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Managed Democracy, Market Economy

Or the Dichotomy of Russia's Political Economy

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in International Relations with Honors

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Abstract: This thesis examines the present day nature of Russian political and economic developments. The argument put forward is that President Putin has deliberately chosen a course of market economy, managed democracy – whereby an through an increasingly potent state and executive branch, Putin ensures sustainable growth for the Russian economy. Good economic performance ensures that the President is popular with the voters, no matter that his policies are designed to curtail democracy. The author concludes that current political and economic dichotomy will result in further development of the economy and eventual movement towards democratic ideals.

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Historically, the Russian state has been governed by strongly autocratic regimes – there was the imperial system whose power had no rival in Europe, then there was the 70-year brutal reign of communism. In turn, an autocratic state meant a strong government presence in the economy. As Allen Lynch¹ puts it, Russia’s vast territory and its position within the global political-military context and political economy, have led to the formation of a state whose internal structure has displayed an “intense fusion of political and economic power” both under Imperial and Soviet governments (10). Many critics² of the current regime argue that President Vladimir V. Putin has followed in the autocratic steps of his predecessors, imposing an authoritarian regime that rules over political and economic domains.

This paper will examine the nature of contemporary Russian political economy. Since President Putin came to power in 2000, Russian politics have clearly been punctuated by marked authoritarian developments. Western media has focused much attention on the authoritarian tendencies of the Kremlin. The international chorus of condemnation for Russia’s failed democracy has grown impossible to ignore. The legislative and presidential elections in December 2003 and March 2004, were marred by widespread irregularities and falsifications, so much so that the Organization for Security and Cooperation in Europe (OSCE) refused to give its stamp of approval. Yet, there is no question that the Russian

¹ Director of the Center for Russian and East European Studies and Hugh S. and Winifred B. Cumming Memorial Professor of International Affairs at the University of Virginia.

² Putin has been the target of criticism for world leaders, such as the US President Bush, international organizations, such as Reporters Without Borders, prominent Russian businessmen as well as scholarly community specializing in Russian politics – Michael McFaul, Timothy Colton, Pavel Baev just to name a few.

President Vladimir Putin remains genuinely popular with the mass public and has widespread support among all strata of the society.

This study will focus on the dynamics of Russia's politics and economy, analyzing political developments in light of the economy and economic progress in light of political trends. The analysis of the events provided in the study shows that the authoritarian drift in Russian politics has had virtually no negative short-term impact on the economy. In fact, the government has been better equipped, because of state consolidation, to successfully undertake the much needed economic liberalization reform. Cautionary notes on potential harmful effects of a strong state on the long-term sustainability of economic growth are included in the concluding thoughts.

At the same time, the performance of the economy has had a direct impact on the Russian politics and more precisely, on the Kremlin's ability to pursue policies that curtail democracy in Russia. Economic growth and overall perceived improvement of the economy have boosted the popularity of Russia's President, enabling him to carry on with his policy: *market economy, managed democracy*.³

The conclusions outlined above are reached by addressing the following points:

³ There are many names for the almost, not quite, not really democracies of the world that exist in countries like Russia, Pakistan, etc. The term 'managed democracy' will be used here, as it conveys Putin's drive to completely control over all political processes, actors and institutions in Russia, while at the same time insisting that Russia is a democracy (Petrov 182) See also Colton and McFaul "Popular Choice and Managed Democracy."

- Russia's economy has made substantial progress since 1998, and despite some worrying indicators of the so-called 'Dutch Disease'⁴, the growth is projected to continue.
- The initial growth was spurred by 1) devaluation of the Russian currency and 2) growing oil prices. Since then, the economy has continued to grow due to government's conscious efforts, policies and reforms, as well as, exogenous factors such as energy prices.
- Upon taking office in 2000, President Putin set out on the course toward liberal economic reforms and strengthening of the state, in short: *market economy, managed democracy*.
- Due to centralization of power in the Kremlin and the strengthening of the executive branch, President Putin has been able to initiate and implement economic and political reforms.
- Statistical tests point to voters' perception of the economic situation as the reason for the success of President Putin's market economy, managed democracy equilibrium.
- Economic progress and growth have other advantages for an authoritarian regime, besides explicit voter support, such as ensuring relative calm in the country.

The reader should note that this is not an argument of *causality* – good economic performance did not cause the authoritarian drift of the Russian

⁴ A phenomenon attributed to an economy that relies, in large part, on exploitation of natural resources for growth. This leads to the increase in value of domestic currency, in turn causing deterioration in terms of trade, as the domestic manufactured goods become less competitive, imports increase, and non-resource exports decrease.

political regime; reverse causality also does not apply here, authoritarian drift did not cause good economic performance. In other words, this is not a case of one type of political or economic system necessarily implying a certain outcome for the other. Instead, this is a suggestion of *correlation* between a) robust economy and ability of the government to curtail democracy and b) very strong central government and its ability to implement economic reforms.

This hypothesis could serve as a basis for a longer, more extensive study. It is beyond the scope of this project (and the author's ability) to gather enough data and research for a full blown economic analysis of a relationship between economic performance and centralization of power and curtailment of democracy in Russia. However, research done by other scholars will be cited in support of the author's claims. To the knowledge of the author, the hypothesis and the study itself on the dichotomy between Russian political and economic systems is original and has not been examined as a separate topic by scholars in the field.

What Are Managed Democracy and Market Economy

This paper will reference Robert Dahl's definition of democracy in *Dilemmas of Pluralist Democracy* because it is the most widely used and accepted definition. Dahl outlines 7 main principles of a true democracy (11):

- 1) Control over government decisions about policy is constitutionally vested in elected officials.
- 2) Elected officials are chosen in frequent and fairly conducted elections in which coercion is comparatively uncommon.
- 3) Practically all adults have the right to vote in the election of officials.
- 4) Practically all adults have the right to run for elective offices in the government.
- 5) Citizens have a right to express themselves without the danger of severe punishment on political matters broadly defined.
- 6) Citizens have a right to seek out alternative sources of information. Moreover, alternative sources of information exist and are protected by law.
- 7) Citizens also have the right to form relatively independent associations or organizations, including independent political parties and interest groups.

In name, Russia still remains a democracy – it regularly holds elections to choose representatives at least to the highest organs of power. However, most of the seven Dahlian tenets face moderate to severe restriction in Russia. For example, according to various independent election observer reports, there are frequent incidents of coercion of voters and candidates alike; criticism from the media - especially on television - has been stifled by the government; political party formation as well as political life for parties is becoming increasingly difficult.

As the title and the thesis of this paper would suggest, the Russian political system could be considered democratic if combined with the term 'managed,' i.e. citizens actually elect their leaders, but the regime has total control of all facets of policymaking and may choose to introduce and implement various initiatives at any time it deems necessary. The government may be democratically elected, but

its policies may work towards the increasingly authoritarian state. Therefore, while it is possible to construct an argument that Russia fits at least some of Dahl's criteria, the analysis provided later on should elucidate why Russia should be considered a managed democracy.

The market economy definition used here will reference the European Union's (EU) criteria for a Market Economy Status (MES), which Russia was granted in 2002 by the EU and the US ("US Calls Russia"). The criteria for MES include:

- 1) Prices, costs and inputs have to be determined by supply and demand;
- 2) Firms have to have one clear set of basic accounting records, independently audited in line with international standards;
- 3) The production costs and financial situation of firms must not be subject to significant distortions carried over from previous non-market economy systems;
- 5) Firms are subject to bankruptcy and property laws;
- 6) Exchange rate conversions must be carried out at market rates.

The reader should note that in order to achieve these criteria, the government had to have had introduced a number of reforms, and maintained sound macroeconomic policies for a number of years. Therefore, it could be concluded that even if economic growth could have been largely influenced by exogenous economic developments, the government had to make conscious efforts to gain the MES.

Overview

In order to acquaint the reader with post-Soviet Russia, a short overview of 1992-2000 period will be provided. The subsequent sections will examine the Kremlin's consolidation of power and the performance of the Russian economy. The political section will address the period starting with the ascendancy of current President Vladimir Putin to power in January 2000. This section is mainly concerned with establishing the timeline of government actions, which augmented its authoritarian power, as well as, timeline of reforms aimed at liberalizing the economy, gaining MES, and sustaining growth.

The section on the economy will address the starting point for the period of consecutive growth, which occurred in the aftermath of August 1998 financial crash. The section will also address the current economic situation, goals for further growth, and the hurdles that Russia has yet to overcome that would open up the way for more economic progress.

Next, this paper will provide evidence for the suggested hypothesis – sustainable positive performance of the economy translated into wide-ranging support for President Putin, legitimizing all of his policies, including those that augmented the autocratic powers of the state and the executive. On the other hand, increasingly potent central state and especially the executive have been able to quell opposition to market reforms and therefore introduce and enforce necessary changes. Finally, perspectives for future economic growth and democratization will be considered in the sustainability section on market economy, managed democracy.

Post-Soviet Russia

Yeltsin

In December 1991, the former Russian Soviet Federated Socialist Republic (RSFSR) of the Union of Soviet Socialist Republics (USSR) became an independent country as well as Soviet Union's successor state.

The new Russian government, headed by a popularly elected president Boris Yeltsin inherited a country in state of extreme instability, which existed on all fronts – political, economic and social. Nevertheless, many sincerely envisioned and expected that Russia would quickly make a transition from communism to democracy and from the state-planned to market economy. What seemed to matter the most “was not the make-up of society and the economy, or the working of state institutions, but only solemn pronouncements of intent and streams of presidential decrees” (Kotkin 7).

Yet, the optimistic projections failed to materialize. When the Soviet Union fell apart, much of its institutional framework dissolved as well. The new regime failed to construct effective institutions to ensure development and stability. Meanwhile, a weak state allowed for strong private interest to push for policies and actions that were in their own benefit, in effect robbing the state blind during ‘privatization’ of the 1990s (Lynch 79-80). President Yeltsin's administration was almost always in constant upheaval from the beginning of Russia's independence. Yeltsin never had good relations with the legislative branch - his tenure had been marked by tensions with the Communist-dominated parliament. The conflict reached a critical point in fall 2003, when the President

used military force to dissolve the Duma (parliament) and called for fresh legislative elections as well as a referendum on the new constitution. This constitution created a super-presidential system of government in Russia, placing most of the power with the executive branch, as the president is able to govern by decree⁵ (140-2).

Formation of a strong executive branch led to problems almost right away. Yeltsin has been frequently criticized for the discretionary power he and his close associates wielded over the economy, which resulted in rampant corruption of public officials and emergence of powerful and extremely wealthy business oligarchs. Ordinary Russians saw no economic improvement, and a large portion saw their economic situation deteriorate during Yeltsin's tenure. Berglof et al., give a nice summary of the domestic situation under Yeltsin's administration "bureaucrats were only weakly accountable to the elected president and the Duma, and the politicians were not very responsive to the taxpayers, who, in turn eschewed any control by the state bureaucracy" (46). The *2000 Human Development Report for the Russian Federation* painted a grim picture of the reforms in the 1990s, alluding to capital flight and tax evasion, massive shadow economy and corruption, as well as inefficient banking system (Lynch 90).

