of every major Russian financial and banking institution, as well as the State Statistical Committee. The IMF study was released on Dec. 19, 1990, by the IMF, the World Bank, the Organization for Economic Cooperation and Development, and the European Bank for Reconstruction and Development.

At this point, the U.S.S.R. had not yet capitulated to the IMF shock therapy program. There was an intense faction fight within the Russian elites over this question, as the IMF report hints: "The authorities discussed the various reform proposals that have been tabled in recent months and their implications; they also released much information that had hitherto been unavailable outside the U.S.S.R., *but have not provided information on gold and foreign exchange reserves*" (emphasis added).

In the report which follows, we show how the resistance to the IMF's demands was broken, paving the way for the calamitous breakdown of Russia's physical economy which we see today.

## IMF rejects 'gradual reform'

The IMF report was absolutely clear concerning the brutal program it had in store for the Soviet Union. They rejected outright any alternative program to their own, as is documented in Section II: "*Ideally, a path of gradual reform could be laid out which would minimize economic disturbance and lead to an early harvesting of the fruits of increased economic efficiency. But we know of no such path.* . . . Indeed we doubt that a return to central control is a viable option, and would urge the authorities to move rapidly to give substance to their

commitment to a market economy" (emphasis added). The stated idea was to impose abrupt shocks with extreme rapidity and depth, slashing production and causing a steep rise in unemployment: "These changes cannot be made in a matter of weeks. But the imperative is to make sufficient progress at the beginning so that reform is seen as an irreversible break with the past and the process gains an unstoppable momentum. The necessary economic reform program cannot be implemented without an initial decline in output and employment."

Under Section V: "Alternative Approaches to Reform," the study continues: "The initial phase of the transition will involve considerable dislocation, and a shift to market prices will hurt those with low incomes. . . ."

"The prospect of a sharp fall in output and rapid increase in prices in the early stages of a radical reform is daunting. The key question is whether hesitancy, of the kind implied by the conservative scenario, could mitigate the initial loss of output and still permit the transition to an operational market economy with sustained growth. In our judgment, the conservative approach would almost certainly fail on both counts." The IMF's argument against an alternative program is, "This would delay the inevitable elimination of wasteful and unwanted production and the shedding of excess labor."

The study recognized that certain key aspects of shock therapy would have to wait, in order to prevent a social explosion. Thus, while most consumer prices are decontrolled, "we recommend that controls be kept temporarily on the prices of public utilities and housing rents."

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## The Soviet breakdown crisis

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The U.S.S.R. had entered the late 1980s with a staggering economic crisis, making the country highly vulnerable to the IMF assault.

During 1989-91, Communist rule in East Germany and eastern Europe collapsed, and the Council for Mutual Economic Assistance (CMEA, known in the West as Comecon) unravelled, causing immense economic dislocations; production within the U.S.S.R. was collapsing; shortages were the greatest since World War II. Strike waves, mass protests, and ethnic conflicts in regions like the Caucasus, and the movements in the republics for independence, were all the order of the day.

The collapse of production was the lawful result of decades of disinvestment in much of the civilian sector of the economy—a disinvestment pattern that was accelerated during the 1980s, due to the Soviet decision to engage in a linear conventional and nuclear military buildup, in response to the American Strategic Defense Initiative (SDI). The disinvestment policy resulted, first, from the early 1970s "oil for grain" policy, which was the decision to focus investments in the oil and gas production sector, to make the Soviet Union a major

exporter, to earn foreign exchange. Because of the seemingly huge foreign exchange dividend, dollars were allocated for the import of Western grain, instead of investing in domestic agricultural production.

Agriculture had always been the Achilles' heel of the Soviet economy, ever since Stalin's forced collectivization of the late 1920s and early 1930s. The system of state and collective farms had been a failure, but with the disinvestment that began in the early 1970s, it was to become a calamity. Every year, about 25-30% of the harvest was lost. The greater the harvest, the worse the strain on the weak infrastructure, and thus the higher the losses, both in percent and absolute terms.

