from the country. Concern that separatism could spread to other regions was an important motivation for the military intervention. Despite these problems, with the help of an active public relations effort, Yeltsin was reelected president in 1996, winning 54 percent of the vote against the Communist Party candidate, Gennady Zyuganov, in a second round of voting. During his second term in office Yeltsin was plagued by poor health and continuing failed policies. In 1998 a major financial crisis triggered a political one.

In 1999, Yeltsin appointed Vladimir Putin prime minister. Putin, a little-known figure from St. Petersburg, was a former KGB operative in East Germany. His political advance was swift, and the rise in his popularity was equally meteoric. In December 1999, Yeltsin resigned as president of the Russian Federation. In presidential elections that followed in March 2000 Putin won a resounding victory. Putin benefited from auspicious conditions. In 1999 the economy began a period of sustained economic growth that lasted until the 2008–2009 global financial crisis. High international gas and oil prices fed tax dollars into the state's coffers.

Just as economic growth revived, worries about security increased. Instability associated with the Chechnya problem underlay a string of terrorist attacks, beginning in 1999. One particularly tragic event involved a hostage-taking on the first day of school (September 1, 2004) in the town of Beslan in southern Russia, which ended in tragedy, with more than 300 hostages killed—the majority children. Meanwhile, in March 2003, Russian authorities tried to set Chechnya on a track of normalization, holding a referendum that would confirm Chechnya's status within the Russian Federation. However, intermittent violence continued.

Despite these problems, Putin recorded consistently high levels of popular support throughout his tenure and successfully managed the transition to his handpicked successor as president, Dmitry Medvedev, who won the 2008 presidential elections handily. However, throughout this period, Putin also introduced political reforms marked by increased political centralization, restrictions on political opposition, and the growing dominance of one political party, United Russia. Since 2000 Russia has been characterized by a drift to a form of **soft authoritarianism**, in which formal and informal mechanisms secure the dominance of the ruling group. While Western experts debate whether authoritarian tendencies might yet be reversed, many Russians just hope that the enhanced powers of the central authorities may help ensure a secure and stable way of life. When the economic-financial crisis took hold in 2008 a new source of insecurity arose. With the decline in oil and gas prices, Russia's main export commodities, the economic upturn was interrupted. In 2009 Russian President Medvedev announced a modernization program to address some of the imbalances in the Russian economy, but the momentum for reform has proven to be weak. As Russia approached the 2011–2012 election cycle, foreign observers and domestic critics wondered whether Medevdev's conception of modernization might include a gradual turn away from the authoritarian tendencies of the previous decades, but most were skeptical.

soft authoritarianism

A system of political control in which a combination of formal and informal mechanisms ensure the dominance of a ruling group or dominant party, despite the existence of some forms of political competition and expressions of political opposition.

In the international sphere, following the attacks on the World Trade Center and the Pentagon on September 11, 2001, Russia and the United States shared a common interest in combating terrorism. However, tensions with the United States quickly emerged as Russia opposed the American incursion into Iraq. Russian leaders were also wary of increasing U.S. influence in neighboring countries, which included support for admitting countries such as Ukraine and Georgia into NATO and for installation of an antimissile defense system in Central Europe. A further crisis point occurred in August 2008 with Russia's military intervention in Georgia to support the secessionist regions of South Ossetia and Abkazia; Western leaders

ITAR-TASS/Landov

Pikalyovo residents protest against job cuts and worsening living standards. Slogans on the signs read "Why do you sack my mom?," "BasEl's politics is crisis itself!," and "Authorities are political impotent!"

Source: http://www.mr7.ru/news/economy/story_14348.html.

objected strongly to the Russian action. Nonetheless, in March 2009, following Barack Obama's inauguration as U.S. President, the new Secretary of State Hillary Clinton made a dramatic gesture of calling for a "reset"[7] of U.S.-Russian relations, generating hope that the grand hopes of the 1990s for an end to East-West tensions could again be revived.