Russia's political-economic developments in the 1990s were forged during the Soviet times (50). Russia's experience throughout the 1990s has shown that the road to democracy and market economy can be quite turbulent. Yet, it seems unfair to assign blame for political chaos, rampant corruption and virtual rule of

⁵ A scale for measuring presidential power developed by Shugart and Carey (1992) shows that Russian executive branch has far more power than most other presidents in stable democracies (Berglof 49).

“the mafia” squarely to Boris Yeltsin – many of the problems were the legacy of communist regime, as well as the work of other powerful players surrounding Yeltsin.

Financial Crisis

Russian financial crisis erupted in August 1998. Prior to the crisis, the course of Russian economy was directed by three pillars – price liberalization, privatization, and macroeconomic liberalization. These could be said to have set the stage for the crisis, as all three were pursued halfheartedly and did not have enough support from the government nor the proper institutions to be implemented correctly (Lynch 93). Furthermore, these policies precipitated deteriorations in the economy, as four-digit inflation set in due to price liberalization, the state virtually gave away its assets in the shoddy privatization deals, and macroeconomic liberalization measures reinforced and spurred widespread poverty (135).

Although much has been said and debated with regard to the crisis, a few simple facts are enough to see the main causes and outcomes. From 1992 to 1998, the government borrowed extensively, with an average budget deficit of about 8% annually. The debt increased exponentially, due to the high interest rates. Financial imbalances were exacerbated by widespread barter trade, and refusal of big business to pay taxes (firms usually offered to pay in kind instead). To top it off, the ruble exchange rate was perceived to be too high (Aslund 400).

Following a disbursement of large aid package in July 1998, Russia’s request for more aid was rejected by the IMF and the World Bank and by mid

August the government was forced to announce the devaluation of the ruble. Shortly thereafter, authorities chose to allow the ruble to float against other currencies on the market, leading to its sharp decline in value. In the meantime, the government had defaulted on its due payments on domestic treasury bills (GKO). At the peak of the crisis, Russia owed \$70 billion, forcing it to freeze bank payments for 3 months (Aslund 400). Russia's economy was basically destroyed. The effects of the crisis on the microeconomic level were disastrous - a plunge in the living standards and complete disillusion of Russian citizens with their government.

Putin

On August 9, 1999 President Boris Yeltsin appointed little-known head of the Federal Security Services (FSB), Vladimir Putin as his Prime Minister. Putin was the fourth man to take that office in less than a year and a half. As discussed above, at the time of his appointment, the government was in a state of free-fall, with no bottom in sight. Corruption ran rampant, the state had defaulted on its debt, and conflict was stirring in the Caucasus.

Putin's appointment was a pragmatic choice for Yeltsin – he needed a strong leader who would at the same time be indebted to him for his power. There were a number of corruption investigations that were getting closer to Yeltsin and his family that needed to be stopped before serious damage occurred. According to former Soviet Union leader, Mikhail Gorbachev, Putin appointment was engineered by Yeltsin's daughter and "special adviser" Tatiana Dyachenko, business oligarch Boris Berezovsky, and chief Kremlin aide Aleksandr Voloshin

with the purpose of protecting Yeltsin and his family, and close business associates (“Russia C&A 2000”).

Putin is a career secret service agent; he had served in East Germany when the Cold War was at its peak and rose rapidly through the ranks. He comes from St. Petersburg, and has remained fiercely loyal to those he worked with early on in his career. Today, most of his closest aides are drawn either from the FSB, St. Petersburg regional administration or better yet those who had served in both circles⁶.

On December 31, 1999, Boris Yeltsin addressed the Russians for the last time from the executive seat, and that was to announce his early retirement⁷, in favor of Vladimir Putin who would take over as the interim president. On March 26, 2000 Putin’s rule was endorsed as Russia’s president in the general election.

The above overview of the post-Soviet developments in Russia is important to the context of this study, as it sets up the situation that allowed for the meteoric rise of Vladimir Putin to power. The turbulent years of Yeltsin’s administration were the basis for Putin’s emergence and success. That is not to say that Putin did not work hard to achieve his triumphs; certainly another leader in his place may very well have failed in his succession of Boris Yeltsin.

The success of Russia’s second president could be thus partially attributed to the failures (i.e. economy’s failure) and successes (i.e. super-presidential

⁶ Key figures in Putin first administration were first deputy prime minister and minister of finance Aleksei Kudrin (previously vice mayor with Putin in St Petersburg), minister for economic development and trade, German Gref, and Putin’s personal adviser on economic affairs, Andrei Illarionov.

⁷ Yeltsin and Putin concluded a deal that included immunity for Yeltsin and his family from all criminal prosecution or any other charges that may be brought up, as well as, other benefits such as payment of presidential salary and provision of state housing for life.

constitution) of his predecessor. President Putin has been able to capitalize on the economic recovery and ensuing stability to enhance his image and shore up support. He has used the 1993 superpresidential constitution to begin building an even stronger central government and an extremely powerful executive branch. Putin has also used his increased power and soaring popularity to push through economic liberalization reforms, many of which Yeltsin conceived of but failed to implement because he did not wield the same power as Putin. The reforms that Putin initiated put Russia on the path to market economy, managed democracy.

Putin Administration

Vladimir Putin was elected as the President of the Russian Federation in March 2000, with 53% of the vote, a resounding victory over his closest challenger, communist Genady Zyuganov, who received 29% of the vote.

Once he took office, Putin moved forward, introducing a mix of liberal political and economic initiatives. However, the authoritarian trend became noticeable almost immediately. In his millennium address on December 30, 1999, Putin emphasized that “a strong state is not an anomaly that should be gotten rid of. Quite the contrary, they [Russians] see it as a source and a guarantor of order and the initiator and main driving force of any change” (Putin 1999). His subsequent Addresses to the Federal Assembly (state of the union address) emphasized economic growth within the context of rule-of-law state⁸.

In 2004 Address, Putin stated future goals for Russia to be “doubling our gross domestic product over the next decade (this goal was actually introduced in 2003), reducing poverty, increasing people’s prosperity and modernizing the armed forces.” All but one of the priorities are economic in nature and the other emphasizes the strength of the state. In the 2005 Address, Putin emphasized the development of democracy and civil society as essential to developing a strong and competitive state.

⁸ The transcripts of all speeches are available at www.kremlin.ru; here the reference is particularly to the May 2005 and April 2004 speeches. In his 2005 Address, Putin refers to the 2004 address, which was mainly concerned with economic growth, as a component of 2005 speech focused on democracy and political development. Putin asserted that the 2 should serve as a unified program of action for the next decade.

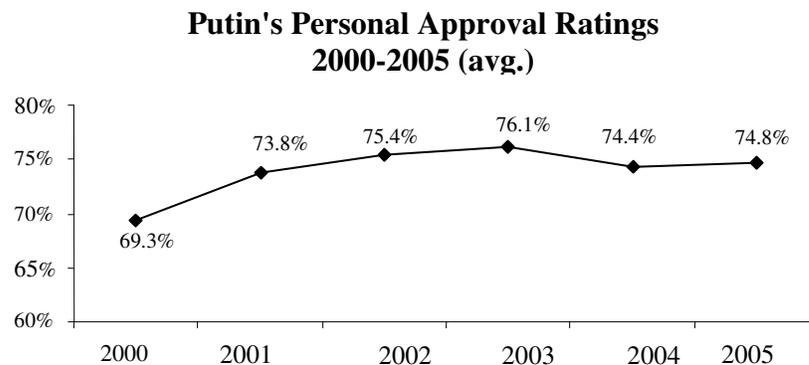
President's Approval

Before beginning the sections on Putin's policies, it is necessary to briefly address the run up and the results of the 2000 and 2004 presidential elections. In both elections, polls indicated that President Putin would secure a resounding victory. In 2000, a poll done by VTsIOM (which became the Levada Center in 2003) gave Putin 53% of the vote. According to the same survey, when asked what was most essential for Russia at that point, 71% wanted a "strong leader," and 59% envisioned a "strong state" (Shevtsova 73). Lilia Shevtsova attributes this trend to society associating weak leadership and a weak state with Yeltsin's tenure (73). At this point, Putin was only in office for several months, and his policies and initiatives had almost no bearing on how the general public viewed him – he had only his image. What Putin's election campaign lacked in substance, it made up for in image. Putin's platform was vague, but he made sure to drive one point home - he was a sensible choice, especially when the threat of communist past loomed large personified by Zyuganov ("Russia C&A 2001"). In his only direct appeal to the voters, he published an open letter in February 2000. He promised an increased role for the state, more market reforms and appealed to populist sentiment with the idea of social justice (Shevtsova 72).

When the time for presidential elections came in March 2004, the voters had a full term to evaluate the incumbent president. Both the trends towards market economy and managed democracy were clearly visible. And it appears that the average Russian voter was fine with that. In February 2003, the Levada Center surveys showed that 95% of United Russia voters and an average of 60%

or more of voters supporting other parties were prepared to vote Putin into the second term in office (Shevtsova 295). Putin showed a substantial improvement in his election victory in 2004, winning a resounding first round victory with 73% of the vote. Although there were obvious irregularities, most observers agree (and results of the pre-election polls indicate) that Putin's victory was all but assured based on his personal popularity. Clearly, the President, if not his regime, is rather popular. Not only has Putin been popularly endorsed in two elections, but his approval ratings have remained high during all of the years that he has been office.

The following graph gives an average of 12 months popular support for the years that President Putin has been in power.



Source: Data from Levada Center, author's calculations for average

Managed Democracy

Since President Putin took over the Kremlin in 2000, his systematic approach has been to “consolidate, broaden and strengthen his grip on power and his control over the policy-making apparatus” (“Russia C&A” 2003). The

President is aware that his assault on democracy has not gone unnoticed. In fact, he has addressed it time and again, in his public speeches. The 2005 Address to the Federal Assembly focuses almost exclusively on the political situation in Russia. Putin has acknowledged that he has increased the powers of the state and centralized power, yet he puts his policies in the context of ‘us against them’ – those who do not want to see Russia rise to the status of a great power criticize us, but we are moving along on the path of economic growth and democratization.

Putin claims that he considers

“the development of Russia as a free and democratic state to be our main political and ideological goal...The objectively difficult processes going on in Russia are increasingly becoming the subject of heated ideological discussions...connected with...freedom and democracy” (“Address to the Assembly 2005”).

And yet it clear that however one perceives political developments in Russia, whether good or bad, they fall far short of the democratic objectives. The President has used a 3-prong approach to strengthen the state: 1) an increase in powers of the executive, and the executive’s own support base in the legislature, 2) weaker regional governments, 3) clamp down on the media to suppress any opposition. Basically, Putin strengthened the political authority at the central level and away from the regional level, and in the executive branch at the expense of the legislative branch, while ensuring that there was no widespread public opposition to his initiatives.

It is hard to pinpoint the exact Kremlin action that signaled the moment when democracy started to go awry⁹. This study will adopt April 3, 2001 as the

⁹ Some scholars suggest that December 2000 parliamentary elections were the first sign of worry; at the time it was evident that many seats were simply bought by those who had the money to do so (Shlapentokh 391).

benchmark from which the Kremlin's power started to markedly increase, while democracy started to diminish. The following timeline presents some of the main 'milestones' in the 3-pronged strategy to shore up his power:

1) **Media** – On April 3, 2001 the Russian public openly protested Putin's policy regarding the only independent television station in Russia, NTV. The government's attack on NTV began back in June 2000, when the authorities arrested Vladimir Gusinsky, the owner of NTV. Following months of legal action against Gusinsky, the television station as well as, the affiliated popular newspaper *Segodnia* and journal *Itogi* were shut down by the government (Shlapentokh 393). Although NTV staff almost exclusively went to work at another independent channel, TV-6, by 2002 that channel as well was taken over by the authorities. The President has thus been able to exert control over the most popular news medium in Russia. This action violates Dhalian tenet #6.