The disinvestment pattern plagued almost the entire Soviet civilian industry, which had always lagged behind its Western counterparts. By 1990, Soviet industry and infrastructure were becoming a hopelessly obsolete junkpile. The effects of years of little or no investment had struck the vital energy and transportation sectors as well. The food-processing industry was weakened too, causing a new vicious cycle of higher food imports, on top of the "normal" grain and feed-grain imports, requiring more energy exports to pay for them.

The Russian elite recognized that a policy shift had to be undertaken. One grouping, centered around the U.S.S.R.'s last Prime Minister, Valentin Pavlov, wanted a program of rapid, forced investment in industry, agriculture, and infrastructure, of new technologies, to begin a real economic recovery. The other grouping opted for a pact with the devil, thinking that by "integrating" themselves with the IMF, they could become the ruling caste of post-Bolshevik Russia.

## Oil and debt

The U.S.S.R.'s "oil for grain" policy was seen as a clever move, taking advantage of the big oil price rises of the early 1970s. Many a Soviet leader surely thought that high oil prices would last forever, and this was one reason behind their arrogant rejection of the U.S. offer for SDI cooperation in 1983. Starting in 1986, oil prices began to plummet, and Moscow learned that not it, but London, controls world commodity prices. The U.S.S.R. trade and payments balances collapsed.

A consequence of this was a rapid increase in Soviet debt in the late 1980s, reaching \$54 billion by the end of 1989, with most of the increase in the form of short-term debt. There was a sharp drop in imports from the West, especially imports of capital goods—machinery and equipment, the very thing the U.S.S.R. could least afford to forsake, given its growing industrial obsolescence.

The Soviet Union took advantage of CMEA pricing rules, where the price of its oil exports to Eastern Europe was the average of the past five years, to heavily increase imports from Eastern Europe, in return for oil. This spree of looting of Eastern Europe, including East Germany, created the economic basis for the movements for independence and German reunification within what had been the Soviet sphere.

By 1988, when the CMEA oil price had come down somewhat, although it was still higher than the world price, Moscow switched to promoting oil exports to the West, even at the lower price, to scramble for foreign exchange, as its balance of payments and debt situation grew worse. Eastern Europe was hit by this in two ways: Because of the CMEA pricing policy, it still had to pay exorbitantly (in goods) for oil from the U.S.S.R., and also had to allocate foreign exchange for world market oil, to make up for the Soviet shortfall.

Starting in July 1990, the crisis in the Persian Gulf caused a sharp rise in world oil prices. However, CMEA prices for Soviet oil, because of the five-year average rule, could not take advantage of the new price; yet, precisely because world prices were rising, Soviet exports to the West increased, increasing the strength of the double blow against Eastern Europe.

The lower oil export income after 1986, coupled with growing indebtedness, compounded the already severe lack of investment in the U.S.S.R., including in the oil industry. After 1989, Soviet oil production began falling, and, in 1990, the volume of Soviet oil exports fell by 20%. In 1990, a shift was being implemented in CMEA trading relations to convertible currency settlements at world prices. The result was a collapse in U.S.S.R.-CMEA trade.

## 1991: The crisis peaks

By early 1991, an open fight inside the Russian elites had broken out on the question of adopting a competent economic recovery alternative, or submitting to the dictates of the IMF.

Soviet Prime Minister Pavlov, in the Feb. 13 edition of the trade union newspaper *Trud*, asserted that there was a "plot" by Western banks to "destroy" the Soviet economy, by imposing the "Polish model" on the U.S.S.R., flooding the country with ruble notes, causing hyperinflation, and overthrowing the Gorbachov government. Pavlov declared: "It is well known that for some time a huge inflow of money into our country was being prepared" through the buying up of "50 and 100 ruble banknotes. Banking institutions in our country and a number of private banks in Austria, Switzerland, and Canada joined in the operation." The plot was directly linked to a purge of officials in the Russian Federation government, with the goal of ensuring that Boris Yeltsin, President of the Russian Federation, would be surrounded by cronies vetted by the IMF.

