

WINDOW ^{OF} OPPORTUNITY



**THE GRAND BARGAIN
FOR DEMOCRACY
IN THE SOVIET UNION**

Graham Allison and Grigory Yavlinsky

...rbachev's main mistake was his failure to take the Yavlinsky-
Allison Plan to London. We have to return to this program...to
discuss it so that we can implement it with our joint efforts. Russia
will strongly support this program."

—Boris Yeltsin

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CO-CHAIRMEN, JOINT WORKING GROUP

HARVARD UNIVERSITY

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FOR WESTERN COOPERATION
IN THE SOVIET TRANSFORMATION
TO DEMOCRACY
AND THE MARKET ECONOMY**

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The Joint Working Group chaired by Graham Allison and Grigory Yavlinsky included Elisabeth Allison, Robert Blackwill, Stanley Fischer, Alexey Makushkin, Alexey Melnikov, Alexey Mikhailov, Jeffrey Sachs, Elizabeth Sherwood, William Ury, Tatiana Yarygina, and Mikhail Zardornov. Assistance was provided by Bruce Allyn, Jill Barshay, Ellen Flynn Bedrosian, Richard Cavanagh, William Hogan, Dean LeBaron, David Lipton, Gary Mueller, William Parent, Olga Radaeva, Janet Sebile, Steve Singer, Astrid Tuminez, Patricia Walsh, Malcolm Wiener, and Lee Wolosky. In addition, we have benefited from consultation with and advice from many others in the U.S. and the USSR.

Chapters 2 and 4 were initially drafted in Moscow by Soviet experts at EPCenter and subsequently refined in consultation with Western experts. Chapter 3 draws upon earlier work prepared by American members of the Working Group. All participants made significant contributions to the Joint Program and agreed upon its content.

PREFACE

This Joint Program for the Soviet Union's transformation to democracy and the market economy was prepared for the heads of government of the Soviet Union, the United States, and the other industrial democracies. It was presented first to President Bush and Secretary of State Baker in the United States, and to Presidents Gorbachev, Yeltsin (of Russia) and Nazarbayev (of Kazakhstan) in the Soviet Union, and thereafter to the heads of the G-7 governments. (Canada, United Kingdom, Germany, France, Italy, and Japan). It was delivered in June 1991, to assist in their preparation for the extraordinary meeting between President Gorbachev and the G-7 heads of state in London in July.

Our objective in preparing this report was to raise higher on these governments' agenda what we believe is the single most important international issue in 1991. That question is: What about the Soviet future? With the end of the cold war, how will the leaders of the Soviet Union and the republics choose to reconstruct their nation? What are the West's stakes in alternative Soviet futures and what can it do to advance these interests?

When the leaders of the G-7 governments met a year earlier, in July 1990, in Houston, the issue of the Soviet future had been discussed in less than an hour, dismissed in a paragraph of the final communiqué, and buried in a multi-agency study of the Soviet economy. As private citizens who are students of Soviet and American affairs, we judged that this conclusion was mistaken then. We believed that any equivalent conclusion would be even more misguided in 1991.

Moreover, on the Soviet side, by early 1991 it was evident that President Gorbachev's economic *perestroika* had failed. The Soviet economy was in sharp decline. We knew that President Gorbachev believed that leaders of the G-7 who live in successful market economies knew more about market economies than he or others in the Soviet Union. For us, this was the origin of the idea that if he were invited to meet with the leaders of the G-7 governments at their Summit, he would have to focus clearly on the question of Soviet economic reform. He would want to present to them a program that they would approve.

Our collaboration had begun in November 1990. As it hap-

pened, I was in Moscow meeting with Grigory Yavlinsky on November 20, the day his resignation as First Deputy Prime Minister of the Russian Federation took effect. As the Russian press quipped, his was the first successful resignation since Czar Nicholas II. Others had simply disappeared.

Yavlinsky's resignation was triggered by Gorbachev's September 1990 rejection of the 500-Day Plan, of which he and Stanislav Shatalin had been the co-authors. Under these circumstances the Russian Federation was unable to pursue an economic program with any prospects of success, so Yavlinsky concluded that he would not front for their fraud. He resigned, explaining publicly why he was resigning. As a professional economist, he forecasted what he judged would be the inevitable results of the economic program Gorbachev had adopted. Specifically, he predicted massive government deficits, falling output, rapidly rising prices, a balance of payments crisis, and the impending specter of economic collapse.

