

## The Soviet collapse and the Russian collapse.

# Stealing the State

BY STEPHEN KOTKIN

**"L**et's face it," said George Soros, Anatoly Chubais is "tainted." Chubais is first deputy prime minister of Russia and the former chief of Russia's privatization. Soros has been the great champion of Russia's transition, one of the few individuals to match rhetorical support with financial support, first with philanthropy, now also with investment and with bridge loans to the Russian government. Soros was speaking about Chubais at a symposium at Harvard University on investment in Russia; but to point out, in 1998, that Chubais's reform machinations are tainted is akin to ascending a soapbox and declaiming, with an air of intellectual courage, that most French intellectuals in the 1950s were... Communists!

The *New York Times*, another unwavering enthusiast for the Russian transition, has gone further, admonishing Chubais in an editorial to step down. This came after the sore losers in Russia's first apparently competitive bidding auction (for a 25 percent stake in Svyazinvest, a state telecommunications conglomerate) used their private media outlets to divulge that Chubais had accepted an "advance" for a coauthored book on privatization with dim sales prospects. A publisher's miscalculation, one might conclude—except that the company was subsequently acquired by the bank that won the Svyazinvest auction (with a tender of \$1.87 billion). The amount of the book advance was \$90,000.

For years, as part of Russia's dash to the market, untold billions of dollars' worth of properties have changed hands under Chubais's direction, with Western cheerleading, consultants, and cash. But all of a sudden we are shocked, shocked by "robber-baron capitalism," and someone must be held accountable. The uproar over Chubais's petty greed reflects a certain disappointment over the course of events in Russia. But that disappointment derives from an insufficient grasp of what has transpired.

Amid lamentations over "reforms" stymied by Communist troglodytes, the  
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repudiation of socialism and the dissolution of the Soviet Union seemed to come out of the blue. An institutional loss of confidence turned into a self-fulfilling spiral. "Soviet institutions," explains Steven L. Solnick, "were victimized by the organizational equivalent of a colossal 'bank run.'" Soviet officials sensed the impending doom, and they "rushed to claim... assets before the bureaucratic doors shut for good." Of course, "unlike [in] a bank run, the defecting officials were not depositors claiming their rightful assets, but employees of the state

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*Stealing the State:  
Control and Collapse in Soviet Institutions*  
by Steven L. Solnick  
(Harvard University Press, 337 pp., \$49.95)

*The Political History of Economic  
Reform in Russia, 1985-1994*  
by Vladimir Mau  
(Centre for Research into Communist  
Economies, 132 pp., £9.95)

*Privatizing Russia*  
by Maxim Boycko, Andrei Shleifer,  
and Robert Vishny  
(MIT Press, 165 pp., \$12.50)

*Kremlin Capitalism:  
Privatizing the Russian Economy*  
by Joseph R. Blasi, Maya Kroumova,  
and Douglas Kruse  
(Cornell University Press, 249 pp., \$16.95)

*Boris El'tsin: ot rassveta do zakata*  
[Boris Yeltsin: From Dawn to Dusk]  
by Aleksandr Korzhakov  
(Interbuk, 479 pp.)

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appropriating state assets." And they grabbed everything that was "fungible." (From the wreckage Solnick himself plucked a valuable book.)

It looked like the end of history, but it was a bank run. Solnick's study of the "stealing" of the state proceeds through three case studies: the Communist youth league (Komsomol); the system of mandatory job assignments for university graduates; and universal military conscription. Examining archival materials, he found that Soviet youth displayed a

pattern, not of accumulating ferment, but of deepening passivity. A survey in 1961 of 17,000 young people reported that only one-quarter of them listed building a Communist society as a goal of their lives. The rest singled out music, social activities, and the need to avoid blue-collar occupations. Youth league officials, at a gathering in 1968 devoted in part to a discussion of apathy among the rank and file, occupied themselves with trying to come to grips with *Easy Rider*, the American film that had been officially banned. Some stalwarts scolded the others for enjoying the film, but, as Solnick writes, "even the indoctrinators... seem to have been inadequately indoctrinated."