2) **Legislature** - The next event was the promulgation in July 2001 of the law that limited the number of political parties. The administration argued that the law made for less chaos and improved regulation of private fundraising. However, the new legislation at the same time enhanced the Kremlin's ability to control and manipulate political process by making parties dependent on state financing ("Russia C&A 2001"). This action violates Dhalian tenet #7.

3) **Executive** - In September 2002, President Putin effectively limited the competition for the executive power, when he introduced a bill that gave a huge advantage to incumbents up for re-election. The bill stipulated that in order for a candidate to be able to register to stand in the elections, he or she must collect 2

million or more signatures in endorsement. This would be quite an undertaking even for a national party, let alone a technocrat. Meanwhile, as far as the President is concerned, he would be exempt from the requirement. This action violates Dhalian tenet #4.

4) **Executive & Judiciary** - In late October 2003, the government launched a campaign against an oil magnate Mikhail Khodorkovsky and his company Yukos, which ended in 2004 with the state gaining control over the main production unit of the company. The media generally attributed the persecution of Khodorkovsky to politics – i.e. the oligarch was interfering too much in the government, attempting to buy seats in parliament and lobbying for favorable legislature and even hinting at standing in the race for the Kremlin in 2008. The most likely explanation for what is popularly known as the Yukos Affair is that the company interfered with the state's energy policy.¹⁰ Regardless of the reasons for intervention, the Yukos Affair was the loudest signal to businesses that the state may choose to intervene in private sector and will do so if it finds so necessary. Furthermore, the leaning on the court system (although the charges had sound legal footing, the handling of the case left on-lookers queasy) dispelled any myths of independent judiciary. This action violates Dhalian tenet #5.

5) **Executive** - Putin won re-election by a landslide, however international observers did not certify the March 2004 election (or for that matter the December 2003 legislative elections) as legitimate. According to the reports, there were

¹⁰ See Harley Blazer, "The Putin Thesis and Russian Energy Policy." *Post Soviet Affairs*. 21.3 (2005): 210-225.

widespread voting irregularities, voter intimidation and fixing of the vote. In the legislative elections, United Russia party and 2 other pro-Putin parties won 295 seats, 5 short of the two-thirds majority which is required for approval of changes in the constitution. These actions violate Dhalian tenets #2-4.

6) **Legislature** - On December 12, 2004, Putin signed into law a number of his proposals that significantly undercut democracy. Putin attributed the reforms directly to the Beslan massacre - the worst terrorist attack in modern Russian history.¹¹ The law, which was endorsed unanimously by the parliament, got rid of the popular election of local governors, replacing direct election with local legislature approval of governor appointees recommended by the President. This action violates Dhalian tenets #1-4.

Furthermore, Putin also exponentially increased the presence of military and security personnel in administrative positions- two thirds of presidential staff have background in security service (Lynch 130), while 25% of the total political elite has some background in the military (160). Putin has also ensured that business community only acts in accordance with Kremlin's policy direction (130). He has managed to consolidate the legislature - in December 2001, Putin's Interregional Movement Unity (Medved) and Fatherland All Russia (OVR) merged and formed the United Russia party, which controls most of the seats in parliament and has supported virtually every move and policy undertaken by the President.

¹¹ On September 1, 2004 terrorists took over a school in Beslan, the siege ended several days later with more than 400 people killed, more than half of whom were children.

It is evident from the sequence of events provided above that President Putin has deliberately consolidated power since his days in office. Neither international condemnation of his authoritarian tendencies, nor domestic and foreign political setbacks have stopped the President from proceeding with his goals.

The first year of Putin's second term in office was nothing short of disastrous a string of crises occurred one after another – there was the assassination of Chechnya's President Akhmad Kadyrov in May 2004, then there were widespread demonstration against an unpopular welfare reform, a mini banking crisis, and foreign policy defeats in Abkhazia and Ukraine, just to name a few. Yet the government introduced new political measures designed to strengthen the state (Petrov 181).

Russia has moved away from rather than towards democracy by introducing measures to curtail political party effectiveness and, the power of the regional governments, limiting judiciary's independence, and increasing state control over the media. As Michael McFaul¹² puts it, Putin “has not radically violated the 1993 constitution, cancelled elections or arrested hundreds of political opponents...However, if the formal institutions remain in place, the actual democratic content has eroded considerably on Putin's watch” (308).

The reader should take note that along with these measures designed to enhance Putin's and state's power, the President also introduced a number of reforms designed to improve the economy, most important of which were the land

¹² Senior fellow at the Hoover Institution, a professor of political science at Stanford University, a nonresident senior associate at the Carnegie Endowment.

reforms that established principles of private property and tax reforms. In fact, the economy is one of the few spheres that are not directly under the control of the President, being subject instead to the Prime Minister (although the president may dismiss him as he pleases) (162).

Thus, the effects of recentralization of power at the Kremlin should not be exaggerated. As Allen Lynch points out, most of the economy functions separately from the state, private businesses prosper and lobby the government for their own private interests, and finally the elections are held and thus popular opinion does count¹³ (Lynch 162).

Market Economy

While political developments have attracted mixed reviews, and at that more negative than positive, there is no question that the Russian economy has witnessed a number of very positive developments since Putin took office. First, it should be pointed out that the economic recovery from the 1998 financial crisis actually began before Putin was installed as the interim president, and was spurred by external developments such as ruble devaluation and rising oil prices.

At the start of his tenure, Putin faced rampant inflation, declining productivity and investment, budget crisis and a towering foreign debt (Shevtsova 328). By the end of his first term, Russia had achieved steady economic growth and dealt successfully with its main macroeconomic problems – the government had a balanced budget and there were foreign reserves in the Central Bank coffers. Russia also overcame non-payment problems, and substantially reduced

¹³ Due to popular protests, housing and utilities price reforms had to be postponed before the last elections (Lynch 162).

its foreign debt. The impressive part was that Russia’s recovery was broad based, most major industrial sectors, construction and service sectors all recorded strong growth. Furthermore, 2003 Organization for Economic Cooperation and Development (OECD) report points out that growth was strong even with low oil prices of \$19 per barrel (“Russian Economic Survey”). By 2004, Russia also achieved substantial improvements in the investment climate and reached the minimum investment level rating of 3 main international rating agencies - Standard & Poor’s, Moody’s Investor Service and Fitch ratings.

The market economy reforms were initiated in April 2000, and were known as the “Gref Program,” as a number of liberal economists were led by young liberal lawyer German Gref. After Putin was inaugurated as president in May 2000, Gref became the Minister of Economic Development and Trade and “Gref Program” was officially adopted as the reform plan by July 2000. From 2000 to 2003, there was a steady flow of reform adopted by the Russian government, with majority of most important laws approved during the first half of July 2001 (Aslund 403-4).

Between 1998 and 2004, Russia made substantial progress in fiscal, structural and institutional reforms.¹⁴ The following table addresses these achievements, as well as, areas where Russia has yet to achieve substantial progress.

Fiscal Policy	As the new government took office it started to implement a prudent fiscal policy - tightening the budgetary control - which
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¹⁴ Also see Appendix A for graphical representation of some of Russia’s reforms in comparison to other emerging market economies in the region.

	<p>helped to eliminate barter trade and increased control over the budgetary revenues from the regions.</p> <p>The new Budget Code was adopted in 2000, which did much to improve state's management of finances (Berglof 406-7).</p> <p>Currently the budget is in surplus, although the current relaxation of spending (in the face of increasing oil revenues) is a worrying sign. Up to 2004, the government had strict restrictions on non-interest spending (Efremova 7).</p>
<p>Tax reform</p>	<p>Radical tax reform could be considered as one of the most important and progressive pieces of legislature adopted by the government during the reform period.</p> <p>President Putin abolished progressive tax, instead introducing a flat income tax rate of 13%, which had an astonishing impact on tax revenues and improved business climate¹⁵ (Lynch 161).</p> <p>The new tax diminished disincentives to work, as well as, to report taxes. Overall tax burden on businesses was also substantially diminished (Aslund 404-6).</p> <p>The government's current efforts in tax policy are concentrated on redirecting the tax burden away from agents of production to</p>

¹⁵ This move also redirected the flow of tax revenues from the local governments to the federal coffers (Lynch 161), while on individual basis the new tax yielded 50% more revenue per person (Lynch 197).

	<p>final output. This is to be achieved through improvement of tax administration, optimization of the structure of fiscal burden on the economy and decrease of subsidies (Efremova 7).</p>
<p>Private Sector Involvement</p>	<p>The private sector accounted for 70% of the GDP in 2004 (Efremova 6).</p>
<p>Deregulation</p>	<p>In 2001, the Russian government introduced legislation that became known as “deregulation” of the economy. The legislation reduced discretion of the state authorities and detailed the responsibilities and boundaries of power of the officials in an attempt to curb rent-seeking activities and introduce greater accountability of the officials (Berglof 102).</p> <p>Other components include new laws on standardization for products, firm registration, protection of entrepreneurs’ rights, which all aim at increasing efficiency and decreasing barriers for the business sector (Aslund 408-9).</p>
<p>Legal and Regulatory Framework</p>	<p>Both legal and regulatory frameworks improved, particularly in registration of legal entities and control over their operations and the number of activities requiring legal licensing.</p> <p>At the same time there are many economic regulations that are contradictory and therefore have a negative impact on growth.</p>
<p>Judicial Reform</p>	<p>The legislature for protection of private property has been</p>

enacted, but rules are rarely enforced due to the corrupt and weak judicial branch (Berglof 70). Some positive developments have been in expediency of litigation, yet the problem occurs here with enforcement of judicial decisions (Aslund 412).

Putin has focused on correcting this problem and since 2001, the government has coordinated legislation overseeing the judicial branch, in addition to increasing transparency of judicial appointments and increased legal responsibility. At the same time, this reform package also ensured tighter control by the central government over the judicial branch (Berglof 73-4).

From 2000 to 2004, the legal base for future reform was established, adopting judicial regulation laws such as: *Criminal Procedure Code, Civil Procedure Code, Arbitration Procedure Code, Arbitration Procedure Core, Administrative Infraction Code*. Roles and responsibilities of the judges were enhanced. Taking note of the international best practices, mechanisms and settlements for dispute regulation were introduced (Efremova 9).