Themes and Implications

Historical Junctures and Political Themes

Following the collapse of the USSR in 1991, international support for the new reform-oriented government in Russia surged, with the proliferation of aid programs and international financial credits. In the 1990s, Russia's status as a world power waned, and the expansion of Western organizations (NATO, EU) to Russia's western border undermined its sphere of influence in Central and Eastern Europe. Russia's western neighbors, except Belarus, looked more to Europe than to Russia as a guidepost for the future. But Russia's economic recovery following 1998, the rise of energy prices, and Europe's dependence on imports of Russian natural gas and oil provided an important basis for Russia's renewed international influence. No longer simply a supplicant in its relationship to the West, Russia reasserted its role as a major European power under Putin's leadership. But with its "near abroad," Russia has had difficulties establishing itself as a respected regional leader. Russia's defense of a disputed presidential election outcome during Ukraine's Orange Revolution in November 2004 suggested the primacy of Russian national interest over democratic values. Russian intervention in Georgia in 2008, to support secessionist claims there, evoked concern in other neighboring countries. At the same time, by 2008 tensions between Russia and the West had reached a level unprecedented in the post-communist period. Will new diplomatic efforts begun in 2009 reverse this trend?

For nearly a decade after the collapse of the Soviet system, the Russian Federation seemed mired in a downward spiral of economic collapse and political paralysis. By the late 1990s, the Russian public was disillusioned and distrustful of its leaders, and resentment remained over the dismal results of the Western-inspired reform program. After 1998, however, growth rates recovered, budget surpluses became routine, and the population experienced a marked increase in economic confidence. Questions arose, however, about the depth of the economic recovery, and indeed the drop in energy prices with the 2008 financial crisis and ensuing global recession posed a significant challenge for Russia. However, in previous years the government had wisely created a Reserve Fund and Prosperity Fund (generated from high oil and gas revenues) for just such a contingency, providing a buffer against the worse effects. Since energy prices recovered relatively quickly and the government sought to protect social welfare measures from severe cutbacks, Russia withstood the financial and economic crisis relatively well. At the same time, wide disparities in wealth and income, as well as important regional inequalities, continue to plague the system. Although many important policy problems have been addressed, others remain unresolved, including inadequate levels of foreign investment, capital flight, continuing high levels of inequality, and the decline in the agricultural sector.

Concerns about the fate of Russian democracy have also become widespread in the West as well as among opposition groups inside Russia. On the positive side, the constitution adopted in 1993 has gained a surprising level of public acceptance, even as observers express intensifying concern that key reforms adopted after 2000 may be undermining real political competition. The regime justifies these changes as necessary to ensure state capacity to govern and to secure continuing economic growth, but critics see the Russian desire for order as leading the country down an authoritarian path with only the trappings of political democracy, under the tutorship of a dominant establishment political party, United Russia. High and rising levels of corruption still pervade the Russian political and economic system, despite the proclaimed commitment of the political leadership to curtail them.

Finally, Russians continue to seek new forms of collective identity. The loss of superpower status, the dominance of Western economic and political models in the 1990s, and the absence of a widely accepted ideology have all contributed to uncertainty about what it means to be Russian and where Russia fits into the world of states. Meanwhile, Russia itself suffers from internal divisions. Although overt separatism has been limited to the Republic of Chechnya, differing visions of collective identity have emerged in some of Russia's ethnic republics, particularly in Muslim areas. A revival of Russian nationalism, directed partly at the West and partly at non-Christian ethnic minority groups, is a phenomenon of increasing concern. Other aspects of identity, including social class and gender roles, are also being reconsidered.

