



THE JAMES A. BAKER III  
INSTITUTE FOR PUBLIC POLICY  
OF RICE UNIVERSITY

## THE ENERGY DIMENSION IN RUSSIAN GLOBAL STRATEGY

IT'S GOGOL, AGAIN

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PREPARED IN CONJUNCTION WITH AN ENERGY STUDY SPONSORED BY  
THE PETROLEUM ENERGY CENTER OF JAPAN  
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THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY  
RICE UNIVERSITY - MARCH 2005

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## Abstract

Where are the analysts who in the early and mid-1990s warned incessantly of Communist restoration as the gravest danger facing Russia now that the downtrodden Communists remain almost the only *organized* public counterweight to the Kremlin? Where are the experts who lectured during the fiction of neo-liberal reforms about the need to establish a social safety net now that the Kremlin has, finally, started pulling the net out from under Russian society? Where are the earnest commentators who remonstrated about not imposing Western models on Russia—about the imperative that Russia be allowed to go its own way—now that it is painfully obvious Russia *has* gone its own way?

At a December 2004 press conference, a twice popularly elected President Putin—preening in his sixth consecutive year of robust GDP growth—underscored “the choice made by Russia to follow its own optimal road of development.” But Russia’s state and society are churning. The country appears stuck. The degree to which Putin’s preferences or a political culture and innate problems of governability condition Russia’s outlier status can be debated. But barring a sudden discovery of cost-effective substitutes for fossil fuels, Russia will likely muddle along on its current path buttressed by oil revenues, whoever is its ruler—proudly, stubbornly refusing to kowtow to global trends and exigencies.

For the long-term political outlook, the evolution of Russian society will be fundamental. But so far, the property-owning class remains narrow. Despite the economic growth, the number of small and medium businesses has not grown appreciably, and they remain very far from exerting the influence that would help transform the political system fundamentally. For now, hydrocarbons continue to underwrite Russia’s reluctance to adapt. And despite the benefits that international cooperation in energy would bring, Russia may drag its feet on establishing further genuine partnerships until its fossil fuel sector reaches catastrophe.

## Introduction

When you admonish a child not to do something ten times, that may mean you’re a dictator; it definitely means the child did not heed you the first nine times. Russia’s President, Vladimir Putin, has put forth so many initiatives to assert “control” over his recalcitrant child—the Russian state—that we might be suspicious. Maybe Putin is not, as the conventional wisdom suggests, “consolidating his autocracy.”<sup>1</sup>

Rather easily, the Kremlin enforced loyalty over the national electronic media—a process remarkable for the behavior of the journalists who remain gainfully employed at what is again known, sadly, as the ideological sector. Print media remain politically unfettered. But outward conformity has enveloped most of the political class—and many are too young even to have known the Brezhnev years. (Do not mistake cowardice and opportunism for loyalty in a crunch.) Criminal prosecutions on spy charges and other hoaxes continue. The arrest, resembling a kidnapping, of Mikhail Khodorkovsky and the clumsy, criminal confiscation of his lucrative business seem to indicate that the brutes can get away with anything. But the sham of autocratic consolidation was exposed by the hostage crisis in Beslan, where the security services not only let the hostage takers walk in but failed to secure the perimeter around the school to prevent them from escape.<sup>2</sup> The President went on television to lament that his vaunted security and law enforcement agencies were corrupt and unreliable. But who listens when Putin speaks?

Then, of course, came Ukraine, when a flotilla of (over) paid Russian election “technologists” and the tsar himself succeeded spectacularly—in making Russia look incomparably weak. More baneful than the Kremlin’s evident misjudgment was its lack of recourse to back up the apocalyptic rhetoric out of Moscow. A follow-on fiasco, the launch of entitlement reform in late 2004 and early 2005, exposed all over again the hollowness of Putin’s “soft authoritarianism.” The ambitious overhaul of state administration hit a wall some time ago, although foreign reporters and analysts have been treating this huge undertaking—probably the biggest story in Russia—as a secret. Military reform? Don’t ask, don’t tell.<sup>3</sup> Overall, Putin appears to be struggling to introduce accountability of elites—functionaries—to executive organs, not to the electorate. And yet, as a former KGB colleague from the Dresden days revealed, Putin’s favorite book is Nikolai Gogol’s *Dead Souls*, about a trickster who accumulates collateral to acquire a manor by purchasing ghost serfs from provincial worthies looking to avoid taxes.<sup>4</sup> (Stalin preferred Chekhov for the villains and heroes.) If nothing else, Russia’s twice-elected president appears to have a sense of humor.

## **The ABCs (and D) of post-Socialism**

Let us begin by reviewing briefly the basics.

### *a) Decline*

Beginning in the 1970s, the Soviet Union entered a period of decline, and this accelerated after 1991. True, in the late 1990s, Vladimir Putin arrested the decline. He got an unexpected hand from the 1998 crash of Russia's counterfeit financial system, which deflated the ruble, making imports costly and Russian goods fantastically competitive. Putin also got a hand from world oil prices, which shot through the onion dome. Still, he and his administration did their part, especially in 1999-2000, introducing long-delayed liberalizing measures in the economy, tax reform and private property on land. Yet, through the arrest, the decline persisted. Wait, you object, "decline" amid multiyear real growth averaging 7 percent over 1998 to 2004? Amid relatively moderate inflation (10-11 percent)? Amid an unemployment rate down from 13 to 8 percent since 1998? A huge budget surplus? A ballooning trade surplus? Foreign exchange reserves in excess of \$100 billion and an investment grade rating? Yes. Russia is not just diminished but still diminishing, a grim consequence of the comprehensive toxicity of the Soviet era and of the pathologies of the aftermath. The country is aging, diseased, polluted, and infrastructurally Third World, and what's worse, it is hamstrung by corruption and incompetence.<sup>5</sup>

### *b) Not a Liberal*

What may be one of the best books on Putin was published in 1966.<sup>6</sup> The volume is a compilation of letters written by Alexander II, the Great Reformer. In the collection's introduction, Alfred Rieber points out that the tsar ruled by balancing contending groups and personalities that sought his favor. To the subordinates who demonstrated absolute loyalty, the tsar granted enormous latitude (especially if the issue was perceived as distant from military or fiscal security). When Alexander made up his mind about a question, he tapped someone to carry out his policy whatever the formal structures of government; while the tsar remained undecided, he let his ministers scuffle, until the strongest and cleverest emerged victorious—that was the policy. In short, everything revolved around the autocrat. Most importantly, Rieber shows that the West was not a model. Rather it was a source of unrelenting pressure and a showcase of

elements to be borrowed. This did not mean that Russia lacked genuine liberals—some were in high state positions, and the autocracy guardedly permitted universities, a press, and a judiciary.<sup>7</sup> But the tsar who ended serfdom and forced through other far-reaching liberalizing reforms was not a liberal. Neither was Putin’s role model, Yuri Andropov. Neither is Putin.

*c) Great Power Aspirations*

Putin cannot be compared to Alexander II in level of achievement, of course, but only in the common predicament each faced (Western competition) and the shared mentality that guided them (Russia’s exceptionalism). Russia’s tsars like Alexander II were autocrats in their bones, and they saw their calling as remaining so, but British, German, Japanese power could not be wished away. This immutable circumstance acquired great immediacy due to Russia’s own ambitions. For the most part, the burden of Russia’s shaky membership in the elite club was borne by the populace, but the pressure at the top proved severe. To compete, Russia had to adapt, meaning to introduce elements of a liberal order, which conflicted with deeply held values and unfolded in fits and starts. Furthermore, borrowing and changing created constituencies that admired Western systems in toto; these liberals, however much they professed patriotism, appeared treasonous in the autocracy’s eyes. Today, too, Russia’s ambitions compel it to compete in a world where the richest countries have market economies and liberal orders. The Soviet option—inventing an illiberal, non-market alternative that claims to be superior—failed. Now the Russian state’s primary goal is to double GDP within 8-10 years. Whether realistic or not, this focus on GDP is telling. President Putin and many (though far from all) of Russia’s courtiers surmise that the country is weak, the weak are beaten, and therefore Russia needs a dynamic economy. Great power aspirations open the space for liberals and liberalizing reforms.