The role and image of the judiciary has been significantly undermined by the 2003 Yukos Affair case, as discussed in the earlier section. Besides the heavy state interference, other

	<p>problems include overburdening of judicial authorities due to high demand, leading to non-observance of procedural time limits.</p> <p>The key objectives remain an increase in the efficiency and therefore of confidence in the system, improvement in impartiality and quality of the rulings, and improvement of business practices and ethic standards connected with judiciary (9).</p>
<p>Ownership Rights</p>	<p>From the very beginning, establishment and protection of private property was adopted by the Russian government as one of the basic tenets of market reform.</p> <p>In 2001, new Land Code was introduced that legalized private ownership of land, and in 2002 the Duma finally approved the new law on privatization of agricultural land. The new Civil Code establishes protection of private property (Berglof 409-10).</p> <p>However, privatization did not receive a great deal of attention during Putin’s first term (410), but beginning in late 2005 – early 2006, it seems that government is much more eager to attract foreign and domestic investors to various sectors.</p>
<p>Banking Sector Reform</p>	<p>Although the government adopted in 2001 banking sector</p>

	<p>reform legislation, the changes have been slow to address the structural problems.</p> <p>Even though Russia is unlikely to face another banking crisis in the foreseeable future, the possibility does exist. The combination of ruble appreciation and leveling off of the oil prices could quickly dry up liquidity and undermine the already shaky confidence of depositors and lenders (Berglof 119).</p> <p>Also, the authorities are yet to establish clear bankruptcy procedures (Efremova 7).</p>
Establishment of OSF	<p>In 2004, the government established Oil Stabilization Fund (OSF) to tax and save excess oil revenues, to prevent the economy from overheating and to use the funds for government purposes, such as repayment of debt and mitigation of a sharp fall in the oil prices (Efremova 7).</p>
Administrative Reforms	<p>These reforms are especially important since the state plays such a central role in the economy. Administrative reforms were launched after 2004 elections, with an assumption that it would take 2-3 years to complete and the same amount of time to fully adopt externally to the new regulations. Yet according to the experts, only 10-15% of government's plans have been implemented so far (Efremova 8).</p>

	<p>The main objectives of administrative reform are increased efficiency of the government, improvement in quality of decisions and greater transparency. Additional efforts should be directed towards reducing corruption, and improvement of management processes (8).</p> <p>In March 2004, a new, three-tier structure of federal executive authorities was introduced, so that ministries are responsible for strategic and political interests of the state, federal services provide supervisory role and federal agencies carry out services, manage property and keep registers. These changes have failed initially, with ministries having a say in decisions of authorities under them, while second and third tier levels report directly to the prime minister, which is a blatant contradiction of the reform (8).</p> <p>Although the number of ministries was reduced, the number of federal authorities swelled from 54 to more than 70.</p> <p>Competence level remains a problem, while drastic reduction in deputy ministers and a large number of resignations of department heads, complicate administrative tasks. In addition, there has been an increase in bureaucracy at all executive levels. Differences at the ministerial level have led to inconsistencies in economic policy (8).</p>
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	<p>Moreover, the state continues to use administrative leverage against businesses, as evidenced by the Yukos Affair.</p>
Pension Reform	<p>Pension reform was announced after 2004 elections, although implementation has been lacking, especially after massive popular protests against the new measures (Efremova 7)</p> <p>Key objectives include gradual increase of retirement age and introduction of contributions from the employees (7).</p> <p>In 2005, the government reduced the Unified Social Tax (UST) by 10.5%, which led to deficit in the pensions fund amounting to \$2.68 billion – this is being covered with funds from the OSF (7).</p>
Social policy	<p>Social policy had not been on government’s radar until recently as it requires expenditure currently not available (money which is even now diverted to military and state administration) (Efremova 7).</p> <p>Areas to be addressed include:</p> <ul style="list-style-type: none"> - housing and utility reform - healthcare - education - culture - social security

	<ul style="list-style-type: none"> - monetization of social benefits <p>Although in 2005, President Putin launched “national priorities” which include education, health and housing improvements, the program for implementation of these improvements is very vague.</p>
To be continued (maybe)...	<p>At the same time, the following have a long way to go to reach the standards of developed countries:</p> <ul style="list-style-type: none"> - antimonopoly reforms - natural monopolies - structural reforms of enterprise

It should be noted that most reforms were initiated in the 2000-01 period, and by 2004 there was a noticeable drop off in government’s efforts (Shevtsova 329).

What Does This Mean?

Ratings of Russian Regime

The timeline of authoritarian drift in the Russian politics provided above serves as a representation of the managed democracy claim made in this paper. However, should the reader be not convinced that democracy has failed to take root under President Putin, here is a short overview of some democracy ratings.

The “Voice and Accountability” (VA) indicators formulated by Kaufmann et al. measure the citizen’s ability to select their governments, the data is drawn from 7 major sources, including *The Economist Intelligence Unit*, and the US Department of State’s *Country Reports on Human Rights Practices* among others. Scores are measured on a 5 point scale, with -2.5 being the least open polity and +2.5 being the most open polity. Freedom House’s (FH) freedom ratings are not quite as meticulously researched but provide data over a long time span. In addition, these ratings are most widely used for comparative politics analysis. FH scores range from 1 ‘most free’ to 7 ‘least free’. Steven Fish¹⁶ ran correlations for the VA and FH scores, with results showing an extremely high degree of correlation of .95 for 147 countries (22-3). The following scores reported are from my own research:

In 2004, Russia’s VA score was -0.81. Although it is higher than the average rating (-1.04) within the post communist region, Russia is only ahead of Azerbaijan, Belarus and 5 Central Asian countries. Not only does Russia rank low in the post-communist region, but it has also experienced marked decline throughout the years that the survey has been conducted (1996, 1998, 2000, 2002,

¹⁶ Associate Professor of Political Science at the UC Berkley.

2004). Russia was rated at -0.36 in 1996 and as low as -0.26 in 1998; the year that Putin took over, 2000, the rating jumped to -0.44.

Russia's VA Scores 1996-2004				
1996	1998	2000	2002	2004
-0.36	-0.26	-0.44	-0.44	-0.81

Source: Voice and Accountability Ratings

In 2005, Russia's FH political rights rating fell to 6 (in 2004 it was still 5) and its status changed from 'Partly Free' to 'Not Free.' According to the Freedom House report, the score change was due to the "virtual elimination of influential political opposition parties within the country and the further concentration of executive power." Similarly to the VA scores, Russia's status was changed from a 3 in 1999 to a 4 in 2000.

Therefore, although there is an actual debate on Russia's commitment to democracy, and on whether Russia could be classified as a democracy, the statistics clearly show that a) Russia is NOT a democracy in conventional sense and b) since 2000, when President Putin took over the Kremlin's leadership, Russia's political freedom and accountability has been sliding on a continuous downward spiral¹⁷. However, at the same time, Russia may still be classified as a managed democracy, as it maintains democratic aspects such as popular elections.

How Do Russians Feel?

International ratings of Russian regime clearly paint quite a grim picture of democratization in Russia. What is the situation like on the ground?

¹⁷ Those defending the current regime, often point out the subjective nature of the 'democracy' scores. For example, Andrei Shleifer and Daniel Treisman point out that in 2002, Russian media scored 30 on a FH scale of 0 being the best and 40 being the worst. Yet at the same time, Iran received a better score, while its government had banned 40 newspapers in 2 years, imprisoned more journalists than any other state, while the punishments included flogging (34).

The latest World Values Survey for Russia conducted in 1999, indicated that Russian respondents tend to perceive a democratic system of government as a less appealing way to govern the country. Respondents also indicated that they think that the economy performs poorly under a democratic government. When compared to respondents in 39 other mid-level developing countries, Russian respondents are least likely to agree that democracies have problems but are still better than other political systems¹⁸ (Zimmerman 187). These opinions were expressed prior to Putin's regime, which leaves us to address the question: how much has changed?

In early March 2006, the *Levada Center*, Russia's largest independent opinion survey organization, released its general survey of the Russian population.¹⁹ According to the survey, 41% believe that the country is headed in the right direction, while 44% believe that is not. The survey notes that this is an improvement on the last year's results, when the numbers were 31% and 57% for the 2 categories respectively. But importantly, when asked about specifics, Russians seem to be less optimistic. An astonishing 70% do not believe that the economy is on the right track, while only 25% do. As far as their individual economic status, when asked about how their economic situation will change, 35% either believe or expect that their financial situation will deteriorate, while 60% do not expect any changes – that means that more than 9 out of 10 Russians do not expect any positive developments for themselves!

¹⁸ Data could be accessed at www.worldvaluessurvey.org

¹⁹ Full survey available at www.levadacenter.ru; partial results in English could be accessed at www.russaivotoes.org

Nevertheless, President Putin's approval ratings remain as high as ever, with 75% supporting him and 23% disapproving in February 2006. When asked how important is a particular figure to the overall situation in Russia, from 0 (not at all) to 5 (very important), President Putin is at 3.99, the government and President's administration receive 3.4 each; significantly less important are political parties (2.75). President Putin is still the most trusted politician with 46%. Concerning electability, 47% would vote for the United Russia party if the elections were held today, with its closest challenger being the communists with 17% of support. It should be noted that United Russia has been continually making gains, while the communists have been continually losing votes. So this survey would suggest that the majority of Russian citizens support an authoritarian regime.

Not so, according to the 2004 New Russia Barometer (NRB) carried out in conjunction by the *Levada Center* and Rose et al. The NRB survey finds that 3 out of 4 Russians endorse democracy, while 9 out of 10 do not approve of dictatorship. The respondents were asked about political regimes with a reference point of 1 (complete dictatorship) to 10 (democracy). The average rating for the democratic preference was 7.4, a highly positive number. The mean rating for the current political regime was much lower at 5.3 (Rose 200).

The same survey finds that despite the fact that the average Russian citizen's perception of the regime as related to their ideal is far off, that does not necessarily influence their endorsement of the current regime. After the 2004

presidential election, fully 65% viewed the political regime in a positive light while 10% were neutral and only 25% had negative feelings on the subject.

It is more impressive that these numbers have been continually rising since President Putin took office. After the 2000 presidential election, those viewing the regime negatively outnumbered those who had a positive outlook, and in 2001 a plurality had a positive opinion but the median respondent was neutral. These findings are in sharp contrast to the early 1990s, when nearly three quarters of the respondents had negative perception of the government (Rose 202).

As a final thought, according to the survey reported by Timothy Colton and Michael McFaul,²⁰ respondents interviewed in 2000, reported that if they were forced to choose between democratic governance and economic development an astonishing number favored economic development. Democracy was preferred over a strong state by only 6% and over economic growth by just 2% (222-3).

Attitudes toward Trade-off between Democracy and Economic Growth in 2000; N = 1,755	
Question and Response	Percent
<i>Is it possible for Russia to have both democracy and economic growth, or must we chose one or the other?</i>	
Can Have Both	63
Must Choose	27
Don't Know	10
<i>What is more important right now - economic growth or democracy?</i>	
Economic growth	55

²⁰ The survey was contracted to Demoscope Group at the Russian Academy of Sciences; 1,919 voters were interviewed in November December 1999 and of those 1,842 were re-interviewed after the Duma elections in December and 1,748 were re-interviewed after the presidential elections in Mach 2000.

Democracy	2
Equally Important (volunteer response)	38
Don't know	5

Source: Colton, McFaul. Popular Choice and Managed Democracy, Pg 223.

Therefore, it is not that Russians disapprove of democratic values or have a different perception of democracy than those in the West. These surveys would suggest that Russians prefer to support the current regime for whatever reasons, rather than opt for conceptual democracy that they believe existed under Yeltsin (and indeed Russia's democracy ratings were higher during the administration of Boris Yeltsin). After a decade of economic and political upheavals in the name of democracy, Russians are looking for a respite and that is what President Putin is more than willing to provide.