Implications for Comparative Politics

Many countries have attempted a transition from authoritarian rule to democratic governance. In Russia's case, one of the most important factors affecting this process is the tradition of strong state control, stretching from tsarist times through the Soviet period, and now influencing present developments. In addition, the intertwined character of politics, economics, and ideology in the Soviet Union has made democratization and economic reform difficult to realize at the same time. In effect, four transition processes were initiated simultaneously in the early 1990s: democratization, market reform, a redefinition of national identity, and integration into the world economy. Whereas other democratizing countries may have undergone one or two of these transitions, Russia initially tried to tackle all four at once. Because the former communist elites had no private wealth to fall back on, corrupt or illegal methods were sometimes used by Russia's emerging capitalist class to maintain former privileges. Citizens, confronted with economic decline and an ideological vacuum, have been susceptible to appeals for strong state control, as well as nationalist appeals. No doubt, economic uncertainty has made the Russian public willing to accept strong leadership and limits on political expression that would be resisted in many Western countries. Russia's current "backsliding" from democratic development may, in part, reflect the difficulties of pursuing so many transitions at once.

Summary

Russian history has been characterized by a series of upheavals and changes that have often made life unpredictable and difficult for the citizen. The revolutions of 1917 replaced tsarist rule with a political system dominated by the Communist Party. In the Stalinist period Communist rule involved a process of rapid industrialization, collectivization of agriculture, and purges of the party, followed by large losses of population associated with World War II. With the death of Stalin came another important transition, as politics was transformed into a more predictable system of bureaucratic authoritarianism, characterized by relative stability but without political competition or democratic control. The most recent transition, ushered in by the collapse of Communist Party rule in 1991, resulted in the emergence of the Russian Federation as an independent state. The new Russia experienced an almost immediate period of economic decline in the midst of halting efforts to democratize the system in the 1990s. However, beginning in 1999, the economy took a turn for the better, at the same time that limits on political competition seem to be reversing some of the earlier democratic gains.

POLITICAL ECONOMY AND DEVELOPMENT

SECTION 2

The collapse of the Soviet system in late 1991 ushered in a sea change, radically reducing the state's traditionally strong role in economic development and opening the Russian economy to foreign influence. However, the process of market reform that the Russian government pursued after 1991 brought with it an immediate dramatic decline in economic performance as well as fundamental changes in social relationships. To respond, the Russian government struggled to create tools to regulate the new market forces and to manage impacts of global economic forces. After experiencing an unprecedented period of economic depression from 1991 to 1998, Russia experienced renewed economic growth, but this growth has been built largely on the country's wealth of energy and natural resources. With the economic/financial crisis of 2008–2009, prices of oil and natural gas declined precipitously, with serious consequences for Russia. However, the relatively quick recovery in price levels prevented severe economic impacts. The Russian economy remains, however, highly dependent on natural resource exports, and that dependence introduces long-term economic risks. In addition, extreme levels of social inequality and corruption remain. Overall the relative costs and benefits of Russia's transition from a state-run economy to a mixed market system are still contested.

Focus Questions

Describe Russia's most difficult problems in moving from a command economy toward a market economy. What are the main advantages and disadvantages of each form of economy?

How have social policies changed in Russia since the collapse of the Soviet system?

As Russia has become more closely tied to the world economy, what economic adjustments has Russia had to make?

State and Economy

In the Soviet period, land, factories, and all other important economic assets belonged to the state. Short- and long-term economic plans defined production goals, but these were frequently too ambitious. Except in the illegal black market and peasant market, prices were controlled by the state. Firms and individuals were not permitted to develop direct links to foreign partners; these were all channeled through the central economic bureaucracy.

The Soviet economic model registered some remarkable achievements: rapid industrialization, provision of social welfare and mass education, relatively low levels of inequality, and advances in key economic sectors such as the military and space industries. Nonetheless, over time, top-heavy Soviet planning could neither sustain rising prosperity at home nor deliver competitive products for export. Gorbachev's efforts at the end of the Soviet period to adapt Soviet economic structures to meet these challenges were largely unsuccessful.

Following the collapse of the USSR, in 1992 Boris Yeltsin endorsed a more radical policy of **market reform**. Four main pillars of his program were (1) lifting price controls, (2) encouraging small private businesses and entrepreneurs, (3) privatizing most state-owned enterprises, and (4) opening the economy to international influences. In January 1992, price controls on most goods were loosened or removed entirely. As a result, the consumer price index increased by about 2,500 percent between December 1991 and December 1992. Real wages declined by 50 percent.

market reform

A strategy of economic transformation that involves reducing the role of the state in managing the economy and increasing the role of market forces.