*d) Scrum*

When Vladimir Putin first came to power, he was not master of the house. He lacked the vital informal networks without which rule in Moscow is impossible. He also faced entrenched networks or “clans.” Putin set about recruiting people one-on-one, KGB style (Primakov, Gorbachev, among others)—an arduous task, given the size of Moscow. He also swiftly repossessed the two most important national television stations that broadcast country-wide (from Berezovsky and Gusinsky)—a piece of cake. Putin next, very deliberately, neutralized or

decapitated clan networks (squeezing Chubais, eventually firing Voloshin, etc.). But Putin still lacked a personal machine. There could be no doubt whatsoever he would *try* to implant his own clientele across the state. Incredibly, he succeeded. This process, mundane except for its success, has provoked miscomprehending talk of a “creeping coup” because Putin’s associates and the associates of his associates happen to be mostly KGB.<sup>8</sup> Many Putin personnel also happen to hail from his hometown. Muscovites recognized the new political grid in time-honored fashion: “Are you from the Kremlin? Are you from the KGB? Are you from St. Petersburg? Then get off my foot!”<sup>9</sup>

Of necessity, the creation of clientelism entailed setting clients up in business. Examples abound in the oil sector such as, Aleksei Miller at Gazprom and Igor Sechin at Rosneft. In this regard, the Khodorkovsky incarceration resembled a trifecta: empowering Putin’s disparate ruling group, giving them big business, and repossessing part of Russia’s geostrategic energy sector. Now, ironically, the Putinites have taken the knives to each other over the spoils. For all the Yukos highjinks, however, Russia’s central elite remains roughly divided between market types (so-called liberal reformers) and security types (so-called *siloviki*). This basic cleavage corresponds, broadly, to Westernizers vs. nativists (once Slavophiles, now Eurasianists). The former group is not especially pro-democratic,<sup>10</sup> the latter (like Putin himself) is anti-democratic. Each grouping is riven with animosities and rivalries. Still, their contestation resembles a rugby scrum: two teams, everyone pushing, the mass of bodies (with the ball unseen) moves up, back, sideways. Nativists, such as Communists and nationalists-chauvinists, castigate Putin vehemently for economic liberalism. But lately some of the market types have taken to public outbursts against the government and by implication the President,<sup>11</sup> comments belatedly echoed (after pensioners took to the streets) by representatives of big business.<sup>12</sup> The scrum has moved considerably toward the security types’ goal.<sup>13</sup>

A complete victory of the varied *siloviki* is certainly possible, and it may be close to Putin’s heart. And yet, an end to the liberal/anti-liberal scrum would be a defeat for Putin. The president needs a robustly expanding GDP not just to forestall Russia’s decline but to reassert its great power status (the ABCs, above).



Even if the match gets re-balanced, how enduring and successful Russia's autocratic-liberalizing hybrid might be remains a question: can you gain the economic advantages of a liberal order without the restrictions on state power that define it? China, envied and feared inside Russia almost as much as the United States, remains the intriguing, elusive model.

## **State**

Nostalgia for the chaos of the Yeltsin years is misplaced: Yeltsinism brought itself down, not least by conjuring up Putin. Defense of the so-called oligarchs is also misguided: not more than three or four of three-dozen have had their larceny repossessed. The chief issue in Russian politics is the widespread persistence, indeed the deepening, of corruption and incompetence. Putin's diagnosis of this tends to be spot on but his proposed cure (centralization and expanded presidential prerogatives), is prosaically ineffective. He had some early success extracting better performance from the state, but lately he has seemed stymied by his own slow-footed government and by wider officialdom, even as his propagandists and foreign commentators tout his "control." Smoothly displacing the double-dealing barons of Gazprom with his own punter is not the same as obtaining effective business management and desperately needed investment in gas. His man installed as defense minister invariably sides with the generals, who publicly contradict the president and profit from their obstruction of transformation. Putin can wax philosophical about functionaries' shortcomings, noting that you can't fire everyone: who would replace them? Like Andropov, he gropes for a formula to raise state discipline that is contemptuous of a self-organized society, but Putin lives within a formal electoral democracy. This makes Russian politics confusing: is it a democracy? An authoritarian regime? It has elements of both, but mostly it is dysfunctional.

### *National Political Parties?*

Before the so-called Orange Revolution, Ukraine's president enjoyed some powers Russia's did not have—he appointed governors. At the same time, Ukraine's parliament or Rada had powers that Russia's Duma did not—the ability to refuse to confirm the president's nominee for prime minister and survive (the Russian president, after three such refusals, can dismiss the Duma). Beginning in 2006, Ukraine's parliament will further eclipse the Duma: the Rada will appoint the

prime minister and cabinet (with the exception of the army, interior, and state security). Such parliamentarism appears beyond reach for Russia. Still, in Russia, as in Ukraine, single mandate electoral districts are being eliminated, and elections will be conducted proportionally by party list. Ukraine is also lengthening parliamentary terms from four years to five, but serving members who switch parties automatically lose their seats. The aim is to strengthen not just the parliament but political parties. Russia badly needs national parties, too, and it may get them, thanks to the Kremlin's manipulations.

Why introduce exclusively proportional elections? Putin answered at a December 2004 press conference: "Because it is no secret that in Russia today people standing for election in single seat districts generally have no hope of getting into parliament without the help of either some economic clan or other or the regional governor, and everyone knows this to be a fact." Goodbye regional mafias? Unlikely. At the same time, though, party list elections will require *real national parties*. Right now, under 1 percent of Russia's population is signed up with the country's 42 registered and mostly ideologically ill-defined, political parties. For the 2007 Duma elections, a threshold of 7 percent of the national vote will be required for a party to enter parliament (up from 5 percent), and parties will be prohibited from forming blocs in the campaign. A reregistration of parties is scheduled for 2006. To qualify (and receive state funding), a party must have at least 50,000 members, including 250 in every regional branch. Seven current "parties" now qualify, but it is impossible to predict how many will pass in two years.<sup>14</sup> What we can say for sure is that the Presidential Administration will oversee re-registration.

Vladislav Surkov, currently deputy head of the Presidential Administration and the point person for what he calls "state ideology," mockingly referred to Russia's "lemons and apples." Lemons signifies Eduard Limonov, the chauvinist returned émigré writer and head of All-Russian Bolshevik Party; apples means Yabloko, the Western-style liberal party. The lemons have perhaps 10,000 registered members, and they were expelled from their self-described "bunker" headquarters for nonpayment of rent; Yabloko, occupying a mansion in central Moscow, has more than 80,000 members, but failed to qualify for Duma representation. Surkov tarred both as Fifth Columnists—lemons and apples "grow on the same stem," he said, and "false" liberals and

real Nazis each have the same foreign sponsors.<sup>15</sup> How such xenophobia will be squared with the worthy goal of creating national parties remains to be seen. But whatever national party framework the Kremlin schemes to devise, Russia's actual political constituencies may exert gravitational force: perhaps, as if Gorbachev's Communist party had finally been split in two, we will see a strong nationalist right animated by skinheads and a strong social-democratic left. We can also expect an expansive Kremlin-dominated "center." The latter, given voter preferences, will remain the liberals' principal refuge in the absence of a business and property-owning society.

