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A NORMAL COUNTRY

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ABSTRACT

During the 1990s, Russia underwent an extraordinary transformation from a communist dictatorship to a multi-party democracy, from a centrally planned economy to a market economy, and from a belligerent adversary of the West to a cooperative partner. Yet a consensus in the US circa 2000 viewed Russia as a disastrous and threatening failure, and the 1990s as a decade of catastrophe for its citizens. Analyzing a variety of economic and political data, we demonstrate a large gap between this perception and the facts. In contrast to the common image, by the late 1990s Russia had become a typical middle-income capitalist democracy.

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1 Introduction

During the 1990s, Russia underwent an extraordinary transformation. Politically, it changed from a communist dictatorship into a multi-party democracy in which officials are chosen in regular elections. Its centrally planned economy was reshaped into a capitalist order based on markets and private property. Its army withdrew peacefully from both Eastern Europe and the former Soviet republics, allowing the latter to become independent countries. In place of a belligerent adversary with thousands of nuclear missiles pointed at it, the West found a partner ready to cooperate on disarmament, fighting terrorism, and containing civil wars.

Russia's self-reinvention would seem cause for celebration. Twenty years ago, only a naïve idealist would have expected the "evil empire" to metamorphose so quickly and peacefully into a generally democratic, capitalist ally of the West. Yet, early in the new century the mood was anything but celebratory. In the US, Russia was widely viewed as a disastrous failure and the 1990s as a decade of catastrophe for its people. Most journalists, politicians, and academic experts described Russia not as a middle-income country struggling to overcome its communist past and find its place in the world, but as a collapsed state inhabited by criminals and threatening other countries with multiple kinds of contagion.

In Washington, the left and the right were united in this view. To Dick Armev, then Republican House majority leader, Russia had by 1999 become "a looted and bankrupt zone of nuclearized anarchy."¹ To his colleague, Banking Committee Chairman James Leach, Russia was "the world's most virulent kleptocracy," more corrupt than even Mobutu's Zaire.² From the

¹ See Office of the House Majority Leader website, at www.freedom.gov.

² James A. Leach, "The New Russian Menace," *New York Times*, September 10, 1999 ; US House of Representatives, Committee on Banking and Financial Services, "Opening Statement of Representative James A. Leach," September 21, 1999.

left, Bernard Sanders, the socialist congressman from Vermont, described Russia's economic performance in the 1990s as a "tragedy of historic proportions." A decade of reform had earned the country only "economic collapse," "mass unemployment," and "grinding poverty."³

What explains these harsh views of Russia's transformation? Were conditions in the country as bad as the critics contended? Did Russia's economy indeed suffer a catastrophic decline in the 1990s? Was its political system unusually undemocratic, repressive of the media, and corrupt? If not, why did so many intelligent observers share this perception? In this article, we try to answer these questions. We examine the data on economic growth, macroeconomic stability, income inequality, company finances, and health outcomes, the reports of election monitors and press freedom advocates, as well as surveys of business people and crime victims.

We find a large gap between the common perception and the facts. Although Russia's transition has been painful in many ways, the country has made remarkable economic and social progress. It started the 1990s a highly distorted, disintegrating centrally planned economy, with severe shortages of consumer goods and a massive military establishment. It ended the decade a normal, middle-income, capitalist economy, in which most goods and services were sold by private firms to consumers who faced a multitude of choices. Although measured output fell initially, by 2003 all or almost all of this decline had been reversed. Politically, Russia started out a repressive dictatorship, dominated by the Communist Party and security services. Within a decade, political leaders were chosen in generally free—if imperfect—elections, citizens could express their views without fear, and more than 700 political parties had been registered.

Russia's economic and political systems remain far from perfect. However, their defects are typical of countries at its level of economic development. Both in 1990 and 2003, Russia was

³ US House of Representatives, Office of Bernard Sanders, September 10, 1998.

a middle income country, with GDP per capita around \$8,000 at purchasing power parity, a level comparable to that of Argentina in 1991 and Mexico in 1999.⁴ Countries in this income range have democracies that are rough around the edges, if they are democratic at all. Their governments suffer from corruption, and their press is almost never entirely free. Most also have high income inequality, concentrated corporate ownership, and turbulent macroeconomic performance. In all these regards, Russia is quite normal. Nor are the common flaws of middle-income, capitalist democracies incompatible with further economic and political development—if they were, Western Europe and the US would never have left the 19th century.

So why the widespread image of Russia as a uniquely menacing disaster zone? We argue that a number of common misconceptions, partial truths, and deliberate exaggerations combined in the popular imagination to form this view. Some of these arose quite innocently, others were pushed by those with intellectual agendas, still others were created and exploited for political ends. Together these mutually reinforcing misperceptions shaped themselves into a vision of Russia that was like the reflection in a distorting mirror—the features were recognizable, but they were stretched and twisted out of all proportion. To see Russia clearly, one needs to return to the facts.

2 Russia after communism

In June 1991, Boris Yeltsin became Russia's first elected president. In December, following a failed putsch by communist hardliners that August, Yeltsin agreed with the leaders of Ukraine and Belarus to dissolve the Soviet Union, leaving Russia independent. Yeltsin's elevation followed several years of partial reform under the last Soviet leader, Mikhail

⁴ This is based on the latest figures from the UN International Comparisons Project, discussed below.

