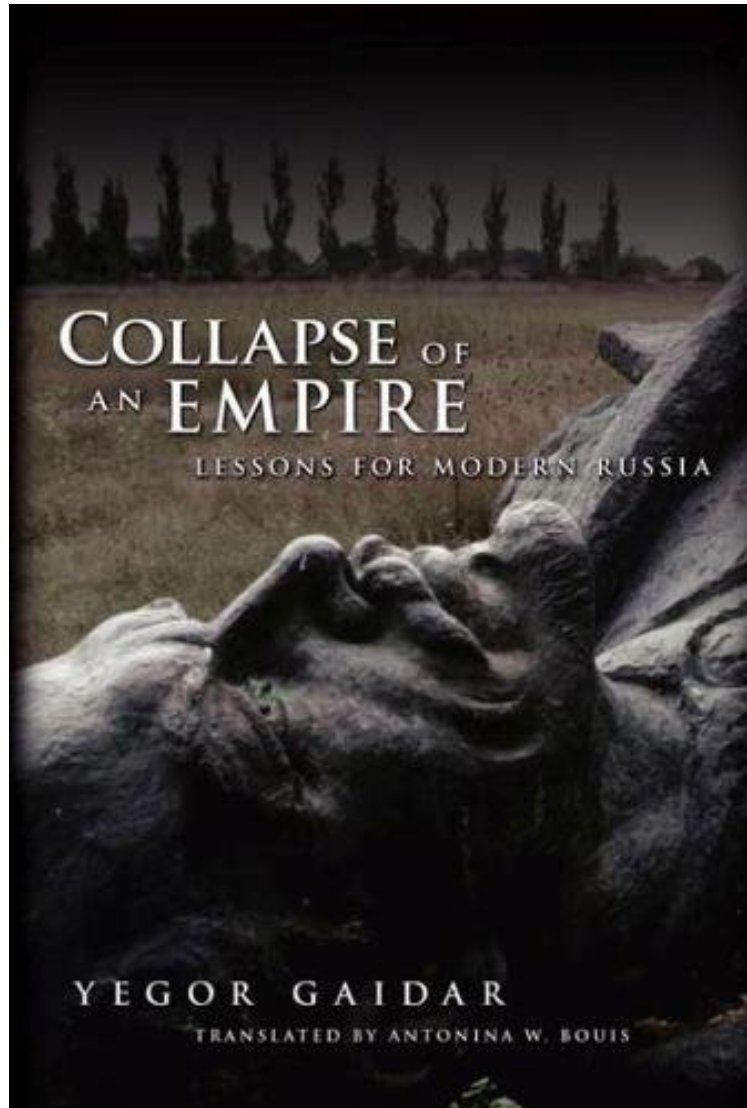


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Collapse of an Empire: Lessons for Modern Russia

Yegor Gaidar

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Yegor Gaidar : Collapse of an Empire: Lessons for Modern Russia before purchasing it in order to gage whether or not it would be worth my time, and all praised Collapse of an Empire: Lessons for Modern Russia:

2 of 2 people found the following review helpful. These lessons are limited By T. Carlsson I had high expectations for this book. The author was the acting prime minister of Russia in 1992 and was deeply involved in the Russian economy in the 1990s. An analysis of the Soviet collapse based on his personal experience and declassified materials, promising lessons for modern Russia, seemed like a book worth reading. And indeed it is worth reading if you're a professional economist, but I have to note a few reservations for readers with a general interest in Russian politics.