Privatization was rapid compared to most other post-communist countries. By early 1994, 80 percent of medium-sized and large state enterprises in designated sectors of the economy had been transformed into **joint-stock companies**. The most widely adopted method for privatizing state enterprises, called **insider privatization**, gave managers and workers of the enterprise (jointly) the right to acquire a controlling packet (51 percent) of enterprise shares at virtually symbolic prices. Each citizen of Russia was issued a **privatization voucher** with a nominal value of 10,000 rubles (at various times between four and twenty U.S. dollars), which could be used to acquire shares in their own enterprise.

joint-stock companies

Business firms whose capital is divided into shares that can be held by individuals, groups of individuals, or governmental units.

Many analysts believe that insider privatization hampered reform of business operations and reduced the expected gains of privatization. Managers, many of whom did not have the skills needed to operate in a market environment, were reluctant to lay off excess labor or resisted overtures by outside investors who might gain control of the enterprise. Some managers extracted personal profit from enterprise operations rather than investing available funds to improve production. Productivity and efficiency did not increase significantly; unprofitable firms continued to operate; investment was weak; and the benefits of ownership were not widely or fairly distributed. The government continued to subsidize ineffective operations, leaving most Russian firms uncompetitive.

insider privatization

The transformation of formerly state-owned enterprises into joint-stock companies or private enterprises in which majority control is in the hands of employees and/or managers.

In 1995, a second stage of privatization was launched. Firms could sell remaining shares for cash or investment guarantees. However, many firms were unattractive to investors because backward technology would require massive infusions of capital. Some of the more attractive enterprises fell into the hands of developing financial-industrial conglomerates that had acquired their wealth through positions of power or connections in the government. At the same time, new ventures, which were generally more efficient than former state firms, faced obstacles: confusing regulations, high taxes, lack of capital, and poor infrastructure (transport, banking, communications).

privatization voucher

A certificate worth 10,000 rubles (at various times between four and twenty U.S. dollars) issued by the government to each Russian citizen in 1992 to be used to purchase shares in state enterprises undergoing privatization.

Reform of agriculture was even less satisfactory. Large joint-stock companies and associations of individual households were created on the basis of former state and collective farms. These privatized companies operated inefficiently, and agricultural

© Yadid Levy/Alamy

Russians shop at the Apraksin Dvor market in St. Petersburg.

output declined. Foreign food imports also undercut domestic producers, contributing to a downward spiral in agricultural investment and production.

By the late 1990s, it appeared that the government's reform program had failed. Russia was in the grip of a severe depression. Industrial production was less than half the 1990 level. The depression fed on itself, as declining capacity in one sector deprived other sectors of buyers or suppliers.

A key obstacle to the success of the market reform agenda in the 1990s was the weakness of state institutions. Without an effective tax collection system, for instance, the government could not acquire revenues to pay its own bills on time, provide essential services to the population, and ensure a well-functioning economic infrastructure (such as transportation, energy, public utilities). A weak state meant inadequate regulation of the banking sector and poor enforcement of health, safety, and labor standards. As the state failed to carry out these functions, businesses took matters into their own hands, for example, by hiring private security services, turning to the **mafia** for protection, or by paying bribes. Ineffective government fed corruption and criminality.

The central state in Moscow also had difficulty exerting its authority in relation to regional authorities and in the face of increasing power of business **oligarchs**. These oligarchs, wealthy individuals who benefited from privatization, often wielded significant political influence.[8] Diverse methods of laundering money to avoid taxes became widespread. Corruption involving government officials, the police, and operators abroad fed a rising crime rate. Rich foreigners, Russian bankers, and outspoken journalists became targets of the Russian mafia.

