

CHAPTER 2

CONDITIONS IN RUSSIA AT THE OUTSET OF THE YELTSIN AND CLINTON ADMINISTRATIONS



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CONGRESS CELEBRATES FREEDOM FOR RUSSIA: In an historic Joint Session of Congress, June 17, 1992, Russian President Boris Yeltsin was interrupted by nine standing ovations as he described a country “devastated” by seven decades of Communist rule. “We have no right to fail in this most difficult endeavor, for there will be no second try, as in sports. Our predecessors have used them all up. The reforms must succeed.” The Russian people, however, are more resilient than Yeltsin predicted, having survived the failure of “reform” and the nation’s complete economic collapse in 1998. Today they are hoping for a second chance.



I see Russia and the United States—which was the modern world's first democracy—developing a very special relationship, and I hope I can play a role for my country in Washington like that Franklin played for his in Paris. For Russian democracy to succeed, we need help.

I love the United States.

Russian Ambassador Vladimir P. Lukin, as quoted in the *Los Angeles Times*, April 9, 1992

The newly independent Russian Federation seemed to many to be poised for rapid integration into the Western community of nations and, after a period of adjustment, economic and political rebirth.

Externally, Moscow enjoyed a favorable environment in which its former rivals, including the United States, were eager to assist morally, materially and technically in its renewal. Moreover, just as the collapse of the Soviet Empire redefined America's international security environment, Russian conditions were likewise favorably transformed. Taking into account the vast share of the Soviet economy directed to the military, Russia's potential "peace dividend" stood to be quite large.

At the same time, Russia possessed a large, well educated, and highly skilled workforce. Though the closed Soviet economy had been insulated from international products and competition, causing Russia to lag behind the West in many areas of technology, the country's overall technological level was high in the global context.

The nation's 6.5 million square miles of land offered a vast storehouse of potential wealth, if it could be placed in private ownership and used as the basis for commercial lending.

Finally, Russia possessed tremendous natural wealth, ranging from oil and gas to aluminum and diamonds. Russia's combination of natural and human resources seemed destined to return its people to greatness.

Russia also faced enormous challenges. Never in human history had so many people for so long been denied all economic and personal freedoms. The legacy of Soviet Communism was economic and political



AP Photo/Misha Jeparidze

CLINTON SPEAKS TO THE RUSSIAN DUMA: In an embarrassing contrast to the reception Boris Yeltsin earned in the United States, President Clinton delivered an uninspiring speech to a half-empty Duma during a visit to Moscow, June 5, 2000.

chaos. Russia inherited an economy thoroughly misdeveloped and in steep decline. The massive resources devoted to military production meant that consumer goods were shoddy and scarce. The central planners' obsession with enormous industrial plants concentrated workers in far-flung one-company towns that could not be expected to survive serious restructuring from market discipline, yet the displaced workers had nowhere else to go because of a crippling housing shortage throughout the country.

The Soviet Union's state-controlled economy also left Russia without the basic legal and institutional components of a market economy. The illegality of private property in the Soviet system ensured that such functions as land title registries, real estate brokerage, securities exchanges, or even classified advertising did not exist. Similarly, there were no effective laws to enforce private contracts, protect intellectual



AP Photo/Doug Mills



ACCORD: Presidents Ronald Reagan and George Bush enjoyed productive relationships with their Soviet and Russian counterparts and high popularity among the Russian people. U.S. President Ronald Reagan, right, and Soviet General Secretary Mikhail Gorbachev are shown at the negotiating table in Moscow, June 1, 1988, the fourth day of a summit. While relations with the Soviet Union and Russia were at high-water marks at the end of the Reagan and Bush terms, respectively, Russia appeared more interested in European, Chinese, and even North Korean relations than in improved ties with the United States at the end of the Clinton administration.

property, or resolve commercial disputes between private individuals.

In the absence of such basic elements of a market economy, and without the elementary laws to support rights in private property, few Russians, let alone foreigners, would be willing or able to make a go of it in the chaotic Russian economy.

Russia's long Communist nightmare also had heavy political consequences. First and foremost, Russia lacked experience with democratic consensus-building; government officials knew how to command, but not how to lead.

Nor did Russia's new politicians have any experience in reading and responding to public opinion. As a result, Russia's political system soon became fragmented, as popular figures established movements or parties based on their own idiosyncratic views. Russia's reform-oriented parties were largely in disarray. Only the Communist Party of the Russian Federation, having inherited a structure and membership, began the new era with any organizational discipline.

