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The Role of the United States behind the Change of Regime in the Soviet Union

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CERTIFICATE OF RESEARCH

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Introduction

"Communism with a human face is like a baked snowball."
(Leszek Kołakowski) [1]

The demise of the Soviet Union marks the end of the 20th century. On December 25, 1991, the Soviet Union ceased to exist as an international law subject and as a geopolitical entity. By openly announcing the dissolution of the Soviet Union, the General Secretary of the Communist Party of the Soviet Union (CPSU) ended the ultimate competition of two adversary superpowers of the bipolar world. This announcement had serious consequences worldwide, thus, it inevitably forced the United States of America to face new challenges in international politics (Sz. Bíró 48).

The thesis focuses on the role of the United States in the Soviet economic regime change along with its macroeconomic correlations of the newly independent Russian state. Due to the complexity of the topic, the thesis expands its analyses into the second half of the 1990s in order to see certain economic and systemic tendencies of Russian macroeconomic stabilization. In the thesis, I take into account political, economic and foreign policy agendas of the U.S. mainly embracing the period of the Bush and Clinton administrations. I firmly believe, based on my research, that these administrations had a significant role in helping post-Soviet Russia in its economic transition to a free market economy (McFaul 11).

I am convinced that the United States of America played an important and crucial role in the procedures of the economic change of regime in the Soviet Union and in the newly born Russia. However, I must strongly emphasize that I expand the frame of reference of the U.S. throughout the thesis based on numerous factors. When I use the term U.S., I explicitly refer to the United States of America, its government and administration; the West in general; the Western world (academia, economic sphere and

[1] Quoted in Åslund 1.

its multilateral institutions) and the Western culture involving the Unites States of America as the global leader. I feel encouraged to expand the frame of reference in the thesis because the U.S. unified the West in the Cold War, projected its political and cultural values with its economic model after WWII influencing the entire world to adopt similar norms in order to create better lives for its citizens. Toward the end of the Cold War, it was blatantly obvious that there was no other country that could represent these Western norms and values more effectively than the U.S.

The most important factor that the U.S. adamantly emphasized was economic transition from planned economy to market economy based on the economic principles of the Washington Consensus. It was Boris Yeltsin who succeeded in showing the democratic legitimacy to adopt pro-market economic policies that fundamentally changed post-Soviet Russia. Yeltsin's young technocrat politicians, e.g., Yegor Gaidar, were advised by certain individuals of the Western, mostly American, academia. In addition, the U.S. used the Bretton Woods institutional framework to find methods to prevent the struggling and free-falling post-Soviet Russian economy from bankruptcy. It was a crucial U.S. national interest to avoid the disintegrating Soviet Union creating global instability, therefore, the U.S. had to guide the transition. American taxpayers could not have afforded directly financing the Russian transition, therefore, the U.S. had a significant role in organizing concerted efforts in the West to help Russian economic restructuring to be successful and thus encourage newly self-determined Russia find its new place in the international arena (Andor 269-270).

The collapse of the Soviet Union had inherent systemic consequences in international relations. Based on an academic paradigm, an international system is established by its actors in order to promote their political and economic interests. However, over a certain period of time, the balance of power of the international system and the interests of actors tend to change due to economic, technological and other types of developments. Changes in international relations could occur due to numerous reasons including the economic performance of a global actor, therefore, economic factors and interests are fundamental elements in international political changes. Throughout the existence of the Soviet Union, its ruling elites continuously projected their political, economic and ideological objectives. However, the collapse of the Union of Soviet Socialist Republics (USSR) came at a time when the Kremlin expected the Soviet economy to overtake global systemic preeminence. In history, no world power had ever collapsed so rapidly without losing a war. The international order collapsed because the Soviet Union ceased to function in its international role. Therefore, the Cold War ended because of inherent systemic reasons without shots being fired between antagonistic alliances of the bipolar world. However, as John Maynard Keynes put it, great historic events in world politics have always occurred due to fundamental economic causes (Brzezisnki 43-44, Gilpin 9-11, 67-68, Keynes 6, Kissinger 366, 763, Mandelbaum 83).

According to James Baker, the former U.S. Secretary of State (1989-1992), "You can only be powerful politically and militarily if you are powerful economically."[2] In other words, even though military power is a sine qua non of a superpower, as we shall see, this power domain is not sufficient to sustain a superpower status. The Soviet Union could not maintain its superpower status because it was not a dynamic economic powerhouse, that is, it was only a one-dimensional international actor who was only competitive militarily with the U.S. and the West in general.[3] Its political, economic power and influence gradually evaporated in the world by the 1980s based on its economic performance. On the contrary, the U.S. was enabled to maintain its superpower

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[2] Baker, James. "Former Secretary of James Baker Talks about the Economy, Iran and more." In: Zakaria, Fareed. "Former Secretary of James Baker Talks about the Economy, Iran and more." *Global Public Square*. Cable News Network. 21 February. 2010. Podcast. Accessed: 04.03.2015., Itunes.

[3] Even though the Soviet Union could not be regarded as a superpower, it still possessed 3.5 million military troops and a formidable arsenal of 11,000 strategic nuclear weapons in 1991 (Oberdorfer 450).

status in international relations because it had competitive advantages in four distinguished domains of global power: militarily, technologically, culturally and economically. The U.S. had a global supremacy in all of these power domains because it was a locomotive for global economic growth and it was capable of exploiting innovative scientific breakthroughs in the fields of military and technological domains as well. These factors enabled the U.S. to emerge as a single global superpower and wash away the Soviet Union and its repressive satellite governments all over the world (Baker, Brzezinski 23-24, 43-44, Ferguson 17, Oberdorfer 450).

The Cold War was not only a contest of ideological theorems how to organize societal structures and what kind of a political establishment serves the citizenry better, but it was a clash of two economic paradigms as well. The fall of the Berlin Wall in November 1989 and the collapse of the Soviet Union in 1991 brought an end to the bipolar world. Thereby, Soviet planned economic structures caused severe economic disarray and were compelled to lose legitimacy. Today, it is widely accepted through experience that democracy is better than dictatorship and entrepreneurship is superior to public enterprises. After a long Cold War struggle, market mechanisms turned out to be more efficient and productive than planned economic structures. Consequently, one of the most important challenges of the U.S. after the demise of the Soviet Union was to provide assistance to post-Soviet Russia in its transition to free market capitalism (Andor 5, Åslund 7, Ikenberry 215, Kagan 121, Mandelbaum 9, 41, Ripp 5).

The character of the international system changed radically but the Bretton Woods institutional framework played an important role throughout the Russian transition. American establishments could rely on the Bretton Woods system because it was created and has been dominated by the U.S. ever since. In my opinion, the U.S. was able to win the Cold War because it had constructed an international security institutional framework that enabled global economic stability and prosperity; moreover, it ensured international economic growth as well. This systemic infrastructure stabilized the position of the U.S. as a strong economic superpower with global influence and leverage. However, the disappearance of the Soviet Union in 1991 marks the beginning of U.S. global supremacy. In the new international system, the United States had to identify its new role, which came into being with creating a New World Order by George H. W. Bush. As the sole superpower, it became an American responsibility to lead the world and impede the post-Soviet era to fall back into chaos. U.S. administrations recognized the geopolitical importance of the Russian transition to market economy and, therefore, they put great emphasis on supporting and helping post-Soviet Russia to conduct one of the most complex systemic transitions in world history (Békés 13, Brzezinski 48, Cameron 16, Heywood 459-473, Oberdorfer 449, Russell 35).

Throughout my research, I predominantly used books and studies of the international academic community available in Hungarian libraries in English. However, due to the limited access to specific materials in English concerning my thesis topic, I was exposed to rely on the works of the Hungarian academic community as well. At some points of my thesis, I used designated works of several Hungarian academics who had formerly published sociopolitical and economic analyses on the consequences of disintegration of the Soviet Union. More importantly, some studies of foreign authors written in English were only available in Hungarian. However, these sorts of phenomena did not discourage me from composing a well-researched thesis.

The thesis follows a chronological order. In the first chapter, I analyze the reasons of the failure of the Soviet traditional economic system. In the second part, I highlight the role of the United States in the Soviet economic transition, therefore, I elaborate on the academic, historic and institutional background of the Russian economic transition. In the third chapter, I intend to present the political landscape for the Russian economic transition. Subchapters help us to understand the significance of the Russian economic transition. I shortly present how Russia coped with macroeconomic stabilization, liberalization and privatization. In the fourth chapter, I examine the scope of international financial institutions in providing multilateral international aid for Russia throughout the transition process. In the last chapter, I unveil U.S. bilateral assistance to Russia under President Bush and President Clinton. In the conclusion, I summarize my findings regarding my thesis, support my thesis statement and argue for my hypothesis based on my meticulous research on the topic.

1. The Traditional Soviet Economic System

"How do you reform something that isn't?"
(Alexander Ivanov)[4]

1.1. The Failure of the Traditional Soviet Economic System

The disintegration of the Soviet Union was mostly precipitated by its deteriorating economic performance by the 1970s. The Soviet planned economy managed to tackle challenges for decades. It did not only offer full-scale employment, but based on Stalin's objective, the Soviet Union would catch up with and surpass the level of the leading capitalist countries after forced industrialization and collectivization in the agricultural and economic sectors.[5] This eastern type of modernization anchored in the Soviet economic sphere. However, it undoubtedly lagged behind in economic accomplishments, efficiency and technological innovations in comparison to the more innovative Western economies (Kaser 160, Heyne, Boettke and Prychitko 330-332, Kornai 83).

The old system that enforced total state intervention in the economy, dating from the first 5-year plan issued by Stalin in 1929, dismantled every aspect of a market economic structure that had been viable in the Soviet Union.[6] 1921 marks the beginning of a new Soviet economic policy, the period of the New Economic Policy (NEP), which was introduced after the 10th Party Congress of the CPSU. The Communist Party believed that relaunching a market-based economic structure could compensate the

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[4] Quoted in Matlock 399.

[5] Khruschev's famous visionary political announcement included that the Soviet Union was to reach and surpass Western economic achievements by the 1970s (Przeworski 2).

[6] The Soviet communist economic regime comprised of five distinguished features that were ultimately antagonistic to market economic principles. First, the Soviet socio-economic structure was based on a hierarchic structure with one-sided vertical dependence: functions of politics and the economy were not separated. Second, the allocation of financial resources in the Soviet system was exclusively exposed to bureaucratic bargains and to impromptu political decisions as well. Third, the Soviet economy was a closed economy. It was functionally excluded from external factors (international markets, global production tendencies and global demands and supplies too). Fourth, prices and money had a passive role. They were manipulated and subordinated to bureaucratic decision-making. Last, bureaucratic coordination was predominant and oppressed any market-driven incentives (Csaba 356-362, Dyker 11-14).

detrimental effects of War Communism and could be the only economic policy option for the Soviet Union to survive economically as a new state in international politics (Csaba 366-369, Heller and Nyekrics 211-220).

Lacking necessary investment capital, Lenin opened up windows of market opportunities for international investors and concessions. Thus, profit-orientation overrode political ideology in the Soviet Union in order to maximize national income through taxation. Amongst these international concessions, one could find the American Barnsdall Corporation which attracted further foreign companies, e.g., British Petroleum and Standard Oil of New York, to participate in reconstructing Soviet oil production and refineries with their technical assistance. These international companies invested most effectively in Caucasian petrochemical industrial sites, however, NEP ended with the rise of Stalin. All concessions were terminated, Soviet companies furnished with foreign capital were renationalized and foreign investors were ousted by the new regime. Instead of welcoming foreign investments, the Soviet Union turned inward and Stalin gradually adopted a command economic structure that pervaded the entire Soviet economy from 1929 onward (Font et al. 489-491, 502-506, Goldman 26).

While the Western world struggled in different ways to cope with the economic depression in the 1930s, the Soviet Union successfully tackled this dismal economic period. Since the Soviet state uprooted all signs of a market-based economy, the Soviet Union remained untouched by the Great Depression. The structure of the planned economy with its numerous five-year plans managed to appear as a successful alternative economic system, however, the traditional communist economic system came to a decisive point in the 1970s. Even though the Soviet command economic structure functioned appropriately in theory, the Soviet economic performance had already been signaling the inefficacy of the system. Based upon the directives of political leaders of the CPSU, Soviet economic experts and the vast Soviet bureaucracy were obliged to overrule setbacks through administering false statistics. Thus they forged Soviet economic accomplishment and sustained economic growth on papers. Extensive manipulation of economic results was a determining factor in concealing the general truth behind the Soviet Union and its state of the economy (Brown 226, Heyne, Boettke and Prychitko 330-332).

The Arab-Israeli conflict in 1973 resulted in the first oil shock of the world, which, in hindsight, has an ambiguous interpretation in relation with the Soviet Union. Even though the Western countries had to face increased oil prices, monetary crises and the restructuring of their financial system, the Soviet Union appeared as the ultimate winner of the crisis: it managed to increase its national income through its oil and gas exports.[7] However, disregarding the impact of rising oil prices on the Soviet Union, the early 1970s marked the tacit recognition of Soviet stagnation and its gradual shift to economic decline. On the one hand, the income of enormous hydrocarbon exports could only help maintain the status quo of the dismal Soviet economy and finance the extraordinary Soviet military expenditure. On the other hand, it did not contribute to finance other Soviet expenses dating from well-before the first signs of the economic stagnation. Moreover, the USSR was able to avoid the total collapse of industrial output by financing technology imports from the West based on Soviet oil export revenues (Font et al. 598-599, Kaser 160).

The mismanagement of the economy showed signs of inefficacy as well. Even though the output of the Soviet industrial sector satisfied set-out production numbers, they all lagged behind qualitatively and were uncompetitive in every aspect in

[7] The petrochemical output of the Soviet Union increased at an annual rate of 5-6 percent in the first half of the 1970s. Based on the fact that the price of crude oil tripled (from $17.00/barrel to $53.94/barrel) in consequence of the Yom-Kippur War in 1973, the Soviet Union managed to abundantly increase its national income. (Oil prices are indicated in the 2012 value of USD) (Goldman 11, *BP Statistical Review of World Energy Workbook June 2013*).

international comparison.[8] For example, by the 1980s, even though the U.S. harvested one and a half times more grain than the USSR, Moscow produced six times more tractors and sixteen times more combine harvesters than the U.S.[9] Unfortunately, all of these products were of low quality. In agriculture, the USSR, which embraced considerably huge fertile territories for designated agricultural activities, was unable to satisfy the basic needs of its society. Therefore, it was exposed to further increase its agricultural imports from abroad. In 1981, up to 41.4 percent of the Soviet agricultural production had to be covered by imports.[10] These details show us that the efficiency, the quantitative and qualitative measures of the Soviet economy overshadowed the future prospects of the Soviet superpower (Sz. Bíró 12, Muravchik 330-331).

The Soviet oil sector was the most important industrial sector in the USSR. Due to the sudden substantial increase of oil prices in the world market in 1973-1974, the Soviet Union was capable of meeting its financial targets. The oil industry was not only the most crucial factor in the Soviet budget but it was highly dependent on international market volatility. This quintessential condition was taken into consideration by William Casey, the new head of the Central Intelligence Agency (CIA) appointed by President Reagan in 1981. His strategic thought focused on crippling the Soviet energy sector through oil price manipulation on the world market. Based on presidential authorization, Casey was encouraged to work with Saudi Arabia to make crude oil price plummet on the market. The sudden fall of crude oil price could have inevitably resulted in dropping

[8] The only economic incentive for the Soviet socio-economic sphere was based on the quantitative objectives of any given five-year plan. Quality, and even high-quality, production was basically out of the question in the Soviet system because there was no personal incentive to improve the quality of Soviet output. Thus, the emphasis was on quantitative measures that excluded quality-driven production. Salary of any Soviet manager hinged on meeting quantitative objectives in production but neither on enhancing qualitative developments, nor using innovative technological advancements (Goldman 40-41).

[9] Due to malfunctioning Soviet agricultural production and management, the Soviet Union had to begin importing grain from the West from 1963. By 1982, imports of agricultural products into the Soviet Union reached $21 billion a year (Kaser 162, Gaidar 185).

[10] Despite the fact that the Soviet Union had cultivated 230 million hectares on its territory; the USSR was a net importer of food products resulting in approximately $20 billion per year (IMF et al. 37-39).

incomes regarding Soviet oil petrochemical exports, and ultimately, in default on financing Soviet systemic expenditures and meeting external debt obligations. Saudi officials turned out to be partners in this world price rigging project because they financially supported Mujahedeen guerrilla forces fighting against the Soviet Union in Afghanistan. By curtailing Soviet hard currency oil export earnings, the overarching Soviet Union would have been unable either to support Marxist governments in the international arena, or to sustain a domestic macroeconomic stability. A possible increase in Saudi oil production and Saudi oil exports would have created an unbounded oil supply in which case, world oil prices would have plunged. As a matter of fact, due to the new Saudi oil production policy, oil production increased by 44.6 percent in Saudi Arabia from 3,601 thousand barrels a day in 1985 to 5,208 thousand barrels a day in 1986. Showering massive Saudi oil exports upon the world oil market triggered a significant drop in crude oil prices on the global market. The price of oil dropped from $58.81 in 1985 to $30.23 in 1986. According to Gaidar, the Soviet Treasury lost approximately $20 billion per year, an amount which undermined the pure existence of the Soviet Union (Goldman 49-56, *BP Statistical Review of World Energy* 7-9, *BP Statistical Review of World Energy Workbook June 2013*, Gaidar 4-6).

We can see that exogenous market factors in the global economy could have massive negative attributes regarding the Soviet public revenue. The endogenous factors, along with the monoarchic command economic structure, were capable of veiling the truth behind the Soviet economic performance, however, as the global oil market of the 1970s and 1980s shows us, the faltering Soviet economy was unable to defy either global economic output, or global market trends. Unfortunately, one of the main questions of the Soviet change of regime was how to dismantle bureaucratic coordination in the Soviet economy. To do so, Russians had to establish a genuine market economy in

Russia where market mechanisms coordinate human actions and prevail on a regular basis; furthermore, economic actors are independent from the state and act freely without any state commands. In addition, they had to establish a market economic environment as well where private ownership of enterprises dominate, private property rights are safe, product prices and trade are predominantly free, state subsidies are limited and, more importantly, all market transactions are monetized (Kornai 50, Åslund 3).

As we can see, by the 1980s, the Soviet system found itself in an inextricable economic constellation. The Soviet state revenue started to decline, and concurrently, the Western world set off its technological revolution while undermining the Soviet Union ideologically, militarily and economically at the same time. An outdated Soviet socioeconomic system could not keep up with the United States in the bipolar world. Soviet intrinsic political crises cleared the way for a new General Secretary who offered a political solution for the highly inefficient Soviet economy, which had been under siege by its ideological opponent, the United States (Mendras 40-41).

1.2. Gorbachev's Political Thought: Perestroika and Glasnost

"The most critical moment for bad governments is the one which witnesses their first steps toward reform."
(Alexis de Tocqueville)[11]

In the 27th Communist Party Congress of the CPSU, Gorbachev openly admitted that the Soviet Union had lost its economic dynamism, however, in March 1985, he was elected as General Secretary of the CPSU inheriting massive systemic economic problems. Gorbachev was a relatively young Soviet politician who represented a new generation in the CPSU leadership because gerontocracy had been a decisive factor in the Soviet political sphere.[12] Having been socialized and raised in a different age than his

[11] Quoted in Tocqueville 205.
[12] After Leonid Brezhnev, the Soviet General Secretary position was filled by Yuriy Andropov who was followed by the elderly and ineffectual Konstantin Chernenko. Chernenko was known to be a real

predecessors, he immediately addressed pervasive Soviet problems. He set a new socioeconomic agenda by launching Perestroika along with initiating Glasnost in the USSR (Medvegyev 227-228, Mendras 48-52).

Gorbachev strongly believed in the renewal of the Soviet system through an economic development agenda known as Perestroika. The inherent meaning of this terminology conveyed the message of the importance of restructuring the Soviet economy in order to sustain the global competitiveness of the Soviet Union. Perestroika was the framework of numerous reform policy measures,[13] and was believed to be sufficient to accelerate dismal Soviet economic performance and thus increase the Soviet industrial output (Brown 230-231).