Gorbachev. The previous two years had seen declines in output, worsening shortages, and fears of a complete economic and political collapse. As of 1989, the average citizen spent 40-68 hours a month standing in line. In April 1991, “only 12 percent of respondents in a national survey claimed to have seen meat in state stores” and only 8 percent had seen butter.⁵ In the fall of 1991, CNN predicted imminent starvation that winter.

Yeltsin immediately appointed a reformist government, headed by Yegor Gaidar, and with Anatoly Chubais in charge of privatization. Over the following three years, the government pursued a radical economic transformation. In January 1992, most prices were liberalized. Queues disappeared and goods reappeared in stores. During the year, the government developed a mass privatization program, which was then implemented between December 1992 and July 1994. Through this program, shares in most firms were transferred from the government to their managers, workers, and the public. By mid-1994, almost 70 percent of the Russian economy was in private hands. In 1995, with Chubais coordinating monetary policy and with the help of the International Monetary Fund, Russia stabilized the ruble.

All of these reforms proved extremely difficult. The Parliament, the unreformed and well-organized Communist Party, and the entrenched industrial interests resisted almost every measure, and even the government itself could not establish an internal consensus. Yeltsin sacrificed one reformer in his government after another to win political peace, but popularity eluded him.

In 1995, Yeltsin tried to broaden his support ahead of the 1996 presidential election, which the Communist Party leader, Gennady Zyuganov, was expected to win. As part of this political campaign, and in an attempt to balance the budget, Yeltsin agreed to a “loans-for-

⁵ Leon Aron, “Structure and Context in the Study of Post-Soviet Russia: Several Empirical Generalizations in Search of a Theory,” American Enterprise Institute, 2002.

shares” program, whereby some valuable natural resource enterprises were turned over to existing industrial groups in exchange for loans to the government. The program accelerated the consolidation of a few large groups in the Russian economy, led by so-called “oligarchs,” who enjoyed great political and economic influence. In addition to campaign finance, these businessmen helped Yeltsin with sympathetic coverage on television and in other media outlets they controlled.

Despite suffering a heart attack, which was concealed from the voters, Yeltsin came from behind to win a second presidential term. He accomplished the goal of his life: to prevent communists from regaining power in Russia. Yet he was a sick man, lacking political and popular support, and less attentive than before to economic policy. Much of his focus in subsequent years was on finding a successor. The political gridlock made it harder for the government to collect taxes. As oil prices collapsed in 1997-8, so did the federal budget, and the financial turmoil that had started in East Asia spread to Russia. The crisis led to a debt default, a sharp depreciation of the ruble, yet, contrary to the expectations of some pundits, also a rapid economic recovery.

Yeltsin’s foreign and military policy during this period was equally radical. He reduced defense procurement by an estimated 90 percent, pursued drastic nuclear arms reduction in cooperation with the United States, accepted the expansion of NATO, and participated in U.N.-led efforts to stop civil war in the former Yugoslavia. But also in the 1990s, Russia pursued an aggressive military campaign against rebels in Chechnya, which led to tens of thousands of casualties.

Yeltsin ultimately found a successor, Vladimir Putin, whom he appointed Prime Minister in 1999. On January 1, 2000, Yeltsin resigned and Putin became Acting President, subsequently

winning the presidential election in March of that year. Over the following three years, Russia grew rapidly, helped by dramatic increases in oil prices and the continuing benefits of depreciation. By 2003, the Russian government was borrowing money in world markets long term at an interest rate of around seven percent, indicating significant investor confidence. Most economic forecasts for Russia's economic growth were highly optimistic.

3 Economic cataclysm?

3.1 The output "collapse"

Russia started its transition as a middle income country. Since the early 1990s, the UN International Comparisons Project has been calculating comparable income estimates for a large number of countries. The latest version of the UN data show Russia as of 1989— before the contractions of Gorbachev's last two years in office—with per capita GDP of \$8,210.⁶

In the U.N. estimates, the five countries just below Russia in 1989 are Antigua, South Korea, Ukraine, Argentina, and Estonia. The five just above it are Latvia, Oman, Hungary, the Slovak Republic, and South Africa. Russia comes in above Mexico and Brazil, but some 30-50 percent behind the poorer West European countries such as Portugal, Greece, and Spain. Its per capita GDP as of 1989 was less than half that of France or Italy, and just over one third the level of the US. Various estimates of consumption prior to reform also suggest levels of a quarter to a third of the United States. Although by no means poor, Russia at the start of transition trailed far behind the advanced industrial economies.

That Russia's output contracted catastrophically in the 1990s has become a cliché. A

⁶ By 1991, when Gorbachev left office, it had fallen to \$7,780.

report prepared for the British House of Commons in 1998 claimed that living standards in Russia had “fallen to levels not experienced since the immediate post-war years.”⁷ According to the official Goskomstat statistics, Russian GDP per capita fell about 24 percent in real terms between 1991, when Gorbachev left office, and 2001.⁸ From 1991 to 1998, before the recovery, the official decline is 39 percent.