In spite of all of this, the people of Russia were in high spirits. After 75 years of Communist privation and fear, they were ready for a fresh start.

The Soviet System

The prospects facing Russia's 146 million people following the fall of the Soviet system were exhilarating but daunting—because what had just ended was one of the most dysfunctional political economies in history.

Under the Soviet system, Gosplan, the Soviet economic planning agency, decided what and how much to produce throughout the Soviet Union, and its decisions were promulgated in rigid “five-year plans.” Gosplan paid little heed to consumers' preferences; it relied on production quotas, rather than profitability, to measure success. Inferior quality and chronic shortages were the hallmarks of the Communist economy.

The grossly inefficient Soviet economic system met the needs of neither the Russian people nor those who lived in the Soviet Empire's captive nations. A black market in Western products, which expanded quickly in the final years of the Soviet Union, helped reveal the defective nature of the Communist economic system.¹

Because the Soviet economy produced so little that the rest of the world wanted to buy, its currency, the ruble, was worthless outside the Soviet Union. A lively black market in Western currencies flourished at all levels of Soviet society despite its illegality.²

Military needs also weighed heavily on the Soviet economy. It has been aptly stated that while the United States had a military-industrial complex, the U.S.S.R. *was* a military-industrial complex: throughout the Cold War, the Soviet military annually consumed between 40% and 50% of the Soviet Union's output, leaving few resources to meet consumers' needs.³

The Russian Economy at the Collapse of the Soviet Empire

At the outset of 1992, Russia's leaders confronted the social, economic, and political disarray they had inherited from Soviet Communism. The new Yeltsin government, in the throes of a chaotic transition, faced tasks that included the consolidation of political power in the wake of the August 1991 coup attempt; Russia's establishment as a separate nation in the international arena; laying the political groundwork for a democratic, civil society; and constructing a free enterprise economy from the ground up.

Yeltsin's chief economic adviser and First Deputy Prime Minister, Yegor Gaidar, took responsibility for





the economic turnaround. He became acting Prime Minister in June 1992.

The economic conditions that Gaidar had inherited from the Soviet Union were grim: inflation for 1992 was 2,500%, while the shrinking economy posted a “negative growth” of -14.5%.⁴

These horrific conditions had been long in the making. The Soviet war in Afghanistan, the additional military spending the Soviet Union had undertaken to compete with the Reagan policy of peace through strength, and the complete failure of the civilian economy to produce meaningful tax revenues and foreign exchange had all contributed to increasing deficit spending by the Soviet Union throughout the 1980s. As early as 1986, the government of the U.S.S.R. had come to rely heavily on international loans to finance its yearly operations.

But foreign borrowing to finance the government’s annual deficits had also created new burdens on the economy, as budget expenditures rose for debt service. By 1991, the last year of the Soviet Union, the central government’s budget deficit had risen to 20% of the entire nation’s economy. As the situation worsened, the U.S.S.R. began to default on its foreign loan payments.

The end of the Soviet Union also meant the end of the Cold War. The good news for Russia was that it no longer had to compete with the United States in the arms race. But the military sector of the economy was one of few in which former Soviet enterprises enjoyed a comparative advantage—and for which there were willing foreign buyers. Somehow, Russia needed to convert its military production to technologies and products demanded by a consumer economy.

The majority of Russians vaguely recognized that building a market economy was the essential first step. They seemed prepared for at least some period of transition before conditions would eventually improve.

As Gaidar and his colleagues began their work, they could not have asked for a bigger challenge or, in the circumstances, a more supportive climate of public opinion.

1992 and the Beginnings of Economic Reform

On January 2, 1992, on the advice of Gaidar’s team, the government lifted price controls on many items. The expected result—a widespread increase in

what had been artificially depressed prices—in fact occurred. But the brisk winds of market pricing were soon augmented by strong gusts of counterproductive monetary policy, which sabotaged Gaidar’s anti-inflation strategies.

Rationalizing its inflationary monetary policies on the ground that it was difficult to collect taxes, the Russian Central Bank began to print money. At the same time, the neighboring newly independent states likewise printed rubles without concern for the consequences. The result was hyperinflation.⁵ The 250% inflation rate for January 1992 wiped out the value of people’s savings accounts, created a fear of hunger, and undermined confidence in market reforms.