At a time of a changing domestic economic environment, Perestroika was coupled with another reform policy measure: Glasnost. It was initiated by Gorbachev in order to awake, mobilize and integrate Soviet society in Soviet public discourse. The General Secretary believed that a greater deal of openness is needed in the USSR as a tool for

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Brezhnevite hardliner, however, he struggled with a serious illness upon his inaugural. Nonetheless, the Soviet political elite kept him in this paramount leadership position. Based on public rumours in Moscow throughout his tenure, in February 1985, Chernenko became so powerless and impotent physically that he could not meet any high ranking foreign official in person. However, whenever such an occasion could not be avoided, Chernenko was placed behind curtains hiding partly his physical appearance. In order to follow protocols, an additional man was selected to stealthily stick his hand out from the curtains to shake hands while Chernenko was mumbling to the high ranking foreign official (Horn 23).

[13] The first policy step of the Gorbachev era to accelerate the Soviet economy was reestablishing the work morale via tighter management process, less corruption, greater discipline and more sobriety at Soviet workplaces, however, the economic situation got worse and this campaign ceased to function after a couple of months. The Law on Individual Labour Activity, enacted in November 1986, was the first law passed aiming at easing the birth of entrepreuneriual economic activity for craftsmen in the USSR. The Law on Cooperatives, enacted in May 1988, liberalized domestic trade and made it possible for Soviet individuals to set up profit-oriented and self-managing private enterprises in the Soviet Union with remarkably low tax rates. Interestingly, this law facilitated that 13,000 producing private cooperatives and over 300.000 family-owned businesses (e.g., restaurants) could appear in the USSR. The Law on State Enterprises, enacted in January 1988, aimed at marketizing the activities of thousands of huge state enterprises, however, Soviet domestic market did not exist per se. In addition, this law set out the objective to liberalize and abolish central planning in general, however, these enterprises had to meet state orders in terms of production output based on the running Soviet five-year plan. The Anti-Alcohol Campaign, announced in May 1985, set the objective for the Soviet society to cut back on daily alcohol consumption. However, the consumption of alcoholic beverages in Russia, e.g., vodka, has a long-standing culture, therefore, the decision of running an Anti-Alcohol Campaign had a disastrous consequence in Soviet society. State revenue lost 67 billions roubles from 1986 to 1988 at a time when there had been a mounting budget deficit (Åslund 54-56, Gorbachev 225, Matlock 57-58, LaFeber 338).

opening doors for democratization in the Soviet Union. Glasnost thus provided the freedom and opportunity for the public to stand up, speak out and criticize in public for the first time in Soviet and Russian history (Brown 230).

However, it is important to emphasize that Glasnost was not the exact equivalent of freedom of speech, which is a fundamental democratic value in modern Western democracies. Glasnost, unfortunately, does not have a direct and precise English translation. Nevertheless, it literally means "giving voice" or "publicizing fact," which did not necessarily mean freedom of the press or freedom of speech in the Soviet Union. However, it referred to the meaning of transparency, that is, official bodies of the Soviet Union were expected to operate with certain openness. Despite this essential semantic difference, the entire Soviet society was provided with a new method to openly formulate opinion and articulate criticism with no punitive sanctions. These policy agendas sent relative positive signals to the West that could perceive the fact that real changes were under way in the USSR (Matlock 59).

After World War II, the Soviet sphere of interest was characterized by central planning and bureaucratic coordination along with collective ownership in the economy instead of private ownership and free market competitiveness; by one-party anti-democratic system instead of democracy and political pluralism; by the hegemony of Marxism instead of academic pluralism. Gorbachev's Perestroika and Glasnost simultaneously undermined the basic pillars of the traditional system of the USSR.[14] Even though 55 percent of the Soviet population voted for Gorbachev as Man of the Year in 1988, his policy initiatives did not only liberalize the Soviet domestic economy and mobilize the so-far dormant Soviet society but, by definition, they undermined the

[14] Based on the Memoirs of a Hungarian State Official and later Prime Minister, neither Gorbachev himself, nor his apparatus was able to comprehend the depth and breadth of socioeconomic problems of the Soviet Union. They experienced immense problems and political challenges as they started to address problems on the surface. The deeper the apparatus reached, they experienced massive structural anomalies (Horn 168).

viability of the entire Soviet traditional communist system. The ideological erosion and the wide scale social demoralization ultimately weakened the Soviet regime, both in Russia and in other Soviet Republics (Szentes 112, Romsics 10, Matlock 134, Mendras 59, Horn 179).

Gorbachev's Perestroika, imposed on the Soviet system, paved the way for dismantling the overarching Soviet bureaucratic economic structure[15] and ultimately cleared the way for installing market-driven economic settlement in the USSR. In the meantime, the inefficient Soviet economy produced a devastating negative downward spiral in terms of financing Soviet public deficit through using international financial support. The Soviet international indebtedness skyrocketed: it was $20 billion in 1985, however, this formidable amount climbed up to $100 billion by 1990. According to Horn, based on his professional experience as Foreign Minister of Hungary toward the end of the 1980s, a particular CEO of the American banking sector overtly stated at a private meeting that the Soviet Union would pay an extraordinary price for its horrible politics. The USSR would ultimately fall on its own ideological sword and cease to function and exist in the long run (Krausz 132, Dalos 195, Horn 134).

The last period of Perestroika (1989-1991) showed Gorbachev's political constraints that markedly determined the future of the USSR. While he aimed at revitalizing the Soviet economy and attain specific economic goals, he found himself stuck between different economic programs (a conservative, a technocratic and a democratic) devised by diverging nomenclature. The rising political pluralism provided the opportunity for particular factions of the CPSU to spearhead alternative economic

[15] In the Soviet Union, as of 1987, the economic bureaucracy consisted of 38 state committees, 33 union ministries, 28 union-republican ministries, more than 300 regional ministries and authorities each of which had its own bureaucracy. These employed millions of people and managed approximately 1.3 million production units: 43,000 state enterprises, 26,000 construction enterprises, 47,000 farming units, 260,000 service establishments, and more than 1 million retail trade establishments. Based on estimates, in 1987, approximately 16 million people worked in some form of administrative position in Soviet state enterprises. Moreover, more than 3 million people were employed in different top management positions (manager, deputies, accountants etc.) at state enterprises (Gregory 2-3).

programs. As Boris Yeltsin made headway in Soviet politics, and became a decisive political character, establishing a systemic market economy shift became the major policy and the ultimate leitmotif on the political agenda. However, the mounting Soviet economic problems resulted in an intense fall in production, macroeconomic figures of the Soviet superpower desperately called for economic stabilization. Unwittingly, Gorbachev dug the graveyard of the Soviet Union by not providing a comprehensive and straightforward solution for the economy (Åslund 22-23, Kaser 163, Szentes 112).

As we can see, one of the superpowers of the bipolar world found itself in an unsustainable economic state where Gorbachev's restructuring set of policies could not find a viable contingency plan for the USSR. As the last period of Perestroika finished in 1989, it was inevitable that a newly devised economic system needed to be installed in the Soviet Union that changed the entire Soviet economic settlement fundamentally. Based on the fact that the USSR could not effectively tackle its own systemic problems, the antagonistic Soviet enemy of the Cold War, the United States of America, had to take preliminary steps to save the entire world from chaotic explosion. Soviet endogenous systemic failures started to break surface and became international as similar dogmatic Marxist countries experienced systemic problems of the same sort as well. In a relatively short period of time, as we shall see in the forthcoming parts of the thesis, handling the Soviet systemic failure and maintaining global stability became an American interest and the global responsibility of the U.S. (Gregory and Stuart 306, Lewis 43).

2. Economic Transition from Planned Economy to Market Economy

"The mandate of the IMF is for global economic and financial stability."
(Christine Lagarde)[16]

2.1 Driving Economic Force for Soviet Change: Neoliberal Principles[17]

The period of the problematic Soviet economic performance broke surface at a time when the driving systemic economic principle in the Western world was a pure laissez-faire economy. The resuscitation of the free-market economic principle was based on the fact that the expenditures of Western welfare states became unsustainable. Consequently, the role of the state shifted from being the solution for social problems to becoming the problem itself. In the Anglo-Saxon world, politicians realized that minimizing the role of the state is the most economical factor to end domestic fiscal pitfalls and, thus, the economic sector could step in this newly opened market niche. In practical terms, this new economic philosophy created market fundamentalism, which refers to the new theorem that all problems would be addressed by market forces and these forces would assuredly provide solutions as well (Hay 53-60, Andor 120).

The free market economy, also widely known and referred to as neoliberalism, was a key economic organizing factor from the 1970s onward, e.g., under the tenures of Margaret Thatcher and Ronald Reagan. Wide range of domestic systemic changes took place in Western democracies and, in essence, the break-up of the Soviet Union coincided with the overriding principle of the neoliberal economic thought. Globalization and free-market orientation defined the fate of the Soviet economic regime change in case of reintegrating itself into the world economy at full scale (Roy, Denzau and Willett 7-8, Auerbach 28-37, Bird 105-108).

[16] Lagarde, Christine and Amartya Sen. *The Amartya Sen Lecture 2014*. London School of Economics: Public Lectures and Events. 06 June, 2014. Podcast. Accessed: 04.03.2015., Itunes.

[17] The term 'neoliberalism' is a synomym for a globalized free market economy, market fundamentalism or it simply refers to the Washington Consensus in general. I use these phrases interchangeably throughout the thesis.

The collapse of the Soviet Union and its political and economic regime change marks the third wave of transition to democracy in world history. Former changes of regimes of 1970s and 1980s[18] enabled the U.S. academic world to accumulate enough practical experience in advising and managing democratic and economic transitions in the developing world. However, in terms of the pace, magnitude and depth of the transition, the Soviet change of regime was an unparalleled phenomenon that appeared on the international agenda by surprise (Przeworski 1).

Based on the professional experience of the U.S. academic world in advocating democratic transitions abroad, a free-market, laissez-faire economic agenda appeared that was destined to be considered as a blueprint for future economic transitions and development policies worldwide. Thereby, the neoliberal agenda was put in an academic framework that we know today as the Washington Consensus. This intellectual blueprint was developed within the walls of the American academia and the Washington Consensus was advised for implementation to transition countries by Washington-based international financial institutions (IFIs) such as the World Bank, and the International Monetary Fund (IMF). These strategic development policy measures were radical and turned existing social relations upside down. It was offered to all sovereign countries of the declining Communist Bloc by IFIs and Western advisory groups as a single panacea to all systemic failures (Przeworski 7).

The Washington Consensus was devised by John Williamson in 1989 who claimed that the main idea of this consensus covers market economy, openness to the world (globalization) and macroeconomic discipline. It primarily focuses on

[18] Transitions of the 1970s include Southern Europe: Greece, Spain and Portugal; while transitions of the 1980s involve Latin America: Argentina, Brazil and Uruguay. These transitions are often referred to as the third wave of democratization as well. According to Huntington, a wave of democratization is a group of transitions from non-democratic to democratic regimes that occur within a specified period of time and that significantly outnumber transitions in the opposite direction throughout that particular period of time (Przeworski 1, Huntington 15-17).

privatization, liberalization, and macro- and price stability. In a broader sense, it refers to market fundamentalism in case of which the state retreats from those areas where market forces could solve most problems on their own. Based on Latin American experience, Williamson provided a set of policy instruments that were widely accepted for implementation in order to help debtor countries overcome their debt burden via profound systemic changes in their economic policies. Thereby, the so-called Washington Consensus involves a set of economic policy measures that was advised to be adopted by the Soviet Union and the newly-born Russia as well. This policy framework contains fiscal discipline, re-ordering public expenditure priorities, tax reform, liberalizing interest rates, a competitive exchange rate, trade liberalization, privatization, liberalization of inward foreign direct investment, deregulation and property rights.[19] The term Washington Consensus unequivocally referred to a set of policies that commanded a consensus of Washington, the U.S. government in general or IFIs or both in addition to some other interest groups as well. In terms of the application of the Washington Consensus in the USSR, these radical policy measures were instruments to dismantle the archaic Soviet bureaucratic administration and create a laissez-faire market economy open to the globalized world, bash the role of the state and open the path for massive scale of privatization, deregulation and attain macroeconomic stability. We are going to see in the following parts of the thesis that these policy instruments were put in practice by the Yeltsin government after the collapse of the Soviet Union in late 1991. However, first we need to understand the nature of IFIs, but most importantly, the quintessential role of the IMF in general; thus, one could place this

[19] Stanley Fischer, who was a Chief Economist at the World Bank then, approved Williamson's Washington Consensus and made a highly competitive remark of a changing world order. He claimed that based on the fact that the world did not live in a bipolar world anymore, there were no longer two competitive economic development paradigms. According to him, the Washington Consensus aptly defined what developing countires should do to catch up with global economic trends and reorganize their domestic political, social and economic orders (Williamson 18).

Washington-based institution of Bretton Woods appropriately in relation with the Soviet change of regime (Serra, Spiegel and Stiglitz 3-6, Williamson 14-22, Stiglitz 41-42).

It is my firm conviction, and integral part of my thesis, that the most important conceptual framework of the Soviet change of regime was designed by the American academic world; moreover, it was defined by Washington-based IFIs, including most saliently the IMF, in addition to American economic experts. These institutions (IMF, IBRD, and GATT)[20] were established in New Hampshire at the Bretton Woods Conference of July 1944 as specialized agencies of the post-WWII United Nations System (see Appendix, Table 1). These organizations' profile markedly represents international economic liberalism, which explicitly separates the spheres of politics and the economy. According to this economic thought, the main task of the state is to sustain social order and the mission of governmental institutions is to foster free flow of products and put forth the expansion of international economic relations. These institutions were created in order to provide the global economy with the opportunity to conform and develop in the long run (Mingst 265-271, Bennett and Oliver 49, McWilliams and Piotrowski 428, Heywood 460-464).

The main function of the IMF in the globally interdependent world economy has always been providing temporary financial help for member state governments to correct deficits of balance-of-payments and promote international monetary cooperation. After the energy crises of the 1970s, the role of the IMF focused explicitly on financial crisis management as balance-of-payments problems became rampant in the world economy. By 2008, all the 193 member states of the United Nations (UN) joined the IMF. Besides managing deficit restructuring and debt-financing in the international arena, the role of the IMF expanded with the historical moment of socialist transitions to market economy.

[20] IBRD (International Bank for Reconstruction and Development) is commonly known and referred to as the World Bank. GATT (General Agreement on Tariffs and Trade) was replaced by the WTO, the World Trade Organization, in 1995 (Heywood 460).

Since the beginning of the 1980s, the IMF has started to provide long-term loans[21] for joining heavily indebted socialist states[22] as well (Bennett and Oliver 325, McWilliams and Piotrowski 428, Mingst 272, Woods 326-327).

The IMF may appear as the savior of national public debt financing methods, however, using IMF funds have stringent consequences for each and every member state. These funds are provided via contributions of the member states out of which the U.S. is the largest contributor. Based on the decision-making procedures of UN specialized agencies, like the IMF, weighted voting is used which is proportional with the financial contributions of the member states. Thereby, the United States casts 19 percent of the vote in these UN financial agencies and, thus, it remarkably influences the decision-making process. Therefore, all U.S. administration in office is in a privileged position to define what preferences the IMF uses in allocating emergency funds for client countries. Based on this fact, the IMF has always been a political institution for the U.S. government (Bennett and Oliver 92-93, McWilliams and Piotrowski 428, Stiglitz 166).

Moreover, allocating any IMF bailout funds has important binding consequences for client countries. In return for the IMF funds, indebted countries are demanded to meet IMF structural requirements and, thus, introduce severe austerity measures as a basic condition. Should borrower nations become incapable of meeting obligations imposed by the IMF, the IMF steps in the process at some point in order to devise a brand-new financial strategy for the borrowing country to finance its non-performing loans according to IMF lending terms. In case of defying meeting debt obligations, the IMF is capable of withholding further bailout funds, and thus, it undermines the financial

[21] The IMF has purposefully established an Expanded Fund Facility and a Compensatory Finance Facility. These aim at aiding developing countries via significant funds available for longer periods in case of emergency (Bennett and Oliver 325).

[22] In November 1981, still socialist Hungary and Poland applied for IMF and World Bank membership due to having run up huge public debt in general. This decision implied that failing socialist economies would definitely have to face great structural changes in return for possible IMF loans in the long run (Andor 122).

standing of the fiscally imbalanced country. Unfortunately, these circumstances have severe socioeconomic consequences for each nation, however, it seems the only plausible way to sustain the international system of payments, trade and debt obligations in the world economy. Based on stringent economic restructuring policy expectations, developing countries were reluctant to use the IMF before the disintegration of the Soviet empire. However, the fall of the Berlin Wall created an opportunity for the IMF to manage transition from planned economy to market economy in the former Soviet Union and its European satellite states[23] (Bennett and Oliver 325, McWilliams and Piotrowski 428, Stiglitz 14).

The international financial community tacitly found a new role for the IMF: the supreme institution for international debt management while the Soviet Union was disintegrating. This new type of position in financial crisis management was based on the interest of the U.S. as a top international creditor to handle and manage problematic global economic and financial crises. Thereby, the IMF did not only offer its financial help to transition countries but, in return, it expected these countries to follow the lead of the IMF and apply its policy measures if they really intended to keep and hope for financial stability. We can see that whenever the IMF offers its financial aid along with its policy measures to sovereign indebted countries, the decision of selecting the right policy measures, realigning existing systemic policies or financing problems is made by the IMF (Krugman 68, Andor 127-136).

[23] According to Horn, at an evening banquet after a U.N. General Assembly in New York in 1989, he suggested James Baker, U.S. Secretary of the Treasury at the time, that the U.S. and the IMF should reexamine their standpoints concerning the possibility of making different sorts of deals with the declining Soviet Union. Based on the trajectory of concurrent political and economic changes in the Soviet Union and Eastern Europe then, Horn advised Baker to open talks with and make offers to the reform generation in these countries so that these countries could also get integrated into the world economy. Interestingly, Hungary, Poland and post-Soviet Russia became ostentatious showcases of IMF interventions and subjects of American advisory groups regarding economic regime change (Horn 233).

In December 1990, experts of a range of IFIs[24] published an unofficial and non-binding document in which Western economic experts analyzed the state of the entire ailing Soviet economy. Throughout the conduct of this study, for the first time in history, all previously secret economic figures, data and statistics of the State Planning Committee of the Soviet Union (Gosplan) had become available for the IFIs considering the entire economy of the Soviet Union. Interestingly, as it became more and more evident that the Soviet Union had long been in an economic emergency, even Soviet authorities opened doors to the West to seek a way-out from the crisis. Consequently, Western experts provided the Western academic world along with the Soviet intelligentsia with a recommendation[25] regarding what steps should be taken in order to apply a thorough economic regime change in the USSR. The pro-market economic principles and policy advice designated in this analysis, in harmony with the elements of the Washington Consensus, turned out to become the blueprint for the Soviet economic regime change (Krausz 95, IMF et al. 1-3).

The study revealed that even though the West had approved Gorbachev's reform program, the Perestroika measures did not address the underlying systemic problems of the USSR. The study examined every macroeconomic dimension of the Soviet economy ranging from inflation, taxation, subsidies to the analysis of USSR oil production and the foreseeable Soviet unemployment rates as well. However, in terms of macroeconomics, Gorbachev's political campaigns became counterproductive: Soviet fiscal deficit rose from 2.5 percent of the Gross Domestic Product (GDP) in 1985 to more than 8.5 percent of the GDP by 1987, which further increased to 11 percent of the GDP by 1988. Furthermore, the overall Soviet balance of payments deficit ($14 billion) in convertible

[24] These experts of IFIs included the Organization for Economic Cooperation and Development (OECD), the European Bank for Reconstruction and Development (EBRD), the World Bank, and the IMF (IMF et al.).

[25] The title of the document emphasizes its non-coercive aim for the USSR: *The Economy of the USSR. Summary and Recommendations (IMF et al.).*

currencies was financed by a sharp drop in foreign exchange reserves and the accumulation of arrears to foreign suppliers (more than $5 billion). Basically, the Soviet Union had used its accumulated national financial reserves to finance the economic deterioration for a long time. There was no systemic consolidation or any profound restructuring measures in place in the Soviet economy, therefore, the Soviet Union had been experiencing a complete bankruptcy for a long time by the conduct of this study (IMF et al. 3-10).

By considering a few macroeconomic indicators, domestic events in the USSR dismantled the ideologically overdetermined Soviet paradigms. For example, the study estimated that unemployment would rise the following year, therefore, 1 to 6 million people, that is, one to four percent of the Soviet labor force could become unemployed soon. The study also suggested that a systemic change was needed in order to set up a social safety net that could compensate the unemployed throughout the reform procedures. As for foreign trade, a presidential decree enabled even foreign ownership rights. Consequently, the monopoly of the Soviet state was jeopardized and gradually pulled down. The foreign exchange rate was intended to be created by November, 1990 to inspire foreign enterprises to take part in the Soviet economy. The study also suggested that Soviet authorities should set up taxation system for the Soviet economy. According to Western advice, the implication of taxation[26] of national and foreign companies could positively affect the Soviet budget deficit even in the short run.