Speaking directly against the IMF policy, Pavlov called for the "forced mobilization of industry" to create a modern infrastructure to make the U.S.S.R. an industrial superpower as well as a military one. The interview also marked the open, honest admission that the U.S.S.R. was facing nothing less than a breakdown crisis. Noting the sharp fall in production, Pavlov said: "If we do not deal with this effectively by March, we will have such a slump in production that society will find itself on the verge of collapse. This is not a political trick. It is an economic forecast. Our radicals are calling us back to

the market of the late nineteenth century. They want to drag society through shocks and traumas. We are categorically against that. We have had enough traumas. The market is a means to reaching an end, not an end in itself; apart from the market the country needs a program [for] forced modernization of industry."

"The situation in our country is deteriorating sharply," Pavlov said. "Our exhausted industry, our semi-destroyed railroads and our telephone networks are on the verge of complete breakdown, and our water and heating systems are on their last legs. . . . We must tighten our belts, . . . use our resources to modernize production, which provides the very foundation of life." Arguing against the IMF's planned de-industrialization, Pavlov demanded, "What kind of improvement in public health can there be, when we essentially have no modern industry?"

During that period, evidence was mounting that the IMF was grooming a Russian Federation alternative—meaning

Yeltsin and company—to come into power and do the job that the Soviet government was not willing to do. In February 1991, Pavlov and KGB head Gen. Vladimir Kryuchkov declared that officials in Yeltsin's Russian Federation government were plotting to destabilize the Soviet economy.

It would be wrong to say that the fight was between the U.S.S.R. and the Russian Federation, however. In both entities, both factions—pro- and anti-IMF—were represented. In the Russian Federation, this could be seen through the heavy resistance faced by Yeltsin in the Federation's Supreme Soviet, where his command of a paper-thin majority was held only through direct interventions by President Mikhail Gorbachov. Likewise, on the Soviet level, Pavlov and his cabinet never had real backing from Gorbachov, who always vacillated.

Gorbachov's vacillation was seen in his Feb. 25, 1991 speech in Minsk, where he castigated Yeltsin's policy of "loose confederation," and accused Yeltsin of "forging an

## Russian 'reform' cadre trained by London

On Aug. 23, 1991, the "Diary" column in the London *Times* provided a handy preview of the forced march of a rotten economic idea, which was about to assail the soon-to-be former Soviet Union, opening the war for title to the wealth of post-Soviet Russia and the other newly independent states. "The free market gurus and think-tanks that helped redraw the economic map of Britain during the 1980s," wrote the *Times*, "are planning an ideological invasion of the Soviet Union, in the belief that the failed coup [of Aug. 21-22, 1991] has rendered the empire ripe for a dose of Thatcherism. Although their influence may have diminished at home, the Thatcherites believe that the events of the last few days have created the perfect new laboratory to test their ideas."

Interviewed about the monthly luncheons he would be hosting for "free-marketeers and Soviet economists," Lord Harris of High Cross told the *Times*, "We criticized Gorbachov in the past for not reforming fast enough. Now the pace will be accelerated and our think-tanks can play a key role."

Lord Harris heads the Institute for Economic Affairs (IEA), the chief London think-tank of the Mont Pelerin Society. The latter was founded in 1947 by London School of Economics professor Friedrich von Hayek, for the purpose of attacking the nation-states which had been strengthened during the mobilization for World War II, with the free-trade "liberalism" of eighteenth- and nine-

teenth-century Britain as the bludgeon.

Harris's project, and the parallel patronage of George Soros, shaped the group of "young reformers," who have run economic policy under Russian President Boris Yeltsin.

The London Mont Pelerinites trained their sights on Russia already in 1983, the year of the Strategic Defense Initiative. That year, the Centre for Research into Communist Economies (CRCE) was organized in London, out of Lord Harris's IEA. CRCE representatives began to go into eastern Europe in the mid-1980s. In Hungary, they met a young Russian economist named Anatoli Chubais, a member of a loose grouping that included Yegor Gaidar, then an economics writer for publications of the Communist Party of the Soviet Union. There were similar contacts of the CRCE with people from Poland and Czechoslovakia, including the future prime ministers of those countries, Leszek Balcerowicz and Vaclav Klaus. Before long, Gaidar and other Russians were travelling to London as guests of the CRCE, or convening with students of the Mont Pelerin agenda from throughout eastern Europe, at seminars held in Hungary, Vienna, and the United States. To this day, Lord Harris refers to Gaidar and his associates as "our men."