Gaidar and his team of economists, believing that they would not last much longer than a year in office,⁶ decided to move rapidly to promote their economic agenda. They believed that they needed to put state-owned companies into private hands as quickly as possible to disperse economic power and thus ensure against a possible return of Communist rule. As a result, they resorted to decrees to promulgate laws without legislative backing, stiffening the Soviet-era legislature’s resistance to legislative implementation of their policies.

So began a tactic that would be used by the Communists in the legislature for years thereafter: portraying the executive branch of the new government as solely responsible for soaring prices and economic disarray, while refusing to participate in policy making through responsible legislation. In this way, legislators could assume the role of vigilant protectors of the common Russian interests, without bearing any of the political risk or responsibility for the enormous changes needed.

An average increase in wages of 50% in January only fractionally offset the month’s 250% inflation. The standard of living fell, and poverty rose. Supply shortages were aggravated by the economy’s saturation with rubles. By removing price controls, the Gaidar team had intended to let price rationing regulate demand while providing incentives for increased production. But the chaotic monetary policy of Russia’s Central Bank frustrated these objectives.

Industry, which was accustomed to direction as to what and how much to produce, seemed incapable of heeding consumer demands. The Russian government, fearing food and other shortages, continued to issue



RELIGIOUS FREEDOM: The 1991 holiday season brought evidence that freedom was taking root and optimism about religious freedom, even before Gorbachev resigned as the last Soviet president on Christmas Day. Here, workers in Moscow erect a Menorah for Hanukkah. The Ukraine Hotel is in the background. On Sunday evening, Dec. 1, ABC's Forrest Sawyer reported "another first today for religious freedom in the Soviet Union. Not only were Jews allowed to openly celebrate Hanukkah, Soviet television even covered the lighting of the Menorah at the first ever Hanukkah ceremony at the Russian Parliament." Warm American-Russian relations were marked by the presence of American Jews in Moscow for the ceremony. The Associated Press reported that Russia's "19-year-old Lena Rosenblat watched intently to learn about her own religion. 'Unfortunately, we don't know much about our own traditions,' said the business student, standing with her 10-year-old sister Zhenya. 'I think we're the first generation in our family not to know about this.'" Lena and her family "huddled in the cold wind on the Parliament steps where barricades stood during the August coup. The coup's collapse, and the



AP Photo/Alexander Zemlianichenko

ensuing spirit of liberation, hastened changes that led to Sunday's celebration in the Soviet capital. 'Our lights are a guarantee against darkness,' said Rabbi Yitzhak Kogen, a member of the New York-based Lubavitch movement, which organized the ceremony. 'Everyone can use this light of Hanukkah.' He spoke to 200 people on the parliament steps watching the lighting of the 20-foot iron menorah, erected by the Lubavitch movement with permission from Boris Yeltsin's government. After several speeches, the rabbis were hoisted aloft by a crane and, while reciting a prayer, lit two kerosene lamps atop the center and far left branches of the eight-armed candelabrum. A vibrant 'Amen' rang out below and the sound of the Jewish songs reverberated off the white marble walls of the building. ... Communist rulers for decades suppressed Judaism and other religions in the name of official atheism. Though underground services and schools persisted, most Jews learned little or nothing about their own religion....' For Rosenblat, the Hanukkah celebration may have sparked optimism. 'Maybe we'll go to America or Israel. Or maybe,' she said, flashing a cheerful smile, 'we'll stay here.'"



production orders just as in Soviet days. Moreover, the government did not free all prices, out of concerns that certain staples would become too expensive—and that industries like energy, transportation, and communications could not sustain market pricing.⁷

The transition from a planned economy to a market economy was thus off to a bumpy start.

The Political Landscape

After the January shock, inflation slowed to 10% by August 1992. But throughout the year, the Russian government and the Central Bank continued to extend credits to inefficient, corrupt enterprises in a misguided effort to boost production.

The results were predictable: more inflation. Inflation rose to 25% by October, and remained at that level for the balance of the year. Production continued to lag, as anti-competitive subsidies for money-losing industries continued. The ever-weakening ruble, combined with growing uncertainty about the future of their economy, led Russians to trust dollars over rubles.

During the year of economic tumult following Yeltsin's January 1992 decision to move toward market pricing without creating a free market in production, he lost support in the Russian parliament.