There was cynicism over a long time among youth and older youth officials, Solnick argues, and it indicates that neither generational conflict nor ideological decay can explain the regime's abrupt loss of control over institutions such as the Komsomol in the 1980s. The Komsomol deserted into opportunism, but until the "bank run" it functioned. The question, therefore, is why "Gorbachev's reforms apparently caused mid-level and lower-level Soviet bureaucrats to abandon decades-long patterns of subordination and to defy the authority of their institutional bosses." Solnick contends that "discretionary behavior" among "enterprising" officials was unintentionally let loose. The reforms sought to achieve state aims by enabling greater local initiative, but a divergence of interests between state officeholders and top rulers pushed decentralization much further than intended.

**T**he Komsomol vanished along with its bank deposits. So did the system of mandatory job assignments for university graduates. But Solnick's third case, the Soviet draft, survived the events of 1991, notwithstanding the known prevalence of drunkenness, violent hazing, and noncombat deaths in the army. Observing that "assets" such as draft boards could not be easily expropriated, he overlooks the garage sales of Kalashnikovs, communications equipment, and tanks. He also neglects to mention that the Komsomol was linked to the Communist Party and so went down with it, and that the system of job assignments formed part of the planned economy and could not survive the latter's demise; but the army was a state institution, not a party institution. It could exist, whatever the nature of economic organization, provided it received allocations from the state budget and drew on a sense of statehood.

The state survived the party and socialism. Indeed, the Communist Party



had never displaced the state. After the revolution in 1917, tsarist officers and bureaucrats were incorporated into the new order for their much-needed expertise. But they were not trusted, and so the revolutionary authorities paired the experts with political commissars. The next generation of officers and bureaucrats were graduates of Soviet schools, but the party-state parallelism was already institutionalized. Thus, the Soviet Union acquired two separate bureaucracies, one of the party and one of the state, mirroring each other in function and in office from the lowest levels to the highest.

By itself the Soviet state was immense, encompassing the whole system of soviets, or legislatures, and the executive, or the various ministries, the planning agencies, the KGB, the army. To conduct business, the staff of each state institution usually held two meetings, once as party members and once as state functionaries. Since almost all state officials were party members, the two meetings frequently seemed identical. At the same time, the gargantuan party bureaucracy held its own meetings alongside those of the state bodies. Thus, a decision on school textbooks meant a resolution from both the party's Central Committee and the government's Council of

Ministers, to be followed by instructions from the Central Committee departments in charge of ideology and education and the Ministry of Education, and so on, right down to the city and district party committees and the local branches of the state education bureaucracy.

Why not, then, remove the party as redundant, and get on only with the state? That is what Gorbachev half-wittingly set out to do. But he had an unpleasant surprise. The problem that Gorbachev encountered—the bank run—took place because the party undergirded the Union. Contrary to common understanding, the Soviet state really was a union comprising 15 republics. Each republic had fixed borders, a quasi-parliament, a government, an academy of science, and a national language, all established mostly as a result of deliberate policies undertaken by the Soviet regime. The constitution gave the republics the right to secede. But self-rule was blocked, because the party was not federal. The Communist Party of, say, Georgia did not have even the nominal autonomy of a republic: it was subordinated to Moscow like the party committee from any Russian province. As long as the centralized party apparatus held sway, the federal institutions of the state could be overridden. But remove

the party and you got a voluntary union of states, any one of which could choose to withdraw.

Gorbachev had trouble grasping his country's structure. He also feared party conservatives. Glasnost was introduced to force "reform" on the recalcitrant, but it had the opposite effect. It heightened conservative opposition. In late 1988, to avoid a repeat of October 1964, when a conspiracy of the apparat ousted Khrushchev by accepting his "request" to resign, Gorbachev abolished the Union-wide supervisory functions of the party. By sabotaging the apparat, and in such a masterly way that the conservatives scarcely noticed, the wily general secretary secured his own position—but he also inadvertently placed the republics beyond Moscow's control. The Supreme Soviets of the sovereign republics, freed from party domination, began to pass laws superseding those of the USSR. Hectoring and the inconclusive use of force could not alter the new political balance.