Yet there are three reasons to think that Russia’s economic performance in the 1990s was actually far better. First, much of the Soviet Union’s output consisted of military goods, unfinished construction projects, and shoddy consumer products for which there was no demand. In the early 1990s, military procurement dropped sharply. Under a market system, firms also had no reason to produce consumer goods they could not sell. Reducing such wasteful production lowers short run GDP figures, but raises actual well-being. At the same time, much of reported output under the Soviet system was known to be fictitious. In order to obtain bonuses, managers routinely inflated their production figures. With the end of central planning, the motive for such distortions disappeared; rather, managers now wished to *under*-report output in order to reduce their tax bill. As a result, an accurate per capita GDP estimate for Russia circa 1989 should be substantially lower than the figures reported by the government’s statistical office, and the subsequent decline should be smaller (Aslund 2002).

Second, Russia’s unofficial economy grew rapidly in the 1990s. Estimating the scale of unofficial economic activity is difficult. One common technique for measuring the growth of the whole economy—both official and unofficial—is to use electricity consumption on the theory

⁷ Richard Ware, *Democracy in Russia*, Research Paper 98/89, House of Commons, London.

⁸ We use the change in real GDP figures from *Rossiiskiy Statisticheskii Yezhegodnik 2001* for 1990-1995, and then newer updated figures for subsequent years from Goskomstat’s website (at www.gks.ru/scripts/free/1c.exe?XXXX19F.2.1/000040R). We adjusted for change in population, using figures from *Statisticheskii Yezhegodnik 2001* and *Rossia v tsifrah 2002*.

that even the unofficial economy must use electricity (Johnson, Kaufmann, and Shleifer 1997). Figure 1 shows the trend in real official GDP in Russia between 1990 and 2001, alongside the figures for electricity consumption. While the official GDP in this period fell 29 percent, electricity consumption fell about 19 percent. This suggests that Russia's output decline in the 1990s was not as sharp as the official figures indicate.⁹ Since under market conditions firms are likely to use electricity more rationally, even the decline in electricity consumption probably overstates the output drop.

Third, other statistics suggest that average living standards fell little during the decade, and, in some important respects, improved. Retail trade (in constant prices) rose 4 percent between 1990 and 2001 (see Figure 1). Goskomstat's figures for final consumption of households (in constant prices) fell just 4 percent during 1990-2001. The average living space per person rose from 16 square meters in 1990 to 19 in 2000.¹⁰ The number of Russians going abroad as tourists rose from 1.6 million in 1993 to 4.3 million in 2000. The shares of households with radios, televisions, tape recorders, refrigerators, washing machines, and electric vacuum cleaners all increased between 1991 and 2000. Private ownership of cars doubled, rising from 14 cars per 100 households in 1991 to 27 in 2000. There were large increases not just in Moscow and St Petersburg but in almost all regions.¹¹

⁹ This figure is for the change in GDP, not GDP per capita. Goskomstat adjusts its GDP figures in an ad hoc manner to take into account unofficial output. In the mid-1990s it was adding 25 percent, and it lowered this to 20 percent more recently. The fact that electricity consumption still fell so much less than Goskomstat's GDP per capita figures suggests that either enterprises began using electricity much more lavishly—an unlikely prospect given the extremely wasteful practices inherited from the Soviet era—or the unofficial economy grew substantially more rapidly than Goskomstat guessed.

¹⁰ Goskomstat, *Rossiiskiy Statisticheskii Yezhegodnik*, 2001, p.200. The total living space increased by about 15 percent. Citizens owned 58 percent of it at the end of the decade, compared to 26 percent at the beginning.

¹¹ Goskomstat, *Rossiiskiy Statisticheskii Yezhegodnik*, 2001, pp.193-4.

One should view these numbers with caution since Russia has, without doubt, experienced an increase in income and consumption inequality (see below). But some indicators also suggest improvement at the bottom of the social pyramid. Since 1993 (when comprehensive figures begin), the proportion of Russia's housing that has running water has increased from 66 to 73 percent; the share with hot water has grown from 51 to 59 percent; and the percentage with central heating has risen from 64 to 73 percent.¹² Since 1990, the proportion of apartments with telephones has increased from 30 to 49 percent.¹³

A closer look at Figure 1 also casts doubt on some common arguments about Russia's recession. One theory is that economic decline was caused by the privatization program in general, and the "loans-for-shares" scheme in particular (Goldman 2003). As Figure 1 shows, most of the fall in both the official GDP and electricity consumption occurred prior to 1994, before the significant part of the mass privatization program was completed, and before the "loans-for-shares" program was even thought of. After 1994, when the effects of privatization could be felt, Russian economic decline slowed, and growth turned positive and rapid in 1999.

[Figure 1 Here]

To understand Russia's economic performance in the 1990s, it is also useful to compare it to that of other postcommunist countries (see Figure 2 and Table 1). Such a comparison reveals two points. First, officially measured output fell in all the postcommunist economies of Eastern Europe and the former Soviet Union, with no exceptions. It declined in new democracies, such as

¹² Goskomstat, *Rossiiskiy Statisticheskii Yezhegodnik*, 2001, p.201.

¹³ Goskomstat, *Rossiiskiy Statisticheskii Yezhegodnik*, 2001, p.468.