[26] In their political communication, Soviet politicians often referred to their country as a superior superpower to the U.S. An average Soviet person argued that there was no taxation and no unemployment in the USSR, therefore, the Soviet Union was superior to the capitalist U.S. However, the truth of the matter is that only a few experts knew that there was actually a hidden unemployment and a hidden taxation system in spite of the political rhetoric and the Soviet conventional wisdom that they did not exist at all. Unfortunately, at the time of the economic transition, it became explicitly clear how ineffective the state-run planned economic paradigm was. Soviet state taxes were levied as a turnover tax included as part of a product's retail price, which went unnoticed by any Soviet consumer. The Soviet income tax went unnoticed too. It was deducted from workers' salaries before they received them. State enterprise income tax also went unnoticed as it was withheld by state authorities (Goldman 56-57).

However, it was also underlined that macroeconomic stabilization was the most necessary factor. The IFIs suggested that it was required for the Soviet Union to reduce the budget deficit to sustainable levels in a way that did not imply money creation which would further inflate the Soviet currency. Furthermore, IFI experts underlined the necessity to put an end to the state monopoly of price control because if the Soviet Union wanted to shift to a market economy, then markets would dominate determining product prices. Legal reforms were mentioned as a quintessential foundation of all the basic systemic changes. Fiscal and monetary policies and structural reforms were prioritized along with the recommendations of pricing reforms, taxation, ownership rights, foreign trade reforms and foreign investments. The Soviet energy sector had been studied and vast reform steps were recommended in order to patch up the deficit it had been causing to the national expenditure (IMF et al. 13-17, 37-39).

Despite the thorough analysis of IFI professional experts, there was no political will to embrace these IFI recommendations as a political reform program for economic stabilization in the Soviet Union. In my opinion, since simple Western neoliberal economic rationale dominated the study, it was incomprehensible for the old-school Soviet economic intelligentsia. The Soviet political elite were not willing to take further steps to adopt market economic principles, which they had been fighting against for decades. On the other hand, however, the so-called Shatalin economic program embraced basic elements of this IFI study later on (Krausz 100, Åslund 61).

Even though economic transformation was not only desirable but inevitable in the USSR, due to a general social turmoil and domestic political upheavals,[27] the economic regime change was unattainable. This was based on the lack of serious decision-making outcome of the Soviet political sphere. Soviet domestic politics turned the status quo

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[27] For example, the Soviet coup d'état, also referred to as the August Coup, against Gorbachev on 18-21 August in 1991 (Matlock 578-604, Gorbachev 626-645).

upside down and therefore Boris Yeltsin became the trustee for pro-market economic regime change on the heaps of the collapsing Soviet Union.[28] It was under his tenure as President of the newly independent Russia to reintegrate post-Soviet Russia into the world economy. The Russian economic transition was based on a devised set of principles of the Washington Consensus, thereby, unlike Leszek Balcerowicz, the former Finance Minister and Deputy Prime Minister of Poland, I argue that Russian economic transition to market economy can be rightfully characterized by a pendulum swinging from one extreme (planned economy) to the other (free market economy) (Balcerowicz 132).

2.2. Shock Therapy in Post-Soviet Russia

> "*Transferring state property to new owners is the main task of Perestroika in the economic area.*"
> *(Gavril Popov)*[29]

The Soviet economic regime change was a complete systemic transformation, which was a qualitative breakthrough as well compared to previous reform attempts. As we shall see, the pendulum ultimately swung from bureaucratically planned economy to the formerly antagonistic but inexperienced economic territory: market-based capital intensive economy in post-Soviet Russia. Installing a new economic paradigm in the Soviet Union was an immense challenge for domestic political forces and for Western advisers alike. Fortunately, previous experience had created a blueprint for economic systemic change, thereby, a so-called 'neoliberal recipe' was applied in the Soviet Union to reconfigure its entire economic system (Palánkai 24).

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[28] In June 1991, a Russian referendum was held in order to elect a Russian President democratically by popular vote. Yeltsin won the election with 57.9 percent of the popular vote of the Russian electorate. Consequently, Russia had a democratically elected president whose electoral support and political power was unquestionable (Matlock 518, McFaul 97).

[29] Quoted in Matlock 399.

The Soviet Union, and post-Soviet Russia as well, was considered as a great power based on its nuclear military capabilities. However, Russia was not able to consolidate its economic performance without major foreign financial assistance. Under the Presidency of Boris Yeltsin, and Deputy Prime Minister Yegor Gaidar, the Russian government was prepared to follow Western economic advice and pave the way for establishing a market system. The main objective of Western experts and the Russian political will was to reshape the economic system in a short period of time through a highly complex and thorough economic program. These experts opted for the so-called shock therapy approach in order to reach macroeconomic stabilization rapidly and change further systemic elements of the Soviet economic legacy at the same time. Due to the fact that Russia joined the IMF and the World Bank in April, 1992, Western economic advisors, e.g., Jeffrey Sachs or Anders Åslund, attempted, despite an entirely different political, economic and historical environment than that of Poland, to follow the Polish type of economic regime change (Berend 36, Kaser 162-163, Murrell 244, Fischer 376).

Russia faced enormous economic challenges, which, according to Western experts, were the most complex in world history. These challenges had to be addressed immediately to avoid further socio-economic decline, therefore, American economic advisers suggested that shock therapy measures should be used to attain macroeconomic stability. Shock therapy is the specific terminology used to depict economic reform programs, which aim at changing existing systemic patterns in a radical way in a relatively short period of time. Usually, these programs have a coherent policy framework and a cohesive strategy in promoting economic, political and social systemic changes in a country. These shock measures applied in Russia were expected to have beneficial economic consequences in a relatively short period of time in spite of the magnitude of systemic problems in the Russian economy. In order to identify the essence of the radical approach applied in Russia, we have to rely on David Lipton and Jeffrey Sachs. They designed the ultimate measures of a shock therapy that was meant to be universal in terms of installing market economy in post-Soviet socialist states in Central and Eastern Europe, including Russia[30] (Lipton and Sachs 261, Murrell 223-224).

Transforming the Russian economy into a market economy required a three-pronged, rapid, comprehensive action: macroeconomic stabilization, liberalization of economic activity and, most importantly, privatization of vast numbers of state-owned enterprises (SOEs). As we have seen in the recommendation of IFIs, some more steps had to be taken in order to make Russia catch up with the West, e.g., changes in the legal system or implementing a viable taxation policy. We can see that these rapid and comprehensive measures are thorough systemic changes, therefore, it is my firm conviction that shock therapy was a complete, revolutionary strategic measure to reconfigure the entire economic sector of Russia. While I am using this three-pronged approach in examining the Russian economic regime change, I find it important to emphasize some of its particular features (Murrell 226, Mandelbaum 3, Lipton and Sachs 75).

Macroeconomic stabilization covers monetary policy (e.g., inflation or money supply in circulation), fiscal policy and budgetary acts (e.g., financing public expenditures, economic policy-based capital allocation, and investments). Liberalization

[30] In 1989, Lipton and Sachs started as economic advisors for the Polish government. They opted for the following significant systemic reform policy measures in Poland: fiscal and monetary austerity; convertible currency; deregulation of prices; demonopolization of the state sector; removal of all barriers to international trade; full liberalization of the private sector; creation of new rules for the regulation of state enterprises; tax reform; institution of unemployment insurance and job retraining schemes; credit allocation to individuals to start small businesses, and privatization. We can see that these policy instruments are all in harmony with the Washington Consensus, that is, the so-called neoliberal principles. Also, we can see that when adjusting post-socialist states to market economy, Lipton and Sachs advised to use the same sort of systemic changes that had been started to be applied in Poland. Thereby, in my opinion, this American advisory group advocated a 'one-size fits all' practice in transforming the Eastern European and Russian economic sectors (Lipton and Sachs 99-103).

of economic activity includes price liberalization of producer and consumer goods; developing basic market forces, creating market incentives, establishing an attitude for and culture of entrepreneurship. Furthermore, international trade must be decoupled from the monopoly of bureaucratic administrative control, therefore, it has to be a decentralized organizational setup for economic actors. Most importantly, however, local currency has to be convertible so that trade can be realized between international economic actors. Corollary to this, privatization and market development belongs to the microeconomic structures of a domestic economy. We can see that Lipton and Sach's three-pronged recipe based on a neoliberal approach was indeed a comprehensive set of instruments that covered all existing factors of the Soviet economic sector. Moreover, this program also had to include non-existing economic factors. We must consider the fact that American economic advisors, with the help of the Russian government, embarked on installing a free market economy in a disintegrated Russia. Unfortunately, there was no basic socioeconomic history, background, experience, practice, or institution of a Western style complex economic structure and environment in post-Soviet Russia at all (Gregory and Stuart 307-308, Mandelbaum 32).

Russia began its transformation at the end of 1991. By that time, it had become crystal clear that there were massive economic problems, e.g., Russian industrial output fell by 20 percent by 1992 (see Appendix, Table 2). In October 1991, President Yeltsin announced a radical approach to Russian economic performance. This statement embodied the political will of the executive branch, which was empowered by the Russian legislature to make policy choices alone for one year. This was the perfect political environment to make harsh policy choices and adopt shock therapy measures as a driving force for further economic changes. In January 1992, Gaidar and his experts intended to liberalize prices, liberalize imports, change the Russian tax system, close the budget deficit,[31] tighten the monetary policy, make the Russian rouble convertible, create a better legal framework for foreign exchange trading, and finally, launch an extensive Russian privatization program. It is important to highlight that these economic policy measures were ultimately designed and strongly encouraged by the Western institutions (e.g., the IMF) and Western transition experts (e.g., Jeffrey Sachs) to stabilize the macroeconomic performance of Russia. In order to assess the American help in stabilizing Russia, we need to understand the logic, structure and correlations of different macroeconomic factors and the need for macroeconomic stabilization and its specific requirements in general (Murrell 222, 242-243, Fischer 377).

3. Macroeconomic Stabilization in Russia

> "*In order to gain stability, a democratic society needs a solid economic and social base, a developed market economy and a class of proprietors who have something to lose—a middle class that encompasses a significant part of the population. We don't have such a base.*"
>
> *(Yevgeny Yasin)*[32]

According to Palánkai, globalization played an important role in the collapse of the Soviet Union. However, globalization called for systemic changes even in Western political and economic systems, which concomitantly had serious effects on the disintegrating Communist bloc as well. In general, globalization entailed deregulation, reduction of government control of the economy; privatization, diminishing state-owned property and placing their functions under private ownership and management; austerity policy measures, rationalizing state budget, and trade liberalization, lowering tariffs and obliterate trade barriers in international trade. Interestingly, shifting from a state regulated economy toward privatized a free market economy was a global phenomenon

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[31] Russia had a massive budget deficit in 1991, which was 19.9 percent of the GDP (see Appendix, Table 3) (Murrell 243).

[32] Yasin, Yevgeny. "A Normal Economy Is the Main Condition for Democracy." *Izvestiya*, August 27, 1991; reprinted in *Current Digest of the Soviet Press 43* (October 9, 1991): 15.

which set off in the 1970s and continued throughout the 1980s as well. The collapse of the Communist monolith planned economy marked the surge of privatization in the 1990s as well (Palánkai 22, McWilliams and Piotrowski 442, Berend 27).

Boris Yeltsin was well-aware of the gravity of the unsustainable social, political and economic status of the Soviet Union. His political career became the token for Western governments normalizing post-Soviet Russia in the framework of a free market capital-driven economy. He was not only capable of seizing historic moments toward the end of the Soviet Union for his political career but he was also able to develop intellectually and comprehend global systemic tendencies and correlations as well. He made his first visit to the United States in 1989 where he visited an American supermarket in Houston, Texas, for the first time. He was surprised and depressed at the same time because of the sight of supermarket shelves stacked with a wide scale of products. Yeltsin immediately realized the reason why Soviet bureaucracy hindered issuing visa to Western societies. Based on his view, the Soviet establishment was afraid that the eyes of average Soviet citizens would instantly open how backward the Soviet economic system was compared to the Western world. Hence, Yeltsin pledged allegiance to neoliberal market capitalism in the midst of political upheavals and social convulsions, therefore, he was able to offer a strategic vision for the newly independent Russia the birth of which cannot be compared to previous changes (Goldgeier and McFaul 20, Dobbs 317-318, Simai 4).

The economic crisis destabilized the Soviet superpower. Economic decline fundamentally questioned not only the livelihood of millions of people in the Soviet Union but the legitimacy of the entire political system as well. The Soviet Union had long been suffering from a serious technology gap with the West but it was unable to modernize its stagnating economic system for decades, thus, it started falling behind extensively in terms of macroeconomic figures. However, the focus of post-Soviet economic regime change, transition from a state controlled etatist economy into a free market economy based on private property, was exposed to meeting predetermined dimensions of macroeconomic stabilizing factors. Achieving macroeconomic stability, while simultaneously installing a free market economic structure in a country that had not lived in a market based economic system for at least seventy years, was highly challenging and questionable at the same time. In order to face enormous economic challenges and implement neoliberal shock therapy measures in a newly-formed sovereign state, there had to be a strong political commitment to initiate a radical economic reform program (Gregory and Stuart 323, Simai 5, McFaul 144-145).

3.1. Russian Political Landscape for Economic Reforms

The role of Russian domestic politics, and most of all, the role of Boris Yeltsin, was crucial in the economic regime change. Having been democratically elected by popular vote as President of Russia, he began residing in the Kremlin and possessed the codes that controlled Soviet nuclear weapons. President Yeltsin used his vested powers to sign a decree banning the CPSU within Russia. This decree suspended the entire operation of the Communist Party, and thus, demonopolized the post-Soviet Russian political system; furthermore, it confiscated most of its property and suspended its media outlets (newspapers, journals and periodicals as well). On December 8, 1991, President Yeltsin signed a legal document with the heads of state of independent Ukraine and Belarus, which, legally speaking, dissolved the Soviet Union. This treaty, the Belovezhskaya Accords, created a loose economic alliance between the signatory countries, commonly referred to as the Commonwealth of Independent States (CIS). Having reached Russia's independence from the shackles of the Soviet Union, President

Yeltsin's political priority in focus became domestic economic reforms (Offe 115, McFaul 129-138).

I regard Yeltsin's politics radical which, in my opinion, did not break with the Gorbachev political legacy. Formerly, in the Soviet Union, vanguards of the communist political system banned imposing reforms from above because those could have destabilized the entire political system. However, Yeltsin continued leading Russia with exactly the same sort of political methods that Gorbachev had used. The difference between these two leaders was that the Soviet President,[33] Mikhail Gorbachev, did not know which way to lead the Soviet superpower, however, Boris Yeltsin was capable of providing the Russian electorate with a strategic vision for the future. While Gorbachev is a hallmark in history for social reforms imposed on society without any sort of a social consultation, Yeltsin's political move to install free market capitalism in Russia signifies the same political power pattern. Unequivocally, there had been neither a political legacy of the division of power, nor an executive branch per se. Based on this, it is no wonder that there was no academic legacy in crumbling Soviet Russia what powers should a new presidency hold to govern a newly independent state. Therefore, in order to initiate market-based economic policies and govern effectively and be able to adapt to incremental challenges of reforming an economy in free fall, Yeltsin obtained a legislative approval for power to rule by decree for one year in November, 1991 (Offe 113, McFaul 147).

The collapse of the Soviet Union exposed the sovereign state of Russia to go through a deep systemic change in addition to experience various protracted systemic

[33] Gorbachev aimed at expanding his personal political authority in order to counterbalance Soviet opposing political forces in the restructured Soviet legislature, the Congress of People's Deputies. By a secret ballot, with no other candidate competing for the position, Gorbachev managed to win by 1,320 to 495 receiving fewer than 60 percent of the votes cast. Gorbachev became the Soviet President in March, 1991, however, it is important to emphasize that Gorbachev wanted to avoid direct elections at that time (Matlock 334-337).

challenges of a sequence of a particular process that had taken centuries for the West. Post-Soviet Russia had to tackle these challenges in a minuscule of time beginning with the tenure of President Yeltsin. He was expected and promised to deliver a transition from an isolationist communist system to a democratic capitalist Russia integrated in the world market. However, according to Offe, the only condition, when a successful democracy and a flourishing free market economy, is established when external political forces impose these sociopolitical and economic forms on a country. Therefore, the bankrupt post-Soviet Russia indeed required a political leader with a firm hand and with a wide scale of legitimacy and legal authority. It is based on the assumption that a powerful presidency would be capable of establishing a market economy with appropriate institutions and with a reliable legal framework for competing economic actors. Thereby, market-driven social interactions should facilitate the organic development of a democratic structure in Russia no matter how long it would take (Offe 115-116).

While the Soviet leadership was incapable of handling the rampant economic crisis, President Yeltsin was endowed with a comprehensive set of powers as of November 1991. His decrees empowered him and his government to take the necessary macroeconomic stabilization measures, apply a thorough privatization policy in Russia; thus, liberalizing the entire post-Soviet Russian economy. However, post-Soviet Russia inherited a highly precarious situation: the economic costs of an incapable Soviet leadership resulted in depleting the entirety of Soviet gold and hard currency reserves, the Soviet budget deficit had ballooned to 19.9 percent of the Soviet GDP, industrial production tumbled and domestic and regional trade collapsed among member states of the Council for Mutual Economic Assistance countries (CMEA) (see Appendix, Tables 2, 3, 4 and 5). Yeltsin and his government had to take over a systematically flawed and, consequently, assumed responsibility for a bankrupt Soviet economy (Åslund 58, McFaul 141).

A developed market economy can create the conditions for a stable democratic settlement, however, in post-Soviet Russia, installing market economic structures was a political project. This project could have been realized with strong democratic legitimacy, which Boris Yeltsin possessed. President Yeltsin fundamentally restructured the post-Soviet establishment and decided to govern based on harsh political decisions. He immediately abolished numerous ministries and cut government staff extensively. He appointed his cabinet, including young economists committed to radical reforms, e.g., Yegor Gaidar, who was responsible for such a historical opportunity of building a new Russia with market economic structures on the ash-heap of the Soviet Union. We can see that political leadership was of decisive importance and the role of Yeltsin and his cabinet was crucial for ensuring social stability and enabling market economic structures to take over inherent Soviet economic mechanisms (Sachs 18, Offe 118, Campbell 123, Åslund 405-406).

Yeltsin enjoyed huge popularity and his presidency consisted of enormous political power at the outset of his reforms. However, Yeltsin lacked Western political support for his policies because the Bush administration failed to realize Soviet domestic political changes, its dynamism and its main political characters. Therefore, the U.S. government was reluctant to provide any bilateral financial aid to Russia. President Bush's administration failed to comprehend the breadth and width of the ongoing domestic systemic changes in the Soviet Union. President Bush unequivocally supported the status quo (Soviet President Mikhail Gorbachev) and saw Boris Yeltsin only as a transitional figure and neglected his politics. However, the outcome of the U.S. presidential election in 1992 changed the behavior of the American government. The

West, under the leadership of President Clinton, began to support Yeltsin in order to install Western-style politics in Russia. Yeltsin was a real political asset for the U.S. in helping to create a free market economy and install democracy in post-Soviet Russia. He was hugely popular in domestic politics and had the ability to openly underpin his policy measures no matter how painful it was for Russian society to create a similar kind of market economy under which the West had been prospering for centuries. Based on this, Yeltsin chose to apply radical reform measures because, formerly, all policy initiatives had undermined progress for the Soviet Union (Mandelbaum 13, Sachs 32-33, Campbell 121-122, Åslund 407).

The main objective for Yeltsin and his government was to create a stable environment for economic growth while transforming the entire Soviet economic model. This was a historical opportunity for creative destruction. The first years of the Yeltsin era created opportunities for market-based structures to prevail but destroyed formerly prevalent economic structures. Russia's transformation will not only be remembered by historians as a political capitalist transition but by creative destruction as well. Yeltsin created capitalist Russia by destroying an obsolete monolithic Soviet communist state-controlled economic paradigm. Russian transition from planned economy to market economy was a dangerous political ride for President Yeltsin because this shift was painful for the entire Russian society. Obviously, this social dissatisfaction created an uncomfortable political atmosphere for Yeltsin and his government, which markedly signified that Yelstin's popularity had been dissipating. In order to follow suit with shock therapy measures promising Western-type standards of living in Russia in a short-period of time, Yeltsin had to tighten his grip on power and introduced an authoritarian type of rule to maintain the trajectory of capitalist transition in Russia (Mandelbaum 12, 300, Schumpeter 81-86).