The Sixth Congress of the Russian People's Deputies, elected in March 1990, had convened in April 1992 amid protests over government economic policies. Yeltsin sacrificed his chief adviser, Gennady Burbulis, to quiet the outcry, but the respite was short-lived. Opposition came to a head in December 1992, when the Congress of People's Deputies rejected Yeltsin's nomination of Yegor Gaidar, who had been serving as the acting prime minister since June.

For the first two years of Yeltsin's administration, Russia continued to function under the Soviet-era constitution. (Not until December 1993 would Russia finally adopt its first constitution since independence.) Under the Soviet-era constitution of the Russian Federation, real legislative power existed only in theory.

The Russian legislature under the Soviet-era constitution was the Congress of People's Deputies and its smaller, full-time component, the Russian Supreme Soviet. In Soviet times, this body, like its counterparts in the other Union Republics, was a docile rubber

stamp for measures already decided by the Communist Party Central Committee.

But without a ruling Communist Party from which to take orders, the Russian legislature's nominal powers took on new significance. Thus, when Russians created the presidency in 1991⁸ its powers in comparison with those of the legislative branch were modest. While the president was the "highest official of the Russian Federation and the head of executive power," Yeltsin had to work through a Supreme Soviet elected in March 1990. The Supreme Soviet could override a presidential veto with a simple majority in both houses and could impeach the president if it found that he violated his oath of office.

In the early days of Russia's rebirth, however, Boris Yeltsin enjoyed high popularity—and therefore authority in fact, if not authority in law. On November 1, 1991, the Russian Congress of People's Deputies acknowledged this fact and voted to grant Yeltsin the power to rule the economy by decree until December 1992.⁹

On November 6, 1991, the Russian president moved to enhance his power, announcing that he would serve as his own prime minister and assume personal control of Russia's transition. The parliament's decision to give Yeltsin the power to make economic policy by decree was a significant precedent, because in so doing they failed to establish a democratic process to make policy.

Yeltsin's broad powers were based on his personal popularity rather than law, and therefore proved vulnerable to changing public opinion. In the early period of his presidency, he enjoyed considerable power, and was able to effect controversial measures, including those that all agreed would bring short-run economic hardship. But his failure to forge a political base of support for such measures or to secure their enactment by the legislature left him as the inevitable target of criticism from other popularly elected leaders.

In December 1992 Yeltsin retained sufficient authority, however, to reach an accord with the legislature.

A Setback to Market Reforms: Chernomyrdin Replaces Gaidar

In a compromise organized by the centrist Civic Union, Gaidar was replaced by Viktor Stepanovich Chernomyrdin, who before becoming deputy prime



minister in Gaidar's government had been the head of the Soviet Union's largest monopoly, Gazprom—the state-run natural gas giant.¹⁰

Chernomyrdin's appointment was a devastating step backward. But Yeltsin's decision was a pragmatic one: Gaidar and his reforms had become associated with the disruption in people's lives, and the Russian parliament had grown increasingly hostile toward Yeltsin.¹¹

Chernomyrdin, whom U.S. Vice President Al Gore would soon make the focus of U.S.-Russia policy,¹² was neither a democrat nor a believer in free markets. The international press described him as a “Communist-trained technocrat . . . [who] comes to the job with a background in Soviet industrial management and political back-scratching.”¹³

Chernomyrdin was born in Orenburg in 1938, graduated from the Polytechnical Institute at Kyubyshev, and received a degree in engineering economics by correspondence from Moscow's All-Union Polytechnical Institute. He worked as a machinist at the Orsk Oil Processing Plant starting in 1960, joined the Communist Party's local branch the next year, and rose to prominence through party ranks.

In 1978, he became an industrial adviser to the Communist Party Central Committee. In 1982, he was appointed deputy minister of the Soviet Ministry of Gas Industry, and, in 1985, he became minister under Gorbachev. In August 1989, when the Ministry became Gazprom, Chernomyrdin became chairman and CEO. He remained there until August 1992, when Russian President Boris Yeltsin made him deputy prime minister for the fuel and gas industry. During his career, Chernomyrdin was awarded several Communist Party honors, including the Order of the October Revolution, the Order of the Red Banner of Labor, and the Order of the Badge of Honor.¹⁴

Chernomyrdin's statist economic background was a fair predictor of his forthcoming performance as prime minister. On December 31, 1992, shortly after taking office, Chernomyrdin signed a resolution reimposing price controls on a wide range of goods. The new prime minister also proposed increasing subsidies to protect insolvent state enterprises.¹⁵

Yeltsin's agreement to appoint Chernomyrdin was purchased with a commitment from hard-liners to hold

an April 1993 referendum to approve a new constitution, as well as to test public support for continued moves away from Communism.