Russia and Poland, and in continuing dictatorships, such as Belarus and Tajikistan; in rapid reformers, such as the Czech Republic and Hungary, and in very slow reformers, such as Ukraine and Uzbekistan. The universality of the contraction suggests a common cause. One possibility is a universal decrease in military and economically useless activities that were previously counted as output. A second is the temporary disruption and disorganization that all countries experienced as their planning systems disintegrated.¹⁴ Consistent with both of these explanations, officially measured output began to recover after a few years almost everywhere.

Second, the depth of the measured contraction was greater in some countries than in others. Generally, it was smaller in Eastern Europe and the Baltic states than in the rest of the former Soviet Union. Russia's official output fell slightly less than average for the 14 republics of the FSU for which figures were available. Among the three republics with initial income closest to Russia's, Estonia (with its close ties to Finland) grew by 13 percent during the first decade of transition; Latvia (without such ties) declined by 15 percent; and Ukraine declined by 45 percent. The comparison with Ukraine is particularly instructive. Ukraine had a large population (about 52 million), an industrial economy, significant natural resources, and a "culture" similar to Russia's prior to transition. Unlike Russia, it retained the old communist leadership, albeit re-named, and pursued more cautious reforms, keeping a much larger share of the economy in state hands. Its official output drop was almost twice as large.

The patterns in Figure 2 and Table 1 challenge another common theory about the output contraction. Some argue that excessive speed of reform exacerbated the decline, and compare the "gradualism" of China's economic policies favorably to the "shock therapy" of Russia's. In fact, among the East European and former Soviet countries, there is no obvious relationship between speed of reform and the change in the official output. Among those that contracted least

¹⁴ See Murphy, Shleifer, and Vishny 1992, Blanchard and Kremer 1997.

according to the official figures are both rapid reformers (Estonia, Poland, Czech Republic) and slow or non-reformers (Belarus, Uzbekistan), which apparently maintained the inefficient stability of dictatorship and central planning (or perhaps the inherited statistical distortions.) Those with the largest declines also include both non-reformers (Tajikistan, Turkmenistan) and some that tried to reform (Moldova).¹⁵

Table 1: Change in real official GDP per capita in 10 years of transition (1991-2001 for FSU; 1989-99 for EE)

<i>Eastern Europe</i>		<i>Former Soviet Union</i>	
Poland	41*	Estonia	13
Slovenia	21*	Kazakhstan	-2
Czech Republic	2*	Belarus	-4
Hungary	2	Uzbekistan	-14
Slovak Republic	-3	Latvia	-15
Albania	-3	Lithuania	-18
Croatia	-5*	Armenia	-20
Macedonia	-8*	Russia	-25
Romania	-20	Kyrgyz Republic	-31
Bulgaria	-22	Turkmenistan	-32
		Ukraine	-45
		Georgia	-49
		Moldova	-55
		Tajikistan	-60
		Azerbaijan	n.a.

* 1990-2000

Source: Calculated from World Bank, *World Development Indicators 2003*.

[Figure 2 Here]

Viewed from this perspective, Russia performed roughly as one might have expected. Our best estimate is that its genuine output drop between 1990 and 2001 was small, and probably completely reversed by 2003, following two additional years of rapid growth (Aslund 2003).

¹⁵ The quality of statistics probably varies across these countries, rendering comparisons tentative. Tajikistan, Georgia, Armenia, Azerbaijan, and Moldova also suffered from civil wars (as did Russia in Chechnya.)

Taking into account the distorted demand, inflated accounting, and uselessness of much of the pre-reform output, it is likely that Russians today are on average significantly better off than they were in 1990.

3.2 Financial crises

The 1990s were a decade of extreme macroeconomic turbulence for Russia. Between December 1991 and December 2001, the ruble's value dropped by more than 99 percent against the dollar. Three years after the authorities managed to stabilize inflation in 1995, a speculative crisis broke through the central bank's defenses. When the government devalued the ruble and declared a moratorium on foreign debt payments, many observers saw in this the bankruptcy of Russia's macroeconomic policies and more generally of its attempts at economic reform.

In fact, such financial crises are common among emerging market economies.

Bad as the 99 percent drop in the ruble's value sounds, 11 other countries—including Brazil, Turkey, Ukraine, and Belarus—suffered even larger currency declines during the 1990s. In the 1980s, depreciations this large were even more frequent, with larger ones recorded by Peru, Argentina, Bolivia, Brazil, Uruguay, Nicaragua, Vietnam, Lebanon, and even Poland, later seen as the greatest success story of transition from socialism.¹⁶

During Russia's 1998 crisis, the ruble fell 61 percent in the two months of August and September. But during the decade from January 1992 to December 2001, two-month currency collapses at least this large occurred 34 times, in a total of 20 countries.¹⁷ Russia's crash was not

¹⁶ Calculated from IMF, *International Financial Statistics*, April 2002.

¹⁷ These were Afghanistan, Angola, Armenia, Belarus, Bulgaria, Zaire, Indonesia, Iran, Kazakhstan, Liberia, Moldova, Mongolia, Nigeria, Rwanda, Sudan, Suriname, Tajikistan, Turkmenistan, Ukraine, Yemen.

an isolated phenomenon: it came in the middle of a wave of similar currency crises that stretched from Thailand and Indonesia to Brazil and Turkey. And the consequences were far less dire than claimed at the time. In fact, the devaluation was followed by a multi-year spurt of rapid growth and a reinvigorated drive toward liberal economic reform.