### *Federalism?*

President Putin signed a bill eliminating direct elections of regional executives on Russia's Constitution Day—December 12, 2004. Boris Yeltsin's 1993 Constitution did not even need to be infringed to be undermined.<sup>16</sup> "Let's speak frankly," Putin said at the December 23, 2004 press conference in the Kremlin, "today governors are elected, but are they so dependent on people who elect them? Of course, they need to go to elections and they have to think about this. But with modern election methods, unfortunately, the system in this country, as well as in many other places, does not work very effectively."<sup>17</sup> True enough, so the answer is. . . dependency on the Kremlin? Elimination of regional executives' elections followed their removal from the Federation Council, the upper chamber of Parliament (half of whose members are now named by elected regional legislatures). The Federation Council had served as a coordinating body for otherwise far-flung politicians, and, as such, it had generated challengers to the incumbent in the guise of the admittedly short-lived political alliance *Vsia-Rossia/Otechestvo* that encompassed high-profile regional executives. Even without the powerbase of the Federation Council, elected governors might have emerged as potential presidential candidates. No more.

It bears recalling that under the Soviet appointment system, regional parliaments (which were not elected competitively) lacked the effective power to confirm the center's nominees—something they now do. Whether Russia's Presidential Administration has the capacity, like its predecessor in the same facility, the Central Committee apparat, to develop lists (*nomenklatura*) of administrative personnel for the country remains to be seen. Whether the elimination of direct

elections for regional executives is a setback for “federalism” also remains to be seen.<sup>18</sup> Germany has a highly federal system and appointed governors; France’s prefects, in a centralized system, are also appointed. In Japan, also highly centralized, the American occupation authority compelled a move from a French-style system of appointments of regional executives through the Home Ministry to popular elections. Dmitri Kozak, the central person in Russia’s state reforms, called appointment of regional executives “temporary” and a retreat from the super-democratic early 1990s for which the country was not ready, but a huge advance from the Soviet system.<sup>19</sup> Some degree of bargaining will endure since regional executives nominated by the Presidential Administration are supposed to be confirmed by regional legislatures. If lawmakers fail to approve the nomination twice, the president may enter a new nomination, appoint an acting regional executive, or dissolve the regional legislature.

Talk persists of regional “consolidation” from 89 regions to fewer, with elimination of the ethno-territorial units, few of which have a non-Russian majority. “Now about enlargement of regions,” Putin said at the December press conference. “We will not be pushing forward this process, but I want to remind you that it is completely within the competence of the regions themselves,” and “where there are grounds, economic ones above all, we will support such processes.” Putin noted that Perm province and Komi-Perm Autonomous district had merged. Komi politics used to entail fierce public rows between two groups: one in opposition, one in power (financed by energy holding group MDM and Renova). But after the announcement of the elimination of direct elections, *public* politics in Komi vanished. The leader of the local opposition joined the local party of power. Komi swells started to cultivate relations with the regional legislature, populated by factory directors or their surrogates (legislators are part-time), and with the Presidential Administration in Moscow, not with local oligarchs, and not with the public. Whether local oligarch financing of regional barons will persist is unclear. Also unclear is what might happen to regional media without the imperative to mount electoral campaigns.<sup>20</sup> The changes are real, but the possibility of better government is doubtful.

*Judicial reforms?*

In the Soviet Union, the judiciary, like the legislature, was effectively an arm of the executive. The authority of the prosecutor (procuracy) greatly exceeded anything seen in Western countries, even France. Since 1991, Russia has established a Constitutional Court, arbitration courts, and general jurisdiction courts. The latter includes 2,000 district courts, 89 regional courts, and one Supreme Court. The country counts perhaps 20,000 judges, more than one-third of whom used to be police investigators or cops, prosecutors or court clerks. Russia has twice as many prosecutors (40,000), and judicial reform has generally shaped up as a tug of war between judges and prosecutors who have sought to retain the supervision over the courts (and indeed over the entire state machinery) that they enjoyed in Soviet times. In 2001, a judicial reform expanded jury trials in criminal cases to all regions, and it transferred the right to issue arrest and search warrants from prosecutors to the courts. But Russian courts at the local level, like law enforcement agencies, remain among the institutions perceived as most corrupt. “All instances of bribery, judicial red tape or gross mistakes by judges,” Putin told the Sixth All-Russian Congress of Judges in Moscow in November 2004, “undermine trust in the judicial system and the state as a whole.”<sup>21</sup>

Insufficient funding has been a problem. Some 700 “courts” were being housed in former bathhouses, laundries, and horse stables, according to the chairman of Russia’s Council of Judges.<sup>22</sup> Some judges, who make \$300 a month, have been observed driving BMWs and wearing \$50,000 watches,<sup>23</sup> but most lead a miserable existence subject to administrative pressure, particularly by the chief judges of courts who assign cases and office perquisites. Putin dramatically pumped up miserly salaries and raised the mandatory retirement age to 70. Still, a few brave judges have publicly complain about heightened pressure. Until recently, the Supreme Qualification Collegium has been the only authority empowered to remove judges (it also appoints the members of Russia’s Supreme Court and Supreme Arbitration Court). The Judges’ Congress (meeting every four years) elected eighteen of the twenty-nine members of the Collegium by secret ballot; another ten were named by the Federation Council, while one was appointed by the President. Now, the President and Presidential Administration will appoint eleven of a reduced twenty-one members of the Supreme Qualification Collegium; the speaker of

the Federation Council would continue to appoint ten. This would effectively take judicial supervision out of the profession's hands and put it in the Kremlin's.

Valery Zorkin, Chairman of Russia's Supreme Court, has argued that the reforms have rendered the courts more susceptible to corruption and more dependent on officials. The legal scholar Sergei Vitsin noted that, "There are real paths for moving further with reform of the judicial branch, but not by placing it under the authority of the executive branch."<sup>24</sup> For the Kremlin, however, the judiciary serves as another lever in taming the regions, whose executives appointed sitting judges in their jurisdictions but lack the power to remove them. The chairman of the Supreme Court of Bashkortostan, after years of stalling to avoid confrontation, suddenly ruled that the declaration of sovereignty in the Bashkortostan constitution was unconstitutional, leading to a clash with the Republic President. Bashkortostan's Presidential Administration employed the media and the Interior Ministry to intimidate and smear the judge. But the chairman of the local Supreme Court held firm, even after his son was kicked out of university. Both the judge and the presidential administration in Bashkortostan sought the Kremlin's intervention. They also appealed to the leaders of each house of parliament and to the Russian Supreme Court Chairman, who backed the judge, as did the Supreme Collegium of Judges. The legal defeat of the Bashkortostan potentate, made possible by a single judge, has been remarkable.<sup>25</sup> But such uncommon moments of legal limitation appear to be impossible at the federal level.

### *Administrative reforms?*

Nothing is more consequential for Russia than the conversion of the Soviet administrative leviathan into a civil service. Administrative reform, launched some months ago, aims at "streamlining" government ministries, slashing the number of functionaries and reducing their functions to make them more efficient. The reforms are also supposed to raise salaries to decrease incentives for corruption and attract qualified personnel. In reducing ministries nearly in half (from twenty-six to fifteen, and then sixteen), the Kremlin created a new category, by the name of Service (*sluzhba*), which appears to be a ministry under a different name. It also bears recalling that past "administrative reforms" fill colossal volume in the historical archives, even

more space than is occupied by draft democratic Constitutions, which in Russia also never came to be. Andrew Jack, one of the few foreign journalists to report on the state makeover, wrote that “one agency head told me four months after the changes that he was unable to do anything,” waiting upon “a prime ministerial decree to authorize the official abbreviation of his new organization.”<sup>26</sup> Quaint. But one would have preferred to know the current prices for buying these revenue-generating bureaucratic positions.