How could the Soviet Union have "survived decades of inescapably real challenges like war, famine, and crash industrialization," yet perish as a result of "the altogether less ominous challenge of internal reform"? Solnick has an answer. This happened because the

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party was redundant to the state, but without the party the federal state no longer operated like a centralized state. Dumbfounded, the Soviet elite divided between those who clung to the unsalvageable Union and futilely demanded martial law, and those, such as Yeltsin, who rushed to join "nationalists" representing the republics, thereby saving or even elevating themselves. The putsch in August 1991 (it was conducted by the government of the Soviet Union, so as to preserve itself) undermined the Union's last operating institution: the Soviet presidency (that is, Gorbachev). Russian Republic bodies—some recently formed on paper (the army, the KGB), others of long standing (the Finance Ministry)—took over the remains of their disintegrating Union counterparts. Solnick is unconcerned with this larger frame, but he pinpoints the dynamic: "precisely those agents who successfully defected from weakening Soviet structures" have become "the leading political and economic actors in post-Soviet states." Rarely has disloyalty been so extensive and so rewarding.

For a few months late in 1991, an incomprehending idealism reigned. But no sooner had Egor Gaidar, a 35-year-old economics teacher, set in motion a leap to the market in January 1992 than he came under savage pressure. The pressure did not come from street uprisings. It came from interest groups. The bosses of the tens of thousands of large enterprises built in the Soviet period, explains Vladimir Mau, "possessing material, labor, and financial resources, and being better organized than anyone else," emerged as a political force. Besieged, Gaidar sought an unstable alliance with the barons of manufacturing and the energy sector, who forced him to retreat from hardline monetarism but allowed him to survive. The macroeconomic results were disastrous. After an initial euphoria, when price liberalization wiped out shortages, Russia experienced hyperinflation and a catastrophic drop-off in output.

There was plenty of shock, but there was not much therapy. Foreign advisors, such as Jeffrey Sachs, blamed insufficient Western aid. Others blamed Communist survivals, or Russian culture, or Gaidar. Few blamed themselves or the theory. Some argued that shock therapy had not truly been tried; but one must wonder about an economic program whose proponents concede that it works only in pure form, even as they anticipate real-world obstacles to its implementation. Theorists themselves warned of strikes, and called for the introduction of a social safety net. But this was not done,

and there were few strikes. So home free? Hardly. As Mau emphasizes, consistent anti-inflationary policies proved impossible in Russia, owing to the social legacy of Stalin's industrialization. Gaidar vanquished the planning bureaucracy, but agents of the more fundamental sector of the planned economy, the industrial enterprises, vanquished him—after he had liberated them from the planners.

Gaidar was replaced by Viktor Chernomyrdin, the natural-gas tsar of the Soviet era. Stoking doomsday prophecies in the West, Chernomyrdin publicly castigated his predecessor and bemoaned the steep decline of Russian industry. In practice, however, the new prime minister began to follow a more vigorous anti-inflationary course than Gaidar, using patriotic rhetoric to deflate the opposition. For all his analytical acumen, Mau does not explain this ostensible policy surprise, other than to hint that a sudden plunge in the ruble-dollar exchange rate in October 1994 scared the Chernomyrdin government. (In fact, the government was speculating successfully in dollars.) Western financial institutions, for their part, have placed the prime minister's epiphany on their balance sheets, but they fail to explain why their suggestions and their threats had only minimal effect between 1992 and 1994.

The answer to the Chernomyrdin "mystery" lurks in the reallocation of property. Crafted by another Young Turk economics instructor, Anatoly Chubais, the privatization program did not pass the Russian parliament until June 1992, after shock therapy's infeasibility had become manifest. In a market economy, privatization is usually conducted by inviting an outside accounting firm to inspect a firm's books, assign a value to each building and piece of equipment, suggest possible restructuring, and maybe even begin restructuring, before a cash sale by competitive bid. But this takes time, up to six months or a year per firm. Russia had tens of thousands of large firms, and even more smaller and medium-sized ones.

Equally important, the process that helped to finish off the Soviet Union—the abandonment, by officials, of state interests for private interests—was paralleled by the spontaneous appropriation of state-owned industry by managers. Even before Gaidar abolished the economic ministries, managers expanded Soviet-style black-market operations: trading, for barter or cash, the products that "their" firms produced or obtained, pocketing much of the proceeds, and buying off some of their workforces.

Whereas Gaidar had legitimated managerial larceny, Chubais sought to turn it to the country's advantage.