Ljubo Sirc, director of the CRCE, recalled the recruitment process, in a 1996 interview: "The reforms really started in 1989. Initially the contacts were with what were then called 'dissidents,' who, it so happens, all became important persons in their own countries. Balcerowicz was the Minister of Finance [Poland], Vaclav Klaus is still going strong [in the Czech Republic, as of 1996], the Russians have all been minister and prime ministers and dep-

alliance with separatist and nationalist movements, to plot the overthrow” of the Soviet government. Gorbachov cited “extensive plans, which in some cases have been worked out by foreign centers.” He added, “These democrats are allying with separatists and nationalist groups. They have a common goal, to weaken the Union, and where possible to destroy it.” Gorbachov also said that the opposition around Yeltsin was promoting “chaos, disintegration, and instability, and conducting a most intensive power struggle, which could lead to civil war.”

Here were extremely strong words, and all basically true. However, throughout that spring, Gorbachov never acted to stop it.

Yeltsin was confident that his position was unassailable, and, in a March 9 radio interview, he called for a rebellion against the regime of the U.S.S.R. “Let us declare war on the leadership of the country,” he said. “We’ve wasted many months. It is time to go on the attack. Democracy is in danger.

March will be decisive. Either the democrats will be strangled or they will not only survive but will win this year.”

This interview inaugurated the mass disorder phase of the 1991 destabilization of the Soviet Union, leading to the ruinous nationwide coal strikes of March and April.

Meanwhile, the economic projections were getting bleaker and bleaker. On March 16, Gorbachov admitted that 1991 oil production would end up between “500 million tons and 528 million tons,” down from 589 million tons in 1989. More important, he added that oil exports, the U.S.S.R.’s main source for foreign exchange, would drop from 125 million tons, to a mere 60 million tons.

How critical and strategic the oil situation was, was shown by the fact that, on March 18, West German Foreign Minister Hans-Dietrich Genscher said in Moscow that Germany was ready to help the U.S.S.R. rebuild and modernize its oil and gas production. Then, Japanese Prime Minister Toshiki Kaifu visited Moscow on March 25-26, for talks on extending Japa-

uty prime ministers. . . . So that made life quite interesting. We had all this contact before they took over.”

Lord Harris co-founded the Moscow-based International Center for Research into Economic Transformation (ICRET), in 1990. It began to work closely with the (Russian) Institute for the Economy in Transition, launched under the auspices of Academician Abel Aganbegyan and subsequently headed by Gaidar and Vladimir Mau.

As the Soviet bloc splintered under the political pressures generated by its economic crisis, the Mont Pelerin Society-groomed economists seized an opportunity to push a radical break in policy. Their first ideological substantiation was the notorious 500 Days Plan for a leap to the “free market,” drafted in 1990 under the direction of Academician Stanislav Shatalin, a dabbler in astrology, by young economists like Grigori Yavlinsky and the intense student of Thatcherism, Boris Fyodorov. Soros assisted this project, paying the way of Yavlinsky, Fyodorov, and four other members of the Shatalin group, to attend the September 1990 International Monetary Fund (IMF) conference in Washington.

At the end of 1991, the Russian institute of Gaidar and Mau nearly folded, because most of its staff entered the government. Yeltsin chose Gaidar as the first Prime Minister of independent Russia.

### **How the London-Moscow interaction worked**

Mau has recounted how the London-Moscow interaction worked: “An exchange of ideas, not restricted with personal censorship. . . . They met in Budapest, in western Europe, mostly in Britain, more in advanced eastern Euro-

pean, central European countries, in St. Petersburg. There were seminars with an exchange of ideas. The most part of our government of 1992, met at these seminars. All of us knew each other. And probably we did meet there for the first time. . . . Ljubo [Sirc] was doing very important—sometimes I think he didn’t even understand what he was doing. It was impossible to understand at that time. . . . Since my institute contributed the most to the government, when it was formed in November 1991, because a good part of the government was from the institute, the institute was almost exhausted when the government was formed.”