Gaidar initiated a radical reform program which coincided with Yeltsin's political objectives, namely, that the first government had to devote its capacities to devise and implement a thorough economic program. This program consisted of immediate liberalization of prices and trade, macroeconomic stabilization by controlling money supply and public expenditure. The third critical reform step was to introduce a massive privatization program. These steps of his economic program were consistent with policy measures of the neoliberal recipe, that is, the Washington Consensus. Yeltsin's strengthened executive powers enabled Gaidar to minimize state intervention in market mechanisms throughout the transition period, therefore, market forces were facilitated to operate in a newly established free market economy (McFaul 142-145).

Following the previously mentioned three-pronged approach, recommended for macroeconomic stabilization by David Lipton and Jeffrey Sachs, I analyze the implementation of neoliberal principles in Russia by the Yeltsin administration. In the subsequent chapters, I cast light upon the application of a neoliberal roadmap in Russia to get integrated in the world economy based upon a process framework offered by the American academia and its prominent figures. The reason of putting emphasis on these factors (stabilization, liberalization and privatization) is to markedly show the magnitude and depth of this transition advocated by the policy framework of the Washington Consensus. In addition, by the following parts, I underline that the U.S. played an important role in Russia's systemic transition from communism to capitalism. In the next sections, we shall see how preponderant the transition was for the Russian economy at the time of the neoliberal creative destruction.[34]

[34] The objective of the Gaidar reform government was to attain rapid transformation to market economic structures. However, great social expectations could not be met based on the complexity of interlocking reform policies and the laggard domestic economic results. Soon after initiating reform policies, different social groupings and political factions appeared inside and outside the Russian Parliament. Gaidar's policies did not deliver quick results, therefore, Yeltsin's popularity started to fall sharply. Yeltsin distanced himself from Gaidar's reform policies. By April 1992, parliamentary opposition gained majority

3.2. Macroeconomic Stabilization

According to Islam, Western economists displayed an absolute agreement on the components of transition policies. Based on this, the Russian macroeconomic stabilization process involved tightening budget and credit policies to contain inflation and the reduction of external trade and payments deficits. Liberalization included freeing prices, currency devaluation to a realistic level based on international market demands, making the rouble convertible, creating all sorts of non-existent domestic markets (e.g., labor or financial markets) and eliminating barriers hindering trade with the rest of world. Privatization aimed to create, and inherently develop a new private sector from the top, reform the ownership and management structures of SOEs and create a transparent property rights legal framework for the future. We can see that all of these policy measures comprehensively cover a wide range of subsystems of a state; that is, these three approaches embraced constitutional, legal, legislative, accounting, regulatory, fiscal, monetary and social insurance reform steps as well (Islam 182-184).

Based on their mutual academic work, Fischer and Gelb claim that in countries with severe internal and external imbalances, macroeconomic stabilization has to be the most important priority. Essential features of macroeconomic performance of a country

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in the legislature, thereby, it became even more apparent for the public that there had been a massive political confrontation considering the pace, the method and the magnitude of the transition process. Legislative debates in 1992-1993 advanced into a comprehensive constitutional confrontation in the case of which opposition parties questioned Yeltsin's legitimacy based on formerly promised elections. Moreover, they questioned structural elements of the Russian political system, and thus, the authorities of the executive branch. Unfortunately, economic reforms did not deliver tangible results by spring 1993, therefore, the political agenda was still focusing on the economy. On September 22, 1993, Yeltsin issued presidential decree No. 1,400, ordering the dissolution of the Russian Parliament immediately without consulting any opposition political forces. Having circumvented Russia's legislative branch in issuing this decree, the Russian Parliament became a compound for elected officials unwilling to leave office. In early October, some 10,000 anti-Yeltsin demonstrators wanted to seize power of the national television building and the police was ineffective to defend it. A State of Emergency was declared and Yeltsin ordered military troops to shell the White House. This building was a symbolic institution for the birth of the Russian democracy and the cradle for resisting the August Coup against Mikhail Gorbachev. By this political decision, broadcast live by the CNN, President Yeltsin put down all political efforts to diminish his powers and put an early end to endeavors of installing democracy in Russia. Russia's strong presidency thus created his authoritarian rule and destroyed the early experiment of democratic settlement (McFaul 162-165, 180-186, McWilliams and Piotrowski 473).

explicitly include economic growth, inflation, employment, national budget and balance of payments, sovereign debt and the exchange rate stability. In this section, however, I only focus on some parts of these macroeconomic factors due to the limitations of the thesis. Most importantly, we need to understand that President Yeltsin inherited a Russian state in catastrophic economic and financial conditions. According to Åslund, the Soviet reserves of international currencies, amounting to $15 billion, were used, in couple with the Soviet gold reserves, amounting to $12 billion, to finance the inefficient and stagnating Soviet planned economy. Since corruption was rampant in the communist system, most of these funds must have been transferred abroad to private bank accounts. Basically, Yeltsin and his reform government had to rebuild a Russia that had recently been robbed empty (Åslund 70-71, Fischer and Gelb 101, Palánkai 366, Fischer 385).

Gaidar and his reformist officials in government believed that enforcing financial discipline at the macroeconomic level was the best instrument to create a positive economic environment for radical reforms. They believed that this would trickle down to microeconomic levels, and thus, it would be a swift, far-reaching and comprehensive adjustment bringing about a balanced macroeconomic environment. Thereby, market forces would be able to operate freely without any state repression and create a sustainable economic growth for the Russian economy. However, Russia's financial conditions were in a horrendous state based on its legacy; moreover, common estimates showed that from 1991 onward capital flight from post-Soviet Russia reached around $20 billion a year. We have to see that the Russian reformist government had to face severe economic conditions where all domestic correlations of the economic system had to be addressed by professional economic policies and without hesitation. According to Åslund, if systemic economic correlations are wrong by nature, it is much better to act as fast as a government can. Therefore, arguments for a slow course of changes in post-

Soviet Russia were unconvincing because the entire economic sector was on fire (Åslund 113, 243, Lipton and Sachs 214, Zecchini 250).

The disastrous Soviet legacy also included a budget deficit, which was estimated to be 19.9 percent of the GDP in 1991. This deficit was exclusively financed by money issuance, which caused a monetary overhang in post-Soviet Russia in which M2 as a percent of the GDP had risen to 67.7 percent in 1990 but dropped insignificantly to 59.8 percent of the GDP in 1991. The budgetary gap had been financed heavily by foreign loans, which increased the USSR's foreign indebtedness year by year. The Soviet indebtedness reached around $20 billion in 1985, while the accumulated post-Soviet external debt reached $67 billion in 1991, which further increased to $77.7 billion in 1992 (see Appendix, Tables 3 and 6). It is an interesting fact that the Soviet government heavily depended on secret sales of gold reserves in order to cover the Soviet budget deficit. According to Valentin Pavlov, one of the main conspirators of the August 1991 putsch against Mikhail Gorbachev, the sale of gold reserves was intentionally left out from the records so that the Soviet superpower could remain a creditworthy nation on the international scene. However, the structure of the Soviet debt was based on a growing revenue stream of exports. At the peak of high oil prices, the Soviet government continued to subsidize other communist regimes all over the world, which furthered the scale of indebtedness based on the fact that these regimes were unlikely to repay Soviet financial support (Sachs 22, Gaidar 193, Lipton and Sachs 220).

From the very beginning of the new Russian government, the main objective was to reduce the money channeled to support financing the budget deficit.[35] With weakened Soviet economic structures, traditional domestic revenue sources had long been disappearing. Therefore, steps had to be taken to cut spending on subsidies, reduce

[35] The dissolution of the Soviet Union brought about an immediate collapse of state revenues. In the USSR, the budget revenue in 1990 reached 37.2 percent of the GNP, however, by the first quarter of 1992, it only reached 25.0 percent of the Russian GNP (Alexashenko 56).

military and budgetary expenses in addition to enterprise investments. With this strategic economic budgetary decision, Gaidar managed to close the gap between rational budgetary expenses and post-Soviet budgetary pitfalls. Furthermore, in order to cover the revenue stream as well, it was central for the Russian government to introduce a 28 percent sales tax (VAT) besides fortifying the collection of enterprise income tax, personal income tax and the excise tax on consumer goods. With this new taxation policy, Gaidar and his government aimed at balancing the fiscal side of the government; thus, it set off its macroeconomic stabilization process (Alexashenko 56, Åslund 98, Campbell 126, Lipton and Sachs 233-234).

Even though the budget deficit was dealt with professional care, monetary emission expanded because of lack of financial instruments in post-Soviet Russia in addition to other post-Soviet republics. Money issuance became a common monetary policy of the Central Bank of Russia (CBR) and in all ex-Soviet sovereign states as well, all of which had decided using the rouble as their currency after the Soviet break-up. CBR and its fifteen republican branches issued rouble to finance budget deficits and support domestic economic actors via subsidies and credit issuance in their respective republics. It had a huge economic significance and shot up inflation[36] everywhere including Russia as well.[37] Thereby, the Gaidar government had to face hyperinflationary

[36] Based on CIA assessment on the Soviet economy in 1991, inflation had been on the rise for numerous years by then. Since the Soviet economy was on a downward spiral with no end in sight in the foreseeable future, the CIA realistically projected huge inflationary forces in the Soviet economy by 1991. According to their estimates, inflation reached approximately 20 percent in 1990 and the CIA expected just about 40 percent annual inflation rate for the 1991 fiscal year (Central Intelligence Agency, “The Soviet Cauldron.” 113).

[37] Unfortunately, legal framework for a single monetary authority was missing after the Soviet collapse. In 1992, all ex-Soviet republics constituted one single monetary zone where there was no single monetary authority assigned by law. Consequently, each of the fifteen republics had a central bank exercising a certain amount of authority and control over money printing and credit issuance. During 1990-1991, banks were established by state enterprises and mushroomed all over the Soviet Union. Interestingly, licenses were provided by republican authorities without having been examined for capital adequacy, conflict of interests or any other kind of basic legal exigence. Later on, CBR provided them the opportunity to grant credits for lending. Based upon this, there was only one bank (Gosbank) in the Soviet Union in 1988, however, due to a hazy legal background, the number of commercial banks reached 1,500 in the Soviet Union by the end of 1991. This phenomenon was highly influenced by the fact that there was no tradition

forces in the Russian domestic economy under stabilization (Åslund 48, Campbell 116, Sachs 24).

However, hyperinflation did not only stem from the growth of money supply but from the government's decision to liberalize prices as of January 2, 1992 as well. Consequently, prices were left to be determined by market forces alone. This systemic change resulted in a shocking price hike: prices rose by 250 percent in a short period of time contrary to the expectations of the government. Although as a result of price liberalization about 90 percent of retail prices were in principle free, freeing prices implied the possibility of rapid inflation. Unfortunately, this phenomenon occurred parallel with the excessive growth of money supply, therefore, the annual inflation rate reached approximately 2,500 percent in Russia in 1992. Hyperinflation had serious consequences: the value of the rouble dropped significantly, bank savings of the population were inflated away. There was a massive flight from the use of the local currency, therefore, dollarization prevailed in Russia. Unfortunately, inflation and hyperinflation brought about a massive destruction in domestic Russian monetary affairs and it was therefore unsurprising that people transferred their accumulated wealth abroad. However, due to crucial and bold tightening fiscal policy measures, the Russian government managed to stabilize the nascent Russian market economy and control inflation as well. Based on this, strenuous efforts of the Russian government and the CBR succeeded in gradually driving down inflationary forces in Russia. By 1993, the annual inflation rate declined significantly, and, from 1996 onward, the inflation rate in Russia anchored in double digit numbers (see Appendix, Table 7) (Åslund 97, 202, 249,

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of an active monetary policy under the communist regime beforehand. The professional expertise was missing in post-Soviet Russia and its brethren post-Soviet republics until 1992 considering how to limit credit issuance in a country and thereby how to limit the overall growth of money supply, which has huge macroeconomic consequences. It was not until July 1993 that the Chairman of the CBR, Viktor Geraschenko, declared old Soviet banknotes null and void and thereby terminated the rouble zone. Consequently, other republics established their own national currencies, therefore, Russia and its central bank, CBR, could manage the rouble zone on its own. In practical terms, the end of the rouble zone made monetary stabilization even more possible (Åslund 206-207, Lipton and Sachs 226-227, 237).

Campbell 123-124, Koen and Phillips 3-4, Lipton and Sachs 244, McWilliams and Piotrowski 471, Hernández-Catá et al. 5-6, Selm 95-97).

Moreover, macroeconomic stability required Russia to reach price stability. Each functioning market economy has a reasonable price stability structure, therefore, transparency is ubiquitous and predictability is tangible in the economic sector. In order to reach price stability, the Russian national currency had to be shifted to convertibility as soon as possible. Convertibility of the rouble opened a window of opportunities to get integrated to global markets. It is significant to underline here that a stable and convertible national currency is imposed by the IMF upon all of its member states and for those who seek IMF membership. The General Obligations of Members (Article VIII, Section 4.) in the Articles of Agreement of the IMF explicitly claims it a necessary condition for all international members to have a convertible currency in order to make it easier and more predictable for member states to conduct foreign currency transactions. It is important for our purposes on the basis of two basic historical facts. First, the Soviet Union under Gorbachev had been, and post-Soviet Russia under Yeltsin was seeking international foreign aid from the IMF besides negotiating terms for membership. Second, a convertible rouble made it easier for the Gaidar government to liberalize foreign trade in post-Soviet Russia. Liberalizing foreign trade did not only signify the first steps of global economic integration but had positive effects on Russian state revenues and, most significantly, the Russian budget as well (Åslund 197, Campbell 126, International Monetary Fund 23-24, Sachs 698).

3.3. Liberalization

Economic freedom is a quintessential element of a market economy along with free prices, free enterprises and free trade. At the start of the transition from planned-economy to market economic structures, post-Soviet Russia did not only free up prices from the shackles of administrative control, but it undertook other deregulative policy measures as well. In order to ameliorate domestic financial and fiscal conditions, the Gaidar government decided to liberalize trade as well simultaneously with price liberalization. The Soviet trading architecture, CMEA, ceased to exist as of January 1, 1991, therefore, it was highly important for the new Russia to establish trading relations with other external actors to boost state revenues (Åslund 159-160, 173).

According to De Melo and his co-workers, liberalization in the economic sphere can be divided into two parts: internal and external liberalization. Internal liberalization includes freeing up prices from administrative control as noted above; furthermore, it also covers the abolition of state trading monopolies. As for external liberalization, it refers to the necessity of currency convertibility and, thus, the unification of exchange rates in addition to eliminating export taxes and substituting import tariffs with import quotas. Fortunately, all of these elements of liberalization were covered by the radical reform program of Gaidar that was put into effect in January 1992. Therefore, under the leadership of Gaidar, post-Soviet Russia opened its economy to the outside world (De Melo, Denizer and Gelb 24).

Even if Russia used a neoliberal recipe to install free market economy, it faced serious problems in 1992. In retrospect, Jeffrey Sachs justified in 1996 that a prompt and comprehensive liberalization policy was necessary to dismantle existing trade barriers and overcome post-Soviet vested interests in trade monopolies. However, Russia's macroeconomic performance dropped significantly in 1992 compared to previous years. The macroeconomic stabilization program, coupled with economic liberalization, applied by the Gaidar government had serious negative cumulative effects on the nascent Russian market economy. By 1992, Russian trade balance turned negative ($2.7 billion): Russia could only export $34.4 billion worth of products, however, its imports reached $37.1

billion. I believe it is not surprising given the fact that the Russian economy had been undergoing radical changes; moreover, there was a massive slump in Russian industrial production, a 28.3 percent cumulative decline from 1989 to 1992 (see Appendix, Tables 2 and 4) (Lipton and Sachs 229, Sachs 129).

Demonopolizing and decentralizing trade in Russia was an essential policy to cut back on the role of the state and increase opportunities for market mechanisms to penetrate old Soviet economic patterns. In my opinion, there is a more important attribute to external liberalization in relation to Russian capitalist transition. By dismantling old structures and by opening up the Russian economy to foreign trade, international actors could start distributing professional knowledge and know-how in Russia via international trade. Therefore, liberalizing foreign trade was useful for the rudimentary Russian business sphere to gain experience and expertise through international trading (Selm 100-101).

3.4. Privatization

The last element of the three-pronged approach is privatization, which was crucial to the success of the reform process in Russia. Reaping the benefits of the macroeconomic stabilization program, a substantial and comprehensive privatization program was required in Russia. Even though policies enacted by the Gaidar government took a short period of time to unveil the problems of the systemic change, transferring state property and productive assets to private hands took a relatively longer period of time. The main question was how Russian society and its economic sector would react to this sort of comprehensive systemic change. It is based on the fact that the Soviet economy was 90 percent state-owned and state-controlled. Moreover, SOEs hired more than 90 percent of the Russian population. Accordingly, 95 percent of production was in state hands until the mid-1980s; furthermore, as of the rebirth of the post-Soviet Russia, state ownership included the nominal ownership of 23,000 industrial enterprises and approximately 221,000 enterprises in total. This structural change in the post-Soviet Russian economy seemed to be the most pervasive systemic change trickling down directly to Russian personal lives as well. According to Berend, this was a dramatic and unprecedented transformation into a free market economy in world history (Berend 27, Lipton and Sachs 219, 229, Mandelbaum 5-6, Sachs 705).

The relationship between the state and the market has long been on the agenda for economists and political theorists, therefore, one could assume that privatization has always been a controversial policy in modern history. Ever since the 1970s, IFIs have been advocating privatization as a means to reduce public spending and rationalizing the public sector altogether. In Russia, the economic regime change had to cover privatization based on the shock therapy measures offered by the American academia. Economists argue that privatization enhances enterprise efficiency in the supply of products and services; thereby, private enterprises are more efficient than SOEs. Accordingly, privatization eradicates inefficient, counterproductive, monopolistic public economic entities and helps develop a decentralized economic sector where autonomous enterprises act according to their private economic interests and profit-making incentives. On the one hand, it was one of the most daunting tasks of the Russian government to reduce public outlays, increase tax income, reduce the budget deficit and shrink formidably public sector grants and subsidies. On the other hand, the Russian government privatization objectives included supporting and encouraging an incipient business sphere and an educated middle-class abundant in private property to evolve. In retrospect, privatization in Russia enabled both objectives to be realized, which made the Russian macroeconomic stabilization possible in the long run (Aharoni 16-23, Åslund 263, Engerer 178).

In accordance with the neoliberal shock therapy recipe, privatization followed stabilization and liberalization, and the government was prepared to pursue this highly-risky policy process.[38] The privatization of small-scale enterprises started in early 1992, while the privatization of large-scale enterprises was began in late 1992. Industrial enterprises, which covered nearly three-quarters of Russian state industrial capital, were to be corporatized by October 1, 1992, in order to make their legal environment ready for mass privatization later on. Having corporatized all SOEs, the government and its State Property Committee (GKI) provided vouchers for the population, which could be directly exchanged for shares of enterprises undergoing privatization (Engerer 208, Joskow, Schmalensee and Tsukanova 333, Lipton and Sachs 229-230, McFaul 162-163).

The Russian government set ambitious goals regarding dismantling post-communist SOEs. It aimed at privatizing approximately 70-80 percent of SOEs by 1996. Annual privatization targets were defined by privatization law (Law on Privatization of State and Municipal Enterprises), which also categorized enterprises based on economic activity. The privatization program consisted of two stages. The first stage focused on prioritizing the so-called voucher privatization[39] process while the second stage was

[38] In order to manifest how risky and calamitous the privatization process was for transition societies and economies in Central- and Eastern Europe, I succeeded in getting hold of some information regarding results of privatization in Poland that happened to pursue the same type and set of shock therapy policies. In July 1991, the Polish governement could not help but put a bankrupt tractor factory back on government support because the privatization process did not go hand in hand with supply and demand of market forces. Therefore, market mechanisms exposed one of Europe's largest tractor producer companies to bankruptcy. On the one hand, privatization facilitated risking the pure existence of the company, and on the other hand, it simlpy jeopardized the workplace of 22,000 employees in addition to the livelihood of another 100,000 people working for 300 supplier enterprises and factories. We can see that privatization, in general, had some serious negative side-effects for societies undergoing transition to market economy. If we consider the fact that this example was only a small part of the Polish economy, we can have a hint concerning the scale and magnitude of negative side-effects of the post-Soviet Russian economic transition, which was a much bigger economy and the transition touched upon a society with vast population and workforce as well (Islam 197-198).