3.3 Economic inequality

One often-repeated claim is that the manner in which economic reforms were carried out in Russia exacerbated economic inequality. Privatization is often seen as the primary culprit. The EBRD wrote in 1999 that: “under the ‘shares-for-loans’ scheme implemented in 1995, many of the key resource-based companies fell into the hands of a small group of financiers, the so-called ‘oligarchs’. This has led to very sharp increases in wealth and income inequality—by 1997 the Gini coefficient for income in Russia was around 0.5” (EBRD 1999, p.110).

Inequality *has* increased sharply in Russia since the fall of communism. There is some question about the precise numbers, but no dispute about the trend. Russia’s official statistical agency Goskomstat shows the Gini coefficient for money incomes rising from .26 in 1991 to .41 in 1994, after which it stabilized at about .40 through the end of the decade. The World Bank gives figures for Russia’s Gini for expenditure of .496 in 1993, .480 in 1996 and .487 in 1998.¹⁸ The Goskomstat figure of .41 is almost exactly the same as that for the US (.408 in 1997). The higher World Bank estimate of .496 is about that of Malaysia (.492) or the Philippines (.462), but below that of Hong Kong (.522), Mexico (.531), South Africa (.593), or Brazil (.607).

Was this increase in inequality caused by privatization? The trouble with this claim is that the increase in inequality came first. As the figures just cited show, the big rise in Russia’s Gini

¹⁸ See *Rossiiskiy Statisticheskii Yezhegodnik* 2001, p.187, World Bank *World Development Reports*, 1997 and 1999-2000, and World Development Indicators 2002.

coefficient occurred between 1991 and 1993, and the Gini peaked in 1994, before any effects of privatization—such as those from restructuring or dividends—could possibly materialize. Nor is unemployment responsible for the rise of inequality. In 1992-3, unemployment remained below six percent. It was in 1994-1998 that it grew to 13.2 percent, while inequality declined slightly.¹⁹

World Bank's Branko Milanovic has studied the data on inequality in the early 1990s and concluded that the rise in entrepreneurial incomes had little to do with the growth of inequality. Non-wage private incomes account for only about 13 percent of the increase in Russia's Gini between 1989 and 1994 (Milanovic 1998, p.22). Seventy-seven percent of the increase can be explained by the increased dispersion of wage incomes. Russian incomes became more unequal in the early 1990s because some workers were employed in successful firms that rapidly reaped the benefits of free prices and open trade, while others remained employed in declining firms and in the state sector. Unfortunate as the growth of inequality has been, it is the flip side of the rationalization of economic activity.

3.4 Oligarchical capitalism

Russia's economic reforms are often said to have fueled the rise of a small class of "oligarchs". These oligarchs are accused of stripping assets from the companies they acquired for extremely low prices in the "loans-for-shares" program. Asset stripping is said to have depressed investment and economic growth (Stiglitz 2002, Hoff and Stiglitz 2002).

That a few tycoons dominate Russian big business is undeniable. In this, Russia is completely typical of almost all developing capitalist economies. Even in most developed countries, the largest firms are either state or family-controlled, with a few dominant families

¹⁹ Goskomstat Rossii, *Rossiiskiy Statisticheskii Yezhegodnik* 2001, p.133.

often controlling a large share of national production through financial and industrial groups (La Porta et al. 1999, Claessens et al. 1999). This is overwhelmingly true of middle income countries, such as Mexico, Brazil, Israel, South Korea, Malaysia, or South Africa, but it also applies to developed countries such as Italy, Singapore and Sweden. The big business families are inevitably politically connected, sometimes receiving loans and subsidies from the government (as in South Korea and Italy), often actively participating in privatization (as in Mexico and Brazil), and quite regularly holding high government offices while retaining a connection to their firms (as in Italy or Malaysia).²⁰ Following the Asian financial crisis, this system of political ownership and control has been pejoratively rechristened “crony capitalism,” even though it has been associated with some of the most rapid growth ever seen, as well as a remarkable recovery from crisis in the cases of Malaysia and South Korea. Such patterns of ownership have also emerged in transition economies from Latvia to the Central Asian states. Russia is about as normal in this respect as is possible to imagine.

What about the assertion that the oligarchs have depressed economic performance? The Russian oligarchs, like the owners of industrial groups everywhere in the developing as well as many in the developed world (recall the American robber barons), acquired their fortunes in part through deals with the government. But the claim that this accounts for poor growth in Russia makes little sense. As already noted, Russia’s big decline came before—not after—the oligarchs emerged on the scene in 1995-6. A few years of stagnation followed, and then rapid growth. The oligarch-controlled companies have performed extremely well, and far better than many comparable companies that remained controlled by the state or by their Soviet-era managers. They are responsible for much of the dramatic increase in output in the last few years.

²⁰ Faccio (2003) shows that serving politicians own firms in many countries around the world.