The government can scarcely avoid admitting morass. “I have spoken to many people who work in ministries and they say: you know, we have no idea what is going on,” remarked one television journalist while interviewing Finance Minister Aleksei Kudrin. The journalist added, “Earlier when Dmitry Kozak was in charge of the reform, there was some hope that the reform would be continued.” Kudrin replied: “At the moment [September 2004] it is too early to say that the reform has come to a standstill. The reform is certainly going through hard times; mistakes are certainly being made.” As an example of what they were trying to accomplish, Kudrin noted that state agents billed the targets of their inspections for their work. “The system was designed that way,” he said. “They were financed at the expense of the entities they inspected.” The incentives were to “fine” and collect for the state or oneself. But now the agencies’ funding was to come from the federal budget.<sup>27</sup> (If honest government is the goal, why not open government purchasing to public bidding, with unfettered access guaranteed by computerization, as was done in, of all places, Kazakhstan?<sup>28</sup>) Meanwhile, a proposed tax amnesty and other pending measures have sunk in the administrative quicksand.<sup>29</sup>

It would be erroneous to assume little is happening. Under Putin, major funding jumps have been granted to the interior ministry as well as the Russian Federal Security Service (FSB). The better-funded interior ministry announced staffing cuts of 20 percent but never specified whether these would come from central or field offices. Responsibility for crime was supposed to be turned over to local police forces, but such a transfer of power and budgets was potentially subverted by the proviso that federal jurisdiction persisted for “serious” crimes. The number of deputy ministers was to be cut from eleven (!) to three, and this evidently has served as the pretext, along with the perennial “struggle against corruption,” for a purge in the upper ranks (including regional heads) by an appointee from the rival FSB. The same cudgel (anti-corruption) has enabled a reduction in the regional authorities’ formal and informal control over the ministry’s

activities on their territories.<sup>30</sup> The interior ministry will retain its 200,000 internal order troops. Russia could use an army that size of qualified accountants and lawyers. Whereas the Soviet Union had three so-called power ministries, Russia counts fourteen, including the tax police. The tax police are nominally subordinated to the finance ministry, but they act autonomously—unless the Presidential Administration makes a concerted effort to reign them in.<sup>31</sup> Trying to foster dependence on the Kremlin grows out of real frustration, but for improving administration such an approach is ultimately a losing proposition.

## **Society**

“For some reason,” wrote the Ukrainian analyst Gregory Nemyria, “the question ‘Who is Mr. Putin?’ has gained much more attention in the West than the question ‘What is Russian society?’”<sup>32</sup>

As of the end of 2004, Russia’s population stood at 143.5 million people, a decline of some 5 million since 1991. That dropoff took place despite a net influx of more than 5.5 million migrants between the Soviet-era January 1989 census and the October 2002 population count. What’s more, high levels of immigration have been tapering off (there is debate about whether low birth rates and high death rates are now the norm). Let us not even recapitulate Russia’s AIDS epidemic. Russian society is shrinking and infirm, and it is disorganized. In all post-socialist countries, membership tends to be far lower than the world average, owing to mistrust of organizations and strong informal sociability. Society’s largest groups are pensioners and industrial workers. While the former expands, the latter has shrunk since 1991 from one-third to one-fifth of the workforce. Workers, too, live much better in St. Petersburg and Moscow (province), but also in Tyumen - fossil fuel wages exceed the industrial average by five times.<sup>33</sup> The size of Russia’s middle class is anybody’s guess: perhaps one-fifth or 30 million. But middle-class here means not so much professionals (though these exist) or small business owners (whose ranks are thin) as salaried types of the bureaucracy and corporations.<sup>34</sup> In Russia, the relationship of property and political power is still inverted: property owners cannot democratically remove state officials, and the state can summarily take away property.



*Re-Sovietization?*

Much of the dynamism in Russian society has been injected by protection rackets—the slang term is *krysha* or roof. Vadim Volkov, the Russian sociologist, calls them “violent entrepreneurs.” They first gained prominence as beefy sportsmen wearing tracksuits in the late 1980s and early 1990s, when the state was stolen or, in Marxist terms, withered away, and violence-managing agencies arose by providing services: debt collection and contract enforcement, to be sure, but also secure distribution of goods and services and even banking or loan functions. The cleverest acquired businesses, sometimes legitimately (in the Russian context), and cultivated regional executive bodies. Over time, some of the ferally thuggish lost out to smoother operators in this new lucrative sector of Russia’s market economy. Volkov shows that Russian businesses prefer to avoid formal mechanisms, like courts, and operate via personal relations.<sup>35</sup> Putin has sought to reassert the primacy of the formal state (rather than of individual officials) over the informal “roofs.” This reassertion has become a kind of license for individual officials to launch vendettas and expropriations. The rules of the game have become even murkier.

The Russian state is also in the social demobilization business. “Heads of local administrations gather people before elections,” one eyewitness said of Bashkortostan, “and say: If you don’t vote [a certain way] you won’t get your pension, will lose your job.” Indeed, local governments’ “demobilization” of their populaces has been one of the arguments in support of a strengthening of federal power at the region’s expense.<sup>36</sup> Already, reforms of 2002-2003 reversed the 1995 local self-government legislation (unevenly realized in the patchwork Federation) and subordinated local government to regional authorities through financial and institutional mechanisms. Now, republic level authorities and their bosses can both depress unwanted social mobilization. Moreover, the Kremlin can try to puppeteer it all. But society is exceedingly easier to depress than to activate. In November 2004, Perm hosted the “All-Russian Forum on Civil Society,” the third since Putin became President. The first, in Moscow in 2001, had more than 5,000 participants. Perm, a remote location for some, was boycotted by some organizations; only two ministers attended (Health and Social Development, Education and Science).

Retro Soviet-style authoritarian social mobilization attracts the Kremlin. Russia cashiered its Human Rights Commission, headed by the Gulag survivor Sergei Kovalev, in favor of a Council for Developing Civil Society Institutions and Human Rights. Sergei Karaganov, named to the new Council, asserted of civil society “without help from above it does not develop.”<sup>37</sup> Or it develops in ways the state regrets. Gleb Pavlovsky complained of Russia’s NGOs, “we have a hell of a lot of them—300,000 registered organizations. Where are these 300,000 paralytics? They travel to America (all expenses paid) and condemn ‘Putin’s authoritarianism’ there.” Actually, only an estimated fifth of that total function, and yet they provide up to 1 million jobs and free services to perhaps 20 million people.<sup>38</sup> Never mind. Caught out in Georgia and Ukraine, Russian officials want to *imitate* the West. The Foreign Minister called for “greater dialogue with public organizations in the CIS. Russian civic structures could play a variety of roles in the CIS, such as observing elections, using people’s diplomacy in conflict resolution, defending our compatriots’ rights and helping migrants from the CIS to settle in Russia.”<sup>39</sup> But a Soviet style approach to civic structures will yield Soviet style results.