[39] The objective of the voucher privatization was to find a moral solution for distributing state assets and ensure the entire population to be involved in the process. Thereby, each and every Russian citizen was distributed tradable vouchers by GKI. Unfortunately, few Russians understood at the time why shares were important to own. The value of the vouchers distributed was calculated from the asset value of those enterprises which were to be privatized. The asset value reached 1.5 trillion rouble according to official GKI information, therefore, 150 million people were distributed with tradable vouchers totaling a nominal value of 10,000 roubles per person (Engerer 209, Goldman 58).

explicitly characterized by selling SOEs. The voucher privatization program started in December 1992 and was completed on June 30, 1994. Throughout the second stage, privatization slowed down and only 12,000 enterprises were privatized out of 215,000 SOEs. However, IMF data show that approximately 46,815 enterprises were privatized by the end of 1992 (see Appendix, Table 8). Based on the advice of American experts, GKI decided to speed up privatization and GKI officials opted for quantitative delivery of the process rather than qualitative objectives. While over 16,500 large enterprises were transferred to private businessmen by 1993, the number of privatized enterprises climbed up to 22,000 in 1994, which decreased to approximately 10,000 in 1995 and to 3,000 in 1997 (Åslund 110, Engerer 207-211, Jermakowicz, Abramov and Pańkow 373, Hernández-Catá et al. 47).

The result of the work of the American advisory group was denationalizing the post-Soviet Russian state, which involved a systemic change covering politics, law, justice and, most of all, economics. By initiating the Russian privatization process, Russia was to leave behind the communist planned economic system, and thus, embarked on a capitalist market economy. The Russian privatization program was a revolutionary step toward a market economic structure, which was not only controversial but highly complex in terms of distributing shares of SOEs and, in broader terms, the public wealth accumulated by the communist regimes beforehand. Without American and Western expertise, I personally doubt that Russia could have undergone an efficient macroeconomic stabilization program involving liberalization and privatization. As we shall see in the following chapters, it was not only the American academia that helped Russia reintegrate itself into the capitalist world economy, but other external actors as well. These actors involved IFIs of the Bretton Woods liberal economic system along with direct and indirect policies of U.S. administrations. In the following, I identify

American influence in external assistance programs for post-Soviet Russia and, in the last part, I unveil the strategic policy choices of the American government in order to help Russia to reach and maintain domestic economic stability in the global economy in the long run (Åslund 255-256).

4. International Organizations and Financial Aid

The demise of the Soviet state rearranged the entire world of international relations at the beginning of the 1990s. Accordingly, prevailing Western countries could not help but witness the internal political disarray of Russia. Western governments were required to step in and help the Russian state in order to avoid the entire post-Soviet geopolitical entity slipping into domestic chaos. The highly complex agenda of economic transition was not only building up the institutional and legal framework for a viable market economic structure but facing the Soviet legacy as well in terms of liabilities, the budget deficit and external debt in general (see Appendix, Tables 3, 4 and 6). This chapter reveals what role the outside world played in the transition period focusing on international organizations and international financial aid. This part of the thesis also enables us to see how Russia got reintegrated into the capitalist world economy via cooperation with international organizations. However, I feel that a basic definition is needed to guide us through this chapter in order to understand political and economic correlations in the international economic sphere. In the history of post-Soviet Russia, the role of international organizations pertain to financial assistance, which helped attain macroeconomic stability and contributed to avoid domestic chaos in Russia at the beginning of the 1990s.

4.1. Theoretical Background for International Cooperation and Foreign Aid

By definition, international development cooperation is a particular cooperation between numbers of actors (mostly states) based on a set of norms of the international order. Thereby, developed countries ensure the allocation of resources (finance, technology, commodity and knowledge) to developing countries in order to reach clearly-defined objectives. The official goal is to make developing countries catch up with the developed world and fight extensively against poverty at the same time. However, it is important to note that these resources of donor countries stem from the state budget at all times. Therefore, governments are held accountable for the use of these public funds because they inherently come from taxpayers' money. Officially, international financial assistance is either based on bilateral agreements of two designated states, or on multilateral agreements between states and international organizations as middlemen[40] (Szent-Iványi, Paragi and Vári 11-12).

Donor countries provide foreign aid for underdeveloped and developing countries because it is in their political, strategic and economic interest. Therefore, international development aid, by nature, is based on vested interests of donor countries because these governments do intend to attain certain specific objectives through helping other sovereign states with financial assistance. There has been an array of historical evidence showing that these governments expect some other types of benefits (e.g., political, economic, counterterrorism, etc.) in return for their assistance in the long run. For example, in terms of bilateral agreements, aid-granting nations usually tie their foreign aid assistance to committing partners to purchase goods and services from the donor country. Regarding political motivations, in return for their financial assistance, donor

[40] Budgets of multilateral organizations originate from contributions of their member states. Thereby, the operation and objectives of multilateral organizations correspond to strategic political and economic interests of developed member states because these governments use taxpayers' money in this context (Szent-Iványi, Paragi and Vári 12).

countries expect partner states to support their policy agendas in international politics and cast their votes in accordance with the political interests of the donor country in multilateral institutions. However, international cooperation is voluntary; donor countries are able to set terms and use different sorts of conditions. Conditionality is a fundamental tool for donor countries to influence and persuade partner governments and have them act in harmony with the interests of the donor country. Consequently, should developing countries neglect meeting certain conditions of the agreement, donor countries have legal means to suspend or stop resource allocations for developing countries (Szent-Iványi, Paragi and Vári 20-23, Todaro and Smith 701-704, D'Anieri 325).

International literature distinguishes three types of international development aid. First, foreign aid[41] is a general term used for external financial support for development objectives. Second, it can also refer to military support and, third, it may imply humanitarian aid as well. These sorts of international aids are explicitly provided for predetermined policy goals in order to find solutions for problematic policy issues of recipient countries (e.g., economic growth, technology development, inadequate public service, natural disasters, environmental issues, external shocks, etc.). In international finance, however, any external financial support is qualified as aid, which contains 25 percent non-refundable grants. Usually, the rest of the provided foreign aid is concession loan predominantly under special conditions (Szent-Iványi, Paragi and Vári 13-15, D'Anieri 325).

It is also important to emphasize that foreign aid is project- and program-oriented in the case of which particular policy areas (e.g., education, agriculture or healthcare) are purposefully supported. In some special cases, foreign aid is connected with technical cooperation among the donor state and local governments of developing countries.

[41] In the following section, I use the collocation 'foreign aid' interchangeably with external assistance, foreign financial support, financial aid, foreign assistance or financial assistance.

Unfortunately, in many occasions, governments lack professional expertise, therefore, donor countries do not only allocate funds but transfer expert personnel (e.g., economic advisers) to developing countries in order to help policy implementation, coordination, monitoring and assessment; furthermore, they train local personnel as well[42] (Szent-Iványi, Paragi and Vári 19).

4.2. Soviet Search for External Assistance

By the mid-1980s, the USSR could not act any further as a donor country for communist vassal regimes throughout the world. Instead, the Soviet structural economic decline forced the Soviet Union to change its stance regarding foreign aid. Thereby, seeking international financial aid dates back to the leadership of Mikhail Gorbachev. Throughout his reign, the Soviet Union had not only started easing Cold War tensions with the West, but Gorbachev managed to realize that the Soviet economic and technological sphere was so backward that it desperately needed financial assistance from the West. Through numerous historical facts, I present the global political context in which Gorbachev struggled to come to terms with international organizations and Western governments in order to save the Soviet Union. Before I highlight the workings of the Yeltsin presidency with international organizations, I intend to reveal the legacy of Gorbachev in terms of the correlations of a vulnerable Soviet economy, international organizations, Western governments and foreign aid in a dismantling bipolar order.

As noted earlier in the thesis, the Soviet economy had long been on the brink of collapse. From 1986 to 1991, Gorbachev did not have any other instruments to keep the Soviet Union afloat but financing the operation of the Soviet state via foreign loans, sales of gold and foreign reserves. Concomitantly, Soviet external debt reached $67 billion in

[42] Interestingly, Hiro elaborates on a conspiracy theory of American advisers' vested interest in pushing the neoliberal economic program in Russia. Without any solid information, data or evidence, he emphasizes that all of the American advisers were linked to Wall Street investment banks, they were given lucrative fees and commissions in helping privatize colossal Russian economic assets (Hiro 35).

1991, which climbed up to $77.7 billion the following year (see Appendix, Table 6). Interestingly, by the summer of 1991, Gorbachev assigned a significant role to the United States in helping Soviet economic reforms. However, at the same time, he pursued a zealous manifold effort to find external assistance through both bilateral agreements[43] and multilateral institutions. Considering bilateral relations, Soviet officials secretly contacted the Japanese government to work out a foreign aid assistance program for the Soviet Union. Unofficially, the Japanese offered a $22-24 billion financial assistance plan in case the Soviet Union was ready to disclaim authority from the Kuril Islands which had been seized by the Soviet army in WWII. This deal however was never considered seriously by the Soviet regime (Boone and Fedorov 184, Büky 349-350, Dalos 227-228, Gorbachev 611-612).

German-Soviet relations were of high importance due to the political background of the German unification process. Due to the confluence of historic events in global politics at this time, the German Chancellor, Helmut Kohl, negotiated applicable terms with Gorbachev in Moscow considering German unification. According to data collected, the German government supported the Soviet Union with $15 billion in order to help the Soviet Union foster the withdrawal of Soviet military troops from East Germany (Dalos 227, LaFeber 754).

The Soviet government did not only start cooperating with some of the multilateral institutions of the Bretton Woods system toward the end of the 1980s and early 1990s, but Gorbachev deliberately focused on creating a plausible cooperation with governments of the largest industrialized nations of the world as well. In the London Summit in 1991, Gorbachev was the first Soviet leader to participate in a meeting held for the seven largest industrialized nations (G-7) where he fervently argued for his

[43] Kuwait gave a $500 million credit to the Soviet Union. Kuwait used this credit to formally appreciate the USSR's position against Saddam Hussein in the Gulf War in 1991. Moreover, South Korea ensured the USSR a $3 billion credit in 1991 (Dalos 227-228).

motion regarding a massive scale of Western foreign aid for the Soviet economy. Even though multilateral financial institutions started to work out a plan for regime change in the Soviet Union, governments of the G-7 countries declined helping Gorbachev and his political efforts (Goldgeier and McFaul 63, Gorbachev 612-617).

The decision of the G-7 governments was based on the fact that the Soviet economic reform plan, the Grand Bargain, was derailed by the August Coup in August 1991 against Gorbachev. Moreover, in 1990, President Bush vetoed lending money to the Soviet government by the EBRD because international economic assistance programs were linked to Soviet economic reform policy measures. The Grand Bargain was an economic reform plan transforming the Soviet economy to capitalism. Gorbachev encouraged his top economic advisers to devise a comprehensive economic program with the help of Western governments. Soviet economic advisers teamed up with Harvard professors, Graham Allison and Robert Blackwill, and constructed the program of the Grand Bargain in early 1991. This program consisted of a well-established framework under which conditions Western governments would allocate financial resources to the Soviet Union. Concerning the proposal, the European Economic Community (EEC), the U.S. and Japan were ready to provide $15 to $20 billion in grants to the Soviet Union under specific pro-market reform policy measures. The G-7 London Summit and the August Coup in 1991 made the Grand Bargain fade away as a comprehensive economic reform proposal devised under multilateral coordination (Åslund 405, Garthoff 415, Goldgeier and McFaul 63-65).

Based on the above, we can see that Gorbachev handed over a bankrupt state to Yeltsin. Despite his efforts to keep the Soviet Union alive via massive external assistance by diversified portfolios including bilateral and multilateral agreements, he failed to avoid facing the consequences of a superpower whose economy had long been dysfunctional. Furthermore, the Soviet economic integration, CMEA, and the Soviet security alliance, the Warsaw Pact, ceased to exist in 1991. In my opinion, the Soviet collapse placed greater emphasis on the U.S. as a leading superpower along with the international system of Bretton Woods institutions. In 1992, Zbigniew Brzezinski assumed that Russia's economic and political future was underway to fall into the hands of the Western community (Boone and Fedorov 184, Brzezinski, LaFeber 755).

4.3. Integrating Russia into the Global Economy via International Organizations

Based on the Soviet legacy, President Yeltsin could not avoid circumventing finding Western financial assistance in order to stabilize the Russian economy and alleviate domestic political convulsions in the transition period. Gorbachev was incapable of ensuring Western governments and IFIs with a tangible reform economic policy agenda. However, Yeltsin, in one of his greatest speeches to the Russian Parliament on October 28, 1991, made it absolutely clear to the international community that he was to undertake a seriously comprehensive economic reform policy agenda. His political manifesto considering economic reforms in Russia solidified his pro-Western and pro-market political policy agenda through which he undeniably appealed for Western assistance (Åslund 405 Sachs 516).

The Russian economic reform policy program promulgated by Yeltsin in his speech was a valuable sign to the international community that the basic idea of the transition process, from communism to capitalism with a democratic political settlement, was still alive. Yeltsin's political character was the token for Russian stability who offered the most viable opportunity to avoid a political catastrophe in post-Soviet Russia. Yeltsin assured the entire world that the era of slow steps concerning systemic changes was over and he tacitly declared his economic policy reform program which was interwoven with shock therapy policy measures described earlier (Aron, Åslund 405, Sachs 1).

According to Sachs, Western financial assistance was crucial to support Yeltsin's policy agenda and help him reinvigorate the Russian state. Western aid could have enabled the government to stabilize the economy, and thus, ensure the process of post-Soviet Russian democratization. However, accommodating Western assistance required meeting certain policy conditions set by the multilateral organizations. These could strengthen the macroeconomic stabilization process and could attract further foreign private investments as well (Berend 19, Sachs 2).

However, Sachs also emphasizes that the market could not do macroeconomic stabilization alone, therefore, foreign assistance was critical for Russian reforms to take hold, however, IFIs required transition countries to prove themselves and sustain reform policy measures first, then multilateral organizations could help them work out plans for foreign aid. In order to get integrated in the world economy, Russia had to accept the rules of the global economy without reservations. One of the most remarkable signs of global integration was the process of debt rescheduling and restructuring in conjunction with applying a debt-relief program for Russia founded on accumulated Soviet external debts (Andor 160, Sachs 504).

As we can see in Table 6, the total external debt of the Russian state increased rapidly year by year reaching $77.7 billion in 1992. This amount of external debt burden did not only haunt the Russian government but former Western creditors were eager to see Russia taking responsibility for the Soviet external debt. In order to attain debt sustainability in case of a sovereign country emerging from a highly burdensome period of domestic affairs, e.g., economic transition, debt relief programs are designed for countries with their unique domestic socio-political and economic complexities. In general, debt relief programs are part of a set of comprehensive and dynamic debt management strategy. In this respect, in November 1991, the new Russian government started negotiating terms with deputy ministers of finance of the G-7 countries. G-7 countries sought assurances that Yeltsin's Russia would act in consistency with international law, thereby, post-Soviet states would be held accountable for Soviet external debt. At the end of 1991, all CIS countries claimed a 'joint and several responsibility' for the $80 billion external debt of the Soviet Union. The agreement proclaimed that Russia was responsible for the lion share of the Soviet external debt: 61 percent of the entire debt amount, which reached approximately $50 billion upon signing the 'joint and several responsibility' agreement in 1991. However, this agreement also included the untenable policy of post-Soviet republics continuing payments for their short-term loans and the servicing of interests. Unfortunately, none of the post-Soviet states could continue debt servicing past January, 1992 including the Russian government, which had depleted its foreign reserves and other financial assets. Based upon this, the Soviet external debt could not have been divided between former Soviet Union member states; arrangements were made for Russia to assume the entire responsibility of Soviet external debt in return for repossessing all Soviet assets abroad. Moreover, the Russian government managed to reach an agreement with bilateral creditors as well. Thereby, external debt was annually rescheduled from 1992 to 1995 and an agreement was reached on long-term restructuring in April 1996 (Åslund 406, 417, Fischer 377-382, OECD 71, Sachs 37-38, United States Institute of Peace 139-140).

By cooperating with IFIs and Western governments regarding Soviet external debt in parallel with Yeltsin's radical market oriented reform policy agenda, we can identify that international organizations started to take Russian macroeconomic endeavors seriously by 1992. Among these multilateral institutions, the IMF and the

World Bank undoubtedly played an important role concerning Russian transition to market economy. They inherently cooperated with Russia and started its global integration into the international financial regime. Debt and debt-service reduction policies, foreign aid, humanitarian aid, structural adjustment policies, and helping Russia finance its economic reform policies were basic tools to preserve financial stability by the IMF and the World Bank. Russia's government was in a desperate need for a coordinated cooperation with the IMF and the World Bank. After the Soviet collapse, it was only a matter of timing when the Russian government could negotiate terms with international organizations to rescue the insolvent Russian nascent democracy (Kaser 155, Karns and Mingst 396-402, Sachs 692).

It was in the interest of the West led by the U.S., to maintain the pace, the breadth and width of political and economic reforms in Russia. It was engaged by diplomacy, cooperation, economic advice, reform policy agendas and, most of all, financial assistance. Furthermore, Russia joined the IMF and the World Bank in 1992, which marked the true commitment of both sides to coordinate international aid and economic policies favoring Russian macroeconomic stabilization. This commitment enabled Russia to receive a $1 billion loan under special conditions, which was followed by a series of deals in the long run. Even though President George H. W. Bush was reluctant to directly assist Russia with foreign aid, he was able to forge alliance with German Chancellor Helmut Kohl, and thus, G-7 countries pledged a $24 billion foreign aid package for Russia in April 1992. The IMF was asked to coordinate this program and was selected to provide technical assistance for the implementation of radical economic reform policies (Åslund 117-118, Fischer 399, Lipton and Sachs 261).

According to previous IMF and World Bank estimates, based on the Russian balance of payments requirements, the Russian economy needed $18 to $23 billion capital to meet its financial obligations in 1992. Both multilateral institutions stated that these calculations could be considered as an absolute minimum of Russia's needs. The IMF calculated that $12.3 billion should be financing import subsidies and $6 billion was required to stabilize the rouble. Seemingly, IFIs and G-7 government experts underestimated Russian economic and structural needs; nonetheless, the unified West was ready to aim at providing a great sum of financial assets to support the first critical year of Russian economic reforms. However, it is important to point out that $22 billion of the pledged $24 billion aid package was in the form of loans rather than grants. In this respect, Russia became creditworthy by April 1992 based on the assumption of IFIs and G-7 governments. The $24 billion pledge, as we can see in Table 9, contained a $6 billion currency stabilization fund and $18 billion balance of payment support including bilateral credits ($11 billion), multilateral credits ($4.5 billion) and debt relief ($2.5 billion) (Fischer 400, Goldgeier and McFaul 68, Sachs 144, 165-168).

The $24 billion foreign assistance was meant to be provided throughout 1992. Almost the entirety of the $24 billion was to be mobilized via IFIs. However, considering the currency stabilization fund, the U.S. was meant to have only an indirect stake of approximately 20 percent of the total in the $6 billion stabilization fund and the $4.5 billion multilateral financial support altogether. Based on U.S. administration information, no direct U.S. budgetary appropriations were necessary to be substantiated. Concerning the bilateral support of $11 billion, the U.S. was only meant to mobilize approximately $620 million in direct budgetary assistance besides $2.5 billion credit guarantees of different state corporations and government agencies (Sachs 167-168).

Since technical and expert assistance is also an important part of the workings of the IMF, it is essential to emphasize that a great number of American experts, specialists and economic advisors took part in the work of Russian government ministries and agencies throughout the transition period. According to the first article of the Articles of Agreement of the IMF, the objective of technical assistance is to contribute to the development of the productive resources of member countries by enhancing the effectiveness of economic policy and financial management. According to Hiro, in the beginning of the 1990s, large enterprises undergoing privatization, media, think tanks, universities, political parties and trade unions in Russia were endowed with American and Western technical assistance through which these entities were provided with expertise by highly-qualified monetary economists with diversified experience in their fields of expertise. Corollary to this, American businessmen financed careers of numerous Russian politicians and indirectly participated in drafting Russia's laws and presidential decrees as well (Hiro 34, International Monetary Fund, "Policy Statement on IMF Technical Assistance", Lipton and Sachs 261-262).

