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### **Perestroika: Home Analysis of a Postponed Game**

In his essay, Mikhail Sergeevich Gorbachev urges us to understand Perestroika. To me, that means defining the meaning of the process that transformed the Soviet Union from 1985 to 1991. A commonly held view is that it was an attempt to liberalize the Soviet political regime, which led to a deterioration of the economy and the breakup of the state. Such an interpretation is contradicted by the long-term, positive consequences of Perestroika. Russia continued to develop in conditions of freedom for at least a decade after Perestroika, while the threat of a world war receded at least until the second decade of the 21<sup>st</sup> century. An unsuccessful political transformation could hardly have yielded such fruit, benefitting not just our country but also the entire world.

In my view, the essence of Perestroika is that it was an attempt to change the trajectory of the country's development, probably the third such attempt after the Great Reforms of Alexander II in the 19<sup>th</sup> century and Khrushchev's Thaw in the 20<sup>th</sup>. From the standpoint of modern new institutional economic theory, transition from one economic trajectory to another is one of the most complex transformations in institutional development, because it aims to overcome the effects of what the so-called path dependence. Two development trajectories that took shape in various countries several centuries ago, statistically expressed by Angus Maddison, represent different degrees of success in economic development, and for a country to move from a low to a high trajectory, it needs to undertake long-term reforms in economics, politics, and culture.

This is because path dependence involves a mutually reinforcing effect of failing formal institutions, i.e. the laws of economics and politics, and the informal institutions of culture, where one hampers the development of the other. An attempt to change the laws runs into cultural reaction, which often brings back images of the past, while an attempt to change the culture causes the authorities to demand an end to such harmful practices.

Given the current state of development of theory and methodology, resolving this problem requires meeting two boundary conditions. The first one is depersonalization of organizations – economic, political, and non-profit. It must be said that this condition was achieved in the course of Soviet development, most likely as a result of the repression in the 1930s, when the risk of arrest caused organizations to cease to identify themselves with personalities. The second condition is collegial control over police and security bodies instead of using them as batons in factional political and economic struggles. This was achieved later, during the post-Stalin period, when the Politburo established strict control over security bodies, which lasted up until 1991. The third condition, however, was never achieved: creating laws “for ourselves” that extend to others, instead of creating laws for “others” with exceptions for “for ourselves”. It is this task that the Congress of People’s Deputies deliberately sought to address by working publicly, I would say in full view, to create the country’s new laws. Perestroika was a project properly conceived that should have had chances of success. Nevertheless, this did not happen, and Mikhail Gorbachev believes that the reason for it was the failure of economic reforms and in addressing the nationalities problem. Let us try to consider it in more detail.

Let us start with the economy. Formally, it cannot be said that no changes occurred in the economy during Perestroika. A new form of cooperatives was created, on which much hope was pinned, while at the same time a process of democratization of production management was actively pursued. This is somewhat similar to what other countries did, with greater success. For example, the Chinese People’s Republic

created the so-called interim institutions, such as settlement enterprises, while Slovenia, a small country, used the approach of “people’s privatization,” under which two-thirds of an enterprise remained the property of the work collectives – and it achieved the best economic outcome among all post-socialist countries. In our country, however, neither the former nor the latter happened. Why? I think that the cooperatives turned out to be an extremely ill-conceived economic institution, because they in effect played a role totally different from the one their organizers had in mind. They acted as a portal converting non-cash state money into cash. Instead of being an institution for the development of the economy, they became a source of speculative rent and rapid growth of semi-legal private capital. Democratization of production could, in principle, result in the emergence of people’s privatization schemes, particularly since the population’s cultural status was, in a certain way, conducive to it: the late 1980s were a period of a very high level of social capital, i.e. the emergence of mutual trust among people. This was particularly manifest in the political arena, when millions of people gathered at huge rallies without fearing strangers or restrictions from the authorities. Nevertheless, other reform ideas prevailed, which I believe was due to something Mikhail Gorbachev mentions in his essay several times: the state of the elites and counter-elites.