### *De-Sovietization?*

Some 15 million inhabitants of Russia qualify for pensions (the state’s figures keep being adjusted upwards). But the total population of recipients of social spending falls between 30 and 40 million, including 14-15 million war veterans and invalids (on federal rolls) and 19-20 million labor veterans, homefront veterans, and victims of repression (on regional rolls). They have come to expect free mass transit, subsidized medicines, near free electricity and heating, phone discounts, and subsidized sanatoria. But wait—another 4.5 million servicemen and civilians in militarized ministries and around 7 million public sector employees receive social benefits, too. The Soviet system of social spending has endured all these years! But Russia adopted a pension and entitlements reform, which was implemented (sort of) starting in late December, to shift from in-kind benefits to a cash system—monetarization. But cash allotments did not match the value of in-kind benefits. Some benefits were lost altogether: military officers can no longer obtain discounted mortgages or free plots of land to build country houses on, and their families lost the right to free medical care in military clinics. (Not everyone was to lose in-kind benefits:

federal officials and parliamentarians would continue to get cars and drivers, apartments, dachas, access to better health clinics, as well as cash.)

One aim seems to have been to curb social spending since social taxes were being slashed from 35.6 percent to 26 percent. Another goal was rationalization: benefits overlapped and were overseen by multiple agencies, each with different data on eligible and recipient populations. But mainly, Russia was finally going to kill off Soviet welfarism—some inhabitants have been receiving benefits for more than half a century—by replacing dependency with personal responsibility. Russians have been allowed private savings plans for retirement, that is, a portion of the payroll tax can be transferred from the State Pension Fund to individual accounts, creating big pools for investment if individuals elect privately operated funds (which only 2 percent do).<sup>40</sup> Still, for those born beginning in 1967, pensions are now to be calculated in accordance with wages, creating incentives to strive and earn more. This is, inevitably, cast as a struggle against corruption. “Keeping the old system of benefits for people who need state support would also have been impracticable because great sums were allocated but did not reach the people in full,” Putin said at the December press conference. He added, without specifics, “more than half is stolen.”<sup>41</sup> But some feared the cash would be wiped out by robbery or inflation (pensions were supposed to be indexed), and that cash for transit would be “drunk” (during the 1990s privatization vouchers were sometimes sold for a bottle).<sup>42</sup>

Russian WTO accession, it seems, is to be paid for by the vulnerable (rather than, say, a restructured Gazprom). “It is enough to make one tiny step in the wrong direction and millions of people will suffer,” Putin, the unwitting clairvoyant, said at the December press conference. In fact, allocated funds have not yet reached their destinations, while local authorities are not in a hurry to implement monetarization. The authorities botched their squeeze on the millions who are barely above the low poverty line and use the free transit to survive by peddling their homegrown vegetables at subway and bus stops.<sup>43</sup> When pensioners—who include police officers as well as nuclear scientists, not just babushkas—unexpectedly protested, the government was so flummoxed it beat a retreat. Finance Minister Kudrin (not the prime minister) announced that the cost of passes for all means of mass transit would be lowered to coincide with the amount of the cash benefit. (The federal government will pay only 30 percent of the shortfall between regular

and reduced cost passes and just for those beneficiaries on the federal list; regional governments will be saddled with the rest). Above all, Kudrin promised to accelerate and double planned increases in pensions. The authorities were lucky to have windfall oil revenues in the so-called Stabilization Fund—to stabilize incompetent government!<sup>44</sup> Meanwhile, similar proposals are pending to deepen commercialization of health care, education, and housing, affecting the entire population, even as the confused administrative reforms have caused the government to leave hanging the talks on WTO accession.<sup>45</sup>

### *Ownership Society?*

With all the ranting about privatization, it must have been a shock when Sergei Stepashin, chair of Russia's Audit Commission, said in January 2005, "70 per cent of national assets have not yet been privatized. These include mineral resources, land and energy resources."<sup>46</sup> The Russian state (in its various central and local guises) still owns nearly 10,000 so-called unitary enterprises and nearly 4,000 joint stock companies. In summer 2004, the Kremlin is said to have placed companies on a list that the government cannot privatize but the Presidential Administration can. The mysterious list was said at that time to contain more than 500 firms in each category, some scheduled for privatization in 2005 (e.g., Vneshtorgbank, again).<sup>47</sup> Who knows what will be sold? Ownership in today's Russia, an eloquent tribute to Gogol, entails virtuoso ingenuity and ambiguity.<sup>48</sup> Still, it is conspicuous that the renationalization of Yukos has so far not taken place, thanks partly to a Houston court as well as London financial houses. It is also telling that during the escapade ConocoPhillips was allowed to acquire 7.59 percent of the LUKoil shares still held by the state and to buy an additional 2.4 percent on the stock market, thereby obtaining a 10 percent foreign stake in LUKoil. In September 2004, France's Total signed a protocol to purchase a 25 percent stake in Novatek, the first major foreign investment in an independent Russian gas company (Russia's largest gas independent, but still a minor player compared with Gazprom).<sup>49</sup>

Less well covered was the "sale" (also predetermined) of the final 17.8 percent stake in the Magnitogorsk Metallurgical Combine (MMK). These shares were bought at "auction" on December 22, 2004, by a front for management for the \$790 million opening price in a two-

minute process. A minority shareholder, Mechel, Russia's fifth largest steelmaker, which had launched an IPO in New York, claimed it was ready to pay more than \$2 billion, but the day before the MMK sale, Mechel sold its existing 16.5 percent share in MMK to management for \$780 million, receiving a \$90 million premium for waiving all claims over unpaid dividends. In the months prior to the MMK auction, the Interior Ministry raided Mechel offices, seizing documents from the group's marketing arm—an act that a Mechel spokesperson said was designed “to prevent the participation of Mechel in the privatization auction.” The combined sales of the state packet and of Mechel's shares gave MMK management a 96 percent “direct and indirect” stake in MMK.<sup>50</sup> At least no one was killed. Russia's world-class murder rate peaked in 2002, but property disputes can still turn violent, a primitive yet unmistakable demonstration of value.<sup>51</sup>

Privatization in Russia may have a long way to go, but access to property remains narrow. The country still has no banking system, or rather, its banks do not bank. They seek rents and allocate credit by political criteria. Whatever benefits Russia's banks bring to certain institutions and people, they are irrelevant to its economy.<sup>52</sup> Soviet legacies weigh heavily here too since the non-financial sector is long accustomed to functioning without intermediary institutions acting commercially. Between 1999 and 2004, Russian capital markets raised only \$200 million in just four equity offerings. GDP more than doubled in that period—doing so almost without an increase in the ratio of money created by the financial system (measured against the Central Bank's base availability).

Corporate bonds did raise nearly \$10 billion in the same interval. And in 2004 Russia established a Federal Service (*Sluzhba*) for Financial Markets, but as Bernard Sucher of Alfa Bank wrote in September 2004, “when Russian firms have real business to do, they do it in New York or London.”<sup>53</sup> Nobody seems to need a financial system and capital markets except the country's would-be entrepreneurs. Meanwhile, deposit insurance was created in spring 2004 for accounts up to 100,000 rubles or about \$3300—which naturally caused a bank run. The state's Sberbank, offering negative real rates, still claims 70 percent of domestic deposits, and these are a fraction of people's savings. It is, above all, *newly created* private business that propels societal transformation.

## Looking Glass

Russia is a question mark. Andrei Illarionov, the President's nominal economic advisor, has highlighted the significantly higher growth rates in Kazakhstan and Ukraine, as well as the democratic breakthrough in Ukraine, which cannot be quarantined. But the stunning point of comparison may be the opening up of an EU membership track for Turkey. The Turks in Europe! Before Russia! At the same time, China has proved to be dramatically better than Russia at combining authoritarianism and economic boom, while attaining strategic independence. Whereas China is attuned to the national security centrality of higher education, revamping institutions and sending some of their best and brightest abroad, after which many return, Russia has lost an estimated 800,000 already trained scientists over the last ten years to emigration, and the outflow continues. Those who have stayed behind are older, and younger replacements are few.<sup>54</sup> Russian rulers' failure during the sustained bonanza of high oil prices to invest liberally in education—Soros donated the Internet to Russian universities and stands accused of subversion—testifies to the country's misdirection. That misdirection will likely continue.