Yeltsin's maneuvering to obtain a vote on whether to continue market reforms was shrewd. The results of the referendum—15 months into Yeltsin's tenure—showed that 53% of voters approved of his economic course, notwithstanding the extreme hardship it imposed. Moreover, 67% supported early legislative elections to replace the Communist hardliners in the legislature—a powerful public endorsement of Yeltsin and his policy.

None of this deterred centrists and hardliners in the parliament from attempting to put the brakes on economic reform to give greater attention to “social needs.”¹⁶

New Liberties and the Rule of Law

The U.S. Department of State reported that in its first year of independence Russia had “made substantial progress toward democratic change, the reform of its political and economic systems, and the dismantling of the remnants of the former Soviet state.”¹⁷

As democratization advanced, the number and activity of political, civic, and other groups exploded. In its annual survey, *Freedom in the World*, Freedom House called attention to “a multitude of parties, as well as non-political civic, cultural, social, business, youth, and other organizations” in Russia in 1992.¹⁸ The State Department estimated that some 300 strictly political organizations operated “unhindered” in the country, adding that public demonstrations were commonplace throughout the year and took place “routinely” without government interference.¹⁹

Similarly, the State Department reported that freedom of speech and the press at this time were “widely respected,” and that most periodicals were now free of government control.²⁰ A new law prohibiting censorship and the creation of media monopolies guaranteed the freedom of Russia's print media.²¹

The new Russia took other important steps in 1992 to undo the Soviet legacy. The parliament passed legislation dismantling the Soviet Union's KGB into several agencies. The new outfits were ordered to respect human and civil rights, and submit to legislative oversight.²²

Russia's citizens generally enjoyed freedom of





religion and growing freedom of movement in 1992. By the end of 1992, all adult citizens were granted the right to travel abroad.²³

The 1992 creation of Russia's Constitutional Court was likewise an important step for the protection and expansion of Russians' new freedoms, and the establishment of the rule of law. Two major Court decisions in 1992—a January ruling overturning a Yeltsin decree merging the KGB and the Interior Ministry, and a November decision that Yeltsin's ban on the Communist Party after the August 1991 coup attempt was unconstitutional—implemented the important principle of judicial review of the legitimacy of executive acts, and marked important progress toward the establishment of an independent judiciary.²⁴

Just as importantly, President Yeltsin's acceptance of the verdicts was a hopeful sign for development of the rule of law in Russia. For a Soviet court to have ruled against a measure promulgated by the Communist Party leadership, or for Party leaders to have obeyed such a decision, would have been unthinkable.

Despite these encouraging signs, much work remained then, and remains now, to establish the rule of law. Unlike the American Revolution of 1776, the French Revolution of 1789, or even the Bolshevik Revolution of 1917, the Russian Revolution of 1991 did not overturn existing laws or destroy the governing institutions. Not only did the Soviet constitution remain in force for two years, until December 1993, but even today many Soviet-era laws continue to be enforced.²⁵

Popular Views of Democracy, Reform, and the United States

According to Librarian of Congress James Billington, a renowned Russia scholar,²⁶ Russia has many times in its past turned to its principal adversary for new thinking and institutions. As Russia rebuilt its society after the Cold War, it looked to America for guidance,²⁷ offering an historic opportunity for both countries.

Never was this fascination with the United States, its people, its values, and its structures more apparent than in the first years of Russian independence. As 1992 opened, Russian enthusiasm for democracy and a market-based economy was manifest. After 75 years of Communism, Russians yearned to become what they called a “normal” country.

Pro-democracy groups sprang up and independent political groups proliferated as Russians tested their new political rights and showed their excitement about democracy. Public opinion polls showed remarkably resilient support for Yeltsin's economic reform program, including privatization and other measures,²⁸ even after the economic hardships of price liberalization. Conversely, the Russian parliament lost support as the public began to perceive it as a hindrance to reform.