Although the author introduces the subject with historical comparisons, he reverts to much more narrow economic analyses in the main chapters. In the introduction the author writes that the historical picture which currently dominates Russian public opinion is one where a prospering Soviet Union fell victim to catastrophic reform blunders in the 1980s, leading to a chaotic decade in the 1990s. Then, in 1999-2000, people with the country's best interest at heart finally came to power (page xviii). More controversially, he claims to see "striking analogies between the rhetoric of people using post-imperial nostalgia in our country and the standard propaganda of the National Socialists in the last years of the Weimar republic" (page xv). The table thereby seems set for a detailed analysis of Russian politics and recent history. But in the main part of the book the author in fact only shows how the Soviet Union's economy deteriorated. Moving from oil prices to a broad collection of economic data, he narrates its descent step by step. He shows that the economic collapse of the Soviet Union was inevitable and that only brutal repression of dissent could have kept the communist edifice standing. The last Soviet leaders deserve credit for not going down that road, if not for much else. This is well and good as far as it goes, but beyond these rather obvious conclusions this book offers no lessons which would be relevant for political questions facing Russia in the 21st century. Do the current leaders have a legitimate right to rule, and whom does their rule benefit? How can the partitioning of the Russian state in the 1990s be justified and accepted? How much independence should current autonomous regions in Russia be granted? How should the Russian state use oil and gas proceeds fairly? Can Russian nationalism be benevolent? Such questions must be answered with broad historical and philosophical analyses. The author's initial diagnosis of Russia's problems hints that he had the capacity to get such a fundamentally important discussion started, but instead he chose to write this book in a specialist vein. It's a real pity that he did not venture out beyond his area of professional expertise and write a more general history of Russia's Soviet inheritance. The lessons from such an endeavor could have made a much greater difference than the economic portrait this book now provides.

4 of 4 people found the following review helpful.
Required Reading
By SuburbSteve
For anyone who is interested in recent history in Russia, or working to transition a economy from centralized planning, for example Libya, or in the future Cuba and North Korea, this book should be required reading. Gaidar's purpose was very simple, he understood that if Russia did not shift to a proper democracy, leaders of Russia would try to rewrite the events of the Soviet downfall by trying to blame the Soviet collapse solely on outside influences. This would allow them to allow them to rebuild a similar system, where people would be allowed to travel and private companies could exist, but government activities would be re-centralized, the military again overbuilt and criticism of the government restricted through intimidation by a robust internal spy network. It is no secret the West wanted to see the fall of the USSR, but the surprise of the book is how the system rotted from within due to a total dependence on oil prices. In theory, this should lead to more soul searching in Russia on how to build a great society, unfortunately we are seeing the reverse. I became interested in Gaidar's work when I watched an interview with him where he laid out the case that after the USSR invaded Afghanistan, Saudi Arabia became so concerned that they were next, they turned the taps wide open throughout the 1980's to sink the price of oil and cut off the USSR's only source of funding. I think the North Sea fields coming on-line had something to do with the price fall as well, but it is an interesting theory. If there is one shortcoming of this book is that it uses different data to repeat the same point many times, but I think the reader understands why he has to do this, part of the reason for the book is to make an irrefutable case. I feel this book will stand the test of time and will be read and quoted many years from now.

18 of 19 people found the following review helpful.
An Insider's View of the Collapse of the Soviet Union
By Leonard J. Wilson
Yegor Gaidar's Collapse of an Empire is an insider's view of the causes and events that led to the collapse of the Soviet Union in 1991. The author has a fascinating and improbable background. He served as acting Prime Minister, First Deputy Prime Minister, and Economics Minister of Russia under Boris Yeltsin in the early 1990s but is an academic economist rather than a politician or bureaucrat. He received his PhD in economics under the Soviet educational system but, somehow, developed a solid understanding of economics of free markets. In Collapse of an Empire, Gaidar offers his historical and economic perspective on the Soviet collapse as a lesson and caution for today's Russia. It is as close to a definitive work on the Soviet collapse as I have yet read. Gaidar starts with two general observations, one on empires and one on oil, and then proceeds to describe the Soviet Collapse.

Empires come in two flavors: Overseas empires (British, French, Dutch) and territorially contiguous empires (Austria-Hungary, Tsarist Russia, Ottoman Turkey, Soviet Union, and, on a smaller scale, Yugoslavia). Of these two types, the overseas empires are the easier to dismantle: The imperial power can simply declare the former colonies free and, possibly, repatriate a limited number of colonists with a claim to citizenship in the mother country. In territorial empires, diverse ethnic, cultural, linguistic, and religious groups usually reside in close proximity to each other and often have longstanding conflicts over rights to land and under the law. Abolishing a territorial empire leaves all these conflicts in place, ready to boil over as soon as imperial control has been lifted. Members of the formerly dominant ethnic group may even find themselves a minority in one of the successor states and subject to the rule of one of their formerly subject people. Many of the troubled areas of the world today (Balkans, Middle East) are parts of former territorial empires where population segments have not succeeded in making peace with their neighbors.

