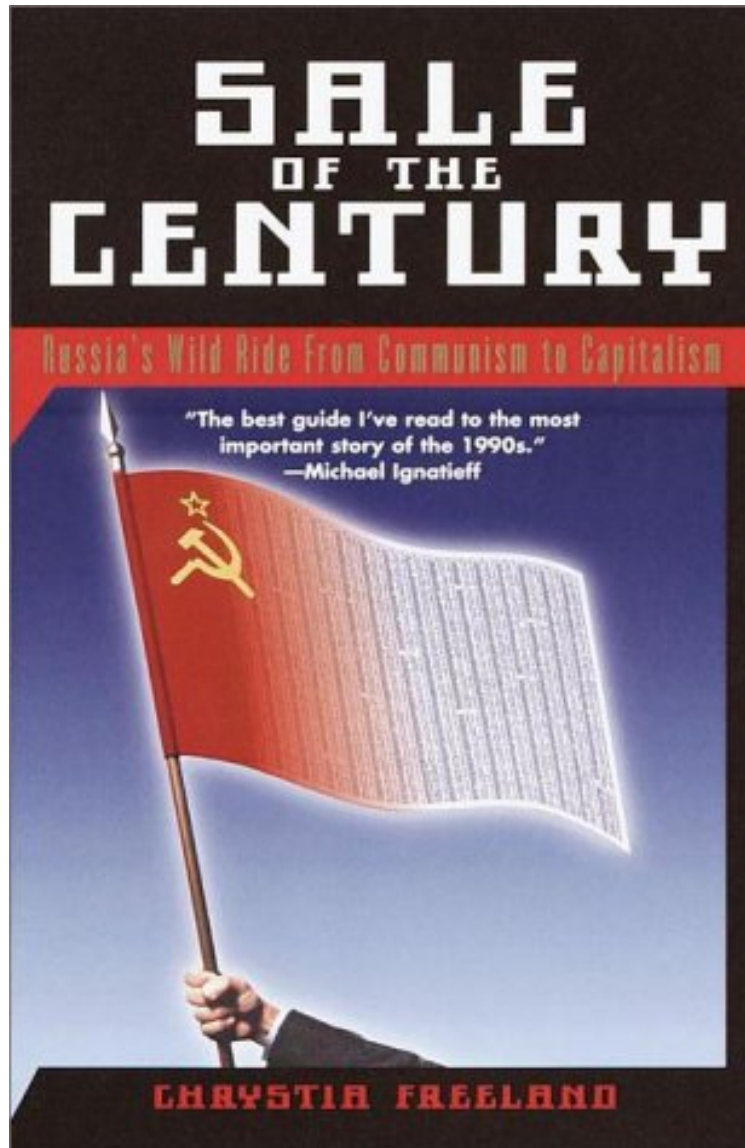


[Get free] Sale of the Century: Russia's Wild Ride from Communism to Capitalism

Sale of the Century: Russia's Wild Ride from Communism to Capitalism

Chrystia Freeland

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#1242851 in Books Crown Business 2000-09-12 2000-09-12 Original language: English PDF # 1 1.35 x 6.51 x 9.521, 1.58 #File Name: 0812932153416 pages | File size: 66.Mb

Chrystia Freeland : Sale of the Century: Russia's Wild Ride from Communism to Capitalism before purchasing it in order to gage whether or not it would be worth my time, and all praised Sale of the Century: Russia's Wild Ride from Communism to Capitalism:

1 of 2 people found the following review helpful. FROM COMMUNISM TO BILLIONAIRESBy The

CurmudgeonFreeland does a great job in describing how Russia went from being a worker's paradise to one full of billionaires during the freewheeling Yeltsin era. Yeltsin himself really didn't understand the free market system but knew things had to change and supported all the free market reforms. The new billionaires were the ones who first spotted free market opportunities and then used the state to make themselves billionaires (aka oligarchs). The big guns here were Berezovsky, Khodorkovsky, Friedman, Potanin, and Gusinsky, all of them Jews except Potanin. They first did this mostly by creating banks and offering to help the new state handle the mysterious capitalist system of finance through them. Then they offered to help the cash-poor state by lending it money with shares in various industries as collateral. This was called loans for shares. Then they took over the industries and became billionaires. They also took over many industries by auction. Of course these deals were done in the traditional Russian style where the winner of just about every industry auction was pre-planned but the winners were favored because they could solve the government's financial problems. While all these takeovers seem self-evidently exploitative nowadays, one reason it was so easy for the billionaires is that the old communist directors did not understand how profitable their assets were and thought they were giving up problems. The oligarchs took over these assets and made themselves rich. Yeltsin was especially favorable to this approach before the 1996 presidential election which was probably the only big election in Russian history where the winner was not known beforehand and the communist candidate was ahead in the polls. The oligarchs gave him financial support and assembled a western team of advisors to help him win the election. The main thing lacking in this book is that there are no photos of the main characters mentioned: the billionaires, government reformers, and communist-era industry managers. It would be much easier to understand these personalities if we had pictures.

