

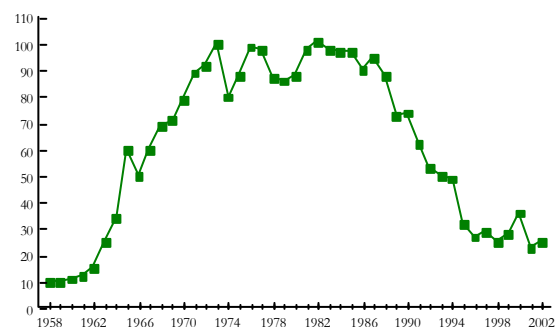
## A PAUSE IN RUSSIA'S REFORM PROCESS?

Twenty years after the beginnings of the metamorphosis of Russia, its society remains deeply divided. Personal freedoms have been largely acquired but the conversion to a market economy has led to the pauperisation of a large part of the population as well as a widespread feeling that public order has collapsed. Vladimir Putin's regime is seeking a synthesis which reconciles liberalism with an attachment, still lively, to certain Soviet values. On the domestic political scene, this synthesis involves re-establishing public order while guaranteeing freedoms. But in the face of problems with setting up an efficient public administration, Vladimir Putin has concentrated above all on political order, attacking the counter-veiling powers of regional bosses, the Parliament and Russia's big-time capitalists. Arbitrary tactics have been employed against the "oligarchs", which are damaging to the freedom of expression and the investment climate. This constitutes a step backwards for the spirit of freedom which has characterised Russia's reforms since Gorbachev. Does this herald a pause in the reform process?

The first point to remember about Russia is the incredible metamorphosis the country has experienced over the last twenty years. This has been influenced by its intellectual and then political elites, arguing for the USSR's re-integration into the world after the end of the Stalinist era. The best known aspect of this metamorphosis is geopolitical: the scuppering/collapse of the Soviet empire as a global power and antagonist of the Western camp. The bell-shaped curve of the USSR/Russia's space activities, which are often considered as representative of military-industrial capabilities (see Graph 1), is one possible illustration of this fall of empire. The second, more controversial metamorphosis of Russia is systemic. The reforming intelligentsia has been able to convince the Kremlin that the country would not really be able to open itself to the modernising influences of the West without becoming organically compatible with the latter, without ultimately moving towards a market democracy. Current political affairs at the end of 2003 confirm the progress made in this direction: partnership with the West, the insolent emergence of large-scale Russian capitalism, the shopping-mall consumer boom, the proximity of free legislative and presidential elections, the attention paid to public opinion, and the furious criticisms made in the written press of actions by public authorities. This picture

also includes some darker aspects: the Yukos scandal, a managed democracy, the nearly complete control of State television, and the Chechen tragedy are all sufficiently important to merit further thought. These surges of authoritarianism however have nothing in common with the normal workings of the Soviet regime before the 1980s characterised by: the confrontational stance adopted in dealing with a large part of the world, the huge effort made to develop military prowess, centralised planning, the political monopoly of the Communist Party, and a society without a voice. Nor is the present authoritarianism the

Graph 1 - The launching of ballistic rockets by the USSR and Russia (1958-2002)



Source: National Centre for Space Studies.

first setback which the wave of reform sweeping Russia has known. On the contrary, warnings and pitfalls have been numerous. Indeed, they are hardly surprising given the force and permanency of conservative opposition to liberalisation.

This opposition has changed over time. Conservative communists managed to impose themselves on Mikhail Gorbachev, from November 1990 until the failed putsch of August 1991. “Social patriots” accused Boris Yeltsin of destroying the USSR’s core values –its international power, and the State as a guarantor of public order and a minimum material existence – throughout his period in office. In fact, a certain vision of Russia, based on honour, national dignity and patriotic discipline, has collided with a far more fluid, pragmatic and liberal view of the country. As each of these two sets of values is equally supported by public opinion, Russia remains balanced between its past and future.

## ■ A Divided Society

It may be surprising that Russian society remains divided after so many years. But its divisions can be explained fairly well.

Sociologists reckon that it takes at least two generations for mentalities to be fully renewed. From this point of view, Russia is scarcely half-way along the road to change. And this is Russia: a country deeply attached to its “exceptional” status. This helps explain the imperial nostalgia of the society as well as its ambiguous attitude to personal freedoms. A fairly recent poll conducted by the All Russian Centre of Public Opinion (VTsIOM) found that 43% of respondents were more or less willing to exchange freedom of expression and ability to travel abroad against good incomes. More or less opposing opinions were supported by 48% of those polled.