From the Mont Pelerin-trained group, Gaidar became Prime Minister; Mau was his assistant for economic policy; Andrei Nechayev was minister of economics; Leonid Grigoryev (later at the World Bank) was chairman of the Committee on Foreign Investment; 500 Days Plan co-author V. Mashchits headed the committee for economic relations with Community of Independent States countries; Pyotr Aven was minister of foreign trade; Sergei Vasilyev was head of the government’s Center for Economic Reforms. Konstantin Kagalovsky, the first executive director of Lord Harris’s ICRET, was assigned by the Russian government to handle its negotiations with the IMF! Above all of them, Anatoli Chubais spread his wings as privatization czar—officially, as chairman of the State Committee for the Management of State Property.

(The story of how the Russian reforms were patronized by the London Thatcherites and the Bush-era International Republican Institute (IRI), was told by Roman Bessonov in Parts 1 and 2 of his series, “IRI’s Friends in Russia: The Anti-Utopia in Power,” *EIR*, Sept. 6 and Oct. 4, 1996.)

—Rachel Douglas

nese aid and credits, to open up new Soviet oil and gas fields in Siberia and Sakhalin. But right before Kaifu left for Moscow, President Bush requested, on sudden notice, a meeting with him on April 4 in Los Angeles. Nothing came of these German and Japanese initiatives.

Inside the U.S.S.R., especially in Russia, the domestic crisis was intensifying. Through the coal miners' strike, the Yeltsin forces scored their first successful mini-coup. The strikes, hitting Russia and Ukraine, went on throughout March and most of April, causing enormous economic damage. The inability of the Pavlov government to implement an economic recovery program led to an added problem. During the first quarter of 1991, the perennial shortage of most goods in shops became even worse. Popular savings and holdings of ruble cash ballooned, but there was little to buy. The government then decided to adopt across-the-board price increases, averaging some 55% for food and consumer goods, which took effect on April 2. This was demagogically exploited by the Yeltsin camp in their next manipulations of the "masses" against the Pavlov regime.

The strikes caused the loss of 1,169,000 working days in March, and a higher toll in April. The nearly two-month coal strike and related strikes resulted, for the first time, in the Soviet regime giving in to the idea, backed by the Yeltsin camp, of a rapid transition to a market economy. This was seen, at the height of the coal strike, in an "anti-crisis program" submitted by Gorbachov on April 9. Here, for the first time, the U.S.S.R. President promised to reach a "full market pricing system" by Oct. 1, 1992. Gorbachov also agreed to end the monopoly of state trade organizations, and thus decentralize foreign trade, and begin the privatization of "loss-making enterprises."

The public evidence of a Gorbachov "turn" toward capitulation to the Yeltsin camp, and thus to the IMF, caused a rapid radicalization of the opposition to that policy. For example, the Communist Party "Soyuz" group convened on April 20-21, and called on Gorbachov to institute a six-month state of emergency. Gorbachov refused, and from that time on, the dynamic was to lead to the failed coup of Aug. 19.

However, this anti-IMF opposition was always too slow to respond to the fast-changing situation. An example was the April 23 agreement to have the nine republics sign a new Union Treaty in August, brokered by Yeltsin and Gorbachov. The agreement ended the strike wave, and thus lessened the planned impact of the ban just on strikes ordered by Prime Minister Pavlov.

The agreement endorsed Pavlov's proposal to create a "special regime" to run most of the vital sectors of the economy: transport, communications, energy, metallurgy, basic goods production and distribution, and so on. It all sounded good on paper, but never amounted to anything. Its only effect was to stall any effective consolidation of the political forces around Pavlov, by lulling them to sleep for a while.

The agreement signified that the U.S.S.R. had entered a

short-lived "Gorbachov-Yeltsin duumvirate." Its main beneficiary was clearly Yeltsin, and therefore the IMF forces. Yeltsin's prestige had been raised to an all-time high, right on the eve of the Russian Federation elections, scheduled for June 12. A Yeltsin landslide victory allowed him to consolidate his position in Russia, and launch a coup against the Pavlov government.

London and the Bush administration were out to "get" Pavlov and his circle, as shown by the response to a feeler Pavlov put out on May 9, to the London *Financial Times*, calling for the West to abandon its "wait and see" attitude, and extend large-scale economic aid to the Soviet Union. Pavlov said that Gorbachov was ready to come, "if invited," to the July London G-7 summit and present a Soviet aid request. But, all of Pavlov's appeals fell on deaf ears.

