

# INTERVIEW WITH ANATOLY CHUBAIS

Padma Desai

**O**n May 22, 1999, Dr. Anatoly Chubais, Chief Economic Officer, United Energy Systems, Russian Federation, and architect of Russia's privatization program, gave an interview to Professor Padma Desai, Harriman Professor of Comparative Economic Systems, and Director, Center for Transition Economies, Columbia University. Dr. Chubais responded to questions on a variety of economic and political issues. Below is an edited version of the interview.

*Desai: You are such a committed believer in the market economy. How did your commitment start?*

Chubais: My belief in the market economy has a long history. It started long before the market economy started in Russia. I graduated from the St. Petersburg engineering economics school. It was clear to me that the Soviet economy was in terrible shape and was headed toward disaster. It was difficult to find reasonable answers for the situation in the Soviet economy. Articles in textbooks and scientific journals discussed different ideas without clearly understanding them or how an economy worked. I had a clear understanding myself and I found several people in St. Petersburg in the mid-eighties and later who had similar views. We got to work, started finding books that were forbidden in the Soviet Union, and established contacts with Western economists that also were almost forbidden at that time.

*D: Can you remember some books?*

C: Yes, the works of Janos Kornai, Milton Friedman and Hayek. We also established contact with Yegor Gaidar's team in Moscow. We did not just discuss our ideas but undertook solid work, prepared reports, researched the New Economic Policy of the early 1920s in the Soviet Union, and studied Hungarian and Yugoslav reforms. All this was not easy to do in the

Soviet Union. Our basic goal was to get a firm idea of the fundamental changes that needed to be undertaken.

*D: It seems that there was a group of likeminded young people who thought like you and who believed that there should be a market economy in Russia...*

C: Yes. But I would say that we did not have a common belief, a clear understanding from the very beginning. We tried to find solutions stage by stage, we reached the answers in terms of basic changes such as private property, competition, and free prices. All this came from prolonged discussions. We did not accept it from the very beginning.

*D: There is a view here that almost all the USAID funding was given to the group of reformers led by Chubais and that the fund givers from this end did not seek out other groups and encourage pluralism in Russia. You must be aware of it. How would you react to that?*

C: You know, it is a very simple question. When we started in 1989, in November 1989, it was a team consisting of 15, maximum 20 people. We were the only team in the country who could discuss, not just discuss but make changes. At that time, our problem was that there was no alternative. Grigory Yavlinsky was with us at that time. He was a member of the team that prepared the 500-day program. But the fact was that there were no other teams. Before 1991, I myself spent years trying to find individuals everywhere in the country—in Novosibirsk, in Moscow Institutes, in St. Petersburg, Odessa and Ukraine, in Minsk and Sverdlovsk, and several Russian cities. When we became part of the government in 1991, all who were able to contribute something were invited. They came to the government, including Yavlinsky, all except one or two. Of course, there were a number of alternative

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government think-tanks but all those were Communist. It was simple: we or the Communists.

*D: You emerged as a reformer explicitly in 1992 with your privatization program, voucher privatization in particular, and I believe that it was motivated by ideological considerations. You wanted Russian industry out of state ownership and control, converting industrial units into joint stock companies with diversified ownership. Would you agree with that view?*

C: Absolutely.

*D: Private ownership promotes economic efficiency via incentives, but that was not your primary motive. The decision to issue vouchers to every man, woman and child, worth 10,000 rubles each, was a populist measure that was calculated to remove state hold over industry. People thought that they would become instant capitalists by putting their vouchers in this or that industry. They supported the program, and indeed the President and his reforms in the subsequent April 1993 referendum. Voucher privatization, in other words, was a huge political gambit, which pushed the reform momentum forward, kept it alive. Would you agree with that analysis?*

C: Yes. I think it was clear from the very beginning that a simple and transparent way of privatization did not exist. So some would gain and others would lose. A number of people would be unsatisfied with the outcome but the fundamental problem was: will it happen or not? From an economic point of view, voucher privatization, the voucher itself, was not the best way for privatization. More to the point, it was clear that the voucher was a substitute for money, and if you issue a voucher, you will not get money from privatization by selling state properties, but that was the price. It was the only way to make it doable.

*D: So ultimately, the public sort of felt cheated and factories have remained in the charge of Soviet era managers who have failed to retool them. So what are the gains of privatization in your view?*

C: I did not hear the question.

*D: Well, in the end, the public did feel cheated. General Lebed said later that the voucher would not even buy an iron. And the factories, most of them, have not been restructured. So what do you think are the gains from privatization?*

C: Well, let us separate the goal from what was not the goal. No one said that the goal of voucher privatization was to restructure private property, to restructure companies, to attract investments, to speed up economic growth or to increase the standard of living, because it was clear that the process would take several stages. Voucher privatization was just asset distribution, leading to the next stage of property concentration, resulting in new investment, finally leading to enterprise restructuring. There are at least four or five stages.