In addition to displaying enthusiasm for the American model of democracy and free markets, Russians wanted broad and close ties to the United States. This was apparent not only in opinion polls, where strong relations with America registered as a top priority,²⁹ but also in a general fascination with American popular culture.

American clothing, films, and music surged in popularity, particularly in Moscow and St. Petersburg. In early 1992, over 70% of Russians surveyed were viewers of the soap opera “Santa Barbara.” Russia's RTR television network estimated the audience for the program to be 80 million.³⁰

Nor was Russian popular fascination with America and Western culture limited to television programming. According to the Russian Press Ministry, the best-selling book in Russia in 1992 was Margaret Mitchell's *Gone With the Wind*, followed by Edgar Rice Burroughs' *Tarzan of the Apes*. Western artists dominated pop music charts. The Beatles accounted for two of the top three selling albums of the year, as the *White Album* and *Abbey Road* ranked first and third, respectively. In Moscow movie theatres, *Gone With the Wind* had the largest ticket sales of any foreign movie.³¹

Russians were obviously enamored of things American—both material goods, such as McDonald's hamburgers and Levi's jeans, and Western governmental and economic institutions.³² Such interest gave the United States an unprecedented opportunity to assist the Russian people in their transition from Communism to free enterprise and democracy.

Russian Foreign and Defense Policy

Russia's foreign policy reflected the overwhelming goodwill of Russia's citizens toward the United States in 1992. The rhetoric of Russian government leaders was positive. President Yeltsin's speech on



January 31, 1992, at the United Nations in New York—which had so often been the site for show-downs between the United States and the Soviet Union—was remarkable:

Russia considers the United States and the West not as mere partners but rather as allies. It is a basic prerequisite for, I would say, a revolution in peaceful cooperation among civilized nations.

We reject any subordination of foreign policy to pure ideology or ideological doctrines. Our principles are clear and simple: supremacy of democracy, human rights and freedoms, legal and moral standards.³³

Later in the year, Russia supported U.S. efforts in the U.N. Security Council for sanctions against Libya for its terrorist activities, as well as condemnation of the government of Yugoslavia for its interference in the civil war in Bosnia-Herzegovina. This support was essential to American attempts to isolate both Tripoli and Belgrade.

Russia's rejection of its former Communist ideology in foreign policy, and its emphasis on the universal values of democracy, human rights, individual freedom, and public morality, went well beyond Gorbachev's comparatively timid "new thinking" in Soviet foreign policy. It was not too much to hope that the spirit of brotherhood between the U.S. and Russia forged in the battle against fascism during World War II would supplant decades of Cold War antagonism.

The Bush-Yeltsin Watershed

During Yeltsin's June 1992 visit to Washington he and President Bush signed agreements that engendered great hopes for enduring cooperation between Washington and Moscow. Most significant was a joint understanding that was to serve as the framework for the START II Treaty that Presidents Yeltsin and Bush signed on January 3, 1993.³⁴ START II was an agreement to reduce both countries' nuclear warheads by almost 75%, eliminating highly destabilizing multiple-warhead land-based missiles.³⁵

There were dozens of other agreements, including a Charter for American-Russian Partnership and Friendship that laid out an ambitious plan for cooperation in preventing and limiting international conflicts,

a statement on joint work to develop a missile warning system, and agreements on non-proliferation, space, and investment.³⁶

The spirit of the times was captured by the extraordinary reception President Yeltsin received when he called for closer U.S.-Russian cooperation in the address he gave during a June 1992 visit to a Joint Session of Congress. Saying Russia was "extending its hand of friendship to the people of America," he invited America "to join [Russia] in partnership in the quest for freedom and justice in the 21st century."³⁷

During his address to Congress, Yeltsin renounced the most confrontational aspects of Soviet foreign policy, including U.S.S.R. intervention in Afghanistan and support for Cuba's Communist regime. He also announced that he had ordered Russia's Defense Ministry to begin to remove the country's most dangerous missiles, its land-based multiple warhead SS-18s, from alert status.

Russian overtures to America at this time also included cooperation on non-proliferation, reductions in conventional weapons, and—of special note—discussions of a cooperative global anti-ballistic missile (ABM) system.³⁸ Russia played a key role in facilitating the Lisbon Protocols to START I, which guaranteed that Belarus, Kazakhstan, and Ukraine would transfer Soviet nuclear weapons to Russia for destruction and assume non-nuclear status. The subsequent unhappy evolution of Belarus under President Alexander Lukashenka is a reminder of the importance of this agreement to contemporary international security.