Chubais's approach was tactically brilliant. He delegated responsibility for the privatization of lesser-scale businesses to regional and municipal governments, to make them self-interested beneficiaries, and he himself concentrated on large firms. Armed with a program of "mass privatization," he endeavored to beat back anti-private property forces in the parliament; to win over existing stakeholders (the sticky-fingered managers, some of whom opposed privatization for fear that they would lose their de facto ownership rights); and to create more stakeholders among the citizenry. Vouchers were distributed to everyone between October 1992 and February 1993. In preparation for sale, all firms were compelled to incorporate—but as open joint-stock companies, to preempt the insider-led formation of collective-farm-style closed partnerships. And vouchers were made tradeable, permitting the acquisition of significant share blocks by "outsiders," in the hope that they would bring pressure on managers to restructure. Some firms in designated industries were not included in this first wave of privatization, but within two years some 15,000 large and mid-sized enterprises were registered as private.

Offered three models by which to proceed, almost three-quarters of the firms chose the option whereby management and workers purchased a 51 percent controlling block of their company's voting equity. In these cases, a further 29 percent of shares were sold at open "auctions" to voucher-holders, which more often than not included employees and management who had bought additional vouchers on the open market. By historical standards, the degree of employee ownership was extraordinary, and perhaps a threat to any restructuring requiring extensive layoffs. Still, a substantial equity stake was kept by the state—by federal, provincial, and/or municipal governments. In theory, those shares could be sold to a "strategic investor," who might demand restructuring even if supposedly self-interested managers failed to do so. Investment by foreign firms was excluded, in a supposed bow to nationalists who railed against the sale of Russia's patrimony.

Still, foreign consultants were ubiquitous. USAID funded the design and the implementation of the Russian privatization program, subcontracting the work to the Harvard Institute for International Development (HIID). Under Andrei Shleifer, the project director, HIID



received more than \$40 million in non-competitive grants over several years. Additional hundreds of millions coordinated by HIID were provided by private foundations in America, the World Bank, the European Reconstruction and Development Bank, and others. In connection with the voucher program alone, some \$7.75 million was spent on ten "consultants" hired through HIID. They worked intimately with Chubais, who bypassed the troublesome Russian legislature and obtained the authority to act from autocratic presidential decrees. He set up private agencies, staffed by select government officials, to handle the funds. Efficacy took precedence over accountability.

HIID used part of its USAID funding to "support" the writing of an informative and self-congratulatory book by Shleifer and two other members of the team, Maxim Boycko and Robert Vishny. In that book, they laud privatization as a "rare success story of Russian economic reform," adding that by 1994 it "was largely done." But they themselves acknowledge that the success of privatization "ultimately" will be determined by "the speed and scope of restructuring," and that "the restructuring of industry" has barely "begun." Even with such an admission, their first-principles defense of Russia's privatization would be easier to take had USAID not suspended the Harvard grant in 1997 after allegations that, in violation of university regulations, Shleifer's wife and another consultant's girlfriend made profits in Russian investments using privileged information controlled by HIID.

**A** more scrupulous assessment of Russian privatization comes from a book based on another HIID-sponsored project. Between 1992 and 1996, Joseph R. Blasi, Maya Kroumova, and Douglas Kruse visited hundreds of companies in almost all regions of the Russian Federation. On average, they write, managers and general directors admitted paying about 40 times less than their companies were worth. And even higher multiples have been documented. The automobile manufacturer VAZ, for example, was purchased at voucher auction for \$45 million, whereas in 1991 Fiat had offered \$2 billion (and been turned away). The decision not to allow foreigners to participate in auctions meant forgoing a critical lever for assessing and raising the worth of "Russian patrimony." The authors note that the voucher value of all Russian industry—including some of the world's richest deposits of oil and natural gas—came to about \$12 billion, or less than the value of Anheuser-Busch.

Small wonder that Yuri Luzhkov, the savvy mayor of Moscow, pulled out all the stops to exempt Moscow properties from the voucher scheme. Like General Kutuzov against Napoleon, Chubais surrendered Moscow to win the war. Assets in the country's capital were offered for cash sale, generating sizable revenues that have been used not only to line the pockets of officials, but also to rebuild the city's infrastructure and to pay for services. Much of the rest of Russian industry, however, was given away for small beer, to make privatization "irreversible."

**I**t all might have been beneficial had the Russian economy taken off. But the survey by Blasi, Kroumova, and Kruse also uncovered little evidence of restructuring. They note that outsider influence over firms remains negligible, and that substantial passive state ownership persists in most firms. "Privatization," they conclude, "was a seed that fell on hard, dry ground"—except in Moscow, which they do not examine. (Nor do they investigate the experience of the provincial governments, most of which have used privatization to consolidate political control, with economically varied results.)