Consider three of the most notorious cases. In “loans-for-shares,” Mikhail Khodorkovsky obtained a major stake in the oil company Yukos. Boris Berezovsky, with his partner Roman Abramovich, won control of Sibneft. Vladimir Potanin acquired the nickel producer Norilsk Nickel. Since 1996, profits and productivity in these companies have increased dramatically, as have their share prices. This performance is markedly better than that of the gas monopoly Gazprom or the electricity utility UES, which stayed under state control, or of major private companies, such as Lukoil, which remained controlled by pre-privatization management.²¹ Between 1996 and 2001, the reported pretax profits of Yukos, Sibneft, and Norilsk Nickel rose in real terms by 36, 10, and 5 times respectively.²²

Have the oligarchs stripped assets from the companies they acquired in privatization, rather than investing in them? As Table 2 shows, the audited financial statements of these companies suggest they actually invested, especially since 1998. Yukos’ assets shortly after privatization were \$4.7 billion. By 2001, they had risen to \$11.4 billion. Norilsk Nickel’s assets also increased in the period for which figures are available. Sibneft’s assets fell initially, in part due to an accounting change (which might reflect asset stripping). But since 1999, they have risen each year. Recently, the major oligarchs have been investing hundreds of millions of dollars annually in their companies. In 2001, Yukos invested \$945 million in property, plant, and equipment, and Sibneft made capital expenditures of \$619 million.

In contrast, the greatest asset stripping scandals have concerned companies that remained under state control. Gazprom’s former management has been accused of stealing assets via complicated networks of trading companies. The state-owned airline Aeroflot’s reported assets dropped between 1998 and 2001. By and large, the companies privatized to the oligarchs

²¹ See Boone and Rodionov (2001).

²² Calculated from figures in *Ekspert* database, deflating by the CPI.

performed far better than those left under state control, and some oligarchs oversaw a dramatic *increase* in their companies' assets.

Table 2: Total assets and investment of 3 leading Russian companies

	1996	1997	1998	1999	2000	2001
Yukos						
total assets, bn US \$	4.7	5.2	5.3	6	10.3	11.4
investment ^a , mn US \$				226	729	945
Sibneft						
total assets, bn US \$	7.6	5.6*	5	4.3	4.6	5.7
investment ^b , mn US \$			154	129	231	619
Norilsk Nickel						
total assets, bn US \$				6.6	7.2	7.2
investment ^b , mn US \$				168	638	449

* book assets reduced by \$1.3 bn because of accounting change.

^a additions to property, plant, and equipment

^b capital expenditures

Sources: audited financial statements and annual reports

None of this is to say that the oligarchs are public-spirited, politically naive, or protective of their minority shareholders. They benefited from sweetheart deals with the government, and in consolidating control over their firms they massively diluted the value of minority shares.

Investor protection and corporate governance in Russia remain weak. But here again, Russia is typical of middle income and developing countries: dilution of minority shareholders is a nearly universal practice (Johnson et al. 2000). Legal reforms eventually alleviate such problems, but these typically occur at higher levels of economic development than Russia currently enjoys.

Paralleling the growth of assets and investment, investor interest in the shares of the big companies—particularly those now owned by the oligarchs—has soared. *The Economist* (Jan 4, 2003) published a list of different investments and their average annual total returns for 1993-2002, or in the case of Russian equities for just 1995-2002. Russian equities turned in the second highest average rate of return, second only to London real estate. In this period—which included

the 1998 financial crisis—Russian equities outperformed the S&P 500, US Treasury bonds, and the stock markets of Britain, France, Germany, the Czech Republic, South Korea, Japan, Argentina, Indonesia, China, and Thailand. It is the share prices of the oligarch companies that have been driving up the indexes. Since they were privatized, Yukos and Sibneft saw their market capitalization increase in real terms by more than 30 times.

In fact, the claim that the oligarchs privatized companies in order to strip their assets and are impeding economic growth has it precisely backward. The oligarchs stripped assets from *state*-controlled companies in order to buy others in privatization. Indeed, the concern with such theft from state firms was one of the reasons to accelerate privatization in 1992. The oligarchs also tried to buy assets in privatization at the lowest possible prices, often offering politicians various kinds of support in return. Once in control, the oligarchs pursued various legal—and sometimes illegal—strategies to increase their ownership stakes. But once they became full owners, they acted as any other owner would and as economic theory predicts: they invested to improve their companies' performance. This is exactly what oligarchs have done in every other country—from J.P. Morgan and John D. Rockefeller to Silvio Berlusconi and the owners of Korean chaebol. Again, Russia is completely typical.

In sum, Russia started the 1990s as a disintegrating, centrally planned economy, and ended it as a market system in a burst of rapid growth. The economy is not a model of capitalism that one finds in introductory textbooks. Like other middle-income countries, Russia suffers from inequality, financial crises, the concentration of economic and political resources, and a large unofficial sector. But nor is Russia's economy a unique monstrosity never before seen outside Africa. To claim that it is is a vast, and ignorant, exaggeration.