Russian economy

The current growth of the Russian economy took off after the financial crisis of August 1998. The 1998 default obliged the government to accept the need of reforms in the country (Aslund 400). The government was forced to cut back on public expenditure, reinstitute money as the only means of tax payment, and actually apply the tax regulations to large businesses. The financial stabilization and elimination of barter trade were the most influential catalysts in the post-1998 growth of the Russian economy, while, the use of money (instead of barter) stimulates competition (Aslund 401).

In the aftermath of the crisis, thanks to the liquidity created by the ruble devaluation and high oil prices, the growth has affected many more sectors, industries and regions in Russia than ever before (Berglof 1). The sharp increase in oil prices – between January 1999 and summer 2000, the price of oil jumped from \$19 per barrel to \$35 per barrel (Lynch 196). Rising oil prices led to increased output, which in turn allowed firms to use the revenues (and not the weak financial system) to introduce technology that improved production efficiency. At the same time, investments in non-oil sectors have increased total factor productivity²¹ and real wages, which propelled consumption (“Article IV” 5).

Since 1998, Russia’s GDP has grown an average of 6% or more. All other economic indicators, such as inflation, trade balance, current account balance,

²¹ Measure of the output of the economy relative to the quantity of primary factor inputs; it is often referred to as a residual that measures efficiency of an economy after inputs have been accounted for.

have improved as well. This has been the first time that Russia had achieved *sustained* growth since it began its transition in 1991.

Russian Real GDP Growth, 1997 - 2005 (in %)								
1997	1998	1999	2000	2001	2002	2003	2004	2005
0.8	-4.9	5.4	9	5	4.7	7.3	7.1	5.8

Russian Inflation, 1997 - 2005 (in %)								
1997	1998	1999	2000	2001	2002	2003	2004	2005
14.7	27.7	85.7	20.8	21.5	15.7	13.7	10.9	10.3

Russian Current Account Balance, 1997 - 2005 (in \$bln)								
1997	1998	1999	2000	2001	2002	2003	2004	2005
-0.08	0.22	24.61	46.84	33.8	29.12	35.41	60.11	NA

Source: PRS Yearbook, Russian Federation, 2006.

Philip Hanson²² suggests that institutional reforms had little to do with short-term growth. “We should not expect the impressive Russian economic recovery from 1999 to date to be the result primarily of the array of reforms initialed in recent years. Rather external stimuli, macroeconomic stabilization, and the general perception of a more stable political regime with a reasonably business-friendly agenda account for the rapid growth of the Russian economy” (427).

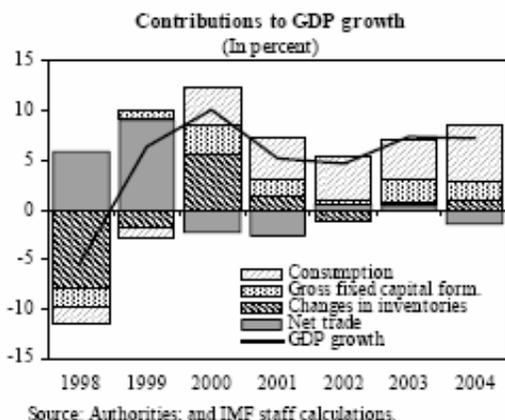
So although there is a debate on what has been the driving force behind Russia’s economic recovery, there is a consensus that the economy has managed to overcome the 1998 crisis. Regardless of whether government policies had an impact on the actual recovery and growth, it is important to acknowledge that the Putin administration has pragmatically sought to implement many market reforms, and has been much more successful at that than the Yeltsin administration.

²² Emeritus Professor of the Political Economy and Russia and Eastern Europe, the University of Birmingham, UK.

Current Situation

There is no doubt that the Russian economy made a dramatic turnaround since the financial crisis – between 1998 and 2005, the GDP expanded by an estimated 48%, while the real income expanded by the no less than an impressive 46% (“Russian Economic Report”). In 2005, Russia recoded its seventh year of sustained economic growth. In 2000-2004, Russia averaged a 6.6% GDP growth, and during that time, per capita GDP more than doubled from \$1772 to \$4040.

The following is a summary of the Article IV of the International Monetary Fund (IMF) consultation with the Russian Federation completed in September 2005²³. It is important to note that while the energy sector has been the driving factor behind growth since 2003, modernization and productivity growth in other sectors have made important contributions to the latest figures, as well as, sound macroeconomic policies on behalf of the government. While the growth in import substitution, which helped propel the recovery began to subside, sizeable and sustained terms-of-trade gains as well as increased political and economic stability have led a broad based recovery (see graph) (5).



²³ The Article IV consultation is viewed as the most comprehensive and thorough report on an economy.

Also, significant improvements were recorded in the balance of payments, due to increased foreign reserves (\$152 billion), which has allowed the government to reduce its debt (11).

Overall, government has administered sound fiscal policy, despite the recent relaxation on spending of excess oil revenues. The key has been to tax and save excess oil revenue, which the government has done. The IMF also noted that authorities have been following the recommended structural and tax system reforms. Long-term structural reform is well grounded, especially government's intentions to improve the investment climate. Yet, the IMF is concerned with the stalling pace of these reforms (15-16).

Monetary policy, directed by the Russian Central Bank (CBR) has caused concern, because of officials' insistence to continue targeting both inflation and exchange rate. The IMF has recommended that the CBR concentrate its energies on inflation rate targeting (15).

Russia has also made progress on the microeconomic level – the poverty rate has decreased by half since the 1998 crisis, while regional disparities have also diminished. Real wages increased by 11.25% in 2004, which brought unit labor costs to about pre-1998 crisis level. The rate of unemployment fell to 7.5% (8). In 2004, the official number of people living beyond the poverty line fell below 20% for the first time (“Russian Economic Report” 10).

Nevertheless, there are some worrying signs. The deceleration in growth has been mainly due to the decrease in oil output and investments that could be attributed to supply disruption and a negative investment climate that occurred as

a result of the Yukos Affair. Furthermore, due to technological resource constraints and lack of new proven oil reserves, Russia is unlikely to be able to increase oil output. In addition there are signs of weakening real wage and consumption growth. As a result of these factors, GDP cannot grow by more than 5-6% annually, without causing inflation (“Article IV” 6, 8). Inflation is a concern, with core inflation²⁴ holding at 10-11% since 2002 (9). Net capital outflows increased in 2004, which could be largely attributed to the Yukos Affair (11).

The World Economic Forum report in October 2005 states the following: “reform has stalled, with Russia seeing significant increases in government centralization, income inequality and corruption.” The report notes that while the economy is currently strong, “there are fears that high oil prices will be used to finance a spending boom that will become a substitute for legislative and economic reform.”

Current Problems

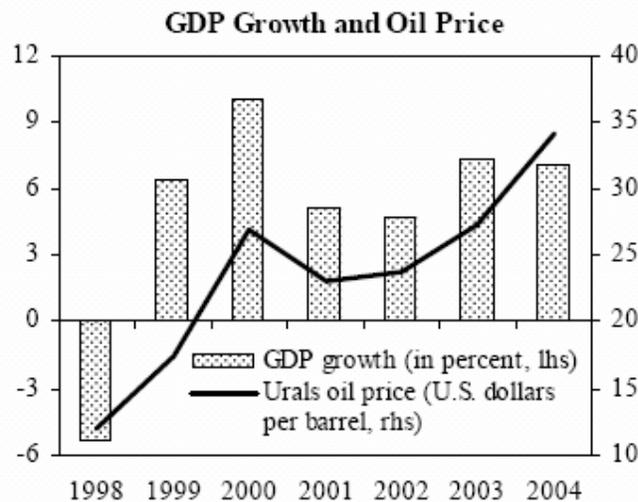
Russia faces a number of challenges that it needs to overcome in order to achieve President Putin’s goals for the economy. The Russian big businessmen, the so-called oligarchs, control more than 40% of Russian industry. They have also extracted windfall profits (unearned) from domestic and foreign sales of oil and gas, concealing these revenues abroad. The result is extreme income inequality which has impeded economic efficiency and encouraged the spread of corruption (Hardt 15). The OECD suggests that sustained economic growth could be achieved only when Russia achieves reduction in income inequality through

²⁴ Core inflation excludes prices of volatile goods such as oil.

tax reforms (“Russian Economic Survey”). The Russian government has embarked on this path, yet problems remain in unifying value-added tax and lowering the tax base (Address to the Federal Assembly 2005).

Russia’s economy, despite the progress made in diversification and development of various sectors, is still very much dependent on energy revenues. Half of the value of Russian exports comes from oil and gas sales.

An increase in oil prices of \$10 would lead to a 4% increase in the GDP (“Russian Economic Survey”).



Source: Bloomberg, and IMF staff calculations.

The government must find ways to transfer these funds to the human resource programs if it plans to achieve its goals of human capital development. Yet these programs have been given a low priority in the 2005 budget, at the expense of military and state security spending.

At the same time, the government needs to increase investment into the economy and particularly into the energy sector to expand its production and

exports to continue on the economic growth path and to become a global energy power (Hardt 17). In the 2005 Address to the Federal Assembly, President Putin stated: “Russia is extremely interested in a major inflow of private, including foreign, investment. This is our strategic choice and strategic approach.” Yet attracting investment remains a problem with gaps in the legal framework and virtual standstill in the institutional reform remaining major impediments.

According to the OECD, it’s not the laws on the books but rather the selective enforcement and arbitrary decisions by the judiciary that plague the legal system.

Goals for the Future

In his 2004 Address to the Federal Assembly, President Putin identified 4 national priorities: 1) increasing the quality of life, 2) moving towards the economy of knowledge, 3) establishing an effective state, and 4) providing national security. In essence, Putin has suggested that an effective state would be able to create sustainable economic growth and therefore would successfully accomplish the first 2 goals.

President Putin emphasized the need for sustainable economic growth that would raise living standards and Russia’s prestige. The president clearly emphasizes Russia’s potential to be a great power, as he appeals that the economy must grow faster in order to:

“avoid being relegated to the backwaters of the world economy... We must grow faster than the rest of the world if we want to take the lead... This is a question of our economic survival. It is a question of ensuring that Russia takes its deserved place in these changing international conditions” (Federal Assembly Address May 26, 2004).

In order to keep the economy growing and Russia competitive, President Putin suggests that Russia’s greatest asset is its people (“2004 Address”). Despite

the fact that Russia's population may be the sources of competitive advantage, when talking about Russia's economy it is impossible not to focus on the energy industry. In order to develop its 'strategic asset' Russia would need to use effectively the revenues secured from the energy sector to address problems affecting its human capital, in the spheres of health, education and social welfare (as identified by Putin in his 2004 Address to the Federal Assembly).

“Our economy is still very much dependent on raw materials exports. Of course, our natural resource wealth is Russia's natural competitive advantage, and this is not something we should be afraid of saying. But an even greater natural competitive advantage is the great intellectual potential our country possesses. This potential should be turned into a driving force that will take the Russian economy further in high-technology and high-revenue sectors” (Putin “Speech to the election supporters”).

Russia's Political Economy, or Why Putin's Success?

Irrespective of the driving forces behind the economic recovery in the wake of the 1998 financial crisis, the economy has been growing. Whether Putin's economic team or the external events triggered this growth does not matter much when voters go to the polls. However, the economic transformation did have a significant impact on the Kremlin and its policies as applied to other issues in Russia and abroad. Furthermore, Putin's drive to establish market economy in Russia has been helped, not hindered, by the strong central government.

