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Yeltsin vs. Putinism

By Richard W. Rahn

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Few truly understand how the just deceased Russian President Boris Yeltsin made it almost impossible for President Vladimir Putin or any future successor to bring back communism to Russia. Many are concerned Mr. Putin is trying to re-establish communism, but he is not, because he cannot. Instead, he is trying to create a more traditional authoritarian state -- more on this later.

It is almost forgotten that one of the cardinal tenets of communism is that the price system should not be used to determine the allocation of resources nor who gets to consume what. Thus, under the Soviets, what was produced and consumed was not determined by supply and demand, but by the state planning agency -- Gosplan. This agency and its subagencies determined how many shoes, cars, stoves, paperclips and bottles of vodka were produced in the Soviet Union. Gosplan was more concerned with quantity than quality; hence, much of what was produced was junk and of little or no use. Since bureaucrats, rather than consumers, determined how much was produced, there was either too much or, in most cases, too little of what people actually wanted. Prices were set by the state, and most were artificially low to give the illusion of prosperity. For instance, the price of bread might be set at 10 cents (kopecks) per loaf, but the supply was sharply limited, so most people could not get bread except by waiting in long lines for many hours. For many nonfood quality items, people went to the black market.

Western economists, such as Ludwig von Mises, Friedrich Hayek and Milton Friedman, had long predicted that without market-determined prices the Soviet system would increase the misallocation of resources until it collapsed -- as it did.

When Mr. Yeltsin obtained power in late 1991, the Soviet economy was falling apart. Mr. Yeltsin had learned enough economics to trust a brilliant young economist, Yegor Gaidar, to take control. Mr. Gaidar and his associates, notably, Anatoly Chubias and Sergei Vasiliev, had read many of Hayek's and Friedman's works and had an understanding of where they had to go.

Mr. Gaidar freed prices in early January 1992 and began to dismantle Gosplan, which was completed by July 1992. (As one of a small group of economic advisers to Mr. Vasiliev and Mr. Gaidar in 1992, I watched this firsthand. Mr. Gaidar has correctly noted that we Western economists had only a minor role in the economic transformation, almost totally accomplished by a few very able Russian economists.)

The Russian currency had been debased, and the price decontrol led to rampant inflation (in reality, much of it mere recognition of the release of the repressed inflation of the old Soviet regime).

These were very tough times for the Russian people as they had to almost instantaneously move to a market economy in which they had no experience. Despite the tough times, Mr. Yeltsin took the heat. He was a strong believer in freedom of speech and the press, and the new free press beat him up. But he did not waver, and he even made Mr. Gaidar acting prime minister in June 1992. By the fall of 1992, the situation for many Russians was desperate. For Mr. Yeltsin to retain any power, Mr. Gaidar had to be sacrificed and so was fired that December.

Now, 15 years later, with the Russian economy growing rapidly and a record prosperity for most Russians, we can see Mr. Gaidar and Mr. Yeltsin made the right decisions, though the decisions were extremely unpopular at the time.

By destroying Gosplan, Mr. Yeltsin made it almost impossible to recreate a truly communist economy. In fact, one would be hard-pressed to find, even among the old communists in Russia, the demand that basic services like restaurants be renationalized. When you hear "communist restaurant," think of the worst meal you ever had in a public school.

Mr. Putin and his crowd, having seen both free-market capitalism and Soviet communism, have no wish to bring the old regime back. However, they do want power and control, so they have in many ways replicated the Nazi's economic model, whereby the regime controls the major industries (particularly those that generate large amounts of foreign exchange) and the press through partial ownership, regulation and intimidation (including selected jailing and/or murders of opponents). The rest of the economy is allowed to run relatively free.

Thus, if you are Russian and willing to keep your mouth shut, you are both allowed and encouraged to go into business because Mr. Putin and his colleagues understand that a vibrant, relatively free market, business sector providing real improvements in the standard of living helps them maintain political control (as in the Chinese model).

But we know from history that once people reach a certain level of affluence, political freedoms become more important. Mr. Yeltsin may have lacked the personal self-control of Mr. Putin, but my bet is that, decades from now, Russian historians will realize his achievements in destroying the old despotic system, with Mr. Gaidar's help, and bringing real freedom and a free market economy to the Russian people, was far superior to that of Mr. Putin's "managed" prosperity and limited freedom.

Richard W. Rahn is the chairman of the Institute for Global Economic Growth.

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