

Item Subject: DISSENT CHANNEL: S/P DIRECTOR STEINBERG-S

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SUBJECT: DISSENT CHANNEL: S/P DIRECTOR STEINBERG-S
 RESPONSE TO DISSENT CHANNEL MESSAGE FROM HEAD OF
 POLITICAL INTERNAL SECTION, EMBASSY MOSCOW

REF: MOSCOW 08427

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. FOR WAYNE MERRY FROM S/P DIRECTOR STEINBERG

3. I WANT TO THANK YOU FOR A STIMULATING PIECE ON THE SITUATION IN RUSSIA AND U.S. POLICY. I REGRET THE DELAY IN RESPONDING, BUT YOUR EXPANSIVE ESSAY GAVE US MUCH TO CONTEMPLATE. UNFORTUNATELY, THE TIME AVAILABLE FOR SUCH REFLECTION COMES IN SMALL AND INFREQUENT INCREMENTS.

4. MUCH OF WHAT YOU HAVE WRITTEN I AGREE WITH, ESPECIALLY YOUR COMMENTS ON DEMOCRATIC REFORM AND RUSSIAN BEHAVIOR IN THE OTHER SOVIET SUCCESSOR STATES. THE LINK BETWEEN THE TWO IS ONE THAT LIES AT THE CENTER OF OUR RUSSIA POLICY. IT HAS INFORMED OUR THINKING ON RUSSIAN ACTIVITY IN THE CAUCASUS AND THE BALTICS AND TOWARD RUSSIAN-UKRAINIAN RELATIONS. MOREOVER, THIS

LINKAGE IS ACCEPTED BY PRESIDENT YELTSIN AND THE RUSSIAN GOVERNMENT. WE MAY DEBATE HOW BEST TO PURSUE DEMOCRATIC REFORM AND ENCOURAGE RESPONSIBLE RUSSIAN BEHAVIOR ABROAD, BUT THERE IS NO DISAGREEMENT WITH THE BASIC LINKAGE YOU UNDERScore.

AS I READ YOUR CABLE, YOUR CRITICISM OF U.S. POLICY IS DIRECTED LARGELY AT WHAT YOU BELIEVE IS A MISGUIDED EFFORT TO PRESS FOR RADICAL ECONOMIC REFORM IN RUSSIA. IN YOUR VIEW, SUCH REFORM IS UNSUSTAINABLE IN RUSSIA, AND PRESSING FOR IT WILL ONLY UNDERMINE THE DEMOCRATS AND PUSH ECONOMIC ADJUSTMENT FARTHER OFF INTO THE FUTURE. THEREFORE, YOU ARGUE, WE SHOULD ABANDON OUR SUPPORT FOR RADICAL ECONOMIC REFORM AND FOCUS ON SUPPORTING DEMOCRATIC DEVELOPMENTS.

5. I HAVE TWO PROBLEMS WITH THAT CRITICISM: ONE IS THEORETICAL, THE OTHER IS FACTUAL.

FIRST, THE THEORETICAL. YOUR ARGUMENT IMPLIES THAT THERE IS NO VITAL LINK BETWEEN A FREE MARKET ECONOMY AND DEMOCRACY. HISTORY, I WOULD ARGUE, DEMONSTRATES OTHERWISE. AS YOU NOTE, THERE HAVE BEEN FREE MARKETS WITHOUT DEMOCRACY, BUT THERE HAVE NEVER BEEN DEMOCRACIES WITHOUT FREE MARKETS. THERE IS A REASON FOR THIS. MODERN DEMOCRACY HAS BEEN BUILT ON THE BASIS OF THE MIDDLE CLASS, ITSELF A PRODUCT OF THE FREE MARKET. IT IS THE MARKET THAT CREATES THE MULTIPLE ZONES OF PERSONAL AUTONOMY ESSENTIAL TO DEMOCRATIC DEVELOPMENT. WHILE ECONOMIC REFORM IS OFTEN DESTABILIZING IN THE

SHORT RUN, ALL THE EVIDENCE INDICATES THAT IN THE LONG RUN IT IS THE ONLY PATH TO DEMOCRACY FOR THE FORMER COMMUNIST STATES. BY ABANDONING ECONOMIC REFORM, WE WOULD ALSO BE DOOMING DEMOCRACY IN RUSSIA.