A financial crisis in August 1998 brought the situation to a head. The government successively took on new loans at progressively higher rates of interest in order to pay off existing debts, creating a structure of **pyramid debt**. Following a sharp upturn in 1996–1997, in August 1998 the Russian stock market lost over 90 percent of its value. The government defaulted on its bonds. Many Russian banks, holders of the Russian government's short-term bonds, faced imminent bankruptcy. The

mafia
A term borrowed from Italy and widely used in Russia to describe networks of organized criminal activity.

oligarchs
A small group of powerful and wealthy individuals who gained ownership and control of important sectors of Russia's economy in the context of privatization of state assets in the 1990s.

pyramid debt
A situation in which a government or organization takes on debt obligations at progressively higher rates of interest in order to pay off existing debt.

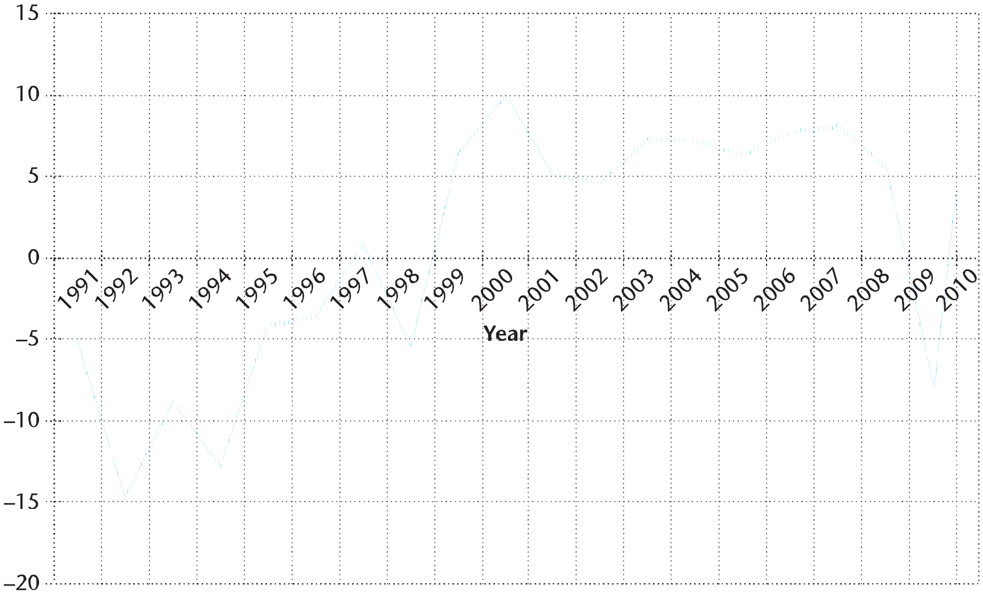

FIGURE 8.2 Economic Decline and Recovery (gross domestic product) Constant prices, as percent of previous year

Sources: Data for 2000 to 2009, Federal State Statistics Service (Goskomstat) of the Russian Federation website; data from 1991 to 2000 are from *Introduction to Comparative Politics* (Houghton Mifflin, 2004), p. 361.

government began to print more of the increasingly valueless rubles, threatening to undermine the ruble's value further and thus intensify the underlying financial crisis.

The government finally allowed a radical devaluation of the ruble. Within a two-week period, the ruble lost two-thirds of its value against the U.S. dollar, banks closed or allowed only limited withdrawals, supplies of imported goods decreased, and business accounts were frozen—forcing some firms to lay off employees and others to close their doors. However, despite these immediately disastrous effects, the 1998 financial crisis ushered in positive changes. First, the devalued ruble made Russian products more competitive with foreign imports. Firms were able to improve their products, put underused labor back to work, and thus increase productivity. The state budget benefited from improved tax revenues. Barter declined, as did payment arrears. Economic growth revived, beginning in 1999.

