

Russia Renewed?

By Daniel Treisman

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Another country

Is Vladimir Putin remaking Russia? To many, the country seems to have changed radically in the last few years. Under a young, energetic, sober, new president, its political system and economy have apparently settled into a long-sought stability. Dramatic reforms of the tax code, judiciary, federalism, and much else sail through parliament with hardly an amendment. Now seemingly anchored in the West, Russia is racing to join NATO and the WTO, while volunteering assistance in the fight against international terrorism. After three years of economic growth and a stock market boom, even foreign investors who left in dismay after the 1998 financial crisis are creeping back. Commentators, no longer complaining about anarchy and stagnation, now worry more that the new regime will go too far in the direction of centrally imposed order, crushing the fragile shoots of democracy in the process.

Attractive though this image of order and efficiency is in most respects, it is also quite misleading. Although real changes have occurred, they are less profound than it might seem. Much that looks at first glance new and different in Russia today is, on closer examination, either not very new or not very different. What *is* new—economic growth and high presidential

ratings—probably has more to do with the price of oil and other unpredictable economic factors than with the president’s policies or institutional reforms.

For nine years, some 150 million people inhabited a land known to journalists as “Yeltsin’s Russia”. In Yeltsin’s Russia, crises were a way of life. The economy lurched from one meltdown to the next, as prices soared and GDP collapsed. Widespread corruption stifled small firms, while a few, unscrupulous “oligarchs” concentrated capital in their hands and—in the popular imagination, at least—dangled the country’s political leaders from golden strings. Provincial governors threatened and bargained with the Kremlin while exploiting their regions like feudal fiefdoms. An alternately indecisive and headstrong president cultivated competing clans of courtiers, each with its own commercial interests and perspectives. An aggressively obstructionist parliament dominated by communists blocked any attempt at reform.

This all changed on January 1, 2000, with the appointment of Vladimir Putin as acting president—or so goes one popular version of events. (He was elected that March.) In “Putin’s Russia”, crises gave way to stability. The new president tamed both oligarchs and regional barons, and began replacing corrupt administration with “the dictatorship of law”. Fundamental economic reforms liberated entrepreneurial energy, sparking a rapid recovery. In parliament, the communists lost control to a centrist, pro-presidential coalition. Most significantly, the Russian public found a commander-in-chief who did not shrink from tough decisions, a leader it could both agree with and admire.

While there is some truth to this account, it also contains a large dose of political mythology. The paradox is that Putin’s Russia, although sporting a glossy new coat of paint, remains Yeltsin’s Russia underneath. In this, there is both good and bad news. The good news is that Yeltsin’s Russia was never quite as bad as people thought. The bad news is that Putin’s Russia is rather less stable and reformed than its supporters believe.

All in the family

One of Putin's declared goals was to break the system of oligarchical capitalism that had developed in Russia in the late 1990s. Politics, in the common view, had become dominated by a handful of tycoons. The cornerstone of this system was the so-called "family", a murky clique of officials and Yeltsin associates that bridged the gap between big business and power. Putin promised to "eliminate the oligarchs as a class" and to hold all businessmen at "an equal distance". His background as a St Petersburg outsider and FSB (former KGB) officer inspired hopes he would follow through on such promises.

Two-and-a-half years later, the "family" is as strong as ever. The chief-of-staff Putin inherited, Aleksandr Voloshin, is seen as the kingpin, while the prime minister, Mikhail Kasyanov, is viewed as favoring the clan's economic interests. They face challenges from the newer "St Petersburg" clan—an odd combination of FSB officers and liberal economists from the northern capital—but the latter have not wrenched control of the economic bureaucracy from the Muscovites. Putin maneuvers between the two clans in a manner reminiscent of Yeltsin. He has had some minor successes—for instance, injecting a new team of executives into the giant, semi-privatized, gas monopoly Gazprom, and slowing the disappearance of state assets elsewhere. Former Railways Minister Nikolai Aksenenko has been persuaded to resign. But the pace of change is glacial.