Throughout May, the Bush administration insisted that the U.S.S.R. had to accept a "Polish model," with IMF-imposed austerity. Gorbachov issued a statement that month, which may have sealed his fate, in the sense that the Bush-London camp could no longer be 100% certain of using him as an asset. He said: "Let us not force models on each other and not dictate to each other." Gorbachov, in Oslo on June 4-5, repeated his rejection of conditions. He said that Moscow would not accept financial aid tied to stringent conditions mandating Soviet economic policy changes. "It is also futile and dangerous to set conditions," he added.

Similarly, in the ongoing Russian Federation Presidential election campaign, a leading anti-Yeltsin candidate, former Prime Minister Nikolai Ryzhkov, was giving a resounding "nyet" to IMF shock therapy. Yeltsin himself was totally silent on the issue.

### **Final stages of the breakdown crisis**

On June 10, Prime Minister Pavlov declared that the Soviet Union had "two to three months" to prevent the real economy from declining to the point at which it "will pass out of anyone's control." Industrial production had fallen by 5% in the first quarter of 1991, compared to the first quarter of 1990. Though the rate for the first five months had settled to a 3% decline, the fall in industrial investments was 16% below the 1990 level.

Pavlov warned that time was running out: "We have kept ourselves above water, with great difficulty, mainly by having slashed imports by 45%," a move required because of the fall in exports and the huge credit crunch and debt repayment load. He said that there had been "too few foreign credits" even to merely finance badly needed foreign imports. In the first five months of 1991, exports of oil and natural gas fell by 49%, and similar drops occurred in exports of timber and non-ferrous metals.

In a speech to the U.S.S.R. Supreme Soviet on June 17, Pavlov tore into the Harvard economists and their recipes for shock therapy: "I know certain gentleman at Harvard. They do not know our life, or our views on life." On June 18, KGB

head Kryuchkov, on Leningrad TV, denounced the “ultimata” being handed down as conditions for receiving economic aid. Pavlov’s position, however, was gravely weakened by the fact that Gorbachov was not backing his anti-IMF efforts. This was reflected during June in the eruption of an open clash between Gorbachov and Pavlov.

In July, Pavlov came out with a plan for emergency rule over the economy till the end of the year. It was duly approved by the U.S.S.R. Parliament and the Parliaments of Russia and Ukraine. However, it never had time to get off the ground. As for Gorbachov, he went off to huddle with George Bush in Kiev on July 7, a preview to their Moscow meeting of July 30-31.

### **The Yeltsin counter-coup and IMF victory**

The summitry between Bush and Gorbachov, after Gorbachov was awarded the Nobel Peace Prize in the first week of June, reinforced Gorbachov’s false sense of security. He made the tactical error of breaking with the policy of “his” government team under Prime Minister Pavlov, paying lip service to their attempts to launch some form of production-based economic recovery, while in reality, the cabinet issued meaningless “orders,” and little or nothing happened.

During these final months leading up to the Aug. 19 coup and then the counter-coup, the breakdown crisis intensified. Many people, out of ignorance and desperation, argued that a rapidly implemented “free market” was the solution. Equally incorrect, was the nearly universal sense that “things could not get worse.”

But they could, and did. Today, in retrospect, after having witnessed years of IMF shock therapy, the figures for 1991 are perhaps not so terrible. But from the standpoint of Soviet leaders and the population, what happened in 1991 was a disaster. Industrial production in 1991 fell by 8%, and GDP fell by 17% in real terms. Of 237 state-financed construction sites scheduled for completion in 1991, only 3 were finished during the course of the year.

The CMEA fell apart during that year, as Soviet imports from CMEA members fell 63% compared to 1990, and Soviet exports to CMEA members fell 57%.

There was no possibility for a real improvement solely through mobilization of Soviet domestic resources, because the disinvestment process had gone too far. This problem was worsening throughout 1990 and 1991, because of the halt in non-food Western imports, in order to save foreign exchange and prevent a default on the nation’s foreign debt. In 1991, total Soviet imports from non-CMEA countries fell by 32%. This meant, for the most part, that the critical flow of Western machinery and equipment into the U.S.S.R. had stopped.