Neither book on privatization treats the impact on the industrial lobby. Still, it is not hard to surmise what happened. Newly propertied managers split into two camps. There were those in profit-making ventures, who wanted a relatively stable macroeconomic environment, and there were the rest, who sought continued budget subsidies to prop them up. Paying lip service to the latter, Chernomyrdin backed the former, who included a handful of manufacturers but overwhelmingly comprised firms selling resources at world prices (such as Gazprom, the prime minister's former bailiwick). The men running such companies whisked their considerable windfalls into offshore accounts, though some of the cleverer ones bought up media properties and created commercial banks.

The state treasury has seen little of this money. On the contrary, the combination of premeditated shock therapy (inducing a free-fall in industry) with selective budget concessions opened a monstrous deficit. Hence the infamous "loans for shares" second stage of privatization, begun in mid-1995. Private banks formed by snatching state assets; and, enriched by lucrative government accounts, they offered to cover the deficit with "loans" if the government would put up, as collateral, the shares that it retained in coveted properties dealing in oil, gas, nickel, and other minerals. Should the government fail to repay the obligations—a sure bet—the shares

would be sold at auction. Incredibly, Chubais allowed the banks themselves to set up and to run the auctions. "The banks that organized the auctions repeatedly disqualified their competitors and won the bids," Blasi, Kroumova, and Kruse write, adding in understatement that "most bids were fairly low." In many cases, in fact, the outcomes were rigged: preserving the appearance of competition, the bankers negotiated a division of the spoils. The upshot was the creation of a small group of billionaires, who repaid the favor by helping procure Boris Yeltsin's reelection in 1996. (The IMF also kicked in substantially.)

**L**ately, the billionaires have been scooping up controlling stakes in a variety of enterprises and firing managers; but restructuring remains elusive. The problem is not some innate incapacity on the part of Soviet-era managers to work in market conditions. (After all, to fulfill the plan most of them had to be wheeler-dealers on the vast black market.) The problem is that many, and perhaps most, of the enterprises purchased with vouchers—even the ones subsequently taken over by outsiders—face well-deserved extinction. It is one thing to procure state licenses to export oil and gas for dizzying profits, or to expropriate the profitable subdivisions of factories; it is quite another to restructure a rust belt encompassing literally an entire country. In the 1920s, before Stalin's industrialization, heavy industry accounted for about 20 percent of the Soviet economy. By the late 1980s, the proportion had switched. The economy was almost 80 percent heavy industry.

Not all enterprises inherited by Russia from the Soviet Union were antediluvian. The best were in defense, but the necessary downsizing of the military-industrial complex brought many world-class manufacturers to their knees. Other top-notch branches, such as biotechnology, suffered from the lack of industrial triage in Gaidar's broad-front attack on the foundering planned economy. Notwithstanding the abolition of planning and industrial decline, Russia's economy is still dominated in employment terms by Fordist plants typical of the interwar period (even if they were built in the postwar period). Think of Gary, Indiana and Youngstown, Ohio, multiplied several thousandfold, and you will have some idea of the challenge (and the financial sums) necessary for Russia to create a new economy. Meanwhile, the long obsolete fossil-fuel industrialism of the Soviet era continues to be cannibalized for short-term gain.

With the dissolution of the Soviet Union, abundant bureaucrats in Mos-



cow lost their sinecures as various state agencies were abolished. But many of these reappeared under new names, and countless new offices were created. Buildings that used to house party apparatchiks now hold state functionaries. The post-1991 Russian republic has more officeholders than the Soviet Union had, to serve not much more than half the Soviet Union's population. Since Moscow's domain has shrunk, its direct responsibility for local affairs has diminished, and its ability to project power beyond the CIS has virtually disappeared, the state has become particularly top-heavy and self-absorbed.