4 Autocratic kleptocracy?

4.1 Democracy

Western assessments of Russia's political institutions in the 1990s sometimes seem unduly harsh. In June 2000, the *Economist* magazine declared the regime in Moscow to be a "phony democracy."²³ By contrast, the magazine's writers classify Iran—a country in which scholars are sentenced to death for religious dissidence and an unelected religious council vets all legislation—a "quasi-democracy."²⁴ Even the usually sensible advocacy group Freedom House, which compiles ratings of different countries' institutions, adopted an oddly jaundiced view of Russian politics. As of 2000-1, it gave Russia a "5" for political freedom and a "5" for civil liberties on a seven-point scale on which a "1" is the highest and "7" the lowest score. This put Russia's political institutions below those of Brazil's military government of the late 1970s, and its civil liberties below those of Nigeria in 1991 under the dictatorship of Major General Ibrahim Babangida.²⁵ Russia's "5" for political rights equates it to Morocco, an authoritarian monarchy. Kuwait—a hereditary emirate where political parties are illegal, women cannot vote in legislative elections, and criticism of the emir is punishable by imprisonment—rates a "4."

Just how bad *is* Russia's democracy? While imperfect in various ways, Russia's politics are actually more democratic than in almost all the countries that surround it. Only the Baltic

²³ *The Economist* June 24, 2000, p.20.

²⁴ *The Economist* Dec 14, 2002, p.38.

²⁵ In its 1979 report on Brazil, Freedom House noted that although political imprisonment and torture continued to occur, "the atmosphere of terror had largely dissipated" (Gastil, *Freedom in the World 1979*, Freedom House, p.215.) The description sounds closer to conditions under Khrushchev's USSR than Putin's Russia. In Nigeria in 1991, again quoting Freedom House itself, military tribunals were charged with trying cases of sedition and the regime had made a practice of incarcerating "innocent relatives of suspected political offenders to draw the suspects out of hiding" (Gastil, *Freedom in the World 1991-2*, p.353). Whatever the flaws of Russia's democracy, they seem far from this.

states seem to be on a similar or higher level. The defects of Russian democracy are similar to those found in many other middle income developing countries.

Between 1991 and 2000, Russia held six national elections (three parliamentary and three presidential). In each of these, a variety of candidates ran, representing all parts of the political spectrum. With few exceptions, parties and electoral blocs were free to organize, and a large number succeeded in meeting the requirements for registration. The public participated actively: turnout ranged between 72 percent in 1991 and 55 percent in 1993. In all national elections since 1993, voters were given the opportunity to vote “against all.” The number doing so has never exceeded 4.8 percent.

International observers, although critical of imbalance in media coverage and episodic improprieties, have generally given these elections high marks.²⁶ Such observers may be under political pressure to avoid offending host governments, and their comments might be overly

²⁶ For instance, after the 1993 parliamentary election, the Helsinki Commission (CSCE) announced that despite “a number of problems and irregularities... Russian voters were able to express their political will freely and fairly.” (www.house.gov/csce/russiaelection93.htm). After the December 1995 election, the CSCE reported that “International observers considered the election to be free and fair” (www.csce.gov). In 1996, although critical of unbalanced press coverage and inappropriate campaigning by some presidential staffers, the OSCE mission said it believed the results accurately reflected the wishes of the Russian electorate, and congratulated the voters on “a further consolidation of the democratic process” (www.osce.org/odihr/documents/reports/election_reports/ru). In 1999, while noting several concerns, the OSCE said the Duma elections “marked significant progress in consolidating representative democracy in the Russian Federation” and declared the electoral laws to be “consistent with commonly recognized democratic principles,” providing “a sound basis for the conduct of orderly, pluralistic and accountable elections”. The report noted that “Almost universally, the reports of short-term observers across the country commended the work carried out by polling stations commissions” and praised the procedure for counting the votes for “transparency, accountability and accuracy that fully met accepted international standards.” (*Ibid*) Finally, the 2000 presidential elections elicited a similar assessment from international monitors. The OSCE reported that in general the election “was conducted under a constitutional and legislative framework that is consistent with internationally recognized democratic standards”. The Central Electoral Commission “performed effectively as an independent and professional body... A sophisticated election system also upholds a high level of transparency for all political participants in all phases of the process... Polling station commissions demonstrated a notable commitment in carrying out their duties in compliance with the law and with adherence to procedural requirements. In over 98% of the reports submitted by [OSCE] observers, polling station commissions were rated highly for their performance during the conduct of the poll.” Procedures for tabulating the vote “provided a solid basis for transparency, accountability and accuracy that fully met accepted international standards.” (*Ibid*)

diplomatic. But the same organizations did not mince words in condemning elections in many of Russia's less democratic neighbors.²⁷

In a “phony democracy,” one expects reported election results to closely match the desires of incumbents. But in Russia, they often came as a shock to political elites. In 1991, an outsider candidate, Boris Yeltsin, beat the favorites of Gorbachev and the Soviet Communist leadership to win the presidency of Russia, with 60 percent of the vote. In 1993, elites were horrified by the high showing of Vladimir Zhirinovskiy and his clownish ultranationalists. In 1995, the Communist Party surprised observers by coming first in the party list vote, with 22 percent, a feat it repeated in 1999, when it won 24 percent. The main party associated with the incumbent regime won only 15 percent in 1993 and 10 percent in 1995.