Early Military Conversion Efforts

Perhaps the most significant development in the early days of the new Russia was the initiative for a massive de-militarization of the Russian economy.

Russia's 1992 military budget called for expenditures to be one-half the previous year's, with a substantial majority of the funds to be spent on personnel and operations and maintenance.³⁹ Military procurement was sharply reduced. While the U.S.S.R. had bought 3,000 tanks in 1991, Russia was slated to purchase only 30 in 1992.⁴⁰ Altogether, spending on military hardware was cut by 80%.⁴¹

At the same time, the law "On Defense" adopted by parliament in June 1992 limited the size of Russia's





AP Photo/Dennis Cook

INVESTMENT, NOT AID: President Bush and President Boris Yeltsin leave the stage after meeting with business executives in Washington when Yeltsin was in the United States for a summit. "In effect," *New York Times* foreign affairs columnist Thomas L. Friedman wrote at the close of the June 16-17 summit, "these two days marked the moment when the currency of American-Russian relations shifted from warheads to dollars. ... The importance of the economic agreements signed today, offering most-favored-nation trade benefits to Russian exporters, export credits, a taxation treaty, insurance to American companies wanting to invest in Russia and a treaty to govern mutual investment, is that they promote what will really transform the Russian economy: not foreign aid, but private investment. One thing American officials have learned from the experience of Poland is that while Western aid is necessary for transformation to a free market," Friedman continued, more is necessary. "There is no capitalism without capitalists, and unless Russia is opened up to investment, unless state-owned industries are privatized quickly, unless the ruble is made convertible and unless there is a modicum of internal stability to attract foreign businesses, no external aid package will be big enough." Clinton administration officials, however, attempted to rely on aid, neglecting the prerequisite for its effectiveness, the creation of a market economy.

peacetime military to 1% of the country's population, or about 1.5 million soldiers.⁴² The Russian military planned to reduce its forces by some 700,000 men during the period 1992-94.⁴³

Russia's demobilization in 1992 was fraught with political peril. Cuts in procurement placed thousands of jobs in Russia's oversized military-industrial complex in jeopardy, at the very time that the rest of the economy was also under heavy pressure. Russia had

ambitious plans for the conversion of military plants to civilian production. Conversion, however, required even more spending than continued military production.

According to Mikhail Bazhanov, the head of the State Conversion Committee, Russia would need to invest 1.2 million rubles in converting to civilian production for every one million rubles it received from state orders for military production.⁴⁴





BIPARTISAN POLICY: Russian President Boris Yeltsin received a warm bipartisan welcome in Congress in 1992. Despite the fact that 1992 was an election year, Republicans and Democrats worked together to pass the FREEDOM Support Act. Had this legislation been properly implemented during President Clinton's two terms, it would have provided for much better conditions in Russia and for a more positive U.S.-Russia relationship.

Bazhanov worried that Russia could be forced to turn to arms sales to finance its military conversion effort. President Yeltsin concurred, but vowed that Russia would not sell weapons to countries under U.N. sanctions.⁴⁵ Yeltsin also decreed that the Defense Ministry should be permitted to sell all excess property other than weapons and ammunition in order to raise funds.⁴⁶

Bringing Troops Home

The withdrawal of Russian military forces from abroad and the partial dissolution of unnecessary military units created similar economic challenges. In August 1992, some 104,000 military personnel were without housing; the number was expected to increase

substantially as additional troops were pulled from foreign bases.⁴⁷ Large numbers of potentially disaffected current and former military personnel were a major political concern of the Yeltsin government.

Nevertheless, Russia began the withdrawal of substantial military forces stationed in Central and Eastern Europe and the Newly Independent States of the former Soviet Union during 1992. For example, some 15,000 soldiers and officers had withdrawn from Lithuania by fall.⁴⁸

Despite these very practical problems, the trends were unmistakable: whereas the Soviet Union had devoted itself chiefly to the maintenance and expansion of its military and empire, the new Russia—at least in its early days—was committed to channeling its enormous potential into the construction of a free enterprise civilian economy.

The collapse of the Soviet Union and the newly pro-western orientation of Russia's foreign and military policies also had consequences for the mission of the Russian military, as political leaders reevaluated its fundamental purposes. At the end of 1992, Boris Yeltsin identified the top priorities of the Russian army as preventing war, conducting demilitarization, converting military enterprises to civilian purposes, and reducing troop strength.⁴⁹ The Russian military was to be oriented primarily toward its own internal restructuring and downsizing.