When Vladimir Putin became president in the year 2000, he faced many challenges and introduced a set of legislative reforms to spur recovery. A 13 percent flat income tax, deemed easier to enforce, was one very visible aspect of the package. A budget surplus replaced a deficit. By 2007 the Russian government had lowered its debt burden to 3 percent of GDP. Foreign reserves grew from just $12 billion (U.S.) in 1998 to about $500 billion (U.S.) in March 2008.[9] Prospects for Russia's membership in the World Trade Organization also fueled optimism about Russia's trade growth.

Meanwhile, Putin made clear that economic oligarchs who used their financial positions to affect political outcomes would suffer sanctions. However, enforcement efforts were selectively directed at critics of the government. A particularly prominent case involved Mikhail Khodorkovsky, the chief executive officer and major shareholder of the giant Russian oil company Yukos. In October 2003 Khodorkovsky was placed under arrest for fraud and tax evasion, and in May 2005 he was sentenced by a Russian court to nine years in prison. And in 2010 additional charges extended his jail time

REUTERS/Alexander Natruskin.

Russian oil oligarch Mikhail Khodorkovsky, shown under arrest, displayed in a cage.

further. The attack on Yukos undermined investor confidence with fears that political pretexts might justify future government economic takeovers.

Corruption is another major obstacle to effective economic management. Transparency International produces an annual Corruption Perceptions index, based on a compilation of independent surveys. In 2010, Russia received a poor ranking, 2.1 on a 10-point scale, with 10 being the least corrupt.[10] Russia ranked 154 out of the 178 countries surveyed. One form of corruption, referred to as "**state capture**," is based on "the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials."[11] Efforts of the Russian leadership to control the power of some oligarchs could be seen as an effort to reign in this type of activity. However, corruption remains pervasive and is still a key hindrance not only to economic reform but also to political development.

state capture

The ability of firms to systematically turn state regulations to their advantage through payoffs or other benefits offered to state officials

Society and Economy

The Soviet leadership established priorities with little input from society. One was military production, but the regime's social goals also produced some of the most marked achievements of the Soviet system. Benefits to the population included free health care, low-cost access to essential goods and services, maternity leave (partially paid), child benefits, disability pensions, and mass education. In a short period of time, universal access to primary and secondary schooling led to nearly universal literacy under Soviet rule. Postsecondary education was free of charge, with state stipends provided to university students. Guaranteed employment and job security were other priorities. Almost all able-bodied adults, men and women alike, worked outside the home. Citizens received many social benefits through the workplace, and modest pensions were guaranteed by the state, ensuring a stable but minimal standard of living for retirement.

The Soviet system, however, was plagued by shortages and low-quality service. For example, advanced medical equipment was in limited supply. Sometimes under-the-table payments were required to prompt better-quality service. Many goods and services were scarce. Housing shortages restricted mobility and forced young families to share small apartments with parents. Productivity was low by international standards, and work discipline weak. Drunkenness and absenteeism were not unusual. A Soviet saying illustrated the problem: "We pretend to work, they pretend to pay us."

As a matter of state policy, wage differentials between the best- and worst-paid were lower than in Western countries. This approach reduced the incentive for outstanding achievements and innovation. Due to state ownership, individuals could not accumulate wealth in real estate, stocks, or businesses. Although political elites had access to scarce goods, higher-quality health care, travel, and vacation homes, these privileges were hidden from public view.

The Soviet experience led Russians to expect the state to ensure a social welfare network, but in the 1990s, budget constraints necessitated cutbacks, just when social needs were greatest. Although universal health care remained, higher-quality care and access to medicine depended more obviously on ability to pay. Benefits provided through the workplace were cut back, as businesses faced pressures to reduce costs.

Some groups have benefited from market reforms introduced in the 1990s more than others, Those with Western language skills and those employed in the natural resources, banking, and financial sectors have better-than-average prospects. At the top of the scale are the super-wealthy, including people who took advantage of privatization to gain positions in lucrative sectors like banking, finance, oil, and gas. But losers have been more numerous. Poverty is highest among rural residents, the unemployed, children, the less educated, pensioners, and the disabled. As a result of low wage levels, the majority of those in poverty are the working poor.