Imperial sulk and delusion are the root problems. Russian elites rejected the offer of a (very) junior partner to the U.S. and NATO, which is their right, but in favor of “strategic independence,” which is a mirage (not the jetfighter, but the hallucination). Russia maintains bases in every CIS country even though, as Pavel Baev notes, “the Russian military has deteriorated so badly that instead of providing security, it has become a major source of insecurity for the state it is supposed to protect.”<sup>55</sup> Many Russian officials suspect “the West” of pushing terrorists Russia's way. They also accuse the West of using Viktor Yushchenko as a Trojan horse to move Ukraine into NATO and to displace the Russian “fleet” at Sevastopol.<sup>56</sup> (No mention made of the will of the Ukrainian people.)

Hydrocarbons fuel new imperial fantasies. “Russia is rapidly moving to become an energy superpower in the near future,” boasted Andrei Kokoshin, chairman of the State Duma Committee for the (non-functioning) CIS and for Contacts with Compatriots, in January 2005.<sup>57</sup> But he neglected to outline the investment strategy, with likely financing sources, to explore and develop new fields. And by the way, Russian oil reserves are again supposed to be a state

secret!<sup>58</sup> There is some hope for Russian energy flows to East Asia and to a lesser extent to North America. But Russia has not yet figured out what it wants in relations with China and Japan, or the United States, let alone the coherent policies that would be necessary to achieve a thought-through vision.

Domestically, President Putin portrays himself as correcting both the thievery abetted by the pro-market right (oligarch creation) and the exorbitant obligations of the Communist left (“corrupt” welfarism). The first battle necessitates expanded state involvement; the second, reduced. Thus, Putin uses both the rhetoric of a stronger state and of a curtailed one, as if its powers will increase and its burdens decrease. “Overall, I am ready to share a smile with those of you who hoped for great and radical change and have not seen this great and radical change take place,” Putin said at the December 2004 press conference. “But let’s take an objective look at the situation. Over a very long period in its history our country existed and developed as a super-bureaucratic economy and state where officials gave themselves the right to decide everything for everyone. This became part of life not just in the minds of the officials themselves but in the minds of the people in general, even those who had nothing to do with the bureaucracy. Everyone became accustomed to waiting for the bosses to make the decisions.” As Gogol wrote in the 1836 *Inspector General*, in which the governor insists to Khlestakov that the officer’s widow “flogged herself,” “it’s no use to blame the looking glass if your face is awry.”

German Chancellor Gerhard Schroeder stood in front of Auschwitz on the 60<sup>th</sup> anniversary of the camp’s liberation expressing shame for “the evil of Nazi ideology.” President Putin attended—Soviet troops, after all, liberated Auschwitz. No one liberated the Gulag. Putin, the KGB veteran, will not stand in front of one of the big Soviet camps and apologize. In a way, Russia, too, lost the Second World War, even if the consequences of Moscow’s failure to abandon dictatorship and a state economy, as happened in Germany and Japan, became fully apparent in Russia’s case only half a century later. Much of the Russian elite refuse to accept this historical defeat, preferring to wallow in conspiracies as the cause of their superpower’s demise. They seem to believe that Russia actually merits a place in the G-8. The quagmire is immensely bigger than Putin and seems destined to outlast him, but that, too, is a question mark. “Of course, I am thinking about my life after 2008,” Putin said at the December 2004 press conference. “But I am,

certainly, not considering standing for the high position of the President of the Russian Federation in 2012, 2016 or even later. However, I am thinking about how we will pass the critical line of 2008. It will be a kind of milestone for the country. We must do everything to ensure democratic presidential elections.”<sup>59</sup>

We shall see.

<sup>1</sup> Thanks to Steven Solnick for criticisms and suggestions.

<sup>2</sup> The exact number of hostage takers remains a mystery. This incident followed the seizure of a theater in Moscow by more than forty hostage takers in October 2002, and revelations that people freely scalped plane tickets at Domodedovo airport, whence two flights were blown up.

<sup>3</sup> The best book on the subject is that by the veteran Red Star correspondent: Alexander Golt, *Armii Rossii: 11 poteriannykh let* (Moscow: Zakharov, 2004). Also valuable is Steven E. Miller and Dmitri Trenin (eds.), *The Russian Military: Power and Policy* (Cambridge, MA: MIT, 2004). Anne C. Aldis and Roger N. McDermott (eds.), *Russian Military Reform, 1992-2002* (Portland, OR: Frank Cass, 2003) contains uneven essays underscoring the persistence of a Soviet-era mindset. On the rot during the Soviet period, see V.L. Bersenev et al. (eds.), *Voennaia reforma v Rossii: istoriia i sovremennost'. Doklady Vserossiiskoi nauchnoi konferentsii (23-24 noiabria 2002)* (Ekaterinburg: Izd-vo Gumanitarnogo universiteta, 2002).

<sup>4</sup> Yuri Shevts in *Izvestiia*, 2003, cited in Andrew Jack, *Putin's Russia* (New York: Oxford, 2004), 65-6.

<sup>5</sup> Reading the Russian Environmental Digest ([www.teia.org](http://www.teia.org)) is singularly depressing: the near death of the formerly bioresource-abundant Sea of Azov, dynamited to oblivion by fish mafia colluding with authorities; the Volga River, a repository for Mendeleev's complete "periodic table of elements," as untreated industrial waste is euphemistically known, while bureaucrats "protect" the environment with all manner of "environmental" taxes, and some officials impose still more on the spot during unscheduled "inspections." If tax breaks were introduced as incentives for firms to clean up their acts, these would invariably be misused, becoming devices for the polluting to earn still higher revenues for their dirty work.

<sup>6</sup> Alfred Rieber (ed.), *The Politics of Autocracy: Letters of Alexander II to Prince A. I. Bariatinskii, 1857-1864* (Paris: Mouton, 1966); Idem., "Alexander II – A Revisionist View," *Journal of Modern History*, 43/1 (1971), 42-58.

<sup>7</sup> On this point, see P.N. Miliukov, *Ocherki po istorii Russkoi kultury* (St. Petersburg, 1904), I: 145-9.

<sup>8</sup> On the continuing resonance in the culture of the KGB, see Peter Finn, "In Russia, a Pop Culture Coup for the KGB," *Washington Post*, 22 February 2005.

<sup>9</sup> As Soviet-style socialism disintegrated in Poland what remained at the end under a general's rule (Jaruzelski) was the military, the Zomo, and the interior ministry; these were the only portfolios given to the dying regime by the first Solidarity-formed government.

<sup>10</sup> As Kudrin remarked of the Kremlin power grab vis-à-vis regions, "resolving issues aimed at Russia's disintegration, at enhancing the quality of governing regions. . . does not mean that we have turned off the course of economic reforms or cut them down." BBC Monitoring 19 September 2004 (the most important parts of Kudrin's remarks, on dogfights among state agencies amid the reorganization, were omitted). Also quoted, with different translation, by Reuters, 19 September 2004.

<sup>11</sup> The *enfant terrible* Presidential Economic Advisor Andrei Illarionov noted early (in mid-2003) that the arrest of Platon Lebedev, CEO of Menatep (parent of Yukos), was opening a "Pandora's box." (The box was opened with accusations of nonpayment for the phosphate giant Appatit, but soon the authorities' appetite grew.) By December 2004, Illarionov called the "sale" of Yukos' main subsidiary to the phantom BaikalFinans the "swindle of the year," and underscored "the extremely incompetent state intervention in economic policy."