As President Clinton took the oath of office on January 20, 1993, the Russian government was completing the *Foreign Policy Concept of the Russian Federation*, an authoritative statement of its goals, which—as issued in final form five days later—announced that the conclusion of a Russian-American alliance was the formal objective of Russian foreign policy. There was no hint of the dramatic deterioration in the U.S.-Russian relationship and the anti-American Russian military and foreign policy that were to come.⁵⁰

U.S. Russia Policy at the Outset of the Clinton Administration

At the outset of the Clinton administration, the Bush administration and Congress had put in place the necessary tools for the United States to assist the Russian people in their historic transition from Communism to free enterprise. In the same way that



America's former enemies, Germany and Japan, had become friends, allies, and significant U.S. trading partners, it appeared that so too might Russia and the new nations of the former Soviet Empire.

The Bush administration's Russia policy during the closing days of Gorbachev's government had been one of cautious engagement—supporting freedom, but avoiding potentially counterproductive steps such as the large-scale infusion of cash into a system in transition.⁵¹

As early as 1990, the United States had begun to provide limited assistance to the Soviet Union to show support for reform. Before the final collapse of the Soviet Union in December 1991, the Bush administration took several steps to prevent adverse social consequences from the thus-far peaceful revolution, including signing an agreement to extend normal trade relations to all of the republics of the Soviet Union, providing nearly \$1.2 billion in food aid and agricultural credits, and extending medical assistance.

The caution and reserve of the Bush administration, which was apparent to Russian observers at the time,⁵² compared favorably to the approach of its successors—particularly in terms of the positive results it produced.

On the strategic front, President Bush in 1991 announced several significant initiatives, including the elimination of U.S. short-range nuclear weapons, the stand-down of strategic bombers and ICBMs slated for destruction under the START agreement, and a proposal to eliminate ICBMs with multiple warheads (eventually a key part of START II).⁵³ The administration continued this approach in 1992, taking important steps to reduce tensions while protecting America's strategic interests.

Support for Freedom

The most important Bush administration initiative of 1992 was the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act.⁵⁴ During a difficult U.S. election season, the Bush administration successfully pushed this path-breaking legislation through a Congress controlled by the opposing party, despite unusually strained relations between Congress and the executive branch.

“During my tenure,” said Richard Armitage, former Coordinator for U.S. Humanitarian and Technical Assistance, “I communicated directly, often, and in great detail, with the appropriate Committees of

Congress. I wanted very much to have the advice of key Members and staff and share with the Congress my sense of just how daunting the task of undoing the effects of 70 years of Communism would be. We reached, I think, a bipartisan consensus.”⁵⁵

The Bush administration's willingness to expend significant political capital and engage the Democratic Congress to achieve the historic bipartisan Freedom Support Act insured that, had the administration not changed, both branches would have subsequently followed through on its implementation.⁵⁶

The Freedom Support Act provided the executive branch with “broad authority for the conduct of a wide range of humanitarian and technical assistance programs.”⁵⁷ The premise of the legislation, as stated in the Act itself, was that developments in Russia and the other independent nations of the former Soviet Union presented “an historic opportunity for a transition to a peaceful and stable international order and the integration of the independent states of the former Soviet Union into the community of democratic nations.”

The legislation specifically authorized technical cooperation, medical aid, food assistance, assistance for the development of democratic institutions, and encouragement of trade and investment. It cited as objectives the establishment of the rule of law, the adoption of commercial codes, and replacing the Soviet regulatory system with transparent regulations hospitable to domestic and foreign investment. The Act also created the Office of Coordinator of U.S. Assistance to the New Independent States.⁵⁸

A Newly Free People

The rapid transformation of Russia from a closed, militarized, state-run society to a pro-Western, democratic, free-thinking nation presented the United States with the most significant foreign policy opportunity since World War II. But Russia's new freedoms were neither complete nor secure. At the end of 1992, as Russians stood on the ashes of the Soviet system, they looked hopefully toward America and the world—not for charity, but for inspiration.

How President Clinton, the new leader of the free world, would address this opportunity, and whether Russia's new leaders would stay the course of dismantling the Soviet Communist state, hung in the balance.