I concurred strongly with his diagnosis and worried deeply about what such an outcome could mean for American interests. Economic crisis and collapse was likely to trigger either the overthrow of Gorbachev by a counterrevolutionary iron hand or, alternatively, disintegration of the Soviet Union into civil wars and chaos. Either outcome would pose major threats to American vital interests. Thus, objectively, there was a powerful interaction between Soviet decisions and Western interests—an interaction that should motivate an enlightened Western policy to attempt to effect outcomes more consistent with Western interests. As Yavlinsky remarked at the time, he had learned that it was too hard for one person sitting in Moscow to play chess with himself.

We agreed there to work together to prepare a Joint Program to overtake the crisis. We assembled a Joint Working Group of outstanding Soviet and American academics, most of whom had relevant practical experience. The Report that emerged was presented in nontechnical language in the hope that it could be read by heads of government and their relevant ministers as well as by professional staffs.

Events conspired to give the report a grander reception than we had ever imagined. On April 23, 1991, President Gorbachev and the heads of the nine major republics of the Soviet Union reached the historic Nine-Plus-One agreement that satisfied all the political preconditions for real economic reform. By devolving substantial power to the republics, that treaty would create a

government with the legitimacy and the capacity to carry through a real economic reform program.

As evidence of the failure of the Soviet economic program mounted, and the possibility that he might be invited to meet with the G-7 governments in London appeared, President Gorbachev expressed strong interest in the program we were preparing. At Gorbachev's initiative, Yavlinsky was selected as a member of a special team that Gorbachev sent to Washington for discussions with American officials prior to his coming to the G-7 Summit. There, Yavlinsky met with President Bush, Secretary Baker, and others who expressed great interest in the program we were preparing. One thing led to another and by the time the Program was delivered in mid-June, it was widely read at the highest levels of each of the governments. Separately and together, Yavlinsky and I spent many hours discussing the ideas in this report with Presidents Gorbachev and Yeltsin and top-level officials in all the G-7 governments. At these meetings we discussed not just the general concepts in the proposed Joint Program but the specific details.

For example, when we met with President Gorbachev on June 24, he was clearly struggling to define his own program to take to London. He had met the previous week with Jacques DeLors, President of the European Commission, who had explained to him that the only way in which he could hope to control inflation was through sharp reductions in the government's massive deficits. In our meeting, at one point he leaned across the table, stared at me quizzically, repeated what DeLors had told him, and asked: "Is this the only way?"

In the end, our effort failed—at least in the first round. President Gorbachev proved unwilling, or unable, to adopt a coherent economic reform program. Instead, he sent a letter to the leaders of the G-7 governments with his own program. One American official dubbed it "the Pavlinsky Plan"—more Pavlov than Yavlinsky. As a result, Yavlinsky decided not to go to London with the Gorbachev team for the meeting with the G-7 governments.

Given Gorbachev's submission, the G-7 governments found it rather easy to agree on a response. In essence, they said: Good first try but no cigar. As a consolation prize, they gave the Soviet Union "special association" status in the IMF and the World Bank, and recommended that the Soviet government work with experts from those institutions to prepare a coherent economic reform program, along the lines of the one outlined in our Joint Program.

In fact, in the preparation for the G-7 discussion of the Soviet Union and potential Western assistance to its reform, there had been sharp differences of opinion among the G-7 governments. The "continentals," led by Germany, backed strongly by Italy and eventually by France, were eager to do more sooner. The "islanders," being somewhat further away from the problems and their consequences, wanted to do less. In each case, the "islanders'" reticence was motivated principally by domestic issues external to their strategic stakes in Soviet reform.

Our answer to the fundamental question about the Soviet future is presented in the Report. Analyzing as best we could historical developments in the Soviet Union and the West, and pondering the words and actions of the leaders of the key governments, we identified three basic principles that could guide deep, mutual engagement in the Soviet transformation to democracy and a market economy.

In government, the principle is *democratization*. In the realm of economics, the basic principle is the *creation of a market economy and integration into the world economy*. In the security dimension, the principle is *cooperation in shaping a new world order*. In sum, the strategic concept for the next phase of Soviet history should be a decisive commitment to *transform* the Soviet Union into a democracy and a market economy; to rejoin the international community and be *integrated into world society*. The strategic concept for the West should be one of *active engagement* in rehabilitating the Soviet Union from a deep and long illness. Western leaders should commit their nations to assist in every practical way to increase the likelihood of success of the Soviet Union's transformation to a normal, civilized society.