Oil Countries with significant natural resources, especially oil, have generally not been on the forefront of democracy or economic liberalism. Gaidar attributes this phenomenon to the steady stream of revenues the sale of oil

provides the ruling party. Secured by this source of income, the government has no need to reach an accommodation with its people that gives them a voice in how they are governed. In exchange, the tax burden on the population often remains very light. The western democracies grew out of accommodations that essentially gave the people a voice in how their countries were governed in exchange for their acceptance of the government's imposition of taxes.

Soviet Collapse Prior to WWI, Russia was one of the largest grain exporters in the world. In the West, industrialization followed the production of an agricultural surplus which released excess farm labor for industrial employment. Russia followed a different path after the Bolshevik revolution. Rather than building an agricultural surplus, Lenin and Stalin seized the grain and other agricultural products of the countryside to feed the urban and industrial populations. Simultaneously, they reallocated labor from agriculture to industry to support their goal of rapid industrialization. The result was an economic and human disaster. Soviet agriculture never recovered, never produced a sustained surplus, and the country became dependent on imported grain. (See Robert Conquest's *Harvest of Sorrow* for details). By the 1970s, the Soviet Union was the world's largest grain importer. At that time (the 1970s), the Soviets were able to pay for their grain imports by exporting oil. This was the time of high oil prices and the Arab embargo on oil exports to the US. Grain prices were low, so Soviet trade balanced nicely: Expensive exports, inexpensive imports. In 1979, the Soviets invaded Afghanistan and Ayatollah Khomeini overthrew the Shah of Iran. These events led the Saudis to become concerned about a Soviet drive to the Persian Gulf and a threat to their kingdom. To counter this perceived threat, in the mid 1980s the Saudis greatly expanded their production and export of oil causing the world price to drop from the \$30-40/bbl range to about \$10/bbl. Obviously, this price change damaged the Soviet balance of trade. At about the same time (mid 1980s), the world price of grain shot up significantly. This further damaged the Soviet trade balance. If this wasn't enough, the volume of Soviet oil production declined in the late 1980s for two reasons. First, to generate foreign exchange, oil production had been focused on the most productive fields which were exploited at a rate that was harmful to the long-term productivity of the fields. Second, the reduced availability of foreign exchange and the continuing requirement to import grain led the Soviet government to reduce imports of industrial materials from the West, including equipment for oil drilling, production, and transport. By 1989, food subsidies constituted a third of the Soviet national budget. Retail prices were fixed at artificially low levels, which was one form of subsidy. At the same time, the Soviet government was subsidizing the import and domestic production of food. The costs of producing or importing food were as much as 70% higher than the retail prices. With a net outflow of hard currency and a grossly imbalanced domestic budget, the only way to "pay" the government's bills was to print more rubles. With prices fixed by the state, the resulting inflation could only result in shortages at the retail level and a huge increase in individual "savings" since there was nothing for the population to buy with its rubles. By 1991, of 1200 officially recognized consumer goods, 1150 were not readily available. Declining credit-worthiness drove most western commercial banks to refuse to make further loans to the Soviet government, leaving Gorbachev with only the option of begging for foreign aid from the capitalist governments. Gaidar even suggests that he made the following deal with George H. W. Bush at their Malta conference in 1989: In exchange for US financial assistance, the Soviet government will refrain from using force to maintain its control of its Eastern European satellites. Throughout its 70+ years of existence, the mantra of the Soviet government and the Communist Party had been that The Party had a special role in the Soviet system because of its unique "wisdom", its understanding of communist economics and the Soviet man. By the late 1980s, the Russian people and even the Soviet bureaucracy knew that this was a lie. However, the inertia of the system did not allow The Party to admit it's "wisdom" had been wrong and that a major economic reform based on free markets was desperately needed. By revealing the true history of the Soviet Union (e.g., the Molotov-Ribbentrop pact), Glasnost destroyed any lingering myth of the legitimacy of the Soviet Empire. In the end, the Empire could only be maintained by force, but the use of that force would have ended any hope for financial aid from the West. The August 1991 coup was only the farce that followed the tragedy that constituted the history of the Soviet Union.