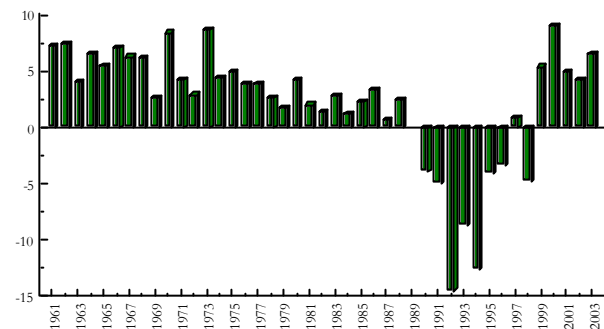
It must also be stressed that the reform process has run up against harsh economic realities. Even though it was buttressed by substantial military spending, Russian GDP at the end of the Soviet era was only able to provide the country’s citizens with a level of development that was clearly below that of the European Union (EU15) (see Table). The situation did not improve during the following decade. Quite the contrary, Russia experienced the longest depression in its history, since statistics have been kept (see Graph 2). This deep crisis in moving to a market economy lies at the origin of two main, popular disillusionments with the reform process.

Table – GDP per capita: an international comparison based on Purchasing Power Parities (in dollars, at 1995 prices)

	Russia in dollars	Russia/United States in %	Russia/EU 15 in %
1990	11 513	43.7	59.5
1991	10 904	42.1	57.3
1992	9 311	35.2	48.6
1993	8 510	31.7	44.8
1994	7 450	26.9	38.3
1995	7 150	25.4	36.0
1996	6 922	24.0	34.3
1997	7 004	23.5	34.0
1998	6 679	21.6	31.6
1999	7 059	22.2	32.6
2000	7 678	23.5	34.4
2001	8 091	24.9	35.8
2002	8 475	25.7	37.2
2003	9 026	26.9	39.0

Source: CEPII, the CHELEM database.

Graph 2 – Russian GDP from 1961 to 2003 (annual percentage change)



Sources: 1961-1988: A.N. Ponomarenko, “Retrospective Russian National Accounts: 1961-1990”, *Ekonomicheskiy Zhurnal Vysshei Shkoly ekonomiki*, Volume 5, No 2, 2001, p 256.

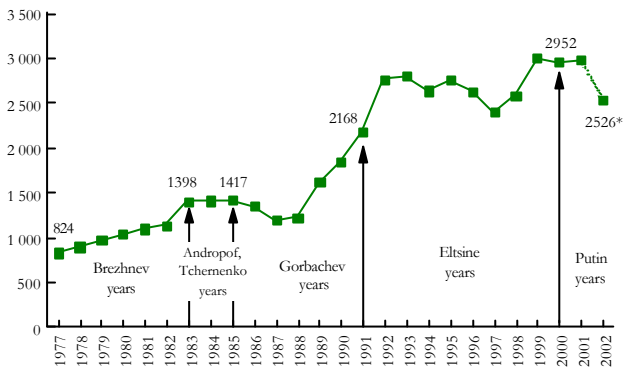
1989-2002: European Bank of Economic Reconstruction and Development, “Transition Report Update 2001”, and Ministry of Economic Development and Trade, “Results of socio-economic development in the Russian Federation, 2000-2002”, Moscow, February 2003.

2003: Forecasts by the Ministry of Economic Development and Trade, 18 November 2003.

President Yeltsin’s “social contract” held out the promise of exchanging power for liberty and for prosperity for a large middle class. But this exchange is now seen as a swindle. Personal freedoms – relating to information, the freedom to meet and personal movement etc. – have been largely acquired. But instead of prosperity, many Russians have often experienced pauperisation, the insulting wealth displayed by a fortunate few, and the grinding search for extra income which runs contrary to all the values about the dignity of work with which they were previously inculcated. The other disillusionment relates to the impact of the recession on public spending, and so on the capacity of the State to finance not only its economic, cultural and social activities, but also its more fundamental responsibility of protecting its citizens (defence, the police and the courts).

The rise of crime in Russia is much more about “ordinary” than “organised” felony, and is made up much more of petty than violent crimes. But the collapse of public order is one of the major grievances the population has regarding the liberalisation process (Graph 3).

Graph 3 - Total number of crimes and offences recorded, 1977-2002



\* According to the Russian Interior Ministry, the fall in the number of crimes and offences committed is due to the introduction of a new penal code, as of 1 July 2002. The code reclassifies “administrative offences” and theft not exceeding five times the minimum wage. Source: Ministry of the Interior (USSR, then Russia).