In 1992, from August to December, further talks started to set objectives for the following fiscal year. A $4 billion loan was agreed upon with the IMF based on IMF policy conditionality. Since Russia became an IMF member state, each loan agreement consisted of a policy strategy how to adjust its economic policies to fundamental IMF expectations. These loan agreements show the government's macroeconomic stabilization and liberalization strategy and set quantitative objectives for macroeconomic policy. These include a wide range of economic variables such as budget deficit targets, foreign exchange reserves, interest rates, exchange rates and credit targets. Should the government diverge from policy targets, the IMF could suspend its lending. Conditionality is therefore an import tool for the IMF to avoid governments misusing financial assets. We also need to understand that the Russian government would only possess bargain chips at the negotiating table with multilateral organizations only if the government pursued the neoliberal shock therapy and its reform economic policy. In this respect, Russia was ensured with multilateral foreign aid under the condition of committing itself to adopt policy instruments of the Washington Consensus. By these policy commitments, Russia reaped the benefit of becoming a full-fledged member of the international community. Russia's size and its potential economic capabilities made it a strong candidate to become part of the largest industrial nations in the world, thereby expanding this community and making it G-8 in 1998 (Collier 108, Sachs 169, 173, Szent-Iványi, Paragi and Vári 52).

With certain technicalities in allocating a $24 billion financial aid package to Russia, the Joint Ministerial Meeting of G-7 in Tokyo in April 1993 announced a $43 billion foreign aid program supporting Russia's reforms. This extraordinary amount contained a $15 billion fund for debt rescheduling, $14.2 billion for structural reforms and import subsidies, and $14.1 billion for strengthening the macroeconomic stabilization program in Russia. Moreover, G-7 countries also declared their intention to take further measures to open their markets for Russian products thus liberalizing existing trade regulations (Hernández-Catá et al. 46).

Financial aid of IFIs helped Russia attract foreign investors for private investment. Historic facts show that even countries cooperating with IFIs need several years to be capable of securing structural necessities for foreign private investors. By 1997, the macroeconomic environment in Russia became stabilized; inflation dropped to 21.8 percent in 1996 and to 10.9 percent in 1997 (see Appendix, Table 7). The financial engagement of multilateral organizations expanded opportunities for Foreign Direct Investments (FDI) in Russia starting as of 1995. There was an initial $539 million foreign direct investment in Russia in 1995, which expanded annually. FDI inflow peaked in 1997 in Russia reaching a $3.7 billion net FDI inflow. Yeltsin's commitment to reforming the entire economic sphere with the help of IFIs was a sufficient condition to attain creditworthiness for the Russian state, which boosted the attraction of foreign private investors (see Appendix, Table 10) (Sachs 172-173, Zecchini 249).

5. U.S. Bilateral Assistance to Russia

> "*…It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty desperation and chaos.*"
>
> *(George C. Marshall)*[44]

The collapse of the Soviet Union in December 1991 brought an end to the bipolar era. As President Bush phrased it, the demise of the USSR was a unique and extraordinary moment in world history. However, even though the U.S. enjoyed a degree of world hegemony, the disintegration of the USSR had a serious impact on international relations in general. It was a unipolar moment for the U.S. because it suddenly found itself in a unique position without experience, without precedent, and it stood alone at the height of global power (Brzezinski 5-9, Bush and Scowcroft 194-195, Casarini 31, Herring 917, Krauthammer 23, Oberdorfer 353).

Based on a network of bilateral alliances established throughout the Cold War, the U.S. became the only superpower capable of ensuring international stability. However, the pace of events and the complexity of issues and tasks emerging after the Soviet collapse meant that it was time for the U.S. to show its economic might as a responsible superpower supporting Russia on its way to macroeconomic stabilization. Unfortunately, President H. W. Bush and his administration were reluctant to support Yeltsin with any bilateral financial agreements. On the other hand, President Clinton had a firm commitment to reinvigorating the receding American economy through expanding

[44] George C. Marshall quoted in Sorel, Eliot, and Pier Carlo Padoan, eds. *The Marshall Plan: Lessons Learned for the 21st Century*. Paris: OECD, 2008, 7. Print.

U.S. foreign trade relations globally. Therefore, the role of the Clinton administration, along with its specific international aid policy, significantly underlined the importance of Russia for the U.S. administration (Åslund 407, Casarini 166, Herring 926, Matlock 177-178).

In essence, Europeans compared the Russian economic situation to the post-WWII economic situation when the U.S. helped Western Europe to reconstruct its war-torn economies. Thereby, the European academic world intensely argued for a new type of a Marshall Plan for the post-Soviet world; however, such a plan was unrealistic without the consent of the American government. The Marshall Plan had cost the U.S. approximately $20 billion in 1947, two percent of its GDP then, which would have corresponded to $100-125 billion in 1992. On 5 June, 1947, the American Secretary of State, George C. Marshall, announced the European Recovery Program (ERP), commonly known as the Marshall Plan, which helped rebuild Western European economies. The Marshall Plan was, first and foremost, the official U.S. international aid doctrine. As a matter of fact, on 8 May, 1947, U.S. Under-Secretary, Dean Acheson, in his speech in front of the Delta Council at Cleveland, Mississippi, crystallized significant characteristics of the American development policy that would be still preponderant in the 1990s. Based on Acheson, U.S. international financial aid has always been an inherent U.S. national interest (Åslund 73, Bossuat 13-15, Morella 5, Szent-Iványi, Paragi and Vári 93-94, Todaro and Smith 701):

> The United States believes that its own security, its prosperity, the liberties of its citizens, and the survival of their free institutions are intimately related to the survival of the free institutions, individual liberties, and effective national independence of other peoples. It is in the direct line of American policy from the earliest days of the Republic to give support and aid, commensurate with our ability and strength, to those foreign peoples, national groups, and countries which are endeavoring to maintain their independence, internal sovereignty, free institutions, and human freedoms against repressive and aggressive forces. Today's expression of that policy is the extension of that economic and financial assistance and advice—and where requested, technical and administrative assistance and advice—which foreign countries need in order to maintain conditions in

which individual liberty and free institutions can grow and national independence be preserved (Acheson 9-10).

Unfortunately, by early 1992, economic conditions in Russia were so disastrous that it was only comparable to the Great Depression of the 1930s. Even though monetary aid started to flow to Russia through multilateral institutions, there was no supervising authority installed by the IFIs in Russia. According to Brzezinski, much of the monetary aid was wasted and stolen, and the Russian government was still incapable of providing basic services and necessities for its population. These inhumane economic conditions spurred the U.S. to start participating in the Russian stabilization process, thus helping the post-Soviet Russian state to avoid humanitarian catastrophe in its vast territory (Brzezinski 64).

5.1. U.S. Humanitarian Aid to Russia

Even though President George H. W. Bush did not favor supporting the Russian transition, the U.S. government had to change its approach to Russian affairs. The Russian transition created a massive economic setback and a rampant economic crisis with devastating shortages of public goods and services. President George H. W. Bush did not recognize the necessity for the U.S. government to act proactively considering the Russian transition. However, experts had long predicted that the winter of 1991 would bring starvation throughout the Soviet Union and these experts suggested the the Western community should start the transportation of emergency food supplies (Åslund 46, McFaul 141).

The U.S. took part in providing humanitarian aid to Russia because the U.S. has always been the largest donor of humanitarian aid in terms of bilateral relations in global politics. The objective of providing humanitarian aid is ensuring the alleviation of human misery and suffering and protecting the dignity of human life in times of human and natural disasters and thereafter. Humanitarian assistance targets the entire society in order to boost welfare based on providing basic necessities in emergency situations via supplies of medicine, food and further items helping satisfy basic human necessities (OECD 71, Szent-Iványi, Paragi and Vári 95, 167).

Humanitarian aid usually includes financial assistance (grants and credit) for imports of food and medicine along with targeted individual charities and donations. Financial support in 1992 from the U.S. and Western governments explicitly focused on humanitarian assistance besides a wide range of macroeconomic stabilization portfolios. It was needed because Russian state and municipal grain reserves had been depleted, food-producing regions bartered food supplies for consumer goods on the domestic market while enterprises exported their products to Iran on the black market. There was a common fear of hunger toward the end of 1991 and the beginning of 1992 (Lipton and Sachs 228, Sachs 158-159, 171).

As the Soviet Union dismantled, the onset of economic transition started to become highly precarious. Russia was on the verge of an utter humanitarian disaster, therefore, the U.S. spearheaded the provision of humanitarian aid to Russia in 1991. Russia with Soviet nuclear capabilities could not undergo a humanitarian disaster because it could have sparked domestic violence or a civil war. According to declassified CIA documents, the confluence of severe economic conditions, the fragmentation of the armed forces and ethnic conflicts could have produced a significant social disorder in Russia unexperienced since the Russian civil war of 1917. In a highly unpredictable and unstable economic situation, the international community, led by the U.S., was responsible for avoiding the proliferation of nuclear technology and weaponry via international black market actors. In order to ensure this, the West had to assist Russia with humanitarian aid, grants and credit in order to avoid post-Soviet Russia fall into domestic chaos. Accordingly, in February 1992, the U.S. State Department flew fifty-four sorties by C-5 and C-141 cargo planes. By the end of the year, through an increased number of flights and diversified ways of transportation, the U.S. delivered $189 million in humanitarian assistance to Russia. Furthermore, Russia received $12.5 billion in commodity credit in 1992 from the U.S. and the European Community, which was only to be used for importing agricultural products from the U.S. and the West in general (Åslund 423, Central Intelligence Agency, "Disorder in the Former USSR: Can it Be Managed This Winter?" 144, Goldgeier and McFaul 77).

5.2. U.S. Bilateral Foreign Aid to Russia

The end of the Cold War signified the end of an era in which the provision of international aid automatically required partner countries to align with the ideological preferences of the donor country. Bilateral relations regarding international aid drastically changed with the collapse of the USSR. It was stated in 1992 that U.S. led allies should engage in the process of transforming the political and economic orders of the former Soviet Union. U.S. public and private institutions assigned themselves the task of re-creating Russia as a capitalist, democratic entity, with the State Department supervising the transition. We can identify that, besides international multilateral organizations, the U.S. government started to play an active role in the Russian transition from 1992. The most significant actors were the U.S. State Department and the U.S. Agency for International Development (USAID). Moreover, the U.S. Congress and a certain number of its proactive representatives were included in the legislative process to help make the world a safer place. In this subchapter, I highlight the role of U.S. bilateral assistance to Russia throughout the first Presidency of William J. Clinton (Åslund 418, Cohen 8, Hiro 34, Szent-Iványi, Paragi and Vári 38).

Based on the definition of the OECD, official bilateral development aid includes transactions, which are allocated by donor countries directly to partner states and domestic or international non-governmental organizations (NGOs). It is important to note that all projects directly financed by donor countries are realized under the supervision of donor countries in order to avoid corruption and the misuse of allocated funds originating from taxpayers' money. It is important because we have to see that mobilizing tremendous amounts of material assets requires not only a strong commitment but an insurance against unforeseeable systemic risks such as corruption, capital flight and bureaucratic governance (OECD 9).

The Bush administration ignored the idea of a massive U.S. governmental economic assistance program to help the Russian government create viable market economic conditions. The Bush administration was severely criticized both domestically and internationally for pursuing such a foreign policy. However, in contrast to George H.W. Bush, the Clinton administration positioned itself differently concerning the provision of international aid to Russia. Bill Clinton was determined to support the Russian transition. He believed that active promotion of the enlargement of the community of market democracies was a fundamental national security objective of the U.S. (Goldgeier and McFaul 10-12):

> Our national security strategy is based on enlarging the community of market democracies while deterring and containing a range of threats to our nation, our allies, and our interests. The more that democracy and political and economic liberalization take hold in the world, particularly in countries of geostrategic importance to us, the safer our nation is likely to be and the more our people are likely to prosper (A National Security Strategy of Engagement and Enlargement 2).

Clinton and his administration were determined to pursue policies designed to assist democratic and market reform in Russia as the key means of integrating Russia into the Western community of democratic states with functioning market economies. The fundamental reason for a pro-Russian U.S. foreign policy was based on the fact that a stabilized Russian market economy with 150 million consumers could effectively provide new economic opportunities for American enterprises. Therefore, a democratic Russia with free market economic structures integrated in the Western international system could result in minimizing the Russian risk factor in U.S. national interest (Goldgeier and McFaul 11, Talbott 68).

In accordance with his pro-Russian foreign policy, President Clinton's first budget proposal in April 1993 endeavored to increase bilateral assistance to Russia and other newly independent states from $417 million to $704 million. At a G-7-Russia meeting in Vancouver in 1993, President Clinton announced that U.S. bilateral assistance would further increase to $2.5 billion to Russia and the other newly independent states for the 1994 fiscal year. Out of this total amount, $1.6 billion was solely projected for Russia. It is important to highlight that President Clinton's political decision in supporting Russian transition with substantial increase in foreign aid and technical assistance was based on an alliance with Russian reforms. These reforms were based on Yeltsin's political promise to establish a market economy in Russia and on the intellectual and pragmatic premises of American economic advisors advocating shock therapy policy measures (Goldgeier and McFaul 92-94).

In materializing a more extensive U.S. bilateral foreign assistance to Russia, USAID was selected and it assumed primary responsibility for allocating U.S. funds. USAID programs focused on U.S. contractors who provided a variety of technical assistance in Russia. These technical assistance programs created subsidized business opportunities for U.S. companies and NGOs to help Russian transition via their technical assistance by providing advice, know-how and intellectual expertise to the Russian state and economic actors of the evolving Russian business sphere. However, USAID also focused on funding training programs in the United States for the development of post-

Soviet Russian expertise and assisted in funding nascent Russian think tanks, e.g., the Eurasia Foundation. However, USAID did not allocate funds directly to Russian partners; it rather supported American NGOs and enterprises to ensure a transparent framework for the use of U.S. money (Goldgeier and McFaul 95).

USAID assistance programs were sustained throughout the 1990s. USAID had annual financial obligations helping American companies to foster market initiatives and democratization in Russia. In 1997, the volume of USAID assistance to Russia reached just about $1.6 billion. USAID offered these funds to its contractors operating a variety of programs in Russia. In this respect, the U.S. government channeled $82.22 million for the Energy Efficiency and Market Reform program, $99.23 million for the Health Care Improvement program, $494.22 million for the Private Sector Initiatives program, $112.23 million for the Democratic Reform program, $199.15 million for the Housing Sector Reform program, $210 million for the Enterprise Funds program and $65.91 million for the Economic Restructuring and Financial Reform program (see Appendix, Table 11). On the aggregate, USAID committed a total of $9.6 billion from 1990 to 2000 to its Russian technical assistance programs (Åslund 419, U.S. Government Assistance 238).

5.3. U.S. Military Assistance to Russia

It was not only the executive branch and one of the U.S. government agencies, USAID, which proactively supported pro-Russian development policies but the U.S. Congress participated in encouraging responsible policies as well. The U.S. Congress helped create an efficient legal background in American domestic politics which ensured the expansion of U.S. national security interests to the world. After the Soviet disintegration, Russia still remained a nuclear power with more than 20,000 nuclear warheads and it also held a massive stockpile of non-nuclear weapons of mass destruction. Ukraine, Kazakhstan and Belarus had approximately 3,000 strategic warheads on their territory with no domestic authorities designated to control these weapons. Therefore, Russia was a global security concern and this security risk needed to be addressed without hesitation (Goldgeier and McFaul 41, Sachs 45).

In 1991, Congressman Les Aspin and Senator Sam Nunn proposed a $1 billion program for Soviet nuclear assistance. This program proposed cutting the Pentagon budget, therefore, Secretary of Defense, Richard Cheney, turned down this proposal. However, a modified bill was passed by the U.S. Senate with an overwhelming majority in early December 1991. This law, commonly referred to as the Cooperative Threat Reduction (CTR) program, authorized the use of $400 million drawn from the Pentagon budget for the assistance of the USSR to remove nuclear and chemical weapons. President Clinton maintained the CTR program throughout his Presidencies because it was a global security interest, which could only be enforced by a strong U.S. commitment. In accordance with the CTR program, based on 1997 information, the U.S. Department of Defense designated $1.4 billion in its budget to dismantle post-Soviet weapon systems, to reinvigorate chain of custody and to help the demilitarization of post-Soviet Russia and other post-Soviet countries (see Appendix, Table 12) (Combs 42-44, U.S. Government Assistance 239).

Consequently, U.S. initiated a program which helped make professional efforts to create a more secure world because the CTR program prevented the theft and smuggling of nuclear materials from the former Soviet Union member states. Moreover, U.S.-Russian bilateral relations peaked on 23 June, 1994 when Vice President Al Gore and Prime Minister Viktor Chernomyrdin signed an agreement to shut down plutonium reactors in Russia and put and end to the production of plutonium for military purposes. Concomitantly, the Clinton administration made a secret mission to Kazakhstan in which

U.S. experts had retrieved just about 600 kilograms of bomb-grade uranium from a poorly guarded Kazakh nuclear facility (Cox 48).

Conclusion

"We meant to change a nation, and instead, we changed a world."
(Ronald Reagan)[45]

The thesis showed how the U.S. orchestrated a comprehensive economic transition in post-Soviet Russia, where the political and economic authority of the communist superpower collapsed in a short period of time. The U.S. academia provided an intellectual roadmap for Russia based on the neoliberal shock therapy policy measures in order to save the bankrupt post-Soviet Russian state. Moreover, Russia succeeded in stabilizing its economy and made efforts to put its newly emerging market-based capitalist economic structures in operation and devise a trajectory for economic growth in the long run via adopting the principles of the Washington Consensus (Clague 1-7).

However, it is important to note that Gorbachev's targeted policies unleashed the demoralization of the communist superpower, which eventually ended the Cold War with an unexpected fall of the Soviet Union. The collapse of the totalitarian communist regime opened a window of opportunity for adopting a free market economy in Russia but this sudden economic regime change proved to be a highly complicated process. The scale of the Russian transition was unprecedented in human history because, in a relatively short period of time, systemic changes covered all spheres of the political, social and economic life (Hutchings 343, Kissinger 313-314, Palánkai 24, Sachs 704).

The Western academia, experts of international financial institutions and U.S. administrations had to face the changing of a planned economic architecture to a free

[45] Reagan, Ronald. "Farewell to the Nation", January 11, 1989. Web. <http://www.presidency.ucsb.edu/ws/?pid=29650>. Accessed: 03.07.2015.

market economy in a country that had not had significant market factors: the market and its institutional framework and private property. However, less than one month after the collapse of Soviet Union, in January 1992, Russia began its radical economic reform agenda. According to Nobel Laureate, Joseph Stiglitz, Russia had a crash course in installing free market economy and the U.S. was the teacher. However, we must consider the fact that several centuries were needed for the West to develop these market mechanisms. Moreover, after WWII, several decades were needed for European countries in order to develop competitive structures of a free market economy, adopt market-oriented policies and be capable of responding to incremental market changes to sustain their economic development trajectory (Grosfeld 97-98, Lipton and Sachs 213, Stiglitz 178, Zecchini 250).

U.S. foreign assistance did not target resurrecting what had been lost but it attempted to help create what had never existed before in Russia: a comprehensive market revolution via U.S. assistance through multilateral and bilateral assistance programs in addition to the assistance of the American academia. In this respect, the U.S. significantly contributed to the Russian transition to market economy because it assisted, coordinated and financed market reforms in all spheres of Russian public and private life. The U.S. proved to be a strong superpower economically to help Russia with its own resources and its leverage in post-WWII multilateral international financial institutions. Thus, the prevalent global liberal economic order embraced Russia to reconstruct its economy and thus it offered integration into the world economy in a short period of time (Åslund 439, Goldgeier and McFaul 92-93, Kagan 20).

Principles of the Washington Consensus guided U.S. experts in their advice to change the counterproductive post-Soviet economy. Shock therapy policies assumed that macroeconomic stabilization could only be successful if the entire property structure shifted from public to private ownership, which could create a hotbed for a free market based on individual economic interests and incentives. Liberalizing the economy was immensely important because it dismantled bureaucratic and administrative controls on domestic economic activities. We can see that the principles of the Washington Consensus along with a rapid and comprehensive use of shock therapy policy measures, under the advice of Jeffrey Sachs and David Lipton, were the driving principles in the Russian capitalist revolution (Sachs 706).

In this respect, Russia began its transition with a strong conceptual basis devised in the Western world. As Yeltsin embarked on creating a market economy in Russia, there was a stable political background to pursue those shock therapy policies which promised to stabilize Russia's macroeconomic environment while creating market economic structures at the same time. However, the legacy of the Soviet rule had dire economic consequences. Searching economic alliances in the Western world dated back to Gorbachev who had targeted G-7 governments to provide sufficient funds to continue his reforms and expand his policies for democratizing the Soviet Union. However, the changing international environment encouraged Yeltsin to be more resourceful in his pursuit of international financial aid (grants and credit) to be able to finance the expenditures of the Russian state.