Economy for Putin

It is a well known, and widely discussed that the economy has a large impact on how the citizens vote and how satisfied they are with their government. The case is probably even stronger in countries with the volatile economic past, such as the transition economies of Eastern Europe, where people are seeking a respite from the economic uncertainties that they experienced in the 1990s.

One of the important factors for Putin's success with the Russian voters lies in the initial economic recovery. The rise in global oil prices in 1999 combined with the economic growth following the 1998 crisis gave Putin enough resources to start and more importantly carry through reform initiatives. Kremlin successfully raised tax and export revenues (due to increase in economic activity and higher oil prices), which then paid off the old wage arrears and substantial portion of the foreign debt, as well as, financed the current deficits (Berglof 57).

Payment of wages, which was a huge problem under Yeltsin, would in itself make any president popular.

A number of studies support the thesis that economic performance influences voter behavior. Amber L. Seligson and Joshua A. Tucker did one of the earlier studies on Russian voting behavior. Tucker and Seligson were mainly concerned with Russian voter preference for communist leader Gennady Zyuganov, who garnered a substantial amount of votes in the 1996 election; he came in second to Yeltsin and forced a second round run-off, which the incumbent Yeltsin won 53.8% to 40.3%.

Tucker and Seligson thesis is that predisposal to authoritarian leaders and regime was the main predictor of voters casting their ballots in favor of ex-authoritarian leaders, such as Zyuganov. The findings were collected and analyzed based on a survey of 1,992 people. When testing for authoritarian regime preference the respondents were given a choice that included “the Soviet system we had in our country before perestroika.”

Another question asked the respondents to rate on a five-point scale from strongly agree to strongly disagree the statement “it is better to live in a society with strict order than to give people so much freedom that they may destroy society.” It should be noted that preference for order by respondents was interpreted as an indirect indicator of preference for authoritarianism in this study and the authors have acknowledged that there may be substantial differences on what a respondent would view as order and authoritarianism.

The authors found that voter dissatisfaction with economic conditions had an unmistakable and substantial positive impact on the vote for Zyuganov, and at the same time had an unmistakable and substantial negative impact on the vote for Boris Yeltsin. Those who are most dissatisfied with the economy over the last year were 29% more likely to support Zyuganov than those who were most satisfied. Although the authors also find substantial correlation in preference for the authoritarian regime and leadership and the vote for ex-authoritarian leader Zyuganov, the implication is that the economy has a clear and substantive effect on voter preference.

The authors conclude that to a degree, voters in Russia appeared to vote for Zyuganov because they were dissatisfied with the state of the economy. Furthermore, the authors also analyzed socio-demographic characteristics of Zyuganov support base – older, poorer and those employed in working class industries – and concluded that the communist leader was predominantly popular with the “losers” of the economic transition. This too points to economic impact on support for political figures.

At the same time, the authors find that in Russia, Zyuganov’s support increases by 45% on the basis of preference for the former Soviet political system after controlling for socio-demographic characteristics and economy evaluation. The authors suggest that this may have troubling implications for Russia’s political developments while President Putin is in office. Since voters are casting ballots based on current economic conditions, but with the *expectation* of authoritarian regime, this may well indicate disconcerting future for Russian

democracy, as well as, genuine support not only for Putin and economic progress, but also authoritarian government (see Appendix B for the results of the study).

The authors' final question of whether economic dissatisfaction breeds preference for authoritarian forms of government, and if it does, then would economic progress concurrently improve the outlook for democratic consolidation appears to be moot, as both support for Putin and economic growth are moving in the same direction.

2000 Elections

Before looking at the most important approval rating for the Putin regime – measured by the 2004 elections - we may consider the 2000 elections to see the initial predispositions to the President. Not only did Putin win elections by a convincing margin, but he did so with a broad base of support – he won 84 out of 89 Russia's region and at that he won 56 of those regions by absolute majority (Colton, McFaul 185). Furthermore, Putin's supporters had ecumenical support among supporters for different parties and those who voted for Putin came from almost every socioeconomic background (186). It is evident then that the President has been able to achieve broad based support regionally and sociologically. Why?

According to Timothy Colton and McFaul, an average voter was 24% more likely to vote for Putin if he had the most positive outlook on the state of the economy and 36% more likely if he had the best assessment of political situation (187). In addition, an individual who wanted the government to increase and accelerate market reforms was 12% more likely to vote for Putin than someone

who wanted to return to socialist economy (188). Overall, approval of his performance as Prime Minister and as interim president mattered the most (190), followed by approval of Yeltsin and then evaluations of Putin's personal qualities, issue opinions and his competence as a ruler (197).

Here we can conclude that Putin was initially popular with the Russian public, although economic performance had little to do with their choice. This is not surprising. Although the economic recovery had begun at that point, there were no assurances that it would be sustained. The impact of positive developments was still not felt by much of the population. Yet, those who voted for Putin felt that he had done well and was competent to lead to the country further (see Appendix C for results of the study).

2004 Elections

In Russia particularly, according to the study done by Rose et al., the economy's performance is the single most important factor for the approval of the regime, notwithstanding whether it's a popular endorsement of the regime or resigned acceptance²⁵. (See Appendix D for tables).

According to the Rose et al study, economic performance can account for most of the high approval given to the Russian political regime (208). Rose et al., put forward 5 factors that may influence regime approval in Russia: 1) socialization, 2) political values, 3) Putin's personal appeal, 4) expectations, and 5) economic performance (204).

²⁵ The distinction is the basic argument of the Rose et al study. The authors' hypothesis is that Russian citizens have a resigned acceptance of the government and its autocratic tendencies, which is based on the improvement in the overall economic situation and perception that a) the government is unlikely to change b) there are no other regimes that Russians would prefer as an alternative to the current regime (212).

Briefly, the findings are as follows 1) there is no clear consensus among the Russians about the political and economic regime that existed during the time of the Soviet Union, although 58% view both positively; 2) most view democracy positively, but do not believe that Russia is a clear cut democracy; 3) President Putin enjoys very high support – on a 1 to 10 scale – 62% are positive and another 17% are at a neutral point of 5; 4) a clear majority of Russians does not expect and many do not want a regime change; furthermore, most respondents regardless of how they feel about the current regime do not seriously think that alternative regime scenarios are possible (204-6).

Finally, 5) the majority of Russians view the economy as improving, even though a much lower share perceives and expects their own situation to improve on the microeconomic level. According to the 2004 responses, 60% feel positive about the national economy, while after the 2000 Presidential election, the number was only 29%. At the same time, only 27% were satisfied with their economic situation in 2004, a similar number to that of 2000 (205).

Multiple regression explaining approval of the Russian government accounts for a considerable part of the variance (42.5%) and shows that economic performance accounts for nearly all of that when testing the variables that factor into regime approval in Russia. A bloc regressions that includes only two economic indicators (overall economic outlook and individual economic prospects) account for 37.7% of the variance. In a full regression with all 16 indicators, the total increases only by 4.8% (208).

In the full multiple regression, the Beta value for economic performance's influence on regime approval is 0.5, which is 5 to 12 times higher than the Beta value of any of the other significant influences. Interestingly, the influence of microeconomic satisfactions, at the level of respondent's family economic outlook, has a much lower Beta of 0.8. Therefore, not only is the economy the most important determinant of how Russians view the government, the overall economic performance is much more important than improvements at the household level. Although there may be debate as to the sustainability of economic growth, there is evident improvement in the macroeconomic variables, which is especially in contrast with the pre-Putin years of economic stagnation and depression.

Overall, the findings indicate that economic performance is the most important factor in how Russians view the political regime, while all other indicators contribute to the rejection of other possible regimes, thereby strengthening the current regime (with political expectations being the second most important) (212).

We may then conclude based on the evidence from several Russian elections that the economy is a highly influential determinant of the voting behavior of the mass public, if not the most important factor.

Disclaimer

It should be acknowledged that the economy is not the only factor that has played an important role in allowing re-emergence of authoritarian trends. One of the most important factors is the threat of terrorism, as well as, the national

response to terrorism. Special emphasis should be put on the Beslan tragedy here. Although the importance of these factors should be undoubtedly acknowledged, it is beyond the scope of this study to address more factors that have allowed consolidation of Kremlin's power. (The reader may also see how other factors figure into President's approval ratings by consulting the studies reported in the appendices).

Putin for Economy

Economic growth has done wonders for the support of political regime of Vladimir Putin. Yet the sustained growth of the economy did not occur on its own. President Putin systematically strengthened the state and has used this to increase power to implement important reforms to improve the efficiency and overall functioning of the Russian economy.

In the Spring 2001 legislative session, Putin and his team succeeded in passing 80% of the legislation that had been planned, which included 29 reform laws on such controversial issues as taxation, land ownership, pensions, labor relations and law enforcement (Berglof 60-1). This reinforces the thesis that at least part of Putin's motivation for consolidation of power came from the desire to implement reforms that would improve functioning and efficiency of the economy.

Interestingly enough, a lot of these economic reforms were formulated in 1996-97, when Yeltsin was still in the executive office (60-1). This suggests that President Putin had something that President Yeltsin lacked – support of the legislature. Putin's ability to streamline and shore up support for himself and

upgrade the presidential power has enabled him to push through the Duma the same economic reform legislation that Yeltsin struggled with. The difference was that Yeltsin lacked Putin's amount of support and presidential power to pursue these changes.

In addition, centralization of power and revenues at the federal level has allowed President Putin to extend the central government's influence into the country's vast 89 regions. During the 1990s, the federal government was very weak, which has led to corruption and swindling of state assets at the local levels – this trend has now been at least somewhat reversed. Additionally, the central government may use its power and influences in the region to develop areas, which lack natural advantages, such as resources and/or constrained by the high costs of production (Lynch 163). Previously, the disadvantage regions were powerless to improve their situation due to the grab-all-you –can atmosphere among all regional governments that existed under Yeltsin's regime.

If we consider the economic geography argument, increased investment in Russia is one of the top government priorities, not only because it would increase the overall growth of the economy, but also because it could ensure that all of Russia's 89 regions continue to develop ensuring stability and national security. If the state decides to decrease its participation in the economy, the results could be disastrous for regional development²⁶. In other words, the state should assume the responsibility of distributing the wealth to those regions that could be

²⁶ Due to its vast territory, severity of climate and the fact that Russia is virtually landlocked, the costs of production are much higher than in other countries, therefore private investors are unlikely to assume those costs. For example Arctic and Siberian regions have virtually no chance to develop if the state does not direct resources there (Lynch 222-4).

competitive right now, and those who could emerge as competitors in the medium-term, without neglecting the bulk of country where industrial production is too costly (Lynch 205).

President Putin has also undertaken a number of initiatives that have created a favorable atmosphere for reform. Even investors concerned with democratic progress in Russia would not argue against government stability and state ability to pass and implement laws favorable to investment as indispensable factors for attracting foreign investment.

Despite much welcome attempts by senior officials to reassure investors regarding the safety of investing in Russia, “concerns about the ability to control Russia’s pervasive bureaucracy linger” (“Article IV” 27). In addition the virtual standstill of economic reforms has also contributed to the negative investment climate (6). Government interference in private business, especially such large scale and protracted case as the Yukos Affair has done much to raise unease regarding investment in Russia. As the IMF points out, the Yukos Affair has “raised the specter of interventionism and increased the heavy-handedness by regulatory and law enforcement agencies” (“Article IV” 2).