The U.S.S.R. needed an international recovery effort of Marshall Plan dimensions, linked to dirigist domestic economic policies. The Pavlov government realized that real international assistance was indispensable, and, as shown above, made repeated public appeals to this effect. These

proposals were last repeated in the public domain in a June 27, 1991 *Der Spiegel* interview by Soviet Vice President Gennadi Yanayev. He stated that the Soviet government had given proposals to the G-7 for Western investment in infrastructure, especially transportation and energy, and agriculture infrastructure. Because of the lack of adequate agriculture infrastructure, he said, “we lose up to 40% of each harvest,” and “our roads and railroads are dilapidated.”

The G-7 summit was held July, in London, and the Soviets’ final pleas for aid were received with ice cold silence by Bush and British Prime Minister John Major.

In this setting, Soviet dependency on the IMF vultures reached a peak. The U.S.S.R. was confronted with a mountain of \$12 billion foreign debt due, from September till the end of the year. “Accept the shock therapy program, and the debt will be rolled over, no default will occur,” was the siren song of the international financial institutions.

In August, real power shifted to Yeltsin. This did not mean, yet, that the U.S.S.R., or its successor states, would inevitably adopt shock therapy. However, the Bush administration and London were confident that the continued withholding of credit would crack any remaining resistance.

Bush, in the last week of August, declared several times that there would be no aid to the U.S.S.R., unless “radical free market reforms” were adopted. Secretary of State James Baker said on U.S. TV on Aug. 25, following the Yeltsin coup of Aug. 19: “We have seen democracy take over in the Soviet Union this week. Hopefully, free market reform will take over. We shouldn’t make the same mistake we did in the 1970s [in Poland], where we poured a lot of money down a rat hole. What is needed is a concrete specific program and plan that everyone signs on to before there can be meaningful Western investment.”

Following the Yeltsin coup, the newly created Thatcher Foundation opened an office in Moscow, and the monetarist Adam Smith Institute began establishing contacts with the Yeltsin circle, and the already independent Baltic republics. The blackmail message was reinforced in visits to Moscow on Sept. 6 by British Prime Minister Major, and on Sept. 10 by Secretary Baker.

One must recall that not all of those who had followed Yeltsin that August were committed to following the IMF. As with the Gorbachov regime, the center of anti-IMF resistance was in the cabinet, under Russia’s new Prime Minister, Ivan Silayev. Silayev had come from the defense industry, was Deputy Minister of the Aircraft Industry, and in 1985-90, was a Deputy Prime Minister. Up to June 1990, he had been head of the Soviet-West German and Soviet-East German Joint Economic Commissions. Silayev had become Russian Federation Prime Minister in June, and was kept on by Yeltsin after the August coup.

On Aug. 30, a week before Major came to Moscow, he and Bush huddled together in Kennebunkport, Maine, and both declared that “radical reform” in Russia must precede

any aid. Bush stated that he was not sure that Yeltsin was willing to go far enough in imposing austerity on Russia, and, echoing the IMF itself, he declared: "Mass unemployment and social dislocation necessarily have to accompany radical reforms."

On Sept. 3, Silayev said that a "shock therapy approach," to bring the republics of the former Soviet Union into the market economy, was "out of the question." He called for barter among the republics, to prevent the breakdown of trade as had happened within the CMEA in 1991, when barter trade was abolished. Silayev, to rectify that error, also called for the reimposition of barter within the CMEA. This was followed by a joint appeal to Europe, issued by Yeltsin and Silayev, for a Marshall Plan to develop Russia and the other republics, so they could join the new Europe. The appeal was presented by Russian Foreign Minister Andrei Kozyrev, at the Friedrich Ebert Foundation in Bonn on Sept. 6: "We need an integrated plan for all of Russia, a reform plan with the participation of Western countries. We need a program, almost like a Marshall Plan, for the sovereign republics." Kozyrev's sincerity is highly doubtful, given his later performances, but his speech did reflect that, at that time, there were anti-IMF forces in the broad "Yeltsin" camp.