If under Putin the oligarchs are held "an equal distance from power", for some the distance is clearly "more equal" than for others. While a couple have been forced as far as London or the French Riviera, other new faces have emerged to fill their places. Oleg Deripaska, of Russian Aluminum, and Sergei Pugachev, of Mezhprombank, hold long, private conferences with Putin. Others visit in a group, under the leadership of their chief lobbyist, Arkady Volsky. Several major oligarchical businesses—Alfagroup, for instance—have managed to place former employees on the presidential staff.

In purely economic terms, the role of big business is growing. Capital is even more concentrated today than a few years ago. The top ten companies accounted for 57 percent of total

net profits in 1997, but 61 percent in 2000, the last year for which figures were available. The number of small enterprises is falling— by 48,000 in Putin’s first two years. Those small firms that survive face major barriers to growth, according to Pavel Teplukhin, president of the investment consultancy Troika Dialog Asset Management. As a result, the economy consists mostly of “a few financial-industrial groups and hundreds of thousands of kiosks”.

The main difference from the late Yeltsin period is that today oligarchs no longer brag about their influence or try to manipulate politics in a public way. This represents less a reduction in their influence than an institutionalization of it. Spheres of interest have been divided between the large corporate groups, and the war of all against all is largely over. Instead of fighting for resources in the political arena, the tycoons now lobby for them quietly at the top of the bureaucratic pyramid. Meanwhile, oligarchs are increasingly buying power at the regional level. Major businessmen got themselves elected governor in the Chukotka, Taimir, and Evenki regions; others won appointments to the new upper house of parliament (representing Tuva, Mordovia , Penza, Bryansk, and Taimir regions, for instance). Even when oligarchs do not run themselves, gubernatorial elections are often contests between competing business teams, funding their chosen candidates.

In part, the smoother public relationship between big business and politicians reflects a spontaneous alignment of underlying interests. Paradoxically, the stabilization of oligarchical capitalism has given the oligarchs a longer time horizon. Having acquired massive, undervalued, state resources, they now have more to gain from cleaning up corporate governance and attracting foreign investors than from grasping for the unappropriated crumbs of Russia’s patrimony. Two years ago, the oil company Yukos adopted transparent financial reporting and began paying regular dividends. Its stock market valuation soared from less than \$1 billion to more than \$10 billion, rendering its chief executive, Mikhail Khodorkovsky—with a reported personal stake of \$6.9 billion—probably Russia’s richest individual. Business itself is now pushing for liberal economic legislation. While the ideas for tax reform came from Putin and his economic advisers,

they were actually pushed to lower profit tax rates even further than planned by business lobbyists in the Duma.

Feuderalism

Putin enacted five reforms that some say amount to a revolution in Russian federalism. He consolidated the country's 89 regions into seven administrative districts, each under a presidentially-appointed prefect. He pressed regional legislatures to reconcile their laws and constitutions with federal law. He got legislation passed authorizing him to ask a court to remove regional governors who repeatedly violate federal laws or constitution. He changed the system for appointing the federal parliament's upper house: instead of regional governors and legislature chairmen serving *ex officio*, the governors and legislatures now appoint representatives. Finally, reforms of the tax system shrank the regions' share of revenues.

Although together these reforms did reinvigorate central government, there is considerably less in the individual measures than meets the eye. The seven presidential representatives have unclear powers and few resources, and face resistance from the federal ministries whose regional employees they supposedly coordinate. While they may intimidate the weaker governors, stronger ones ignore them or exploit them as conduits for lobbying. According to the pro-Kremlin *Argumenti i Fakti*, the president of Tatarstan, Mintimer Shaimiev, treats Putin's representative as he would a waiter: "First he listens attentively, then he orders his favorite dish." The campaign to correct regional laws and constitutions, heralded as a success, looks more like a failure. Governors mostly surrendered laws they cared little about and kept the ones they liked. Some—Tuva's president, for instance—used the opportunity to slip in additional clauses strengthening their power. After 18 months of work, the Kremlin had to admit that 72 percent of Bashkortostan's laws still violated federal ones, more even than at the start. Both Bashkortostan and Tatarstan refused to withdraw their claims to sovereignty.

