Putin's Russia

By Padma Desai

From *Foreign Affairs* , May/June 2008

Summary:

To the Editor:

Michael McFaul and Kathryn Stoner-Weiss ("The Myth of the Authoritarian Model," January/February 2008) make several erroneous judgments regarding the current Russian scene. The Russian economy has grown in the last seven years at an annual rate of 6.5 percent. The ongoing debate among economists and other informed observers of Russia is over whether this is a result of exceptionally high (and rising) oil prices, and hence a reversible phenomenon if the price of oil collapses, or the result of substantive changes in the last decade that made high growth rates sustainable. At a major World Leaders Forum and a scientific conference attended by distinguished Russia scholars at Columbia University last April, participants shared the view that Russia's economic performance was not a flash in the pan caused by oil; rather, the consensus was that important policy changes had taken place. Still, no responsible Western scholar of Russia (nor even a supporter of former Russian President Vladimir Putin) has suggested that the high growth rates in Russia are a product of Putin's authoritarian ways. The claim by McFaul and Stoner-Weiss that this argument is made is simply creating a straw man.

The authors also exaggerate former President Boris Yeltsin's democratic accomplishments in order to make a compelling case against Putin's supposed authoritarian consolidation. Yeltsin, they argue, started to develop "all the basic elements of an electoral democracy." Yeltsin and his young reformers did indeed demolish the communist planned economy and the authoritarian arrangements; they planted the liberal idea in the land of Lenin and Stalin and changed the course of Russian history. But they did not introduce, much less develop, basic liberal democratic institutions, such as a party system, fair elections, a free press, or strong legal and financial organizations. These were unlikely to spring fully grown, like Athena from the brow of Zeus, in a country with a long history of tsarist and communist authoritarianism.

McFaul and Stoner-Weiss claim that "electronic and print media outlets not controlled by the state multiplied [under Yeltsin]." This is misleading. During the Yeltsin presidency, Russian TV networks and the press, strapped for cash and lacking advertising revenues, turned to the money-wielding oligarchs. According to the Russian Media Fund, a U.S.-based media-advocacy group backed by the International Center for Journalists and others, nonmedia oligarchs moved into the media business in order to take advantage of the tax exemption for profits enjoyed by media companies. As a result, the media then became mouthpieces of the special interests of the few oligarchs who dominated the scene and sought to control the state.

The authors also provide a flawed assessment of Putin's economic policies, including those regarding the Russian energy sector. In Putin's view, the Russian energy sector, which has driven Russia's economic growth since 2000, could not be left completely to the initiative of the private sector, domestic or foreign. Putin sought to balance private profit making with what he regarded as the broader national interest. His policies did not constitute the blanket "renationalization" of the energy sector that the authors allege. Rosneft, a state-owned oil company, will counter Lukoil, a private oil company. Gazprom, the 51 percent state-owned natural gas monopoly, has acquired a 51 percent stake in the Sakhalin-2 oil and natural gas unit, which was previously owned by Royal Dutch/Shell, Mitsui, and Mitsubishi. And BP has been reduced to a minority stake in the Kovykta natural gas unit in western Siberia, with Gazprom acquiring 51 percent ownership. In each of these cases, the process involved the Kremlin flexing its muscles, but the details and the numbers suggest strategic policy maneuvering. Foreign minority partners will supply needed cash, management expertise, and technology in the energy sector, which would not have been true if there had been a sweeping renationalization.

Beyond the energy sector, much of Russian industry, including businesses in aluminum, steel, aircraft, or automobile manufacturing, is less controlled by the Kremlin, more prone to inviting active Western business participation, and more open to competitive pressures from foreign multinationals. The flourishing retail sector remains fully open to the participation of foreign firms. Doing business in Russia is not for the faint-hearted, but according to current indications, foreign investors, including Shell and BP will continue to participate in the economy, from the energy sector down to retail businesses. Their involvement will help maintain the country's high growth rates.