The simple idea with which we began, and ended, was the concept of *strategic interaction*. The path of economic transformation Soviet leaders can choose and reasonably hope to succeed in following depends critically on the extent of Western support. Simultaneously, the extent of Western support depends critically on the program of economic reform that the Soviet Union is prepared to choose and follow. Rather than each waiting for the other to act—or attempting to play chess by itself—we proposed that the governments work together to develop a Joint Program, beginning with actions the Soviet Union would take in its own interests but allowing it firmer expectations about what would be forthcoming from the West in its own interests. That proposition remains as valid today as when originally stated.

Several features of the process by which this document was produced contributed to significant public misunderstanding of our central ideas. Because we were preparing the Report in the first instance for the leaders of the governments, the document was private. Before we had completed the document, public debate about the ideas ignited. Most of those debating the ideas had, of course, not read the document. The metaphor of a "grand bargain" had been coined in a May 1991 *Foreign Affairs* article by Robert Blackwill and me. As stated there, the central concept of the "grand bargain" is a process of long-term strategic interaction and support by the West on a step-by-step and strictly conditional basis if, and only if, the Soviet Union and its participating republics take practical and tangible steps toward democracy and a market economy.

It may be worth reiterating what the program is not. It is not a *giveaway* of anything to anybody: of Western money to the Soviets or their soul to us. Rather, if for their own reasons, they choose decisively the road to democracy and the market economy, the Program calls for our engagement and support as an investment in our security. It is not billions of dollars upfront to the Soviet Union on the faint hope or vague promise of reform. Indeed, the Program calls for no money down. It is not a program to prop up a tottering, corrupt, Communist system. As the Report states, that system cannot be reformed. It must be replaced. This is a program for speeding its replacement by a market-oriented democracy that can be sustained. The Program is not pro-Gorbachev vs. Yeltsin or any other personality; or pro-center vs. the republics. It is *pro* the process of democratization and rapid movement to the market economy. And it is not unconditional. Western assistance is strictly contingent upon the Soviets taking the necessary actions for such assistance to be used effectively. These actions include real economic reform and continued democratization, respect for the rights of individuals in the participating republics, and cooperation on critical issues of foreign policy.

As this is written, the spectacular acceleration of the ongoing revolution toward democracy and the market economy brings the basic concepts in *Window of Opportunity* to the top of the agenda. In the wake of the defeat of the bureaucratic, authoritarian coup, Yavlinsky was chosen as one of the four-man committee to manage the government in the transition and to make recommendations about the new governing arrangements. He was specifically charged with proposing a new comprehensive economic reform

P R E F A C E

program for movement to the market economy and integration into the world economy. That program will bear more than a little resemblance to the economic program for the Soviet Union outlined here.

The good news of the defeated coup was the dismissal or discrediting of the principal obstacles to real economic reform in the Soviet Union. These were the five whales: Pavlov's central ministry bureaucracies, the Communist Party *apparatchiks*, the military, the KGB, and Interior Ministry *securitat*. The bad news is that the good guys have now inherited all the problems of a failing Soviet economy plus one: the release of powerful national impulses for independence. The challenge of creating a new confederation or community of independent republics, sufficient to sustain a common economic space in which the parties can move rapidly to a market economy, is daunting and may prove overwhelming. Nonetheless, the Program for rapid movement to the market economy outlined here is, we believe, the Program any individual republic, and any combination of republics will have to follow if it is to have reasonable prospects of success.

Moreover, the basic principles for Western engagement in this process outlined in the Joint Program still apply. By announcing what it will do *if and when* the governments of the republics take the necessary action for assistance to be used effectively, the West can use its influence to improve the odds that Soviet democracy and market economies will succeed. Those necessary conditions include not only initial steps in a coherent economic reform program but also respect for individual rights in the republics, and economic and political cooperation among republics, in order to be eligible for such assistance.

In the first week of September, it remains unclear what political configuration will emerge in the former USSR and how decisively it will act. It remains unclear whether and to what extent the West will engage and be forthcoming. Certainly there remains a gap between what we proposed and what has already been done by either party.

Nonetheless, we take heart from Winston Churchill's observation that democracy is the form of government that eventually gets to the right conclusion—after having exhausted all conceivable alternatives.