*D: So you had some sequencing in mind.*

C: Yes, General Lebed and Mayor Luzhkov also stated that voucher privatization would not attract investment. No one thought that we would immediately get economic growth in Russia by distributing vouchers.

*D: The harshest criticism was leveled against the loans for share program, as a result of which a few bankers advanced credits for supporting the government budget and for bankrolling President Yeltsin's 1996 June election. Eventually they came to own a sizeable share of Russia's lucrative industrial units. Would you repeat that scheme again, loans for shares?*

C: No, this kind of scheme could not be repeated. There is no need for it. Loans for shares began in 1995. Till that time, we did not get even small cash from privatization because it was property sale for vouchers. In fact, no one believed that we could get real money from the sale of state property in exchange for vouchers. The scheme was controversial at the time. Politically, I was in one of the most complicated situations being under serious attack from several branch ministries, from the railroad and transport ministries, from the Duma, and from some governors. So the dilemma was simple—either we will not sell state shares at all or we will sell them via the controversial shares scheme which would bring real money to the Russian budget. Don't forget that with the sale of Norilsk Nickel shares, we got the first 170

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million dollars. It was absolutely fantastic. It helped the federal budget a lot because the budget situation was critical.

*D: But you don't think that as a result of this scheme, you brought into being Russia's oligarchs as powerful lobbies and, in spring 1998, Sergei Kiriyenko, the young reformist Prime Minister, was battling the left wing in the Duma led by the Communists and the oligarchs on the right. So he was dealing with two opponents at the same time.*

C: Well, let us decide if the oligarchs are good or bad. Let us understand that the oligarchs are the big Russian private business with the positive and negative features they bring to Russia. The fact is this private business was the major political resource for preventing Communist leader Gennadi Zyuganov from becoming President in 1996. I strongly believe that the only way of preventing Zyuganov from becoming president in 1996 was the creation of big private business in Russia. Their mentality differed from Soviet style management. They were mainly younger people attracting hundreds of thousands of new employees in their companies while restructuring them that began with Norilsk Nickel and Yukos, the oil company. They started capital investment. They began attracting foreign investment. They fought for improving efficiency. These were the goals of privatization in its next phase. That was the economic side of the story. At the same time, they became powerful, wanting to use their power according to their understanding of the political situation. The Presidential election of June 1996 raised the question of Yeltsin or Zyuganov, and they definitely said Yeltsin. However, in the next phase, they thought that they ruled the world and could do anything. So there are positive and negative sides to the story.

*D: Do you think that the influence of private business, the so-called oligarchs, has been crippled as a result of the financial meltdown of August 1998?*

C: No doubt about it. Of the seven big names in 1996, half of them did not exist in 1998.

*D: Let us move forward in time. Why did the President fire Prime Minister Primakov?*

C: It was for the political compromise that Primakov managed. The price of the political compromise that Primakov achieved was increased influence of the communists. This role increased constantly, and in the next phase, they could be the political force in the country.

*D: But you don't think the President removed him because Primakov was becoming increasingly popular with the public. He fired Prime Minister Chernomyrdin in March 1998 because Chernomyrdin was beginning to have presidential ambitions.*

C: I know this President. Let me answer this question in a simple way. The President is now going to find his successor. So it should be clear to everyone that the President will not run in the presidential election next year. It is clear that he needs to find someone. The problem is not that Chernomyrdin or Primakov gets too much public support. The problem is that both are not accepted by President Yeltsin as successors. That is the reason for firing Primakov.

*D: He would not accept them as successors?*

C: No, no.

*D: Do you think he has a successor in mind? I don't want any names, but does he have a successor in mind?*

C: At least I know that it is one of his main priorities.

*D: How do you assess the new Prime Minister, Sergei Stepashin? Even if he formulates a credible government, can he manage to overcome Communist opposition and the continuing opposition of the Yavlinsky Yabloko group, which has declared its opposition?*

C: Well, I think that Stepashin, despite his background and his unfavorable perception in the West because of his KGB past, the Chechnya war and things like that, is absolutely reasonable, a representative of the new generation of Russian politicians. He will be able to

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build a wide political bloc, including Yavlinsky's group. He could build genuine rapport with the Russian people because he is good in public policymaking, he is good in administrative functions, he is good with journalists, he is good with the Duma, and he is good with the governors. So he is respected by the Russian power elite and has real support of the Russian population.

*D: So you are hopeful, more than hopeful, that the Duma will pass the legislation which the IMF is asking before it releases the \$4.5 billion funding?*

C: No, I don't think so.