In effect, the picture described by Mikhail Gorbachev throughout the essay gives the impression of an increasingly complex maneuvering between various groups that took increasingly radical positions, with the radicalism of the conservatives increasingly in league with that of the reformers. As Gorbachev himself sees it, the attempt to rely on the Party’s nomenklatura failed, but so did the attempt to rely on the counter-elite, the intelligentsia, which very quickly began to call for immediate radical transformations while also entertaining the ideas of nationalism, which are particularly dangerous for a Union state. Why is it that neither the elites nor the counter-elites were able to support the process of transformation? I am of the view that, by the time the changes began, the party nomenklatura in the U.S.S.R. was in a state that was

much worse than the Chinese party nomenklatura, which, with Deng Xiaoping at the helm, ultimately succeeded in implementing reforms. By that time, for at least a decade the regime of the so-called administrative market had existed, with an exchange of status and resources, and the party had established control over substantial assets. What the elites in the Soviet Union wanted, however, was not a long and complex process of reform but rather legalization of their situation – and, it should be noted, they achieved that during the shock reforms of the early 1990s, thus becoming, to a significant extent, a part of the new elites.

The role and the future of the counter-elite – the intelligentsia – turned out to be more dramatic. On the one hand, as early as a decade and a half before the inception of changes, the intelligentsia came to believe that “all this must end” and the system will collapse – but such thoughts went hand in hand with a very naïve expectation that, once everything goes down, we’ll begin to live just like people in other advanced countries. To put it in more precise language, we’ll import the institutions of advanced countries and live just like them. Yet, neither in discussions nor even in their individual thinking, they never seemed to wonder: How does one import institutions? Will the laws take root in this historic and cultural soil? What are the intermediate stages that need to be traversed to achieve success in such reforms? Eventually and unfortunately, the history of Russia’s subsequent development punished the intelligentsia much more severely than it treated the party nomenklatura. It simply fell through the cracks of the social and economic life in the next decade.

And yet, I think Mikhail Gorbachev’s opinion that there could be no plan of reform is debatable. Comparing this attempt to change the trajectory with preparations for the Great Reforms of Alexander II, we have to remind ourselves that during the long period of stagnation and reaction under Nicholas I, many members of the elites had been preparing for changes, devising steps for economic, political and spiritual reshaping of the country. This was not the case in the Soviet Union.

Even the understanding that economic, political and cultural changes must go hand in hand did not help. It was under Perestroika that an amazing step of cultural transformation was taken: within just a few years, a vast number of great books, studies and opinions became available to the public, and the whole country read them and, what is more, engaged in heated debate about the content of those books. But we cannot find traces of such transformation in the subsequent decades. Peaceful pluralism that Gorbachev called for was not to be seen either in the 1990s or later, when each time we were asked to choose between two mutually exclusive viewpoints.

And now about the saddest result of Perestroika – the breakup of the state. Speaking of the interaction of nations within a big state from the standpoint of institutional economics, one sees two forces, which balance each other out but can also act against each other. On the one hand, it is economic gravitation, which was quite significant. Let me recall that, as Mikhail Gorbachev points out, even the Baltic republics, de facto on the way out of the Soviet Union, were ready to coordinate their economic decisions with the central government. But there was, of course, also the other force. The Soviet internationalist idea that all peoples are basically the same – they just sing and dance differently – is, without doubt, very superficial. Modern methods have revealed the existence of cultural distances, i.e. differences in the values and behavioral patterns of different nations. We now understand that some of the nations that were part of the U.S.S.R. had short cultural distances between them while others were quite far removed from the main nucleus of the state. In principle, the confederative approach in the draft Union Treaty crafted in Novo-Ogarevo responded to both requirements: the need to take into account the cultural distance as well as economic gravity. But here again, we have to go back to the political factors, i.e. the behavior of the elites. It appears that the short-term political interests of the elites in the republics had little to do with developing a new mechanism for interaction that would transform the Soviet Union into something like the European Economic Union. They sought, as soon as

possible, to gain control over their territories and resources, which is what they succeeded in doing after the Belovezhskaya Pushcha agreement.

Finally, the lessons. The problem of transitioning to a new development trajectory continues to be a real and difficult challenge for the country's development. As long as it remains, the toxic couple – autocracy and serfdom – that emerged in the 14<sup>th</sup>–15<sup>th</sup> century to put the country on a low development trajectory will keep reappearing in all kinds of forms, such as conscripts in menial jobs, undocumented “guest workers,” etc., not to mention autocracy proper. We have to recognize that not only do we need a plan for long-term, multi-phase transformation – we have to make sure that this plan is consistent with the long-term interests and perceptions of the elites. Modernization in East Asia succeeded because the elites proceeded from a twenty-year horizon of thought and action. The emergence or search for such actors within the elites and counter-elites who are capable of taking a long view, of developing plans that can reconcile political and economic reforms with cultural change (bearing in mind that culture changes slowly: according to current research, the process takes at least 25 years) is likely to be our big challenge for the near future and perhaps beyond.