Finally, McFaul and Stoner-Weiss complain about the legislation restricting foreign nongovernmental organizations (NGOs), as if Russia were the only country restricting their entry. They do not seem to be aware that over 400,000 Russian NGOs are engaged in a variety of activities relating to health care and environmental issues at the local level. Is it not sensible for Russian civil society to grow from within instead of depending on foreign largess, which taints the recipients and prevents them from grounding their activities in Russian society itself?

It would seem that their excessive Putin and Kremlin bashing prevents the authors from recognizing the positive impact of the economic revival on the lives of Russians. I lived and traveled in the Soviet Union in 1964 and remember that Orwellian landscape of bleak monotony, state control, and pervasive fear. I have been studying Russia ever since and visiting frequently. Today, it is a different country, undergoing remarkable changes. To suggest that it will morph into another Angola is to lose all perspective.

PADMA DESAI

Gladys and Roland Harriman Professor of Comparative Economic Systems and Director, Center for Transition Economies, Columbia University

Michael McFaul and Kathryn Stoner-Weiss reply:

We do not claim that Russia today is the Soviet Union. We write, "Russians are richer today than ever before." Our article attempts to explain why. Contrary to Padma Desai's oversimplification of our analysis, we emphasized both the impact of rising oil and gas prices and the "important policy changes." But the policy changes that jump-started growth were undertaken before Putin came to power. Russia's real economic turnaround came after the financial meltdown in August 1998, which forced the Russian government to pursue prudent fiscal policies and a more rational exchange-rate policy. As a result of these reforms -- carried out by a left-of-center government headed by Yevgeny Primakov -- Russia's economy began to grow a year before Putin became prime minister and 18 months before he became president.

We did note that Putin implemented some important macroeconomic reforms, such as the 13 percent flat income tax, a reduction in the corporate tax, and the creation of a stabilization fund. But tracing the relative impact of these reforms, against the backdrop of the fundamental macroeconomic reforms before Putin and the rising oil and energy prices while he was president, is the harder analytic task for Putin apologists such as Desai, because there have been other real economic, social, and political costs associated with his rule. As we document in our article, Putin's transfer of the assets of the privately owned Yukos to the state-owned Rosneft destroyed hundreds of millions of dollars in value in the company and created a less profitable, less productive enterprise. And all independent measures show rising levels of corruption in Russia under Putin. The real question is not how well the Russian economy is growing now but how well it could be growing under a less autocratic form of government.

Desai writes about Putin's "authoritarian ways," but she also tries to defend his regime by recounting the flaws in Yeltsin's democracy and suggesting that we are not aware of Russia's 400,000 NGOs. But many of these NGOs, especially those working on anything considered to be remotely political, are being shut down, forced out of business by a restrictive new law, and their leaders are being imprisoned. In early March, Lev Ponomarev, a Russian colleague of ours in the NGO community, was arrested, along with others, for participating in a peaceful demonstration against the overmanaged "election" of Putin's successor, Dmitry Medvedev.

Regarding the Yeltsin era, we agree that the "oligarch"-owned media outlets might have become "mouthpieces of the special interests." However, one wonders what Desai would say about the oligarchs who own Fox News, CNN, The Wall Street Journal, The Washington Post, The Nation, The New York Times, or The Weekly Standard. And even if a totalitarian dictatorship had run Russia in the 1990s (it did not), how would that justify Putin's "authoritarian ways" today?

Finally, we disagree with Desai's assertion that we have created a straw man in recounting that some argue that it was Putin's regime that helped produce economic growth and better governance in Russia. The evidence to the contrary is far too substantial. Both the Russian and the Western media are filled with accounts of how Putin's strong hand spurred growth. Time magazine named Putin its Person of the Year, in part based on this logic. And inside Russia, public opinion polls confirm that a majority of people have accepted the alleged tradeoff between less political freedom and more wealth. President-elect Medvedev based his campaign on maintaining Putin's "strong" state and economic success. Maybe Desai can afford to ignore all this. But judging from the overwhelming reaction to our article, including from Putin himself, it appears that we are arguing against not a straw man but a strongman.