Some reforms look revolutionary only with the help of a little amnesia. Since February 2001 Putin has had authority, if supported by the courts, to fire recalcitrant governors. The mechanism is hard to use, and Putin has so far chosen instead to bribe uncongenial governors with federal jobs or other inducements to leave voluntarily. In both Primore and Sakha, the new governor came from the old one's inner circle. Another governor the Kremlin disliked was kept from running for reelection on a technicality. This contrasts with Yeltsin, who made a hobby of actually firing governors, including some—such as Yuri Lodkin of Bryansk and Aleksandr Surat of Amur—who were popularly elected. Nor has Putin had much luck getting sympathetic candidates elected to regional office. Since early 2000, in those elections where the Kremlin expressed a clear preference, a Kremlin-opposed candidate won in about half the cases—a surprising fact, since Putin often backed the incumbent.

Putin was not the first president to change the system for choosing members of the upper house—Yeltsin did so twice, in 1993 and 1995. In fact, from 1993-95, members of the Federation Council were popularly elected. In comparison, Putin's replacement of the governors and legislature speakers with their chosen representatives seems quite marginal. While the new senators have so far supported most presidential initiatives, this reflects not institutional change but a political deal between regional and central elites (see below), along with Putin's current stratospheric popularity. Both the deal and the popularity may not last.

The most dramatic change is in the distribution of tax revenues. Subnational budgets received 61 percent of total state revenues in 1998, but only 48 percent in 2001. A variety of reforms centralized revenue sources, while lowering tax rates largely at the regions' expense. Several factors made this possible politically. First, Putin's team exploited its unprecedented majority in the Duma and the interests of poorer regions in a tactically astute manner. Since most regions get more in central transfers than they pay in taxes, they stood to *gain* from centralization at the expense of the handful of "donor regions". Richer regions protested—Moscow mayor Yuri Luzhkov accused Putin of playing with the governors as if they were "skittles"—but they were

outnumbered. Second, rapid economic growth meant that even though the regions lost revenues as a share of GDP, they gained in the aggregate in real terms. Total subnational budget revenues, corrected for inflation, were 15 percent higher in 2001 than in 1998.

Even these fiscal changes are not as new or stable as might appear. Putin's contribution was to complete a reform already conceived and partly implemented in earlier years. The key ideas and players—Sergei Shatalov, Viktor Khristenko, Aleksei Lavrov, Yegor Gaidar—had sketched out most aspects as early as 1997-8. Key elements—the creation of a federal treasury, reform of the system of federal transfers—were already implemented. At the same time, the current centralization may prove no more than a pendulum swing like those that alternately swelled and shrank the federal tax share during the 1990s. Governors of donor regions, having lost revenues, now blame Moscow for failures to provide local services. Putin won political credit for wiping out delays in paying pensions and public sector wages. Now these are on the rise again, sparking sporadic protests and strikes from teachers and doctors. With parliamentary and presidential elections scheduled for 1993 and 1994, the federal budget is already being stretched—in traditional, Yeltsin-era fashion—to provide emergency aid to delinquent regions lest this dent Putin's ratings.

The atmosphere in relations between Moscow and the governors *has* changed, far more than most observers—including myself—anticipated. But overall, the current *détente* owes less to central intimidation and institution-building than to back-room deal-making of the Yeltsin variety. The governors' key goals were to stay in power and keep their newfound personal wealth. Putin granted them this, at the expense of local democracy. To the dismay of his liberal supporters, he lobbied hard for a law that now exempts most sitting governors from the previous two-term limit, buying them the prospect of four—or even eight—more years. He also permitted governors to serve as federal senators after leaving office, thus acquiring political immunity at their most vulnerable time. By letting the former governor of Primore, Yevgeny Nazdratenko, retire to the federal fisheries committee rather than a prison cell, he signaled to other governors

accused of corruption that if they stayed loyal all would be forgiven. Sitting governors who play ball are left a relatively free hand to pressure local mayors, manipulate elections, intimidate the local press, and collude with regional businesses. As a result, although the balance of power has shifted somewhat, in the words of Sergei Mitrokhin, deputy chairman of the Duma's committee on local government, "the foundations of Yeltsin's neo-feudal system remain".