<sup>12</sup> At a January 2005 meeting of the Coordination Council of Business Unions, Anatolii Chubais, head of United Energy Systems, Russia's utility monopoly and largest employer, told Prime Minister Fradkov that relations between the government and business were "disastrous," and he blamed the government. Others such as Alexei Mordashov of the giant Severstal made pointed criticisms.

<sup>13</sup> The most important development was that Dmitri Kozak, deputy head of the Presidential Administration and a key counter to *siloviki* influence, was rewarded for his exceptional ability and loyalty with a posting to the black



hole of the North Caucasus. This shows how sapping is that problem, and how few people of genuine competence Putin can call upon. Marianna Belenkaya, “Kozak Takes on the Caucasus,” [www.russiaprofile.org](http://www.russiaprofile.org), 18 January 2005.

<sup>14</sup> The latest incarnation of the party of power, the amorphous United Russia, claims nearly 400,000 registrants. The centrist People’s Party has some 120,000, and the Communists 100,000, though the latter has been split recently, and each new entity may struggle to qualify. The four others barely above the threshold are the Party of Life (the creature of Sergei Mironov, the Federation Council Speaker), Russia’s Renaissance (headed by former Communist leader and former Duma Speaker Gennadi Seleznev), the Party of Russian Pensioners, and Yabloko. Some of these latter four are good at attracting signatures, but bad at attracting votes. Below 50,000 are the Agrarian Party, the Liberal-Democratic Party [sic] of Zhirinovskiy, and the Union of Right Forces (pro-market). Homeland (Rodina) is good at vote-getting but only halfway to the membership goal.

<sup>15</sup> BBC monitoring, 30 September 2004; and *Argumenty i fakty*, no. 46, November 2004. Surkov has also included journalists in the Fifth Column. RFE/RL Russian Political Weekly, 5/1, 12 January 2005.

<sup>16</sup> The Constitution was adopted by referendum, but according to his press secretary Yeltsin altered the “yes” vote from just over 50 percent to 60 percent with a flick of his pen.

<sup>17</sup> [www.kremlin.ru](http://www.kremlin.ru) (23 December 2004), posted in an English translation on Johnson’s Russia List, #8515, 23 December 2004. It is instructive to compare these remarks with Putin’s yearly message to the Federation Council in spring 2001: [www.president.kremlin.ru](http://www.president.kremlin.ru) (3 April 2001).

<sup>18</sup> The center-region relationship is far from settled. Russia’s regions have almost no authority specified in the Constitution (only that which remains after the specified powers of the center). Thus, Russia has the potential to be federal or unitary. In the 1990s, regions had de facto autonomy. Kathryn Stoner-Weiss, “Central Weakness and Regional Autonomy: Observations on the Devolution Process in Russia,” *Post-Soviet Affairs*, 15/1 (1999), 87-106.

<sup>19</sup> RIA Novosti, 15 October 2004.

<sup>20</sup> We can follow events in Komi because it has had a lively local press. Russian Regional Report (RRR), 9/25 (17 December 2004), [www.isn.ethz.ch/news/rrr](http://www.isn.ethz.ch/news/rrr). See also J. Paul Goode, “The Push for Regional Enlargement in Putin’s Russia,” *Post-Soviet Affairs*, 20/3 (2004), 219-57.

<sup>21</sup> [www.kremlin.ru](http://www.kremlin.ru) (23 December 2004). Kozak, who drafted the reforms before his relocation to the Southern Federal District in Rostov-na-Donu, distanced himself from their progress, commenting that “courts are like business ventures nowadays. Major companies are even trying to infiltrate the system and install their own representatives.” *Vremya novostei*, 28 January 2005 ([www.wps.ru/e\\_index.html](http://www.wps.ru/e_index.html)).

<sup>22</sup> *Wall Street Journal*, 20 November 2001.

<sup>23</sup> Alexander Chernov of Krasnodar Regional Court: *Moscow Times*, 20 March 2002.

<sup>24</sup> *Moscow Times*, 6 October 2004; *St. Petersburg Times* 28 December 2004. These complaints were first heard on the radio program Ekho Moskvy, and picked up by English language newspapers. On Ekho Moskvy, perhaps the most important media outlet in Russia, and the Russian media business generally, see *Kommersant vlast*, 9 August 2004.

<sup>25</sup> Russian Regional Report, 10/2 (24 January 2005). [www.isn.ethz.ch/news/rrr](http://www.isn.ethz.ch/news/rrr).

<sup>26</sup> Jack, *Putin’s Russia*, 344.

<sup>27</sup> BBC Monitoring 19 September 2004 (the most important part of Kudrin’s remarks, the dogfights among state agencies amid the confusion of reorganization, was omitted). Also quoted, with different translation, by Reuters, 19 September 2004.

<sup>28</sup> Russia’s new laws aimed at “de-bureaucratization” – simplifying the registration of new businesses, reducing the number of necessary licenses, and curtailing pretenses for state inspections – appear to be undergoing uneven implementation, though the evidence is anecdotal.

<sup>29</sup> Between December 2003 and October 2004, according to Igor Nikolaev of the FBK Co., administrative officeholders in Russia increased by 25 percent. *Izvestiia*, 16 March 2004.

<sup>30</sup> *Moscow Times*, 9 August 2004.

<sup>31</sup> For a shrewd analysis of the tax police and Vimpelcom: Peter Lavelle of UPI, Johnson’s Russia List, #8492, 10 December 2004.

<sup>32</sup> Hryhoriy Nemyria, “Civil Society in Russia,” in Janusz Bugajski (ed.), *Toward an Understanding of Russia: New European Perspectives* (New York: Council on Foreign Relations, 2002), 14-26. See also Petr Kopecky, *Uncivil Society? Contentious Politics in post-Communist Europe* (London: Routledge, 2003).

<sup>33</sup> Marlen Insarov, “O prichinakh passivnosti proletariata,” in *Na smenu marksizmu i anarkhizmu* (Gruppa proletarskikh revolyutsionerov-kollektivistov, 2004), 198-286, translated in JRL, #8920, December 2004.

<sup>34</sup> *Novye Izvestiia*, 4 March 2005; Peter Rutland, “Russia’s Small Business: Staying Small,” *Jamestown Foundation Eurasia Daily Monitor*, 15 March 2005.

<sup>35</sup> Vadim Volkov, *Violent Entrepreneurs: the Use of Force in the Making of Russian Capitalism* (Ithaca, NY: Cornell, 2002).

<sup>36</sup> Tomila Lankina, *Governing the Locals: Local Self-Government and Ethnic Mobilization in Russia* (Lanham, MD.: Rowman and Littlefield, 2004), at xi.

<sup>37</sup> Yuri Levada, also invited to join, told the same reporter, “I still do not know if I my work can be useful for the Council or not,” since “civil society is not organized by the government, president, or king.” *Moscow Times*, 11 November 2004. Of the proposed new “Civic Chamber,” comprising 126 members to be responsible for “coordinating” the interests of citizens and state agencies, Sergey Buntman told Ekho Moskvyy radio on 4 January 2005, it “is a very strange organization. This form of representation whereby the country's most respected people are represented in a body which discusses problems and takes decisions is normally called parliament.”