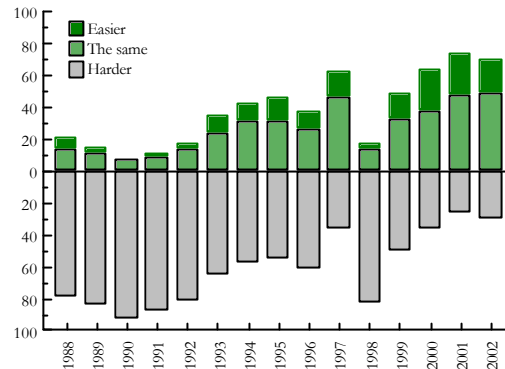
## The Putin Synthesis

The “Sovietism” which Russian sociology regrettably finds among its compatriots is tenacious: in 2003, as in 1994, 44% of those polled believed<sup>1</sup> that it would have been better for the country to have remained as it was in 1985! That said, a foreign policy in recent years that is both effective and clearly centred on national defence interests has provided material of some comfort to those nostalgic of lost power. Furthermore, good management of Russia’s oil wealth has strengthened growth, underpinned the budget, improved the monetisation of the economy. It has also restored the confidence of foreign lenders and has provided Russians with less reasons for being dissatisfied about their lot (Graph 4).

In domestic politics, the Putin years have brought about a re-composition of values, leading to more contrasting results. The post-Yeltsin electoral strategy for appealing to Russian society has sought to reconcile two visions of Russia that were previously dividing the country, by

bringing them together in a spirit of national revival. This new approach, which has been assigned the label of “consolidation”, represents a rehabilitation of certain Soviet values, as well as a phasing out of official propaganda in favour of liberal values. It may also be interpreted as a reaction that is not detached from a hankering for the past which has characterised public opinion.

Graph 4 - Change in daily life judged by public opinion: the percentage of answers to the question “How does this year, which is now coming to an end, compare with last year, for you and your family?”



Source: A regular survey conducted by the VTsIOM, between 1998 and 2002.

As long as the Putin synthesis only restored former symbols –the national anthem, the army’s Red Flag – it was doing little more than honouring the memory of the generations lost in the 20th century. But the present regime has become far more rash in announcing that it was ready to re-establish public order, so dear to conservatives, while at the same time guaranteeing the personal freedoms defended by the liberals. This twofold objective would appear to be unattainable without a compact, competent and reliable public administration. President Yelstin had called for this in his speech setting out his programme, on the 28 October 1991. But neither resources nor the priorities actually adopted during the 1990s permitted the creation of such an administration. Vladimir Putin has taken up the same idea: he has included “administrative reform” among the numerous structural reforms assigned to his government, and, for greater security, assigned to the Presidential Administration. But in the face of problems, the reform has remained on hold, being pushed back until after the presidential election in March 2004.

1. Interview with Boris Dubin in Moskovskie Novosti, 16-22 September 2003. He belongs to the VTsIOM-a (“a” standing for “analitika”), which was founded to protest against the decree of the 6 August 2003 that changed the status of the VTsIOM and expelled from its Board all the “historical” leaders, known for their independence.

Meanwhile, President Putin has fallen back on tactics which have long been part of Russian history. He is leaning on an elite in which he has confidence: in this case the Federal Security Bureau (FSB), which acquired all the powers of the former KGB in March 2003. Given its methods of intervention, this body of “untouchables” may be used not to re-establish public order (the results of the battle against crime are disappointing), but rather to re-establish political discipline. This is indeed an area in which the Putin team has obtained results acting against the three major centres of power under the Yeltsin administration, which quickly tried to set themselves up as counter-veiling powers. Various forms of legislative, regulatory and tax “sovereignty” by regional bosses have thus been brought to an end. The Parliament has been rendered far more docile, at the expense of democratic debate, though this has allowed the relatively easy passage through Parliament of the budget and structural reforms. Along with the public prosecutor’s office (Prokuratura), the forces of the FSB have been particularly active in moving against big-time Russian capitalists, in principle with the aim of teaching the latter where the boundaries between political power and economic independence lie. Indeed, the arbitrary methods used by law enforcement agencies have been especially harmful to free speech since 2002. With the present Khodorkovsky scandal, they have shown themselves to be harmful to “investment climate” in Russia, as they are associated with the idea of political risk to private property. Were the Kremlin to be more forthcoming in providing necessary information, then the markets and foreign governments would perfectly accept that the oil magnate broke the concordat agreed between the Putin regime and the “oligarchs”, the 28 July 2000, under which each party acts within its domain. Much

less excusable, however, are the arbitrary methods of the special forces and the parody of justice which have been deployed against employees of the Yukos company. They come on top of other signs of authoritarian backsliding - notably the pressure put on the media - and do indeed mark a reversal in the spirit of liberalism that has characterised Russian reforms since Gorbachev.

The particularity of the present backlash stems from the fact that its outdated reflex behaviour is shared by both the president and his entourage. The outlook therefore depends on Vladimir Putin’s ability to draw on his other major source of inspiration, namely economic pragmatism. It also depends, one would hope, on Russians expressing their attachment to personal freedoms at the next legislative and presidential elections.

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