0 of 1 people found the following review helpful. Five Stars
By Bridge Gate
Excellent book. 6 of 7 people found the following review helpful. Interesting, but Suffers From Major Omissions -By Loyd Eskildson
Author Freeland describes her book as 'the story of Russia's capitalist revolution and how that revolution was betrayed.' It begins with Boris Yeltsin atop one of many tanks on 8/18/1991 surrounding main government buildings, talking down the occupants by declaring that their coup was illegal. By 1996, over 80% of Russian industry had been at least partially transferred to private hands. Seven years later, Russians had constructed a capitalist system, only to realize it was the wrong kind and they had to devalue the ruble, default on domestic treasury bills, and declare a moratorium on repayment of foreign commercial debt. By the end of 1999 the economy had shrunk to just over half its size a decade earlier - Russia now produced less than Belgium, average male life expectancy had fallen to 58, schools and hospitals regularly shut down because workers had not been paid for months, and power blackouts/water shortages were common. The fall was preceded by falling oil prices, the Asian crisis, and continued poor revenue collection. Freeland's Russian heritage, ability to speak the language, and posting as the 'Financial Times' Moscow bureau chief were great assets to her reporting this important story. However, the book totally omits the role of U.S. advisers (Jeffrey Sachs et al), and is quite weak on the financial details of the values/costs of what the oligarchs acquired. (Another source estimates that management and workers received 51% of privatized SOEs at 1.7% of book value.) Further, its credibility is weakened by lack of footnotes - only general sources are listed. Freeland's coverage divides the players into two groups (the new reformers [aka bureaucrats] and the oligarchs), and the privatization into three stages (shock therapy during 1991-92, voucher privatization during 1992-94, and loans for shares during 1995-96. The latter program easily became the most controversial. In the early 1990s Russia's government deliberately set a goal of privatizing - both to obtain funds and to improve productivity/competitiveness. Shock therapy began after nearly a century of communism, only two months after Yeltsin took office. Most prices, except energy, transportation, some foods, and communications, were freed overnight. Import barriers on food were temporarily lifted. Private retail trade was liberalized. Prices shot up, inflation vaporized many people's savings, and there was wide discontent. Yeltsin's awareness of the unhappiness led to stalling further moves, and the reformers realizing that time was not in their favor. Anatoly Chubais became the bureaucrat in charge and decided to use free vouchers (10,000 rubles/citizen - about \$25) and competitive (eg. stock market) pricing. Side markets for buying and selling the vouchers quickly sprung up, and most vouchers/shares were acquired by enterprise managers. (About one-third were immediately sold for \$5 - \$20, another 25% were invested into fraudulent funds, another 11% were given away as presents, and 5% never invested at all.) Thus, insiders acquired most of the assets and the public eventually felt deceived. 'Insiders,' however, included few workers - most had no interest in becoming owners. A few years later the government faced severe fiscal deficits, partly because of rampant tax avoidance. (Only 25% of firms met their tax obligations by the end of 1996.) Freeland reports that a 7/1/94 decree granted the small north Caucasus republic of Ingushetia the right to serve as a tax haven - registered privatized firms (\$4,000) paid no local or regional taxes, only 20% of federal taxes, and also avoided half of normal import and export tariffs. The rationale - to create a bulwark vs. Chechnya and create some benefit vs. an existing tax treaty with Cyprus that already drained the Russian treasury. Yeltsin also needed money for the 1996 elections. The two needs were met by a loans-for-share scheme proposed by banker Vladimir Potanin and endorsed by Chubais, then deputy prime minister. Some of the state's largest industrial assets (eg. Norilsk Nickel, YUKOS, LUKoil, Novolipetsk Steel) were leased through auctions for monies lent by banks to the government. The auctions, however, lacked full competition - eg. non-Russian participants were kept out via vague references to the firms as 'strategic companies,' and other acts taken such as blocking airports/roads to impede competitor participation. (Some

were blocked by reformers angry at various parties, others blocked by fellow competitors.) Some existing 'Red Directors' were brought into the scheme by allowing them to join the original proposers. The loans were not repaid in time, and the assets retained - thus, this became a sale for a very low price. Some experts have further concluded that this significantly hurt Russia's growth since the oligarchs feared their purchases would be rescinded by future governments and they thus stripped assets from those firms and sent \$100 - \$150 billion in capital outside Russia. Lessons Learned: 1) Russia lacked the infrastructure for controlling self-dealing (eg. issuing free new shares to insiders). Some got the funds to buy by skimming from the government (eg. sweetheart deals, theft), then looted the firms as well via skimming revenue, stiffing workers, not reinvesting and/or performing maintenance. (The firms were worth more to bad owners that looted them than good ones.) 2) Russia's corruption and bureaucracy impeded achievement of the envisioned benefits of privatization; regardless, existing managers didn't know how to run their companies in a market economy anyway. (Turned out that 'dirty privatization' was not better than no privatization.) 3) China also experienced similar, but lesser problems, due to its slower pace that allowed a) developing skill in prosecuting fraud, self-dealing, and government corruption, b) ensuring management for the national interest, not just the owners, and c) improved skill at valuing enterprises.