Dictatorship of law?

In his annual address to parliament last April, Putin urged the law enforcement agencies to mount a "tough struggle against the racket, administrative abuses, and corruption". His team shows an intelligent understanding of corruption's causes, and has passed legislation to try to reduce it. Yet, abuses seem to have become, if anything, more widespread. More generally, the crime rate has increased: 1.3 million more crimes were registered in 1999-2001 than in the preceding three years. (This probably does not reflect greater zeal in enforcement, since the ratio of convictions to crimes registered went down slightly.) "Corruption is great," says, Kakha Bendukidze, a leading Moscow businessman, "and so far the struggle against it is not effective."

Why? Several obstacles stand in the way. Most obviously, the system of oligarchical capitalism makes exposing and punishing senior officials difficult. No major figures have actually been prosecuted. Although highly-placed bureaucrats are sometimes investigated and threatened with charges, the selectiveness of such incidents makes them look to most observers like sorties in the covert struggle between clans. The administration's intimidation of the press may also be taking its toll: reports of high-level corruption in the mass media are extremely rare.

At a lower level, the greatest problem is the staggering number of agencies—local, regional, and federal—that are authorized to inspect and regulate businesses. A typical small retailer must satisfy the licensing office, building inspectorate, police, fire department, health inspectorate, tax inspectors, tax police, trade inspectorate, labor inspectorate, consumer rights office, weights and measures center, environmental protection committee, and medical insurance

fund. One entrepreneur recently told the newspaper *Novie Izvestia* he had to visit 24 offices, pay nearly \$5,000 in fees, replace the bulbs of 35 street lamps, and resurface part of his street before he was allowed to build a small addition to his café.

Putin has pushed legislation through parliament simplifying registration procedures as of July 1 this year. From August 2001, each agency was limited to inspecting firms at most once every two years. An early study (by the Moscow Center for Economic and Financial Research) suggests that conditions got *worse* after this was passed. The survey of 1,927 small and medium firms from 20 regions found that the average number of inspections by health inspectors rose from .95 in the first half of 2001 to 1.11 in the second, while the average number of visits by fire inspectors rose from 1.06 to 1.28. Since the law permits each inspection to last up to two months, the burden is enormous. However good the federal legislation, it must often be enforced at the local or regional levels by precisely the agents accused of extracting bribes.

One major Kremlin initiative has been judicial reform. On one hand, changes to the criminal procedural code have made it harder for police and prosecutors to arrest suspects arbitrarily: arrests must now be approved by a judge. Jury trials are to become more widespread. On the other, judicial reforms have left judges slightly more dependent on the executive branch; instead of appointments for life, about half of judges will now serve short-term appointments, and their immunity from prosecution has been limited. The aim was to end the impunity of judges who sold their verdicts to business interests. But, in the view of some, judges became so intimidated by these relatively minor changes that they started issuing questionable rulings in the prosecutors' favor. The fruits of this reform will not be clear for some time.

Russia and the West

Many—in both the West and Russia—applaud Putin for dramatically reorienting foreign policy. In the last two years, he has quietly accepted abrogation of the ABM Treaty and agreed with Washington to cut nuclear arsenals by two thirds. He has deepened Russian participation in

NATO and softened opposition to its expansion to include the Baltic states. After September 11, he was quick to express solidarity with the US, and he raised no objection to the temporary stationing of American troops in Central Asia. Moscow has been actively seeking admission to the WTO. Such policies have won exuberant praise from Putin's supporters. In the words of Anatoli Chubais, interviewed recently in *Moskovskie Novosti*, Putin has "turned Russian foreign policy around 180 degrees... There may never have been a change on a similar scale in all the history of Russian statehood."