<sup>38</sup> *Izvestiia*, 17 August 2004 and 21 November 2001. “Many non-governmental organizations exist on foreign grants,” Putin said a few years back. “It does not give us dignity, our civil society should be developed on its own base.” Quoted in Nemyria, 21-22, citing [www.strana.ru/print/992355479.html](http://www.strana.ru/print/992355479.html).

<sup>39</sup> ITAR-TASS, Petrozavodsk, 18 January.

<sup>40</sup> Bernard Sucher, “On Russia’s Pension Reform,” January 2005, circulated by e-mail.

<sup>41</sup> Putin also predicted that sanatoria, forced to deal directly with individuals getting cash benefits to spend, “would lower their prices and improve service. They want to retain these people as potential customers.” [www.kremlin.ru](http://www.kremlin.ru) (December 23, 2004).

<sup>42</sup> Simon Clarke examined four large data sets to ascertain how Russians manage to survive – moonlighting, household plots, family help? – and concluded none of the above. The answer could well be all of the above, combined with the modest entitlements. Clarke, *Making Ends Meet in Contemporary Russia: Secondary Employment, Subsidiary Agriculture and Social Networks* (Northampton, MA: Edward Elgar, 2002).

<sup>43</sup> Inevitably, one also recalls Soviet Prime Minister Valentin Pavlov's 1991 monetary reform, which as implemented was a chaotic, trust-destroying confiscation, and was quickly undone, leaving the damage intact but none of the benefit.

<sup>44</sup> In March, the Russian Finance Minister announced that the price threshold per barrel of oil after which export duties and tax are contributed to the special stabilization fund will rise from \$20 per barrel to \$23, diverting some oil money back into the federal budget. AP, 14 March 2005.

<sup>45</sup> For the economic effects of continued subsidies for utilities, housing, education, and medicine, see Paul R. Gregory and Valery Lazarev, “Structural Change in Russian Transition,” Yale University, Economic Growth Center, Discussion paper no. 896 (October 2004): [www.econ.yale.edu/growth\\_pdf/cdp896.pdf](http://www.econ.yale.edu/growth_pdf/cdp896.pdf). The authors conclude that “international comparisons show that Russia is becoming increasingly similar in terms of sector-of-origin structure to upper-middle and to the lower tier of high-income countries (such as Greece, Portugal, Cyprus, and South Korea) despite the fact that Russian per capita GDP is well below these groups. However, the structure of manufacturing still bears the strong imprint of initial Soviet conditions. Russia’s industrial structure is not consistent with its income level, resembling the structure of high-income countries, a fact that works against successful restructuring. . . . The Russian pattern of consumption . . . has moved from being an over-investor and under-consumer to an over-consumer and under-investor. . . . Patterns of household consumption behave even more erratically with domestic prices deviating significantly from international prices. If anything, Russian household consumption resembles the pattern of lower-middle and upper-middle income countries, but changes have been erratic. The apparent culprit is the lack of price reform in housing, education, medicine, and utilities, which means that Russian households are still operating under a system of non-scarcity prices.”

<sup>46</sup> ITAR-TASS, Moscow, 18 January 2005. Also available in Russian at <http://www.ach.gov.ru/news>. Sergei Stephasin, head of the Audit Chamber (and Putin’s ill-fated immediate predecessor as prime minister under Yeltsin), lent his hand to the exertion of greater presidential authority over this important institution.

<sup>47</sup> *Vremya novostei*, 6 August 2004 ([www.wps.ru/e\\_index.html](http://www.wps.ru/e_index.html)).

<sup>48</sup> The sale of a 75 percent stake in the oil company Slavneft in December 2002, which went to TNK and Sibneft for \$1.86 billion, was supposed to have been a showcase of a new approach, but the “auction” was prearranged and took five minutes. Andrew Jack, *Putin’s Russia*, 200-3.

<sup>49</sup> As of mid-March 2005, Russian authorities had not approved the deal; in the meantime, Novatek has begun to ask for a higher price above what it had agreed with Total. *Moscow Times*, 14 March 2005.

<sup>50</sup> According to [www.mmk.ru](http://www.mmk.ru). The story was picked up by AP, 22 December 2004; *Moscow Times*, 23 December 2004; and *St. Petersburg Times*, 10 December 2004.

<sup>51</sup> In the North Caucasus region of Karachaevo-Cherkess, more than 200 people have been murdered and another 500 have disappeared during the last five years – a per capita murder rate (for 450,000 population) roughly

equivalent to America's most dangerous place, Camden, New Jersey. Seven bodies were found inside the house of the son-in-law of the autonomous republic's president, evidently after they arrived to adjudicate a property dispute. Then, the republic's deputy prime minister responsible for law enforcement was violently assassinated. The struggle appeared to be over the local cement factory, where the republic president had located his campaign headquarters, and which was partly owned by his son-in-law. RRR, 9/21 (5 November 2004): [www.isn.ethz.ch/news/rrr](http://www.isn.ethz.ch/news/rrr).

<sup>52</sup> William Thompson, "The Present and Future of Banking Reform," in David Lane (ed.), *Russian Banking: Evolution, Problems, and Prospects* (Cheltenham, UK: Edward Elgar, 2002), 56-79.

<sup>53</sup> Bernard Sucher, "Toward Russian Capital Markets," 24 September 2004, received via e-mail. Sucher argues that Russia needs lower financing costs for new and expanding domestic companies – the kind of companies that increase employment and the tax base – but that the State is unlikely to achieve this. Thus, he suggests the seven dominant investment houses in Moscow, which employ 2,000 people and generate an estimated \$1 billion annual revenue, do it themselves. In Sucher's mind, establishing and paying for good regulation, to squeeze out the rampant non-transparent, favoritism in trades and account management, is everyone's key to growth and profitability – in the long term.

<sup>54</sup> NTV Mir, Moscow, 23 January 2005, BBC Monitoring.

<sup>55</sup> Pavel K. Baev, "The Trajectory of the Russian Military: Downsizing, Degeneration, and Defeat," *The Russian Military*, 43-72, at 43. "Along with many others, I have been calling for meaningful military reform for more than a decade," wrote the independent analyst Pavel Felgenhauer during Ukraine's Orange Revolution. "But it now seems to me that we're very lucky the Kremlin never heeded this advice, leaving our unreformed military totally incapable of carrying out Putin's dream of restoring empire."

<sup>56</sup> In New York in January 2005, Defense Minister Sergei Ivanov said, "We shall continue to respond sharply to the export of revolutions to CIS countries, regardless of the colors they hide behind – rose pink, blue, or any other color." [www.wps.ru/e\\_index.html](http://www.wps.ru/e_index.html). Respond how?

<sup>57</sup> "We are facing a restoration of the Russian empire," the former head of Polish intelligence, Zbigniew Siemiatkowski, warned the Sejm in October 2004, "through economic means and by the principle of 'yesterday tanks, today oil [and gas]'. As cited in Roman Kupchinsky, "The Shaky Gazprom Empire," *RFE/RL Political Weekly*, 4/47 (9 December 2004). China and Japan, competing for the new Asian pipeline from Eastern Siberia, can only be jealous of Poland's (and Germany's and Italy's) reliance on Russia for energy, which Russia of course still needs to develop. In 1999, Putin wrote a paper about raw materials serving as the basis for Russia becoming an economic superpower. Jack, *Putin's Russia*, 78.

<sup>58</sup> In the 1990s, Russian oil companies had their reserves audited by international engineering companies, to attract foreign investors, so the basic facts are known (although reserves in the "undistributed fund" remain mysterious). But under Putin, the government issued a regulation specifying that strategic mineral reserves constitute a state secret, and oil was number one on that list.

<sup>59</sup> [www.kremlin.ru](http://www.kremlin.ru). (23 December 2004).