In the 1990s, all eyes turned to the momentous changes in Russia, as the world's largest country was transformed into the world's newest democracy. But the heroic images of Boris Yeltsin atop a tank in front of Moscow's White House soon turned to grim new realities: a currency in freefall and a war in Chechnya; on the street, flashy new money and a vicious Russian mafia contrasted with doctors and teachers not receiving salaries for months at a time. If this was what capitalism brought, many Russians wondered if they weren't better off under the communists. This new society did not just appear ready-made: it was created by a handful of powerful men who came to be known as the oligarchs and the young reformers. The oligarchs were fast-talking businessmen who laid claim to Russia's vast natural resources. The young reformers were an elite group of egghead economists who got to put their wild theories into action, with results that were sometimes inspiring, sometimes devastating. With unparalleled access and acute insight, Chrystia Freeland takes us behind the scenes and shows us how these two groups misused a historic opportunity to build a new Russia. Their achievements were considerable, but their mistakes will deform Russian society for generations to come. Along with a gripping account of the incredible events in Russia's corridors of power, Freeland gives us a vivid sense of the buzz and hustle of the new Russia, and inside stories of the businesses that have beaten the odds and become successful and profitable. She also exposes the conflicts and compromises that developed when red directors of old Soviet firms and factories yielded to -- or fought -- the radically new ways of doing business. She delves into the loophole economy, where anyone who knows how to manipulate the new rules can make a fast buck. *Sale of the Century* is a fascinating fly-on-the-wall economic thriller -- an astonishing and essential account of who really controls Russia's new frontier.

.com Always something of an enigma to Westerners, Russia has become a veritable paradox in the decade following its transformation from communism to capitalism. In *Sale of the Century*, journalist Chrystia Freeland offers a riveting bird's-eye view of this conversion that should prove fascinating to everyone still hoping to do business there, and to anyone intrigued by the erstwhile superpower. Be forewarned, though: Freeland, who began reporting on the country in 1995 as Moscow bureau chief for the *Financial Times*, describes a nation of troubling extremes. The nation has evolved into a giddy utopia for some of its citizens, but one unable so far to handle its sudden affluence. The author portrays trendy Versace boutiques and bustling Mercedes-Benz dealerships lining Moscow's fashionable streets, whose sidewalks are patrolled by machine-gun-toting policemen trudging through the corrosive chemical waste used for melting the snow. In well-written first-person accounts, Freeland goes on to describe how scrappy entrepreneurs made overnight fortunes and then lost them just as quickly to widespread corruption and the 1998 Russian stock market crash. By the end of the 1990s, the economy was half what it had been at the start of the decade, producing less than Belgium and only 25 percent more than Poland. Meanwhile, power blackouts, wildcat strikes, and water shortages had become commonplace. Additionally, the ordinary citizen often grew worse off than before the fall of communism, while a powerful few came to own nearly everything. This cautionary tale ends with a more "workaday economy" emerging from the wreckage, and the author's hope that Russia's economic leaders can stay this new, more-balanced course. All signs to date, however, leave her decidedly pessimistic. --Howard Rothman
From Publishers Weekly
All it takes to derail economic change is a few not-so-good men. That's the message in this page-turning, behind-the-scenes look at Russia's so-far failed attempt to transform its state-controlled economy into a free market. Freeland, who was Moscow bureau chief for the *Financial Times* beginning in 1995, details how two groups -- former Communist bureaucrats and a small clique of wealthy Russian men -- both opposed Russia's economic reformers who took power in the early 1990s. The reformers, she shows, had to choose one of the groups to ally with, and they opted for the clique -- the oligarchs, as the Russians call them. While this alliance may have been necessary, it hasn't done the government or the country much good. After a series of barely legal dealings (most notably a 1996 plan in which the businessmen loaned the government money in return for large stakes in government-owned companies), Russian

politics quickly descended into palace intrigues between the oligarchs and the government, and, sometimes, among the oligarchs themselves. The oligarchs united to maintain Boris Yeltsin's grip on power in the 1996 elections, but afterwards returned to back-stabbing each other. The effect on ordinary Russians has been to create widespread disillusionment. Freeland, no leftist apologist, quotes one Russian friend as observing, "Everything Marx told us about communism was false. But it turns out that everything he told us about capitalism was true." In an epilogue, Freeland argues that the struggle to reduce the power of the oligarchs and establish liberal capitalism is far from over. As the recent three-day jailing of one of the oligarchs, Vladimir Goussinsky, shows, she's probably right. (Sept.) Copyright 2000 Reed Business Information, Inc. From Library Journal

The fall of the Soviet Union and subsequent rise of capitalism in Russia has become a hot topic among historians and publishers alike. Freeland, deputy editor of the Toronto Globe and former Moscow bureau chief of the Financial Times, and Klebnikov, senior editor at Forbes with a Ph.D. in Russian history from the London School of Economics, have written disparate works covering this topic from virtually the same angle. Freeland is more general, considering the whole ride from communism to capitalism, including the emergence of the "oligarchs," who quickly monopolized political and economic power in Russia. Klebnikov concentrates on one oligarch, Boris Berezovsky, but the background information for his exposé covers much the same territory as Freeland. Copyright 2000 Reed Business Information, Inc.