Putin's warm embrace of the US after September 11 was indeed a masterful step, which did make him some enemies in the Russian elite. However, to see his policy as radically new requires both hyperbole and forgetfulness. He is, after all, the *third* Kremlin leader to be credited with "ending the Cold War". Without diminishing Putin's contributions, they surely pale beside Gorbachev's initiatives on arms control and acceptance of Eastern Europe's freedom, or Yeltsin's peaceful recognition of the other Soviet republics' independence. Russia's current course looks less like a new departure than a return to the early Yeltsin policy of the Kozyrev years. Even later, under foreign minister Yevgeny Primakov, Russia took some major steps toward partnership with the West, for instance signing the Russia-NATO Founding Act in 1997.

Nor was Putin's course quite as politically risky as is sometimes thought. As he explained himself, closer ties to the West reflect not just "the political philosophy of Russian leaders" but Russia's "domestic situation and public opinion". Between May 1999 (after the Kosovo crisis) and late September 2001, the percentage of survey respondents saying they felt "basically good" or "very good" about the US doubled from 32 to 70 percent (according to the Russian Center for Public Opinion Research, VCIOM). By June 2002, the figure had not dipped below 59 percent. While some military and academic elites grumble, and public opinion contains considerable ambivalence if one probes deeper, the basic orientation of Putin's policy has widespread support.

Chechnya and press freedom

Two other developments suggest continuity with the past; one parallel is obvious, the other less so. Like Yeltsin in 1995, Putin finds himself fighting an unpopular and probably unwinnable war against Chechen guerrilla bands, with no end in sight. Backing for continuing the military operation in Chechnya peaked in March 2000 at 73 percent of survey respondents (these—and all subsequent survey figures—are from VCIOM). As of June 2002, only 33 percent favored continuation, and 59 percent thought Russia should begin peace negotiations. The Russian military admits to losing 4,200 soldiers since 1999, but the real total may be higher.

Putin's regime has shocked liberal opinion with its heavy-handed approach toward critical media outlets. Vladimir Gusinsky and Boris Berezovsky, two oligarchs who controlled major television stations, were forced into exile and pressured into selling their shares. (The Kremlin denies any involvement and says the oligarchs fell afoul of independent prosecutors and creditors.) The news team from Gusinsky's NTV fled to Berezovsky's TV6, which then ran into financial problems itself. In the end, TV6 was forced out of Berezovsky's hands, but the journalists were allowed to stay. The Gusinsky-funded newspaper *Segodnya* and the magazine *Itogi* suffered hostile takeovers. While satire and sharp criticism still exist on small stations and in fringe publications, Sergei Ivanenko, a member of the Duma's committee on information policy, is probably right to say that in Russia today: "there is freedom of speech, but not in prime time".

Still, the difference from the Yeltsin years can be exaggerated, and the issues are more complicated than is sometimes understood. On the whole, Yeltsin was undeniably more tolerant than is Putin of a media that often criticized and ridiculed him. But at moments he also wavered. Putin's team was not the first to rough up Gusinsky's employees; in fact, Yeltsin's bodyguard Aleksandr Korzhakov raided the tycoon's offices as early as 1994 and rubbed his security guards' faces in the snow. Then again, Putin did in the end allow Gusinsky's journalists to keep working. Yevgeny Kiselev, the oligarch's erstwhile news anchor, is back on television, but now facing a new threat. This time, the danger is not state censorship: his show, even in cosmopolitan Moscow, has low ratings.

Even ardent Russian liberals sometimes feel a bit ambivalent about defending Berezovsky's and Gusinsky's versions of the "free" press. Both tycoons won shares or frequencies from the state in non-transparent deals, and relied on large loans from state sources for operating expenses. Indeed, they often seemed like adolescents who prize their independence highly, but change their mind as soon as the phone bill arrives. During election campaigns and sometimes in between, the tycoons turned their television stations into blatant propaganda instruments to push their own commercial or political interests. The oligarchs' brazen claims to have got Yeltsin reelected in 1996 by manipulating coverage—and their demands to be rewarded—helped to discredit them in a way that simplified Putin's task.

What's new?