ONE COULD ARGUE THAT, GIVEN THE STRUCTURE OF RUSSIAN SOCIETY, POLITICAL REFORM HAS TO PRECEDE PROFOUND ECONOMIC REFORM. MARXISM-LENINISM WAS AFTER ALL THE GREAT POLITICIZER OF SOCIETY. THERE WERE NO REAL ECONOMICS IN THE SOVIET UNION, ONLY POLITICAL DECISIONS ABOUT PRODUCTION AND DISTRIBUTION. CONSEQUENTLY, THE FIRST STEP IN ECONOMIC REFORM IS TO DEPOLITICIZE THE ECONOMY. THAT ARGUMENT IS GOOD AS FAR AS IT GOES. IN OUR VIEW, THE CRITICAL STEPS IN DEPOLITICIZING THE ECONOMY WERE BEGUN UNDER GORBACHEV AND ACCELERATED - AND LARGELY COMPLETED - UNDER YELTSIN AND GAYDAR. THE TASK NOW IS TO CONSOLIDATE THE EMBRYONIC MARKET SYSTEM THAT HAS EMERGED. THAT CAN ONLY BE DONE THROUGH CONTINUED ECONOMIC REFORM, AND, IN THE FIRST

PLACE, FINANCIAL STABILIZATION. OF COURSE, AS YOU NOTE, ECONOMIC REFORM HAS TO TAKE ACCOUNT OF THE POLITICAL CONTEXT IN WHICH IT IS UNDERTAKEN. THAT LEADS TO MY SECOND CRITICISM.

IT IS SIMPLY UNTRUE THAT WE HAVE PRESSED FOR RADICAL ECONOMIC REFORM, OR QUOTE SHOCK THERAPY UNQUOTE, IN RUSSIA. WHAT WE HAVE PRESSED FOR IS ECONOMIC REFORM THAT PROCEEDS AS RAPIDLY AS POLITICAL CIRCUMSTANCES PERMIT. FOR EXAMPLE, WE ENCOURAGED THE IMF TO TAKE A FLEXIBLE APPROACH TO CONDITIONALITY ON LOANS TO RUSSIA. IF I DIFFER WITH YOU, IT IS PERHAPS IN BELIEVING THAT RUSSIANS ARE CAPABLE OF BEARING A MORE RAPID PACE OF REFORM. THAT THE RUSSIAN GOVERNMENT HAS MOVED AHEAD SMARTLY ON REFORM AFTER THE DECEMBER PARLIAMENTARY ELECTIONS WITHOUT A NOTICEABLE INCREASE IN SOCIAL UNREST - INDEED, THE COUNTRY HAS ENTERED ONE OF ITS CALMEST PERIODS SINCE INDEPENDENCE - GIVES ME CONFIDENCE THAT OUR ASSESSMENT IS CORRECT.

6. FINALLY, YOU MAKE SEVERAL CRITICISMS OF OUR ASSISTANCE PROGRAM THAT HAVE FOUND RESONANCE IN THE CONGRESS AND IN THE EXECUTIVE BRANCH. SOME OF THAT CRITICISM IS JUSTIFIED. BUT THAT IS NO REASON TO ABANDON THE EFFORT. RATHER, IT IS A CHALLENGE TO IMPROVE OUR PERFORMANCE. I'M SURE YOU HAVE NOTICED THAT WE ARE TAKING STEPS TO RECTIFY THE DEFICIENCIES IN THE ASSISTANCE PROGRAM TO ENSURE TIMELY DELIVERY OF AID TO THOSE BEST ABLE TO ADVANCE REFORM.

7. YOUR CANDOR AND INSIGHT ON THIS MATTER HAVE BEEN MOST WELCOME. I COMMEND YOUR EFFECTIVE USE OF THE DISSENT CHANNEL.
 TALBOTT

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E.O. 12356: DECL: OADR

TAGS: PREL, P60V, RO