**T**he story of the Russian state's consolidation acquires a new light in *Boris El'tsin: ot rassveta do zakata*, or *Boris Yeltsin: From Dawn to Dusk*, a memoir by Aleksandr Korzhakov recently published in Russia (and not yet translated into English). A career KGB officer, and the beefy son of two textile workers from a rough-and-tumble Moscow neighborhood, Korzhakov was assigned round-the-clock guard duty of Boris Yeltsin in late 1985, when the party boss of the Urals was transferred to Moscow and made a candidate-member of the Politburo. Even after Yeltsin was bounced from the leadership and demoted to head a construction trust in 1987, they remained in close contact. Korzhakov professes that he had no inkling that Yeltsin would later rise to supreme power, that his continued association with a disgraced official could instead have damaged his career in the Kremlin. Soon enough, however, Yeltsin was elected to high office. Again he rated a bodyguard. He and the bodyguard Korzhakov bonded over volleyball, tennis, steam baths, and moonshine.

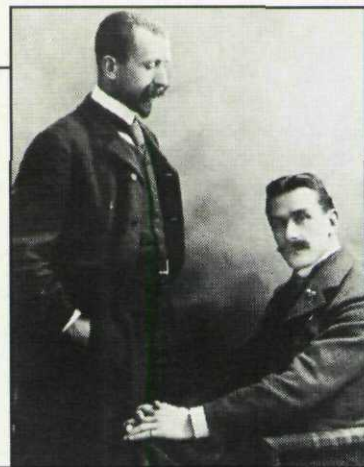
No less self-serving than Yeltsin's memoirs, Korzhakov's romp abounds in insider details. He recounts the Yeltsin team's post-Soviet scrum for Kremlin offices and state apartments. (Gaidar is said to have been "in ecstasy over getting free housing.") He divulges the president's passion for playing spoons, usually on the head of a kneeling aide. (When the wooden souvenir type could not be found, Yeltsin used metal ones.) We learn that the president, when forbidden to drink by doctors, would secretly slip money to an aide to go out and buy him a bottle. (The ever-vigilant Korzhakov interceded, substituting water for vodka, but adding just a pinch of the hard stuff to fool the boss.) Numerous family photographs, with imagined captions containing Yeltsin's "colloquial" brand of Russian, add weight to the revelation that Korzhakov and Yeltsin were "blood brothers," having twice cut themselves

and mingled their plasma.

Trying to minimize bad news, or what a disheartened Yeltsin would denounce as "again more shit," Korzhakov took it upon himself to regulate the traffic in and out of the president's office. Yet Yeltsin became depressed anyway and, in Korzhakov's euphemism, periodically sought to "resolve matters once and for all.... Sometimes he'd end up locked in the sauna, sometimes he'd be found in a river." It was Korzhakov who invariably came to the rescue. The sicker and more unbalanced the president became, the greater became the bodyguard's sphere of authority. Korzhakov improbably sloughs off responsibility for the Chechen war, but he admits that well before Yeltsin's violent showdown with parliament in October 1993 he "told the president it's time to bang a fist on the table. Enough already tolerating this whorehouse environment, this powerlessness. There should be a single man of the house."

**J**ust prior to the onset of the armed mêlée, Korzhakov writes, Yeltsin retired at 11 p.m., having instructed his bodyguard to sit at the country's communications command post. "I sat in the president's chair almost the whole night from the 3rd to the 4th of October," he boasts. "I heard reports, issued orders, gathered information." When he discovered that Defense Minister Pavel Grachev had not moved in troops as he was ordered, Korzhakov supposedly woke and dragged the president to the temporizing ministry. Several hours later, after Yeltsin was again awakened to shore up the morale of the elite Alpha troops, Korzhakov accompanied them on their assault on the parliament building. Having captured Ruslan Khasbulatov and Aleksandr Rutskoi, he sped to the Kremlin, only to discover that those who had waffled or stood aside were hours into a celebratory banquet. Without Korzhakov, we are led to believe, the outcome would have been different.

After relying on Korzhakov to disperse the madcap parliament, Yeltsin's entourage forced through a constitution whose balance of powers is neatly summed up in the provision that treats of votes of no-confidence in the government: after one such vote, nothing happens; after a second such vote, nothing happens; after a third such vote, the president may dismiss parliament and call for new elections. Such arrangements, generously described as a "presidential state," have been attributed to the authoritarian political culture of Russia, or to Yeltsin's personality. But Korzhakov's memoir highlights how, in battling against the "threat" of a Communist revanche and



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## Notes from the Provinces

Something about that music  
from the corner bar & grill—  
the blue notes drifting out like smoke ...