"My goal is to show the reader that the Soviet political and economic system was unstable by its very nature. It was just a question of when and how it would collapse...." —From the Introduction to *Collapse of an Empire* The Soviet Union was an empire in many senses of the word—a vast mix of far-flung regions and accidental citizens by way of conquest or annexation. Typical of such empires, it was built on shaky foundations. That instability made its demise inevitable, asserts Yegor Gaidar, former prime minister of Russia and architect of the "shock therapy" economic reforms of the 1990s. Yet a growing desire to return to the glory days of empire is pushing today's Russia backward into many of the same traps that made the Soviet Union untenable. In this important new book, Gaidar clearly illustrates why Russian nostalgia for empire is dangerous and ill-fated: "Dreams of returning to another era are illusory. Attempts to do so will lead to defeat." Gaidar uses world history, the Soviet experience, and economic analysis to demonstrate why swimming against this tide of history would be a huge mistake. The USSR sowed the seeds of its own economic destruction, and Gaidar worries that Russia is repeating some of those mistakes. Once again, for example, the nation is putting too many eggs into one basket, leaving the nation vulnerable to fluctuations in the energy market. The Soviets had used revenues from energy sales to prop up struggling sectors such as agriculture, which was so thoroughly ravaged by hyperindustrialization that the Soviet Union became a net importer of food.

When oil prices dropped in the 1980s, that revenue stream diminished, and dependent sectors suffered heavily. Although strategies requiring austerity or sacrifice can be politically difficult, Russia needs to prepare for such downturns and restrain spending during prosperous times. Collapse of an Empire shows why it is imperative to fix the roof before it starts to rain, and why sometimes the past should be left in the past.

"Yegor Gaidar has written an outstanding book of great importance. With extraordinary erudition, he warns Russia against following the course of Nazi Germany, focusing on the double trap of post-imperial hangover and the oil curse. Professor Gaidar also shows how profound and manifold the Soviet collapse of 1991 really was." —Anders Åslund, Senior Fellow, Peterson Institute for International Economics

"Yegor Gaidar, a hero of Russian reform, has provided a courageous and clear-headed wakeup call for his own people and the world. He argues persuasively that today's Kremlin leaders are heading down the same economic path that led their Communist predecessors to disaster. Combining personal experience, deep analysis and a rare grasp of facts—including from previously classified documents—Gaidar has produced a book of insight and importance. It is must-reading for anyone trying to comprehend what really happened to the Soviet Union, why its system was inherently unstable, and why nostalgia for the 'days of empire'—fashionable at the highest levels in Russia today—is wrongheaded and dangerous." —George Soros

"Yegor Gaidar will be known to history as the architect of Russia's transition to a market economy. But here he shows his other side, as a brilliant economist and historian presenting a compelling explanation of the Soviet Union's collapse: its financial bankruptcy." —Andrei Shleifer, Harvard University, author of *A Normal Country: Russia after Communism*

"Gaidar has produced a book of insight and importance. It is must reading for anyone trying to comprehend what really happened to the Soviet Union, why its system was inherently unstable, and why nostalgia for the 'days of empire'—fashionable at the highest levels in Russia today—is wrongheaded and dangerous." —Educational Book

"I heartily recommend that you read his excellent book." —Streetwise Professor blog, 12/18/2007

"The author's analysis of the fate of the USSR is as compelling as it is lucid." —Tomas Hirst, *Fund Strategy*

"Collapse of an Empire is a warning to today's Russian leaders to avoid the disastrous mistakes of their Soviet predecessors." —Stefan Wagstyl, *Financial Times*

"Collapse of an Empire is about the disintegration of the USSR. It is one of the best accounts we have, and is likely to be referred to for a long time." —Philip Hanson, Chatham House, *The Russian*

"Gaidar wonders whether Russia's political and economic institutions will prove flexible enough to cope with another balance-of-payment crisis. If not, Russia may yet meet an end similar to the Soviet Union's. And on this critical point, Gaidar—no Cassandra, but rather a sober analyst of the half-baked illiberal democracy that is Russia today—has written a book far more instructive than most of the Western media's mass-produced anti-Putin pamphlets." —Guy Sorman, *City Journal*

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About the Author

Yegor Gaidar, Boris Yeltsin's acting prime minister in 1992, was the architect of "shock therapy" reforms designed to hasten Russia's transition to capitalism in the 1990s. He is currently the director of the Institute for the Economy in Transition, a Moscow-based research organization.

On November 24, 2006, Yegor Gaidar fell seriously ill while presenting the Russian edition of this book in Ireland. Much speculation at the time, including Gaidar's own article in the *Financial Times*, attributed the illness to poisoning.