On the other hand, the case has also done some good for doing business in Russia. The crackdown on Khodorkovsky was a welcome development for non-billionaire Russians and foreign investors. The government is now firmly in charge, which sets up the stage for Russia to be able to do business as any other developed country, instead of succumbing to the arbitrary rules of the oligarchs (Maas). At the same time, just as the administration originally intended, the

oligarchs now know that it is in their best interests to align company policies with those of the Kremlin. The president of one of the largest oil companies in Russia, Lukoil, Vagit Alekperov recently stated “I can’t afford to be indifferent to politics...I have only one task connected with politics, to help the country and the company” (Maas).

Despite government interference in the private sector with the Yukos Affair, Putin statements have always been pro-business. And it appears as though the government is indeed moving towards a second phase of reforms (Beadel 1). For 2006, the Kremlin has introduced initiatives and reforms on 3 different issues: state company initial public offerings (IPOs), utilities sector and regulatory reform.

Reform in the electricity sector was sorely needed because of rampant corruption due to the vested interests, regulatory and international trade issues. After the Moscow power-outage, which left Moscow into chaos and confusion last summer, the government embarked on the course of decisive action. (The momentum was bolstered by the 2005 winter shortages). The government has promised to attract foreign and domestic investment in order to solve problems in this sector - a huge step forward (Beadle 1).

Next on the agenda has been increasing foreign investment in the state companies. Both state oil company Rosneft and energy giant Gazprom are due to float some of their equity on foreign stock exchange markets in 2006.

As far as regulation is concerned here the government has also announced new initiatives. The head of the Federal Service for Financial Markets, Oleg

Vyugin announced initiatives for the Russian capital market that include clearing facilities, insider trading rules, corporate governance, and pension fund development. As Beadel points out, Putin seems to have enough power to make sure that all of these changes happen (2).

President Putin has clearly stated that as part of his vision for an ‘effective state’ are economic sectors which must be predominantly controlled by the state. These would include “some infrastructure facilities, enterprises that fulfill state defense orders, mineral deposits of strategic importance for the future of the country and future generations, as well as infrastructural monopolies” (Address to the Federal Assembly 2005).

Although the government has restricted foreign ownership in some of the strategic industries, existing restrictions on private investment are better than total denial of foreign ownership in the economy. To Putin’s credit, in his Address to the Federal Assembly in 2005 he also underlined the importance of creating favorable conditions for private investment in all of the other sectors. The President emphasized that the government has not done nearly enough in that sphere, and therefore would work in this area.

Finally, Putin has also signaled that Russia would seek to integrate itself with the rest of the world economy, by actively lobbying to join the World Trade Organization (WTO), which Russia expects to do before the end of 2006. Russia has joined important international agreements, such as the Kyoto Protocol on Global Warming. In 2006, Russian Federation began its tenure at the head of the Group of Industrial Nations (G8). Putin has also made changes in the trade

environment by improving on issues such as individual property rights, regulation of service industries, reduction in government subsidies and public procurement.

Just like in his first term, in his second term, President Putin is likely to use his extensive power to push through what he sees as the necessary reforms to enhance the economy.

Looking Towards the Future

Russia has the potential to grow more than 5 or 6%, and perhaps achieve President Putin's target of doubling the GDP by 2013. Since 1998, the Russian economy has made significant strides, especially as it increased its total factor productivity, which led to increase in real wages and consumption. This has happened despite the low investment-to-GDP ratio (as compared to other emerging market economies). This fact suggests that there is substantial potential for growth from increased investment, which the government recognizes and has stated to be as one of its primary goals.

In order to attract more investment, the administration must work to implement structural reforms. It must also introduce improvements in public infrastructure and take action to reassure investors, which are concerned with state interventionism (Yukos Affair). If these measures are carried out, the economy can grow at a rate of 6-7% annually ("Article IV" 17).

It is then evident that Putin has used and intends to use the increased power of the central government, the strong state and his own executive power to carry out reforms in Russia which will benefit the economy and the public. Therefore, the argument would then be that contingent on all other factors (such

as terrorism for example) staying more or less the same, the public will continue to have very high support of President Vladimir Putin, who will continue to augment the powers of the state and the executive with an aim of carrying out more market reforms and creating a stable environment for sustained economic development.

Sustainability of Market Economy, Managed Democracy

Putin's first administration was marked by undeniable reforms to establish stability and create a market economy in Russia. There is no doubt that external factors, such as ruble devaluation and high oil prices were extremely important for initial growth. But at the same time, Kremlin also introduced a vast number of reforms that have put the economy on a growth path ("Article IV" 14).

Subsequently, however, the reforms have substantially slowed and stagnation had set in. Leading financial institutions have decried the slowing pace of reforms. The IMF, states: "the oil wealth is not being harnessed in support of reforms that could raise potential GDP growth...At best Russia risks missing an opportunity to accelerate growth over the long run." ("Russia –Concluding Statement") Michael McFaul cautions that a new correlation may have merged in Russia "growing authoritarianism and declining economic growth rates" (309)²⁷.

Current System's Detriments

In general autocratic governments tend to stave off reform in times of economic prosperity. The temptation to introduce populist measures has not escaped the Russian government. In general, Russian economic experts agree that reforms were "running well behind target" and attributed the government's complacent attitude regarding reforms to high oil prices ("Article IV" 24).

In late 2005, the Kremlin announced that part of the oil stabilization fund, which is used to collect excess revenues from oil sales, would be used to pay for

²⁷ McFaul based his conclusion in sagging economic growth in the first quarter of 2005, when the oil prices were high yet Russia's growth rate was below expectations. The dip in growth was the short term impact of the Yukos case, and since then investors have begun to take keen interest in Russia, with growth rates going back up.

the gap in the pension fund that occurred after a cut in the unified social tax. Yet, this move does not necessarily indicate that the Russian government would stop all reform and would slide into an autocratic government relying on oil revenues to buy support²⁸.

At the same time, the danger for Russia's economy lies in the same factors that fueled its initial success. Michael McFaul points out that at its core Putin's state building has been aimed at eliminating opposition forces – the checks and balances on the executive's power, rather than on increasing the effectiveness of state institutions (308).

More importantly, although centralization of power has helped President Putin to introduce necessary reforms to the economy, it has also reduced the accountability of the executive branch. If the government agenda changes there would be little that could be done to influence a policy of continued economic liberalization. This is a very real threat come presidential elections of 2008, when a new figure will take over the executive seat at the Kremlin.

In the future, the authoritarian structure of the government may damage economic performance. A concentration of power within the executive branch undermines the balance of power and therefore weakening the accountability of the administration (Berglof 147). Putin may use his powers today to push through favorable economic legislation, but he may also use those powers to encroach on citizens rights, should he feel necessary to do so - a perfect example of that is the Yukos Affair.

²⁸ Only 5% of economic experts at the World Economic Summit in St Petersburg, Russia thought that Russia would succumb to the 'oil curse' form of government (Russia and the World: Scenarios for the Future).

As Pavel Baev²⁹ argues, the main problem “is the effort to advance a modernization project via reforms from above. The bureaucratic nature of the regime reinforced and shaped by the special service networks, diminishes Putin’s ability to do this, while turning Russia inward and backward” (11). It is also important that a regime such as managed democracy requires close supervision. As Nikolai Petrov points out a managed democracy system requires “constant control from above and given the lack of citizens control, mid-level elites are strongly tempted to use the system to their own advantage” (182).

There are a number of forces created by Putin’s strong state that may and probably are planning to challenge future reforms. The stalwarts of bureaucracy and the so-called siloviki³⁰, whose number and power has been greatly expanded thanks to the current structure of the state and the government, are likely to challenge any reforms infringing on the power and control of the state over the economy (i.e. privatization, break up of natural monopolies, increased spending on social reform). Moreover, there is the big social sector and the natural monopolies themselves who are unlikely to go down without a fight (Aslund 416).

In addition to the strength of these three groups, there is also the waning influence of the liberals and opposition political parties in general in the Duma. And, as Russia has regained its footing in the economy, the influence of international financial institutions (the IMF, World Bank, etc) has markedly

²⁹ Senior researcher at the International Peace Research Institute in Oslo, Norway.

³⁰ Siloviki are members of the “power institutions” (Defense, interior ministries, etc), usually loyal to Putin, but also very much interested in lobbying for their interests – See Baev “The Evolution of Putin’s Regime.”

diminished as well. Strong central government also has a negative effect on the regional support for reform, as incentives and benefits of reform cease to operate for the regional governments (Aslund 417).

Reform No More?

In the fiscal budget for 2005 and 2006, expenditure for social welfare is about half of that marked for national security and defense.

Structure of federal budget expenditures		
	2005 as % of GDP	2006 as % of GDP
Total	16.2	17.5
National issues	2.46	2.65
Defense and National Security	4.97	4.96
National Economy	1.29	1.39
Housing construction	0.05	0.16
Environmental protection	0.02	0.03
Education	0.83	0.83
Culture	0.21	0.21
Social policy	0.89	0.83
Transfers	5.1	5.86

Source: Ministry of Finance, Efremova et. al

Yet the government’s announced priorities were to develop its human resource sector and increase living standards. While security has been cited as one of the 4 main national priorities, progress in achieving one of the goals should not come at the expense of others. Coping with demographic challenges, would undoubtedly facilitate the development of the ‘knowledge economy’. However, in order to maintain a strong and central state, Putin may have no choice.

Meanwhile, the necessary institutional reforms are impeded by the strong state. In the last several years, three critical incidents underlined the well-stated fact that Russia faces a major impediment to economic growth because of its inability to make progress in institutional reform (IMF). The Yukos Affair, the Beslan siege and the 2004 Presidential elections in Ukraine were all dubbed as major failures for the Russian government. Despite the legality of charges brought against Yukos and its CEO Mikhail Khodorkovsky the case had a poor reflection on the rule of law because of the way it was handled, the Beslan attack points to the failure of the security services, and the blatant and unsuccessful interference in the sovereign election in Ukraine had a poor reflection on the foreign policy. Changes in the legal and institutional environments are badly needed if Russia hopes to secure more foreign investment (18).

Yevgeni Yasin³¹ points out that institutional reform, especially in the administrative section, must not only be carried out (as the government did up to 2004) but it must also be successful in decreasing corruption and introducing greater efficiency to government's functioning – so far neither effects have emerged. Yasin argues that that is because administrative reforms are undermined by the lack of democracy.

Finally, as Hardt points out, despite the fact that Putin has control over the legislative, budgetary and foreign policy and despite his pragmatic statements on economic reforms, changes have been slow in coming. He has not done much in either the human resource or the energy sectors (19). Words must go hand-in-

³¹ President of Moscow's Higher School of Economics.

hand with deeds if the government plans to firmly remain on the path to sustainable growth.

The basic conclusion is that Russia is now at a stage where the easy reforms are over and now the time has come for it to develop the infrastructure and institutions in order to facilitate further growth.

The Most Likely Scenario

In October 2005, nearly 300 business and political leaders and analysts from 26 countries came to Moscow for the 10th World Economic Group Summit in Russia. Their overall conclusions may be the cause for optimism - the majority of participants believed that Russia would continue to tread along the path of economic growth. Nearly 95% of the participants rejected a scenario in which the government would grow completely dependent on energy resources. In other words, the regime is unlikely to start using oil revenues to buy popular support. This scenario is dangerous as it would lead to instability and problems such as capital flight and drop in investment.