Institutions of the Bretton Woods system markedly supported Russia from falling into political convulsion and from defaulting on Soviet debts. The IFIs placed a great emphasis on supporting post-Soviet Russia on its transition trajectory. Accordingly, IFIs offered a $24 billion package deal in 1992, which was subsequently followed by a $43 billion offer in 1993. Russia had to meet certain policy expectations, a set of conditionality of IFIs, which ensured donor countries and participating IFIs that Russia committed itself to the pro-market reform agenda. Due to the commitment of Russian governments, implementing shock therapy measures under the supervision of American experts and Western multilateral institutions stabilized the Russian economy by 1997. Russian macroeconomic figures started enticing foreign private investors and Russian inflation dropped close to 10 percent.

However, this sort of macroeconomic performance of Russia could not have come true without direct U.S. assistance. Even though President Bush was reluctant to spearhead supporting the post-Soviet transition, President Clinton championed post-Soviet transition on the basis of American national security interests. While multilateral institutions scattered financial responsibilities among its member states, U.S. bilateral foreign aid was based on directly targeted assistance programs financed by the national budget of the U.S. government. The unipolar moment destined the U.S. to rise and provide help to a geopolitical entity whose collapse would have completely undermined global stability. Therefore, helping Russian transition became an important policy agenda for the U.S. administration immediately after the inaugural of President Clinton in 1993.

Based on my research, the Bush administration was committed to help Russia avoid humanitarian catastrophe. It participated in an international orchestrated effort to provide basic products (food, medicine, clothing, etc.) as humanitarian aid. However, it was President Clinton who expanded the scope of U.S. bilateral assistance to Russia. USAID helped to mobilize U.S. budgetary funds to support U.S. companies and NGOs that indirectly helped the Russian macroeconomic stabilization process and supported market mechanisms with their intellectual expertise, technical and financial assistance. USAID was the vehicle for U.S. bilateral assistance to post-Soviet Russia, which helped Russian transition with approximately $10 billion in the 1990s. More importantly, the U.S. also helped to secure global geopolitical stability by financing governmental programs to dismantle insecure post-Soviet nuclear weapon systems. In 1997, the U.S. government budget designated approximately $1.5 billion for these kinds of programs.

On the whole, with its preponderant power within the Western institutional framework, the U.S. played a significant role in the Soviet economic change of regime. The U.S. unified the West and its institutions to provide an intellectual blueprint and extensive foreign financial assistance to stabilize the post-Soviet Russian economy. The U.S. showed its political influence and economic power in the Russian transition process. The leitmotif of the Russian transition was, first and foremost, based on the academic work of John Williamson whose theoretical approach was endorsed by and developed into a practical set of policy instruments by Jeffrey Sachs and his associates. Moreover, with the help of the West, the U.S. mobilized tens of billions of U.S. dollars to help the newly emerging Russian Federation to stabilize its economy and orchestrate a shift from planned economy to free market economy under the supervision of Western multilateral financial institutions. All the materials collected and all the information researched underpin and solidify my thesis statement, that is, the United States of America played an important role in the economic change of regime in the Soviet Union.

Appendix

Abbreviations

CBR – Central Bank of Russia

CIA – Central Intelligence Agency

CIS – Commonwealth of Independent States

CMEA – Council of Mutual Economic Assistance

CPSU – Communist Party of the Soviet Union

CTR – Cooperative Threat Reduction

EBRD – European Bank for Reconstruction and Development

EEC – European Economic Community

ERP – European Recovery Program

GATT – General Agreement on Tariffs and Trade

G-7 – Group of Seven Largest Industrialized Democracies

G-8 – Group of Eight Largest Industrialized Democracies

GDP – Gross Domestic Product

GKI (Goskomimusshchestvo) – State Property Committee

Gosbank – State Bank of the Soviet Union

Gosplan – State Planning Committee of the Soviet Union

IBRD – International Bank for Reconstruction and Development

IMF – International Monetary Fund

IFI – International Financial Institution

NEP – New Economic Policy

NGO – Non-governmental Organization

OECD – Organization for Economic Cooperation and Development

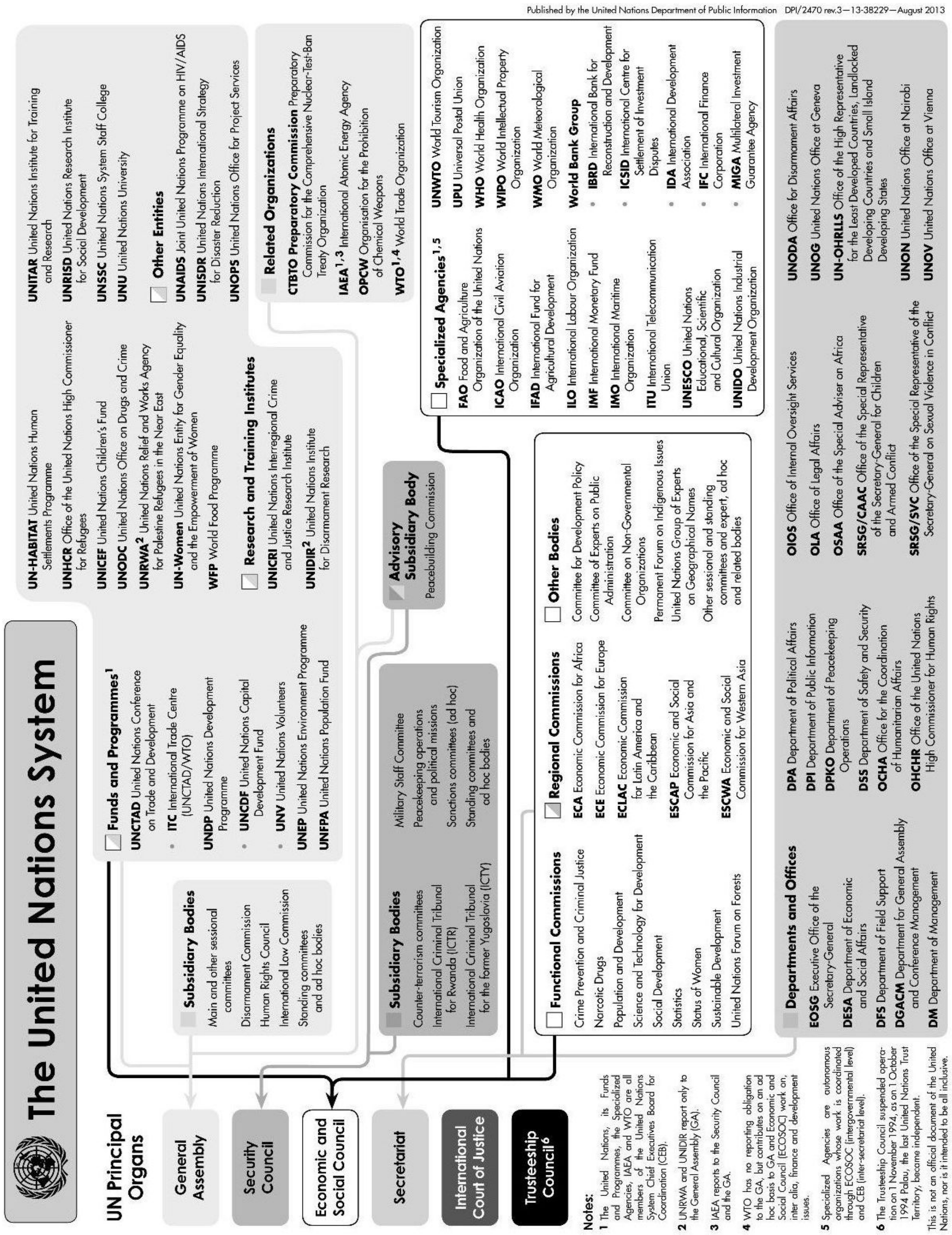
SOEs – State Owned Enterprises

UN – United Nations

USAID – U.S. Agency for International Development

USSR – Union of Soviet Socialist Republics

Table 1. The United Nations System[46]



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46 *The United Nations System*, n. pag. Web. <http://www.un.org/en/aboutun/structure/pdfs/UN%20system%20char t__letterbw_2013.pdf>. Accessed: 04.03.2015.

Table 2. The Decline in Industrial Production[47]

The Decline in Industrial Production in Economies in Transition, 1990-92

Percent per year, except where indicated

Country	*1990*	*1991*	*1992*[a]	*Cumulative change, 1989–92*[b]
Albania	−7.5	−43.0	. . .	−47.3
Bulgaria	−16.8	−11.2	−26.9	−46.0
Czechoslovakia	−3.5	−24.7	−10.0	−34.6
East Germany	−15.0	−20.0	−18.0	−44.2
Hungary	−8.4	−21.9	−12.5	−37.5
Poland	−24.1	−19.6	−3.8	−41.3
Romania	−14.3	−21.7	−18.5	−45.3
Russia	−2.6	−8.0	−20.0	−28.3

Sources: World Bank (1992); "International Economic Indicators: Central and Eastern Europe," *Financial Times*, September 28, 1992, p. 6; and *Biuletyn Statystyczny* (Monthly Statistical Bulletin), various issues.

a. World Bank projections for 1992 are used for Czechoslovakia, East Germany, and Russia. For Bulgaria, Hungary, Poland, and Romania, the 1992 figure is based on the percentage change from the second quarter of the year.

b. Cumulative change is calculated from 1989 through the most recent period in 1992 for which the data are available.

[47] Lipton, David and Jeffrey Sachs. *Prospects for Russia's Economic Reforms*. In: Brainard, William C. and George L. Perry, eds. *Brookings Papers on Economic Activity 2*. Washington, D.C.: The Brookings Institution, 1992, 245. Web. <http://www.brookings.edu/~/media/Projects/BPEA/1992%202/1992b_bpea_lipton_sachs_mau_phelps.PDF>. Accessed: 04.03.2015.

Table 3. Russia's Macroeconomic Performance[48]

Russia's Macroeconomic Performance

Indicator and units	*1990*	*1991*	*1992*[a]
Percent per year			
Real GDP	0.4	−9.0	. . .
Real industrial output	−0.1	−8.0	−13.5
Consumer price index	6.8	96.3	. . .
(Within period)	. . .	160.6	900.0
Average real wage	8.5	−9.5	−33.0[b]
Industrial real wage	6.9	−5.6	−28.0[b]
Ruble M2 (end of period)			
Nominal	15.3	111.1	198.0[c]
Real	. . .	−19.0	−73.0[c]
Percent of GDP			
Ruble M2 (end of period)[d]	67.7	59.8	14.8[c]
Budget deficit	. . .	19.9	4.4
Portion financed domestically	. . .	19.9	2.0
Billions of U.S. dollars			
Trade balance	−2.0	6.5	−1.3
Exports	80.9	51.6	14.9
Oil	27.1	11.8	3.8
Natural gas	9.6	10.3	3.4
Other	44.2	29.5	7.8
Imports	82.9	45.1	16.2
Debt service due	14.0	10.4	9.2[e]
Principal	11.1	7.8	5.6[e]
Interest	2.9	2.6	3.6[e]

Source: Government of Russia, and IMF (1992a, table 18, p. 70, and table 24, p. 77).
a. Based on first six months of 1992, except where noted.
b. Data for August 1992 in comparison with the average of 1991.
c. Data for end of July 1992.
d. Percent of GDP based on annualized estimates of monthly GDP for the final month in each time period. Percent changes for 1992 represent July 1992 in comparison with December 1991.
e. Projected for all of 1992.

48 Lipton, David and Jeffrey Sachs. *Prospects for Russia's Economic Reforms*. In: Brainard, William C. and George L. Perry, eds. *Brookings Papers on Economic Activity 2*. Washington, D.C.: The Brookings Institution, 1992, 221. Web. <http://www.brookings.edu/~/media/Projects/BPEA/1992%202/1992b_bpea_lipton_sachs_mau_phelps.PDF>. Accessed: 04.03.2015.

Table 4. Russia's Balance of Payments[49]

Russia's Balance of Payments, 1990-92*

Billions of U.S. dollars

	1990	*1991*	*1992*[b]
Current account	−4.5	4.1	−7.7
Trade balance	−2.0	6.5	−2.7
Exports	80.9	51.6	34.4
Oil	27.1	11.8	9.9
Natural gas	9.6	10.3	7.4
Other	44.2	29.5	17.1
Imports	−82.9	−45.1	−37.1
Service account	−4.1	−4.6	−5.9
Interest due	−2.9	−2.7	−3.7
Gold sales	1.6	2.2	0.9
Capital account	1.4	2.7	3.3
Grants	0.0	1.6	2.7
Long-term capital (net)	2.0	3.8	5.6
Other	−0.6	−2.7	−5.0
Overall balance	−3.1	6.8	−4.4
Financing	3.1	−6.8	4.4
Net international reserves	9.2	0.6	−0.7
Gross reserves (− increase)	5.1	1.5	−1.4
IMF credits	0.0	0.0	1.0
Short-term liabilities	4.1	−0.9	−0.3
Arrears	2.7	−0.1	−2.9
Debt deferral	0.0	0.2	7.9
Other[c]	−8.8	−7.5	0.1

Sources: International Monetary Fund (1992a) for 1990 only, and government of Russia.
a. Excludes inter-republican trade.
b. Figures for 1992 are estimates.
c. For 1990 and 1991, primarily reflects the financing of Russia's trade surpluses with other republics.

[49] Lipton, David and Jeffrey Sachs. *Prospects for Russia's Economic Reforms*. In: Brainard, William C. and George L. Perry, eds. *Brookings Papers on Economic Activity 2*. Washington D.C.: The Brookings Institution, 1992, 223. Web. <http://www.brookings.edu/~/media/Projects/BPEA/1992%202/1992b_bpea_lipton_sachs_mau_phelps.PDF>. Accessed: 04.03.2015.

Table 5. Growth in Real GDP[50]

Growth in real GDP in central and eastern Europe, the Baltic states and the CIS

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimated level of real GDP in 1998 (1989=100)
Albania	9.8	-10.0	-27.7	-7.2	9.6	9.4	8.9	9.1	-7.0	8.0	8.0	86
Bulgaria	0.5	-9.1	-11.7	-7.3	-1.5	1.8	2.1	-10.1	-7.0	3.5	0.0	66
Croatia	-1.6	-7.1	-21.1	-11.7	-8.0	5.9	6.8	6.0	6.5	2.3	-0.5	78
Czech Republic	1.4	-1.2	-11.5	-3.3	0.6	3.2	6.4	3.8	0.3	-2.3	0.0	95
Estonia	-1.1	-8.1	-13.6	-14.2	-9.0	-2.0	4.3	3.9	10.6	4.0	0.0	76
FYR Macedonia	0.9	-9.9	-7.0	-8.0	-9.1	-1.8	-1.2	0.8	1.5	2.9	0.0	72
Hungary	0.7	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	5.1	3.0	95
Latvia	6.8	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.6	1.5	59
Lithuania	1.5	-5.0	-6.2	-21.3	-16.0	-9.5	3.5	4.9	7.4	5.2	0.0	65
Poland	0.2	-11.6	-7.0	2.6	3.8	5.2	7.0	6.1	6.9	4.8	3.5	117
Romania	-5.8	-5.6	-12.9	-8.8	1.5	3.9	7.1	4.1	-6.9	-7.3	-4.0	76
Slovak Republic	1.4	-2.5	-14.6	-6.5	-3.7	4.9	6.9	6.6	6.5	4.4	1.8	100
Slovenia	-1.8	-4.7	-8.9	-5.5	2.8	5.3	4.1	3.5	4.6	3.9	3.5	104
Central and eastern Europe and the Baltic states[1]	*-0.2*	*-6.6*	*-10.7*	*-3.6*	*0.4*	*3.9*	*5.5*	*4.0*	*3.6*	*2.4*	*1.6*	*95*
Armenia	14.2	-7.4	-17.1	-52.6	-14.8	5.4	6.9	5.8	3.1	7.2	4.0	41
Azerbaijan	-4.4	-11.7	-0.7	-22.6	-23.1	-19.7	-11.8	1.3	5.8	10.1	3.7	44
Belarus	8.0	-3.0	-1.2	-9.6	-7.6	-12.6	-10.4	2.8	10.4	8.3	1.5	78
Georgia	-4.8	-12.4	-20.6	-44.8	-25.4	-11.4	2.4	10.5	11.0	2.9	3.0	33
Kazakhstan	-0.4	-0.4	-13.0	-2.9	-9.2	-12.6	-8.2	0.5	2.0	-2.5	-1.7	61
Kyrgyzstan	4.0	3.0	-5.0	-19.0	-16.0	-20.0	-5.4	7.1	9.9	1.8	0.0	60
Moldova	8.5	-2.4	-17.5	-29.1	-1.2	-31.2	-3.0	-8.0	1.3	-8.6	-5.0	32
Russia	na	-4.0	-5.0	-14.5	-8.7	-12.7	-4.1	-3.5	0.8	-4.6	0.0	55
Tajikistan	-2.9	-1.6	-7.1	-29.0	-11.0	-18.9	-12.5	-4.4	1.7	5.3	5.0	42
Turkmenistan	-6.9	2.0	-4.7	-5.3	-10.0	-18.8	-8.2	-8.0	-26.1	4.2	17.0	44
Ukraine	4.0	-3.4	-11.6	-13.7	-14.2	-23.0	-12.2	-10.0	-3.2	-1.7	-2.5	37
Uzbekistan	3.7	1.6	-0.5	-11.1	-2.3	-4.2	-0.9	1.6	2.4	3.3	3.0	90
Commonwealth of Independent States[2]	*0.6*	*-3.7*	*-6.0*	*-14.2*	*-9.3*	*-13.8*	*-5.2*	*-3.5*	*0.9*	*-3.5*	*0.0*	*53*
Central and eastern Europe, the Baltic states and the CIS	0.3	-5.0	-8.1	-9.5	-5.0	-6.0	-0.5	-0.2	2.0	-1.2	0.8	65

Notes:

Data for 1989-97 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank, theOECD, PlanEcon and the Institute of International Finance. Data for 1998 are preliminary actuals, mostly official government estimates. Data for 1999 r epresent EBRD projections. Estimates for Bosnia and Herzegovina are only available since 1995 and therefore are not included in this summary table. Data for Bosnia and Herzegovina are provided in the selected economic indicators at the back of this Report.

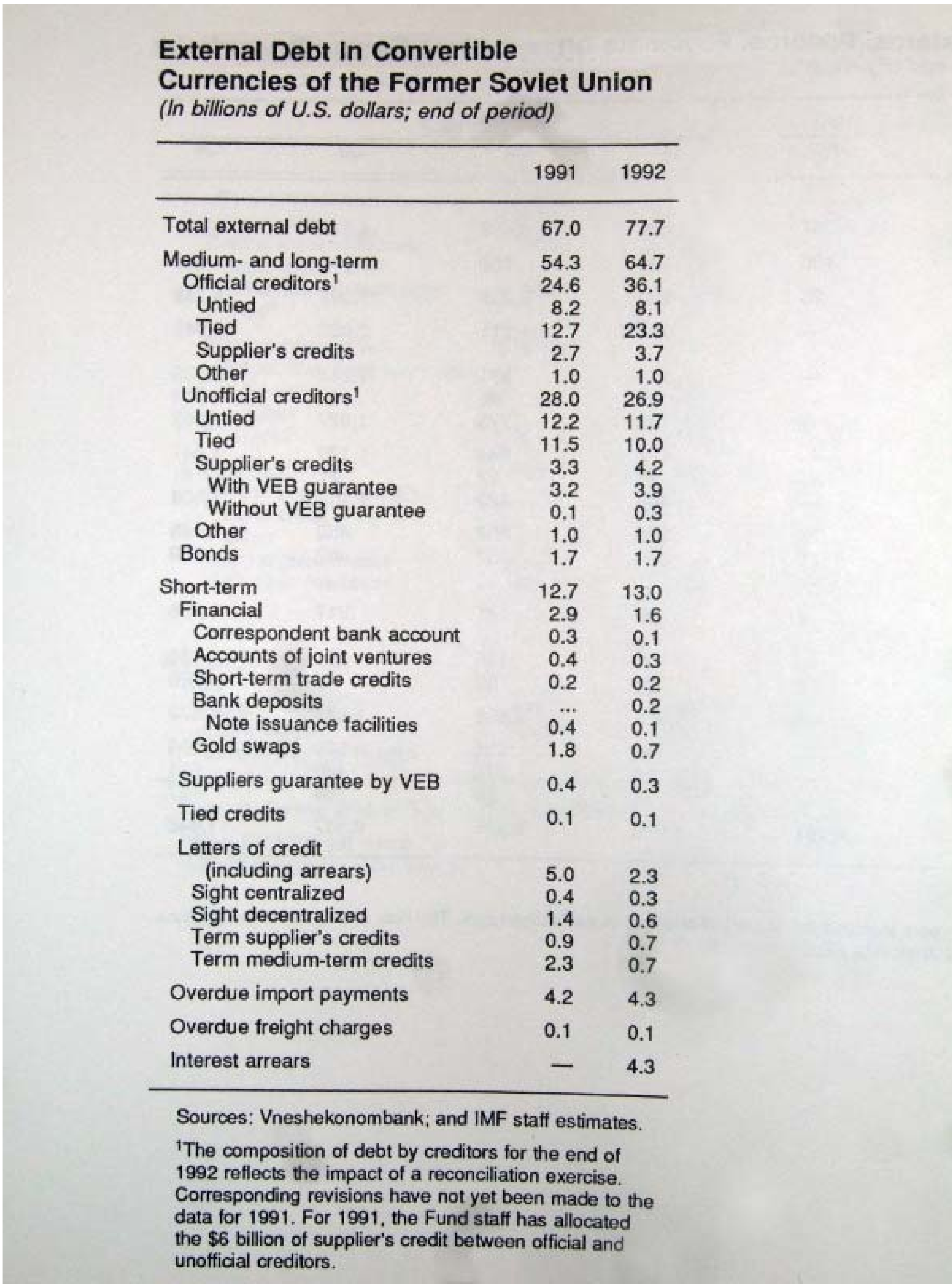
1 Estimates for real GDP represent weighted averages for Albania, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The weights used for the growth rates were EBRD estimates of nominal dollar-GDP lagged by one year; those used for the index in the last column were EBRD estimates of GDP converted at PPP US$ exchange rates in 1989.