Alongside more objective factors, culture affects economic change. Incentive structures of the Soviet period were internalized by older population groups, including features that encouraged risk avoidance, low productivity, poor punctuality, absenteeism, lack of personal initiative, and a preference for security over achievement.[12] However, young people in Russia are adapting to a new work environment. They

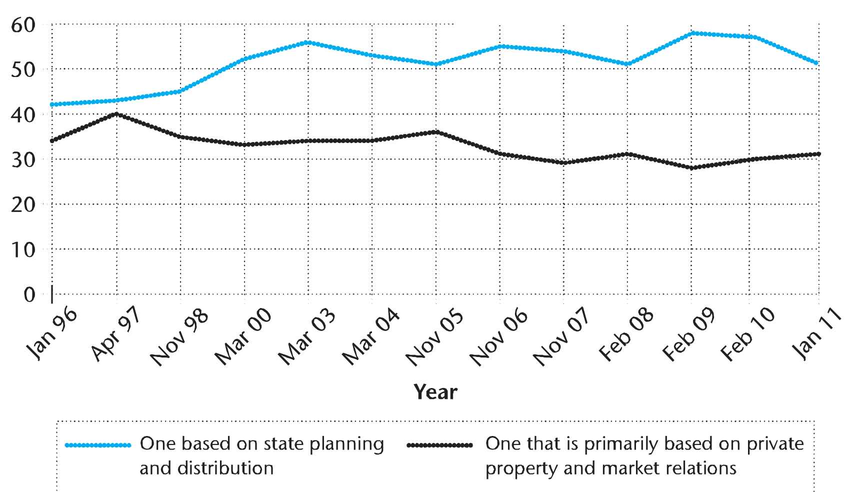

FIGURE 8.3 Russian Attitudes Toward the Economy
Which kind of economic system seems to you the most correct: one based on state planning and distribution, or one that is primarily based on private ownership and market relations?

Source: Levada Center. 2011 data is from a survey of 1600 respondents 18 years of age and older, from 45 regions, January 21–24, 2011, and data reported is also from earlier surveys, http://www.levada.ru/press/2011020803.html, accessed February 13, 2011.

are more flexible, in part due to their age, but also because of differing socialization experiences that have resulted in altered expectations. Consequently, they are inclined to support the market transition and are more oriented toward maximizing self-interest and demonstrating initiative. Nevertheless, many Russians of all age groups still question values underlying market reform, preferring an economy that is less profit driven and more oriented to equality and the collective good.

Following the economic upturn that began in 1999, large differentials in income and wealth have persisted, but the portion of the population living below the subsistence level declined after 1999. In addition average real disposable income has increased. Beginning in 2000, levels of personal consumption began to rise, but many individuals (particularly men) still hold two to three jobs just to make ends meet. Social indicators of economic stress have begun to decline only slowly, and the economic-financial crisis of 2008–2009 introduced new economic uncertainties just when many Russians were beginning to feel that life was returning to normal.

A particularly contentious issue led to massive street demonstrations in several Russian cities in early 2005 over changes to social welfare policy. Called "monetarization of social benefits," the reforms involved replacing certain services (such as public transport) that had been provided free to disadvantaged groups (pensioners, veterans, the disabled) with a modest monetary payment to the individual. Many Russians viewed the measures as involving direct reductions in social welfare benefits. After large-scale demonstrations, the government agreed to accompany the reforms by a modest increase in pensions and to restore subsidized transport. Learning from this experience, during the 2008–2009 financial-economic crisis, the government attempted to avoid cuts in social welfare measures and pensions.

REUTERS/DENIS SINYAKOV/LANDOV

Wearing shirts that read "Is something wrong? Give birth," Russian pensioners took part in a flash mob in Moscow city's underground in May 2011. According to organizers, the goal of the action was to encourage Russian women to get pregnant and increase the nation's birth rate.

Source: Rossiiskie vesti, August 18, 2004, p. 3.