*D: They won't pass it?*

C: No, no.

*D: So what will happen then?*

C: I think that the Duma, after the failed impeachment of the President and the overwhelming support of the people in favor of impeachment, will seek an opportunity to express its protest and the best opportunity will be to cancel this IMF package. Zyuganov said a week ago that he supported the government-IMF agreement, but I am sure that in a week, he will say that this agreement is anti-people, undermines Russia's sovereignty and things like that. I am sure that the Duma will be against it. I think that it is a serious problem. The Stepashin government, the IMF and the World Bank should sit down, analyze the whole list of problems they have, understand those that could be supported by the Duma and let go of the rest.

*D: Do you think that the current government will be a caretaker government until the Duma December 1999 elections. That is what Yegor Gaidar said yesterday.*

C: Let me tell you my assessment of the government. I do not think that Stepashin will immediately undertake major political steps and economic transformation. He does not need to do that. I do not think it is necessary now. In my view, the next stage of the Russian economic reforms will not start before the next Russian presidential election.

*D: What are your best guesses about the composition of the new Duma as a result of the December 1999 elections?*

C: I don't think that something really radical will happen. The communists will still be number one but I do hope that they will lose the majority. But there is a risk—the extreme left Communists will overcome the required 5 percent barrier because of the Yugoslav NATO bombing. The party of Luzhkov, the Mayor of Moscow, will definitely get an entry in the Duma and be number one or two.

*D: You met with a variety of business groups in America. You met with the IMF and the Treasury officials. In the old days, the general view was that the IMF, pressured by the Treasury, will always support Russian reform because Russia has so many nuclear warheads that it cannot be allowed to go bust? Do you think that they have now gotten rid of this position?*

C: In all my discussions with the IMF that I have had since 1995, I never discussed political positions. We discussed the IMF program itself, the growth rates of money supply and money demand, foreign exchange reserves and things like that. We discussed the institutional-structural changes that must be made. They expressed their understanding, we expressed our understanding. The discussions were very tough. But I never used the argument that if you include specific measures asking us to overhaul, say, the Russian Railway Ministry, and if we do not implement them, then the Communists will return or that our nuclear forces will become unmanageable. Such things are not discussed with the IMF or the Treasury.

*D: Well, you do not discuss them explicitly, but they discuss them among themselves.*

C: I don't know, maybe.

*D: My big question. Do you worry about Russia falling apart?*

C: No.

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*D: Why not? Because people here worry about it, as soon as something goes wrong with Russia.*

C: Oh, well. A number of worries that exist here are absolutely unrealistic. On the other hand, serious problems in Russia that are extremely dangerous are not understood here. I do not believe at all in Russia falling apart. With the increasing awareness of the need for a strong ruble, with the adoption of the 1993 Constitution, with the elections in the Russian regions, the chances of Russia's dissolution, in my view, do not exist. It was an issue in 1992, and in 1993 in our relations with Tatarstan. Currently, the remaining problem that needs to be resolved is Chechnya.

*D: Dagestan?*

C: Dagestan? No.

*D: The final question. When I watch your breathtaking career as a reformer, I feel that you regard the reform process as an ideological battle between the reformers and the communists. I think you are a brilliant strategist who believes that every strategy has pluses and minuses but that the pluses must dominate, and that the process must move forward as a result. You do not also want to distinguish between ends and means. You believe that you are dealing with a ruthless adversary and therefore all means are a fair game.*

C: I do believe that everything that has happened in Russia in the last decade has been a fight between Communists and non-Communists to a greater extent than anywhere in Eastern Europe and on a much bigger scale, with more risk than in Poland or in East European countries. That is the essence of what is going on in Russia. It is clear that after several generations of Communist life, we could not get out of it in one year. At the same time, I believe that the strategic choice must be pragmatic. It does not mean that there are no moral limits. It does not imply that any means can be used for achieving these goals. At the very least, if immoral steps are used, they will immediately be used by the opponents.

*D: Like what?*

C: I cannot think of an example. I am trying to explain our strategy. Our strategy is to win. We have to win. I mean we shall win, but I do not think we can use any means for the purpose, even with the understanding that the game we are playing is quite serious, and that if we lose, we will just disappear physically, there is no doubt about it. So we are paying the price that nobody in the West has paid for this game. That is why it is a very serious game. But that does not mean that we can use any means for reaching our goal.

*D: Don't you feel tired sometimes? Don't you want to just throw in the towel sometimes?*

C: All of us feel tired sometimes. For ten years, I have been feeling tired.

*D: You should come here and become a professor for a while.*

C: I do not want to be a professor. I hate giving lectures.

*(Laughter)*