Each time she walks by, or he does,  
he licks his lips appreciatively—  
but he does it so no one will notice.

Sunset, down on the town square,  
as they lower the flag, raise their rifles,  
fire at the empty heavens.

Children running in circles,  
old men in a cluster  
discussing their tight black shoes.

Through an open window  
two lovers locked together  
upright, or maybe not.

Smell of somebody's cooking  
arriving on a wind  
by way of Jupiter Street.

What was it you stepped out to look for?  
Cool air, a piece of string,  
a few fresh herbs from your garden?

DAVID YOUNG

for the cause of "reform," anything could be justified. Russia had no organized political center to speak in the name of the rule of law. There were only dangerous Communists and anti-Communists. (Here Gorbachev's pre-1991 refusal to split the ranks and form a social democratic party looms large.) A strong executive also seemed necessary owing to the chimera of a directed transition to the market, while the redistribution of property provided more than enough incentive to hold power, whatever the political price.

The unchecked presidency happens to be occupied by an invalid president. After Yeltsin suffered another heart attack around New Year's Eve, 1995-96, Korzhakov and other handlers holed the president up at the government dacha complex in Barvikha. "Occasionally," Korzhakov writes, "Boris Nikolaevich would ask in a sad voice, 'How're things down at work? What's new?'" This is Brezhnev, with elections. One day Yeltsin lifted his head with difficulty from the pillow and in a barely audible voice declared, "I've decided to run." The president's popularity hovered near zero, and Korzhakov concedes that the inner circle had its doubts. Trying to win over Chernomyrdin, the prime minister, to an election nullification scheme, Korzhakov resorted to flattery. "It's not right that only the chief of personal security

decides what's good and what's bad," he records himself as having said. "The prime minister is not the last person in our state, in fact, he's probably the number two person. You should also have some weight."

More details of the discussions are not provided, but Korzhakov writes that Chubais, backed by billionaires who were nervous about political instability, advised that, with a lot of money and the manipulation of state television and private television, reelection was possible. As Yeltsin was shown on TV holding a shovel and telling impoverished viewers that he and his family planted and harvested their own potatoes, which they "lived on all winter," the tables at campaign strategy sessions groaned under

the weight of delicacies reminiscent of the Romanovs. Within the Yeltsin camp, however, the uncertainty of a real vote increased tensions, while the campaign rearranged the internal correlation of forces. At the end of one meeting at headquarters, Korzhakov asked Chubais to keep his ugly mug out of public view, since it was turning off too many voters. Usually ruddy, Chubais turned so pale, according to Korzhakov, "that he began to look like a normal white person."

Korzhakov, who held responsibility for guarding campaign finances, provoked a showdown. He writes, in Soviet jargon, that "information came forward" that tens of millions of dollars were being stolen from the campaign. More precisely, on the night of June 18, Korzhakov's men surreptitiously entered the room holding campaign finances (it was also an office of the deputy finance minister), opened the safe, and allegedly found \$500,000 in neatly wrapped banknotes, along with receipts for deposits in offshore accounts. The next day, two campaign workers showed up and retrieved the money. They were detained. Korzhakov's close associate Mikhail Barsukov, chief of the FSB (a successor to the KGB), sent a team to conduct an interrogation. A call came in from the president's younger daughter, Tatyana Dyachenko, who demanded the release of the two detained men. Supposedly

coached by Boris Berezovsky, a tycoon with close contacts to the government, she accused Korzhakov of sabotaging the president's campaign. In the middle of the night, NTV, a private station owned by Vladimir Gusinsky, another financier, interrupted its insomniac programming to report an attempted coup.

That morning Yeltsin met with Korzhakov and Barsukov, and reportedly forgave them; but later, under pressure from his daughter and Chubais, he demanded their resignations. The president went on television, explaining that the two security men had "taken a lot on themselves and not given much." The remarks alarmed Korzhakov's mother, who thought that Yeltsin was referring to bribes rather than power, and scolded her son for not sharing some of what he took with the president. Dismissed, Korzhakov nonetheless returned for work in his Kremlin office—and was admitted. When he was informed of this, Yeltsin was enraged; and an aide hurried to tell Korzhakov it was for real, he had to go. Two days later the president suffered another heart attack. The runoff was a week away. On the day of balloting, the former bodyguard told a wall of TV cameras that he voted for Yeltsin. Korzhakov admits believing that a reelected president would summon him back. But Yeltsin already had his strong-arm constitution, and for the time being he needed neither cancellation of an election nor military operations against parliament. Escaping, now and again, from the hospital to the Kremlin, Yeltsin has made noises that he wanted to free himself from the money men as well. Constitutionally, he has the power to dismiss his government—as he did, theatrically, last week. But Yeltsin's illusory show of leadership (possibly abetted by his daughter Tatyana) cannot curb the parasitic power of the financiers and energy interests, or eliminate any new government's dependence on them. And intrigue, too, has its price.