2 Here taken to include all countries of the former Soviet Union, except Estonia, Latvia and Lithuania. Estimates of real GDP represent weighted averages. The weights used for thegrowth rates were EBRD estimates of nominal dollar-GDP lagged by oneyear; those used for the index in the last column were EBRD estimates of GDPconverted at PPP US$exchange rates in 1989.

[50] *Transition Report 1999: Ten Years of Transition*. London: European Bank for Reconstruction & Development, 1999, 73. Web. <http://www.ebrd.com/downloads/research/transition/TR99.pdf>. Accessed: 04.03.2015.

Table 6. External Debt in Convertible Currencies of the Former Soviet Union[51]

(in billions of U.S. dollars; end of period)



External Debt in Convertible Currencies of the Former Soviet Union
(In billions of U.S. dollars; end of period)

	1991	1992
Total external debt	67.0	77.7
Medium- and long-term	54.3	64.7
Official creditors[1]	24.6	36.1
Untied	8.2	8.1
Tied	12.7	23.3
Supplier's credits	2.7	3.7
Other	1.0	1.0
Unofficial creditors[1]	28.0	26.9
Untied	12.2	11.7
Tied	11.5	10.0
Supplier's credits	3.3	4.2
With VEB guarantee	3.2	3.9
Without VEB guarantee	0.1	0.3
Other	1.0	1.0
Bonds	1.7	1.7
Short-term	12.7	13.0
Financial	2.9	1.6
Correspondent bank account	0.3	0.1
Accounts of joint ventures	0.4	0.3
Short-term trade credits	0.2	0.2
Bank deposits	...	0.2
Note issuance facilities	0.4	0.1
Gold swaps	1.8	0.7
Suppliers guarantee by VEB	0.4	0.3
Tied credits	0.1	0.1
Letters of credit (including arrears)	5.0	2.3
Sight centralized	0.4	0.3
Sight decentralized	1.4	0.6
Term supplier's credits	0.9	0.7
Term medium-term credits	2.3	0.7
Overdue import payments	4.2	4.3
Overdue freight charges	0.1	0.1
Interest arrears	—	4.3

Sources: Vneshekonombank; and IMF staff estimates.

[1]The composition of debt by creditors for the end of 1992 reflects the impact of a reconciliation exercise. Corresponding revisions have not yet been made to the data for 1991. For 1991, the Fund staff has allocated the $6 billion of supplier's credit between official and unofficial creditors.

[51] Ernesto Hernández-Catá et al. *Russian Federation*. Washington, D.C.: International Monetary Fund, 1993, 116. Print.

Table 7. Inflation[52]

Inflation in central and eastern Europe, the Baltic states and the CIS

(Change in year-end retail/consumer price level, in per cent)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (estimate)	1999 (projection)
Albania	0.0	0.0	104.1	236.6	30.9	15.8	6.0	17.4	42.1	8.7	2.0
Bulgaria	10.0	72.5	338.9	79.4	63.8	121.9	32.9	310.8	578.6	1.0	2.0
Croatia	na	136.0	249.8	938.2	1,149.0	-3.0	3.8	3.4	3.8	5.4	4.0
Czech Republic	1.5	18.4	52.0	12.7	18.2	9.7	7.9	8.6	10.0	6.8	3.5
Estonia	na	na	303.8	953.5	35.6	42.0	29.0	15.0	12.5	4.4	3.1
FYR Macedonia	na	na	229.7	1,935.0	241.8	55.0	9.0	-0.6	2.6	-3.1	2.0
Hungary	18.1	33.4	32.2	21.6	21.1	21.2	28.3	19.8	18.4	10.3	8.0
Latvia	na	na	262.4	959.0	35.0	26.0	23.1	13.1	7.0	2.8	2.1
Lithuania	na	na	345.0	1,161.1	188.8	45.0	35.5	13.1	8.5	2.4	2.5
Poland	639.5	249.0	60.4	44.3	37.6	29.4	21.6	18.5	13.2	8.6	6.5
Romania	0.6	37.7	222.8	199.2	295.5	61.7	27.8	56.9	151.4	40.6	40.0
Slovak Republic	1.5	18.4	58.3	9.1	25.1	11.7	7.2	5.4	6.4	5.6	14.5
Slovenia	2,772.0	104.6	247.1	92.9	22.8	19.5	9.0	9.0	8.8	6.5	6.5
Central and eastern Europe and the Baltic states											
Median[1]	*5.8*	*37.7*	*229.7*	*199.2*	*35.6*	*26.0*	*21.6*	*13.1*	*10.0*	*5.6*	*3.5*
Mean[1]	*430.4*	*74.4*	*192.8*	*511.0*	*166.6*	*35.1*	*18.5*	*37.7*	*66.4*	*7.7*	*7.4*
Armenia	na	na	25.0	1,341.0	10,896.0	1,885.0	31.9	5.8	21.8	-1.3	8.0
Azerbaijan	na	na	126.0	1,395.0	1,294.0	1,788.0	84.5	6.5	0.3	-7.6	2.0
Belarus	na	na	93.0	1,559.0	1,996.0	1,960.0	244.0	39.3	63.4	181.7	155.0
Georgia	0.9	4.8	131.0	1,176.9	7,487.9	6,474.4	57.4	14.3	7.2	10.7	9.5
Kazakhstan	na	104.6	136.8	2,984.1	2,169.0	1,160.0	60.4	28.6	11.3	1.9	19.6
Kyrgyzstan	na	na	170.0	1,259.0	1,363.0	95.7	31.9	35.0	14.7	18.3	40.0
Moldova	na	na	151.0	2,198.0	837.0	116.0	23.8	15.1	11.2	18.2	30.0
Russia	na	na	161.0	2,506.1	840.0	204.4	128.6	21.8	10.9	84.5	45.0
Tajikistan	na	na	204.0	1,364.0	7,343.7	1.1	2,133.3	40.5	163.6	2.7	55.0
Turkmenistan	na	na	155.0	644.0	9,750.0	1,328.0	1,262.0	446.0	21.5	19.8	40.0
Ukraine	na	na	161.0	2,730.0	10,155.0	401.0	181.0	39.7	10.1	20.0	17.0
Uzbekistan	na	na	169.0	910.0	885.0	1,281.0	117.0	64.0	50.0	26.0	42.0
Commonwealth of Independent States											
Median[1]	*na*	*na*	*153.0*	*1,379.5*	*2,082.5*	*1,220.5*	*100.8*	*31.8*	*13.0*	*18.3*	*35.0*
Mean[1]	*na*	*na*	*140.2*	*1,672.3*	*4,584.7*	*1,391.2*	*363.0*	*63.0*	*32.2*	*31.2*	*38.6*

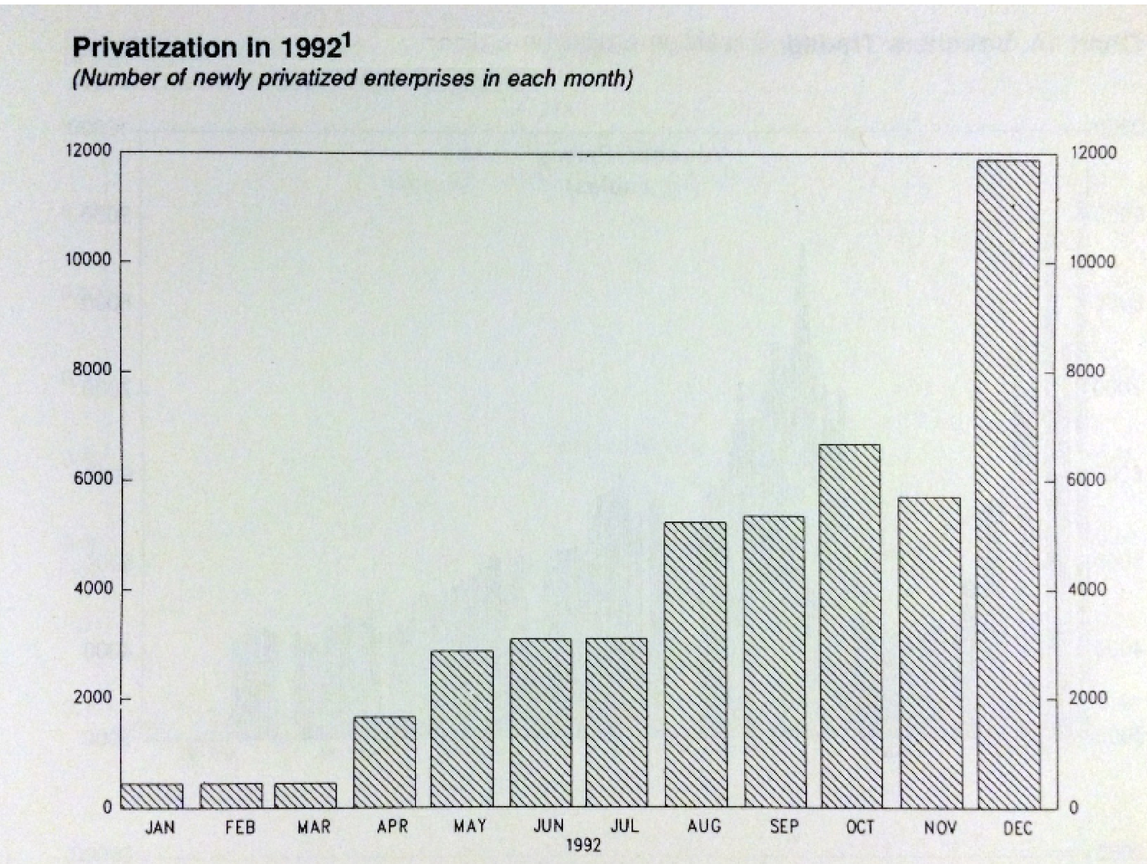
Notes:

Data for 1989-97 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1998 are preliminary actuals, mostly official government estimates. Data for 1999 r epresent EBRD projections. Estimates of inflation for Bosnia and Herzegovina (for the Federation and Republika Srpska separately) are provided in the selected economic indicators at the back of this Report.

1 The median is the middle value after all inflation rates have been arranged in order of size. The mean (unweighted average) tends to exceed the median, due to outliers caused by very high inflation rates in certain countries.

52 *Transition Report 1999: Ten Years of Transition*. London: European Bank for Reconstruction & Development, 1999, 76. Web. <http://www.ebrd.com/downloads/research/transition/TR99.pdf>. Accessed: 04.03.2015.

Table 8. Privatization[53]



Source: State Committee for the Management of State Property

[1]For January–March, monthly data are not available, so these monthly figures are an average of the cumulative January–March numbers.

[53] Ernesto Hernández-Catá et al. *Russian Federation*. Washington, D.C.: International Monetary Fund, 1993, 75. Print.

Table 9. Financial Assistance to Russia in 1992[54]

(in billions of U.S. dollars)

Financial Assistance to Russia in 1992

(In billions of U.S.dollars)

	$24 billion Package	Actual Estimate
Bilateral creditors and the EC[1]	11.0	15.8
Multilateral creditors	4.5	1.0[2]
Debt relief (interest)	2.5	—[3]
Subtotal	18.0	16.8
Stabilization fund	6.0	—
Total	24.0	16.8
Memorandum items:		
Principal deferral	7.2	7.1
Arrears	...	6.9[2]
Total, including principal deferral and arrears	31.2	30.0

Sources: Press release from the U.S. Administration of April 2, 1992; Russian authorities; and IMF staff estimates.

[1]Grants and loans. The details of the $24 billion package were never announced, and the composition of the actual disbursements might be different from the original package. For example, the package excluded housing grants from Germany, which were part of the actual disbursements ($1.1 billion).

[2]The external assistance from multilateral creditors, excluding technical assistance, amounted to $1 billion from the Fund, $1 million from the World Bank, and $8 million from the European Bank for Reconstruction and Development (EBRD).

[3]The $24 billion package assumed rescheduling or deferral of interest on pre-cut-off medium- and long-term debt. Although this was not granted in 1992, the corresponding interest obligations were not paid, which is reflected in arrears accumulation. Official bilateral creditors agreed in April 1993 to a more comprehensive rescheduling of interest falling due in 1992.

[54] Ernesto Hernández-Catá et al. *Russian Federation*. Washington, D.C.: International Monetary Fund, 1993, 117. Print.

Table 10. Foreign Direct Investment[55]

Foreign direct investment

(Net inflows recorded in the balance of payments)

	1989	1990	1991	1992	1993	1994	1995	1996	1997 (revised)	1998 (estimate)	1999 (projection)	Cumulative FDI-inflows 1989-98	Cumulative FDI-inflows 1989-98 per capita	FDI-inflows per capita 1997	FDI-inflows per capita 1998	FDI-inflows (in per cent of GDP) 1997	FDI-inflows (in per cent of GDP) 1998
	(in US$ millions)											(in US$ millions)		(in US$)			
Albania	—	—	8	32	45	65	89	97	42	45	43	423	132	13	14	1.9	1.5
Bulgaria	—	—	56	42	40	105	82	100	497	401	700	1,323	159	60	48	4.8	3.1
Croatia	—	—	—	13	77	95	83	529	346	854	750	1,997	444	72	190	1.8	4.2
Czech Republic	—	—	—	983	552	749	2,526	1,388	1,275	2,485	3,500	9,957	967	124	241	2.5	4.5
Estonia	—	—	—	—	156	212	199	111	130	575	350	1,382	953	89	396	2.8	10.6
FYR Macedonia	—	—	—	—	—	24	13	12	18	175	30	242	121	9	88	0.5	5.7
Hungary	187	311	1,459	1,471	2,339	1,146	4,453	1,987	1,653	1,453	1,550	16,459	1,627	163	144	3.7	3.1
Latvia	—	—	—	43	51	155	244	376	515	220	150	1,604	642	206	88	9.3	3.5
Lithuania	—	—	—	—	30	31	72	152	328	921	400	1,534	415	89	249	3.4	8.9
Poland	—	—	117	284	580	542	1,134	2,768	3,041	6,600	6,500	15,066	389	79	171	2.2	4.5
Romania	—	18	37	73	97	341	417	263	1,224	2,040	1,345	4,510	200	54	90	3.5	4.7
Slovak Republic	—	24	82	100	168	250	202	251	177	508	500	1,762	326	33	94	0.9	2.5
Slovenia	—	-2	41	113	111	131	170	178	295	154	210	1,192	596	148	77	1.6	0.8
Central and eastern Europe and the Baltic states	*187*	*351*	*1,800*	*3,154*	*4,246*	*3,847*	*9,683*	*8,212*	*9,541*	*16,431*	*16,028*	*57,451*	*184*	*30*	*53*	*1.1*	*2.1*
Armenia	—	—	—	—	—	3	19	22	52	232	150	328	89	14	63	3.2	12.6
Azerbaijan	—	—	—	—	20	22	282	661	1,093	1,024	780	3,102	408	144	135	28.4	24.9
Belarus	—	—	—	—	18	11	15	73	198	141	188	456	45	19	14	1.5	1.0
Georgia	—	—	—	—	—	8	6	54	236	221	96	526	98	44	41	4.5	4.3
Kazakhstan	—	—	—	—	473	635	964	1,137	1,320	1,132	800	5,661	372	84	74	5.9	5.1
Kyrgyzstan	—	—	—	—	10	45	96	46	83	52	64	332	72	18	11	4.7	3.1
Moldova	—	—	—	17	14	18	73	56	64	88	170	330	76	15	20	2.9	5.1
Russia	—	—	—	—	—	539	1,710	1,700	3,752	1,200	3,500	8,901	61	25	8	0.8	0.4
Tajikistan	—	—	—	—	9	12	20	25	30	34	29	130	22	5	6	2.7	2.8
Turkmenistan	—	—	—	—	79	103	233	129	108	110	100	762	157	23	23	5.9	5.2
Ukraine	—	—	—	200	200	100	300	526	600	700	600	2,626	52	12	14	1.2	1.7
Uzbekistan	—	—	—	9	48	73	-24	90	167	170	226	533	23	7	7	1.2	1.2
Commonwealth of independent States	—	—	—	*226*	*871*	*1,568*	*3,684*	*4,520*	*7,703*	*5,104*	*6,703*	*23,687*	*34*	*11*	*7*	*0.4*	*0.3*
Total	187	351	1,800	3,380	5,117	5,415	13,377	12,732	17,244	21,535	22,731	81,138	80	17	17	0.7	0.7

Sources: IMF, central banks and EBRD estimates.

Notes:

For most countries, figures only cover investment in equity capital and in some cases contributions in kind. For those countries (e.g. Estonia, Slovak Republic) where net investment into equity capital was not easily available, more recent data include reinvested earnings as well as inter-company debt transactions.

Theincreasing outward FDI flows of transition economies are driving a wedge between net and gross FDI inflows. In 1998, for example, gross inflows exceedednet inflows by 15% in Croatia, 30% in the Slovak Republic, 7% in Slovenia, and 36% in Russia.

55 *Transition Report 1999: Ten Years of Transition*. London: European Bank for Reconstruction & Development, 1999, 79. Web. <http://www.ebrd.com/downloads/research/transition/TR99.pdf>. Accessed: 04.03.2015.

Table 11. USAID Cumulative Obligations for Russia in 1997[56]

(Millions of dollars rounded to the nearest $10,000)

USAID Bureau for Europe and the NIS	Amount
NIS Special Initiatives (Humanitarian, etc.)	$44,49
Energy Efficiency and Market Reform	$82,22
Environmental Policy and Technology	$70,95
Health Care Improvement	$99,23
Private Sector Initiatives	$494,22
Food Systems Restructuring	$47,01
Democratic Reform	$112,23
Housing Sector Reform	$199,15
Economic Restructuring and Financial Reform	$65,91
Eurasia Foundation	$21,39
Enterprise Funds	$210,00
Exchanges and Training	$85,48
Russia Energy and Environmental Commodity Import Program	$61,50
Total	**$1,593.79**
Other USAID Programs	
USAID Farmer to Farmer Program	$16,79
Transfers to other USAID Bureaus	$7,60
Total other USAID Programs	$24,39
Total	**$1,618.18**

56 *U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union.* Washington D.C.: U.S. Department of State, 1998, 238. Web. <http://pdf.usaid.gov/pdf_docs/PDABQ678.pdf>. Accessed: 04.03.2015.

Table 12. U.S. Department of Defense Cumulative Obligations for Russia in 1997[57]

(Millions of dollars rounded to the nearest $10,000)

Cooperative Threat Reduction (CTR) Programs (Nunn-Lugar)	**Belarus**	**Kazakhstan**	**Russia**	**Ukraine**	**Total CTR in four countries**
Weapons Dismantlement	$29,17	$67,15	$365,99	$262,59	
Chain of Custody	$20,64	$34,69	$358,68	$49,78	
Demilitarization	$30,54	$32,01	$102,60	$74,01	
Other	N/A	N/A	$29,95	N/A	
Total CTR	$80,35	$133,85	$857,22	$386,38	**$1,457.8**

[57] *U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union.* Washington D.C.: U.S. Department of State, 1998, 239. Web. <http://pdf.usaid.gov/pdf_docs/PDABQ678.pdf>. Accessed: 04.03.2015.

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