Although the effectiveness and novelty of Putin's regime is often exaggerated, this does not mean that no significant changes have occurred. The most remarkable change is not in the president's policies but in his popularity. For the first time in more than a decade, Russia has a leader that the overwhelming majority of Russians support. Since October 1999, Putin's approval rating has varied between 61 and 84 percent. Putin's popularity helped secure election of a Duma which, for the first time since 1992, is not dominated by communist and other opposition forces. This helps explain the quick passage of legislation that had been blocked for five years or more.

What explains Putin's popularity? His rating jumped to its current level before voters knew almost anything about his policies except that he intended to take a tough stand on Chechnya. The initial leap—from 31 percent in August 1999 to 80 percent in November 1999—is easy to ascribe to public shock after terrorists bombed apartment blocks in central Russian cities and Chechen guerrillas invaded Dagestan. Putin's response—sending in the army and promising to "whack [the guerrillas] in the outhouse"—captured the mood perfectly.

But his ratings have remained high even as the public deserted him on Chechnya—by December 1999, 51 percent thought the actions of Russian forces there somewhat or totally

unsuccessful—and as his image of decisiveness faded. Some commentators now speak of a “Hamlet complex” or worry that Putin may be falling into a “Gorbachev trap” as he maneuvers between the “family” and his St Petersburg protégés, unsure whether to side with economic liberals or the security forces. His very *lack* of clarity—given the deep divisions in public opinion—may be a political asset. Even strong supporters describe him as something of a chameleon. According to Anatoli Chubais, Putin “has one fantastic characteristic—after a conversation with him everyone leaves convinced that now the president is on his side.” The sources of Putin’s appeal are probably complex, but rapid growth in living standards must play a part. Real wages and pensions have risen steadily under Putin, while real wage arrears have dropped dramatically.

This points to the second major difference from the Yeltsin era—for three years now, Russia has experienced rapid economic growth (5 percent in 1999, 9 percent in 2000, 5 percent in 2001, and 3.8 percent in the first half of 2002). Although poverty and inequality remain high, the stable upward trend has changed perceptions markedly and given the state budget breathing room. Rapid growth reflected recovery from the 1998 financial crisis and the benefits of a sharply devalued exchange rate and rising oil prices. These effects have been exhausted, and growth is slowing, based now more on consumer demand. A spike in the oil price caused by Middle East unrest might give Russia an additional boost, but failing this the need for productivity improvements will intensify.

To the extent that Putin’s popularity depends on continuing economic improvement—and political stability depends on his popularity—the current equilibrium looks vulnerable. With elections in 1993 and 1994, and \$17 billion in debt payments due next year, Putin seems increasingly anxious about the economic indicators. In outbursts reminiscent of Yeltsin, he recently berated the prime minister for offering an estimate of 2003 growth that was insufficiently “ambitious”, and scolded his ministers for letting wage arrears to teachers and doctors return.

Despite the continuing obstacles in the way of Russia's modernization, an objective review of these fails to capture something palpable in the Moscow air these days—an unfamiliar whiff of optimism. Elites of all persuasions seem to have confidence in the future. Business people say that for the first time they are planning years ahead instead of day-to-day. The communists have been defeated, Russia's Westward movement is increasingly secure, and the present market economy—whatever its defects—is here to stay. One third of Russians now expect that their lives “will become somewhat better” within a year, compared to just 13 percent in July 1998. This psychological breakthrough may turn out to be as important in the end as objective continuities.

Even Putin's liberal political opponents say the words “reform” and “democracy”, discredited for years by the economic turmoil and corruption of the 1990s, are coming back in fashion. Others speak of the gradual emergence of a civil society. Although human rights campaigners are genuinely alarmed by the security services' new assertiveness, they allow themselves a dose of humor and irony. The veteran liberal activist Valeria Novodvorskaya recently made a cameo appearance on a television sitcom about a struggling radio station. The embarrassed station manager has to cancel her interview since his bungling engineer has locked the door to the recording studio and lost the key. “It's the FSB,” Novodvorskaya insists, “I'm 100 percent sure.” When Putin's critics can make fun of their own suspicions, something must be moving on the right track.