In stealing the state, only a few former Soviet officials ripped out the phones, carpets, and wood paneling before fleeing. Most of them remained at their desks, using their positions—connections, licensing power, affixing of seals—for private gain. It seems remarkable, in retrospect, that before the great bank run state assets were not spontaneously appropriated by the officials at all levels, for these were the people who exercised day-to-day control over their disposition. Of course, embezzlement and bribe-taking were commonplace under Communism. But compared with what has happened since? What an irony that Mikhail Gorbachev, who had risen to power as the leader of an



anticorruption team assembled by Yuri Andropov, instigated a reform that greatly accelerated the insider theft of state property by officials. And what a coup that Boris Yeltsin, assisted by Russian and foreign champions, claimed the credit, calling the theft a transition to the market. In a way, it was.

Just as no Soviet leader could have easily forestalled the dissolution of the structurally vulnerable Union, so no Russian leader could have prevented the total appropriation of bank accounts and property that the state owned on paper but did not control. For that reason, this was *never* an engineered move to the market. The Russian transition formed a continuation of the Soviet collapse, which in turn was driven by the dissolution of structural controls over state agents and managers. Exempting himself, Gorbachev established multicandidate elections and dealt an unintended body blow to planning. Yeltsin, with the people's support, pushed a "radicalization." Getting rid of the remaining mechanisms of the socialist economy proved to be child's play. Legalizing and thereby gaining some influence over the spontaneous appropriation of state property took greater skill. (Something other than reformist talent was involved in who got the choicest assets and how.) But the main task all along was the replacement

of the gigantic rust-belt economy, and it remains as daunting as ever.

Privatization, along with macroeconomic stabilization, has not brought about the miraculous transcendence of the rust belt. Nor have the reforms institutionalized contract and property law, regularized tax collection, or reduced official venality as well as other crime. Few people seem to have studied the causes of the developed world's shift from "primitive accumulation" to a permanent legal framework benefiting all property holders. Russia may yet provide some clues. Hope lies in the thousands of new small businesses that have arisen, and in the immense sums of domestic capital known to be kept abroad. Russian banks and holding companies have been buying up properties and businesses beyond their borders, in the "near abroad" of former Soviet territories, and throughout the former satellites of Eastern Europe, and in Western Europe and Asia. Should the money begin to come home and be invested, the results could be extraordinary. And some foreign investors are bullish. Prior to his loose talk about robber-baron capitalism and the tainting of Anatoly Chubais, George Soros formed part of the winning bid for the contested quarter stake in Russia's Svyazinvest. Go figure. •

## The Old and the New

BY ROBERT ALTER

### The Castle by Franz Kafka translated by Mark Harman

(Schocken, 328 pp., \$25)

Everything about Kafka is complicated and elusive: his life, his intentions about the publication of his work, the texts of his novels and stories, the course of the posthumous publication of his writings, the challenge of representing him in translation. *The Castle*, his last and famously incomplete novel, first appeared in English in 1930, four years after its publication in only 1,500 copies in German. This early English version, by the Scottish critic and poet Edwin Muir and his wife Willa, was the version through which countless thousands of British and American readers experienced *The Castle*, as Kafka swelled in reputation in the years after

World War II. Once the cult figure of a small literary elite, Kafka came to be promoted into a major modernist—indeed, into a kind of touchstone of modernist fiction.

The first problem with the Muirs' version was scarcely their fault: it was based on the German text assembled from Kafka's manuscripts by his friend and literary executor Max Brod. In the course of time, it has become clear that Brod's way with Kafka's texts was often cavalier. (Walter Benjamin wryly characterized Kafka's relationship with Brod as "a friendship which is not among the smallest mysteries of Kafka's life.") Brod presumed to excise certain passages not to his taste; and he made some attempts to

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