At the same time, the majority of participants (60%) also rejected the “renaissance” scenario where liberals would gain influence creating a robust GDP growth of 5-10% annually. The scenario focuses on political developments as the key factor and predicts that liberals would be in charge of the Kremlin in 2025. Although Russia would continue to rely on oil revenues for the next 10 years, with liberal influences gaining power, would result in more FDI due to investors’ confidence and a highly educated workforce due to government policies.

About half believe that Russia falls within “Clean Fuel Scenario,” meaning that it would likely remain a regime with limited democracy, while at the same time would experience higher growth rates. Due to the gradual decrease of the state’s role in the economy, better management practices would emerge, leading to diversification and an increase in FDI. The scenario predicts that with an increase in stability, central government would allow gradual decentralization of power with regional governments gaining more influence according to their economic weight.

Conclusion

It is not an original proposition that the state of the economy strongly influences approval of the government and the voting behavior of the citizens. Yet, in Russia during Putin's administration this axiom has grown to unprecedented levels not seen in any of the developed states. President Putin has astonishingly high approval ratings, regularly superceding 70%. An initial observation may propose that this has something to do with autocratic tendencies of the Russian regime – an indeed it would be correct. But Putin and the regime cannot force upon the people their own popularity. Something else is at play here. A strong state and potent executive branch have introduced stability and sustainable economic improvements to the Russian public. And herein lies the nature of Russia's market economy, managed democracy regime and the popular support behind it.

Despite all the negative press that the Russian regime has received, the macroeconomic picture, as well as popular opinion of the Russian public would suggest that there is a substantial variance between the depressing assessments and the real situation. It would not be implausible to suggest that Russians have no objections to a strong state, where the President has managed to establish a working relationship between the legislative and the executive branches, increased tax revenues collected by the federal government, showed oligarchs who is the boss, and amended the electoral system. Economic reforms implemented a sustained recovery and growth of the Russian economy, a welcome development after years of chaos and insecurity.

As far as Putin and his administration are concerned, Russia will continue on the path of economic growth. And that in itself should, with time, lead to democratic developments. Sustained economic growth is conducive to increasing the numbers of the middle class, who in turn shall seek greater freedom and accountability from the Kremlin. In addition, institutional and judicial reforms when they are carried out and completed respectively would strengthen the possibilities for democratic governance in the future (Colton, McFaul 218). In short, democratic governance cannot exist without market economy and rule of law. In order to firmly establish those two requirements, a competent state must exist first.

In spite of all the negative assessments of the current situation in Russia, things are looking up and are likely to continue to do so in the future – even if at a slower pace than many would like.

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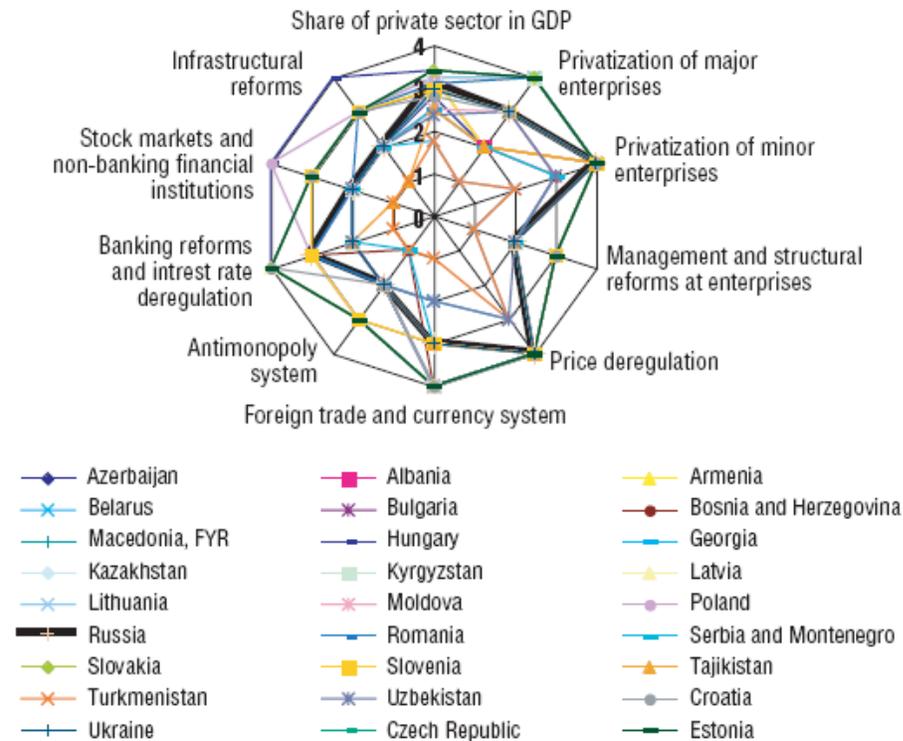
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Appendix A

Indicators of Status of Reforms in Emerging Economies



Indicators are on the scale of 1- 4, with 1 being very little progress in transition from planned economy, and 4 being standards achieved comparable to those in developed markets.

Source: European Bank for Reconstruction and Development; Efremova et al (6).

Russia's Rating on Reforms:

Share of private sector in the GDP - 3

Privatization of major enterprises - 3

Privatization of minor enterprises - 4

Structural reforms at enterprises - 2

Price deregulation - 4

Foreign trade and currency system -3

Antimonopoly system - 2

Banking reforms / interest rate deregulation - 3

Stock markets and non-banking fin. institutions - 2

Infrastructural reforms - 2

Avg. Score: 2.8

Appendix B

Estimated Binomial Logit Coefficients and (Standard Errors) of
Vote for Zyuganov N=1992

Category	Variable		
Socioeconomic and demographic characteristics	Gender	-.043	(.112)
	Age	1.91 ***	(.289)
	High education	-.508 **	(.167)
	Mid education	-.308 *	(.133)
	Low income	.378 **	(.124)
	Working class	.368 **	(.109)
Retrospective voting	Crime	-.730 **	(.279)
	Unemployment	.191	(.140)
	Retrospective economy	-2.74 ***	(.226)
Authoritarian attitudes	Soviet political system	2.22***	(.124)
	Order vs. freedom	1.06***	(.301)
	Constant	-.735 **	(.216)

For all variables: *p ≤ .05, **p ≤ .01, ***p ≤ .001.

Source: Seligson 29

Appendix C

Colton, McFaul Study of 2000 Presidential Elections

The following are explanations for the survey administered of the Russian public in the run-up to the 2000 Presidential elections. Explanation cited here are the ones that had an effect on the vote for Putin and are not self explanatory. Full methodology could be found in the text Popular Choice and Managed Democracy on pages 232-240.

- Social Characteristics – self explanatory
- Current conditions – self explanatory
- Partisanship – allegiance to main political parties (KPRF, Unity, OVR, SPS, Yabloko, LDPR and any other party)
- Issue Opinions

Left- Right – how respondents classified themselves on an 11 point scale, with 1 being the most to the left, and 11 the most to the right

Democratic Regime – 4 possible responses: 1) pre-perestroika regime, 2) pre-perestroika regime but more democratic. 3) current system, 4) Western democracy.

Presidentialism – how powerful should the president be on a 1-5 scale – 1 a lot more powerful than the parliament, and 5 a lot less powerful than the parliament.

- Evaluation of the Incumbents – on a 5 point scale – 1 fully approve, 5 fully disapprove
- Leadership Qualities – 4 point scale for each: intelligence, strength, integrity and empathy
- Issue Competence – how the candidates would deal with the following problems:

providing social guarantees, improving economy, ensuring human rights and democratic freedoms, Chechnya, promoting Russia's interests abroad, fighting crime and corruption.

Total Effect of Blocs of Explanatory Variables on Presidential Vote, 2000			
<i>Bloc of variables</i>	<i>Putin</i>	<i>Zyuganov</i>	<i>Weighted avg. of absolute variables</i>
Current Conditions	0.23	-0.17	0.20
Partisanship	0.16	0.55	0.30
Issue Opinions	-0.47	0.47	0.43
Evaluation of Incumbent	0.56	-0.31	0.45
Leadership qualities	0.48	0.45	0.45
Issue Competence	0.34	0.23	0.30

All of the variables for both Putin and Zyuganov have the significance level of $p \leq .01$
Source: Colton, McFaul 239

Total Effects on the Presidential Vote, 2000		
<i>Explanatory variables</i>	<i>Putin</i>	<i>Zyuganov</i>
<i>Social characteristics</i>		
Community size	0.03	-0.10**
Education	0.03	-0.16**
Ethnic non-Russian	0.06	-0.02
Age group	-0.08	0.15**
Former member of the CPSU	-0.08	0.11**
Consumption	-0.08	-0.13**
Woman	0.06**	-0.01
Moscow	-0.05	-0.02
South	0.00	0.03
East	-0.08*	0.06**
<i>Current Conditions</i>		
Gained in 1990s	0.06	-0.09
Pocketbook ecn assessments	0.09	-0.12**
Sociotropic ecn assessments	0.24**	-0.15**
Assessments of democratization	0.36**	-0.25**
<i>Partisanship</i>	0.16**	-0.55**
<i>Issue Opinions</i>		
Left-right	0.35**	-0.41**
Market Reform	0.12*	-0.03
Independent Chechnya	-0.06	0.02
Democratic Regime	0.23**	-0.23**
Presidentialism	0.26**	-0.14**
Centralization	-0.01	-0.01
Strongman leader	0.12**	-0.02
<i>Evaluation of incumbents</i>		
Yeltsin	0.25**	-0.14**
Putin	0.73**	-0.39**
Leadership qualities	0.75**	0.52**
Issue Competence	0.38**	0.52**

For all variables: *p ≤ .05, **p ≤ .01

Source: Colton, McFaul 238

Appendix C

Rose, Munro and Mishler Study of Regime Support, 2004

Economic Performance as Chief Influence on Regime Approval		
<i>Dependent variable - Rating current regime in 2004</i>		
	b	Beta
Variance explained (R ²): 42.5%		
Socialization (6.4%)		
Age	-0.01	-0.05
Education	Ns	ns
Socio-economic status	Ns	ns
Gender: female	Ns	Ns
Past political system	-0.07	-0.09**
Past economic system	0.06	0.07**
Values (12.3%)		
Desired level of democracy	ns	ns
Democracy: people can influence govt	ns	ns
Democracy: officials obey law	0.23	0.04
Appreciate increased freedom	0.21	0.07**
Country in right direction	0.46	0.05**
Economic Performance (37.7%)		
Present economic system	0.50	0.50**
Present family economic situation	0.45	0.08**
Putin's personal appeal (12.2%)		
performance rating	0.14	0.08**
Expectations (7.2%)		
Alt regime likelihood	ns	ns
Expected democracy level in 5 yrs	0.20	0.09**

- Beta and b values are for the regression in which all independent variables are entered together.
 - Figures in parenthesis (i.e. socialization, values, etc), show variance explained by each block of variables on their own.

** Significant correlation at ≤ 0.01 level, all other figures are significant at the ≤ 0.05 level, ns – not significant

Source: New Russia Barometer XIII (Rose 209); N=1,602