One example was Yeltsin's Vice President, Gen. Maj. Aleksandr Rutskoy, who was ultimately to fall from power as a victim of Yeltsin's second coup, in October 1993. On Sept. 19, 1991, for example, Rutskoy gave a speech, saying, "It is in the defense sector where the economic miracle will take place."

By October 1991, it was clear that Yeltsin was plotting to get rid of Silayev when the time was ripe. On Oct. 10, Yeltsin accused Silayev of favoring "Moscow Center" interests over those of Russia. A day before, Rutskoy had decried "the complete absence of power in Russia. Laws are passed, but nobody observes them."

The breakdown was proceeding apace, that was true. On top of everything else, the extent of the 1991 harvest disaster was now known. Total U.S.S.R. harvested grain was at 154.7 million tons, compared to 211 million tons the year before. The decline of production was worsening—11% during the fourth quarter.

In this setting, the IMF held its annual fall meeting in Bangkok, and voted to withhold effective aid for any former Soviet republics, unless rigid conditions were met. The IMF declared that it would stick to enforcing repayment of the entire old Soviet debt, and insisted that U.S.S.R. republics had to eliminate all subsidies for industry and agriculture, and make deep cuts in the defense budget.

Yeltsin exploited the economic crisis and political anarchy, to impose himself as the "strongman" to bring back order. He called an emergency session of the Russian Parliament on Oct. 28, and used the occasion to declare a state of emergency. He proclaimed himself both President and Prime Minister, thus removing Silayev and paving the way for Yegor Gaidar to become Prime Minister.

Before that, on Oct. 17, Yeltsin had lifted price controls, accompanied by so-called "social indexing." These measures were to give Russians the first taste of what was to come, under Gaidar's total price liberalization the following January. As a result of Yeltsin's move, inflation reached an annual rate of 140%, with the great bulk of that huge inflation occurring in the last two months of the year. The Yeltsin decrees on prices further aggravated the horrendous shortages, because everyone, now anticipating skyrocketing inflation, went on a hoarding spree.

On Oct. 17, Yeltsin spoke of the need for a "rapid transition to a market economy." In early November, panic-buying elicited an official government promise that no further price liberalizations would occur that year (the next price rise occurred exactly 48 hours into the New Year). In November and December, food rationing was imposed in many parts of Russia.

During this period, a person who had hitherto been an unknown, began to move into the limelight: Yegor Gaidar, named by Yeltsin that autumn as economics super-minister. His first unilateral declaration, that nearly all price controls would be lifted on Dec. 16, created havoc. Food was still available in private markets, albeit at higher prices, but with Gaidar's declaration, even the private markets stopped selling food, anticipating an enormous price increase after Dec. 16. Vice President Rutskoy called Gaidar and his circle of shock therapy promoters, "young boys in pink shorts, red shirts, and yellow boots," and furiously demanded Gaidar's ouster. Yeltsin refused.

On Dec. 8, in the midst of all this, the Union of Soviet Socialist Republics was officially buried at a summit meeting in the Belarus capital of Minsk; Russia, Ukraine, and Belarus created a new entity, the Commonwealth of Independent States (CIS).

With Yeltsin solidly lined up behind Gaidar, resistance to the IMF cracked in due course. Shortly before Christmas, Gaidar declared that the military budget and military-industrial budget would be cut "to the bare minimum." He openly admitted that he was doing this on behalf of the IMF: "Defense spending we plan to cut to the minimum. . . . If we manage to hang on and adhere to tough budget guidelines, then by April, we should be able to mobilize a hard currency stabilization fund [from the IMF] based on cooperation with international financial organizations." There were screams, including from Vice President Rutskoy, but, nothing happened.

In the meantime, the Gaidar group had been joined by a swarm of Western radical free market advisers, including Harvard's Prof. Jeffrey Sachs, Anders Åslund of the Stockholm School of Economics, and London School of Economics Professor Layard.

So, with that, and the assurance that once the Gaidar program was launched, the foreign debt would be rescheduled, the real insanity commenced. On Jan. 2, 1992, came Gaidar's total price liberalization, and Russia officially entered the shock-therapy era.