Graham Allison
September 9, 1991

CONTENTS

PREFACE BY GRAHAM ALLISON	vii
1. THE BASIC ARGUMENT: CONCEPTS AND VALUES	3
2. IS SOVIET POLITICAL AND ECONOMIC REFORM POSSIBLE?	17
3. WHAT ARE THE WEST'S STAKES IN THE SOVIET FUTURE?	23
4. A PROGRAM FOR POLITICAL AND ECONOMIC TRANSFORMATION	29
5. A PROGRAM FOR WESTERN COOPERATION AND ASSISTANCE	73
6. WHAT IS TO BE DONE?	97
APPENDIX	99

WINDOW OF OPPORTUNITY

1

THE BASIC ARGUMENT: CONCEPTS AND VALUES

*There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.*

—Shakespeare,
Julius Caesar

OVERVIEW

This report begins with the concept of *strategic interaction*. The leaders of the Soviet Union and republics will make hard decisions about their reforms based on their analysis of their best interests. But the road to reform they can realistically follow depends critically on the nature and degree of Western engagement. Conversely, while Western leaders will decide about their engagement with the Soviet Union on the basis of their calculation of Western interests, the extent of cooperation is critically dependent on the path of reform the Soviet Union is prepared to undertake.

If these propositions are correct, one implication becomes inescapable. Rather than each party hesitating

and waiting for the other to act, the governments of the Soviet Union and the West must urgently ask and answer: *what if?* Together, these governments should jointly develop a common program of step-by-step initiatives each would undertake *if* the other were prepared to act. Our purpose is to suggest an outline of such a joint program.

The concept of strategic interaction is not new. It lay at the heart of the Marshall Plan. Some forty-four years ago last June, U.S. Secretary of State George C. Marshall delivered the commencement address at Harvard in which he issued a challenge to the countries of Europe. If these nations could jointly develop a plan "to place Europe on its feet economically," the United States would support and finance such a plan "so far as it may be practical for us to do so."

Though this fact is lost to the footnotes of history, the nations invited to participate in the Marshall Plan included the Soviet Union and the countries of Eastern Europe. Stalin declined.

Marshall's proposal was greeted with skepticism at home. Some argued that after five years of wartime neglect, America's domestic problems demanded first claim on the nation's limited resources. Others found bizarre the thought that scarce American dollars would go to countries that included former enemies who had so recently fought America's sons in war. Perhaps most incredible to "experts" was the presumption that after four centuries of almost continuous inter-European wars, these nations could become a community at peace.

Nonetheless, Marshall persisted in the conviction that American interests required deep engagement with European nations as they built their futures. Intense co-

operation among themselves, stimulated by generous assistance from America, would make possible a peace and prosperity of which prior generations could scarcely dream. The realization of that dream shaped our world.

The Political Challenge

The revolutionary times in which we live place a special conceptual burden on the leaders of today's great nations. The forces of history confront both Soviet and Western leaders with new and fundamental questions: questions deeper and more troubling than mortals can comfortably answer. In the aftermath of the Cold War:

- What kind of country will the Soviet Union become? What role will this Soviet Union play in international affairs?
- What interests does the West have in the Soviet answer to questions about Soviet society? Should the West's goal be to promote the disintegration of the Soviet Union or, rather, to assist its transformation into an advanced industrial democracy consisting of voluntarily associated republics? Specifically, how should the West relate to ongoing changes there?
- What concept of a stable relationship between the Soviet Union and the West will meet each side's hard-headed analysis of its national interests and the requirements for international order?

Six years of *perestroika* have profoundly changed Soviet society and aspirations. Many of these changes are irreversible. *Glasnost* has opened eyes and minds that will not be closed again. Steps toward political democratization

have energized Soviet society, as shown by the vigor of the republics and their demands to shape their own futures. Witness also the rapid growth in political awareness of ethnic groups and the increasing influence of the labor movement on policy making. On June 12, for the first time in its history, Russia chose a democratically elected president.

Changes in politics stimulate changes in economics. Relaxation of the fear that has been the dominant chord of Soviet society has undermined the command system of economic management. A genuine entrepreneurial sector is emerging. And while recent economic deterioration has meant severe hardship for many, especially pensioners and children, the need to provide for one's own family has changed people's thinking from reliance on the state to self-reliance. The process of *glasnost* has brought to light these developments and has revealed fundamental problems long suppressed and obscured by the old system. Their combined impact has shattered the system.

Spurred by these developments, the leaders of the Union and of nine republics made a political breakthrough on April 23. Their (Nine-Plus-One) Agreement sets up genuine power-sharing arrangements among sovereign republics. The leaders are now actively negotiating a new voluntary Union Treaty, which will be followed by a new constitution and new free elections for national offices. All that remains is for this ambitious political program to be carried out.