Some falsification and improprieties have definitely occurred in Russia. In regional elections, officials have used technicalities to disqualify candidates, and incumbents at all levels have misused state resources to campaign for reelection. Limits on campaign spending have been breached, although the totals spent—even by the wildest estimates—would fall short of those in a typical election in the US or Brazil. Such problems do not appear to go beyond the violations common in middle income democracies.²⁸

²⁷ The Azerbaijan presidential election of 2000 was described as a case of “primitive falsification”. In Georgia in 2000, the observers reported “ballot stuffing and protocol tampering” that “has discredited Georgia’s democratization”. In Ukraine’s 1999 presidential election, the OSCE detected “flagrant violations of voting procedures” and a “widespread, systematic, and co-ordinated campaign by state institutions at all levels to unduly influence voters”. (www.osce.org/odihr/documents/reports) In Southern Europe, elections in Croatia in 1990-99 were “not blatantly fraudulent but nevertheless fell far short of the ‘free and fair’ standard agreed to by OSCE participating states”. Albania’s 2001 parliamentary elections were “protracted, litigious, uncertain and fragmented”, marred by “serious irregularities in the voting process, including cases of ballot box stuffing” and police interference ([Ibid.](#)).

²⁸ For instance, in Mexico international election observers from the human rights group Global Exchange reported after the 2000 presidential election that in “most of the communities [where its observers were stationed] voting day was marred by often flagrant violations of the electoral code. In the days preceding the vote, episodes of vote-buying, coercion, and intimidation were commonplace.... The delegation heard numerous testimonies from opposition supporters of harassment and intimidation, particularly in the marginalized and poor communities.” Mexico that year met the *Economist*’s criteria for a “real democracy” (*Economist* July 8, 2000, p.17). In Brazil,

Free and fair elections are only part of what makes a regime democratic. Many have attacked Russia's "super-presidentialist" constitution, drafted by presidential appointees and endorsed by a 1993 referendum in which the turnout figures have been questioned. While this clearly tilts the balance of power in favor of the executive, it hardly renders Russia's system undemocratic. The feature of the Russian constitution seen as most authoritarian is the right of the president to issue decrees on matters on which the laws are silent. But these decrees can be overruled by the Duma (albeit with a two-thirds majority, to make this secure against a presidential veto) or ruled unconstitutional by the Constitutional Court. In this regard, Russia is not very different from the presidential democracies of Argentina and Brazil.

4.2 Freedom of the press

Freedom House conducts an annual survey of press freedom. In the organization's words, it seeks to assess the extent of "political pressures, controls, and violence that influence content" of news media, and assigns ratings that range from 0 (best) to 40 (worst). In 2002, Russia scored a 30. This was worse than the rating accorded to Iran. Iran, as the report itself pointed out, had imprisoned more journalists than any other country. It had banned 40 newspapers just since April 2000. And it had sentenced journalists to long prison terms, along with 30-50 lashes and a prohibition from practicing journalism for years.

How does the perception of press freedom in Russia compare to reality? Critics of Russia's press freedom make two points. First, major television stations and newspapers are controlled by oligarchs who use them to further their private political or business goals,

according to one observer, "buying votes is common practice... and spawns armies of voters ready to sell their votes for a dish of beans" (Chico Whitaker, "Brazil's free elections," *Le Monde Diplomatique*, September 2000). Such observations are anecdotal, of course, but so are the ones used to criticize Russia.

including support for favored candidates. Second, especially under Putin, journalists who criticize officials are harassed or intimidated.

On the point of ownership and politicized coverage, Russia fits the norm for both developing and developed countries. Djankov, McLiesh, Nenova and Shleifer (2003) surveyed media ownership in 97 countries. They found that 92 percent of the largest television, radio stations and newspapers in these countries were owned by either families (read “tycoons”) or the state. This pattern was common to just about every country studied—from Brazil, Mexico, Argentina, and South Korea, to Italy, Singapore, and Australia. On average, families controlled 57 percent of newspapers and 34 percent of television stations. So Russia’s press tycoons are not an international aberration. If anything, Russia—along with its post-communist peers—stands out among middle-income democracies for the relatively large share of both television stations and major newspapers still owned by the government.

Press tycoons throughout the less developed world slant the political coverage on their networks to help favored candidates, as a casual perusal of the reports of international election observers attests. In many middle income countries, reporters and their bosses are accused of biasing their reportage in return for bribes of cash, “entertainment,” and favors in the privatization of media outlets.²⁹ In Mexico payoffs to political reporters go by the name of *chayotes* “after a small and tasty squash that fits in the palm of the hand.”³⁰ Even in developed countries like Italy and the US, journalists shape their broadcasts to further the goals of media barons such as Silvio Berlusconi and Rupert Murdoch.

What about state harassment of the press? A single case of repression is obviously one

²⁹ On Argentina and Colombia, see Waisbord 2000; on South Korea, see Park, Kim, Sohn 2000; on Mexico, see New York Times, Oct. 29, 2000, p.12.

³⁰ New York Times, Oct. 29, 2000, p.12.

too many. But state interference with news organizations is—sadly—almost universal among middle income countries, and occurs even in some highly developed ones. The International Press Institute in Vienna collects figures on various kinds of state interference with journalism in the countries of the OSCE, and has published these for the 1999-2000 period. We added together the number of cases of state censorship, imprisonment of journalists, and suppression of journalists “by law” for the 48 countries monitored to obtain an index of “state press interference.”³¹ Twenty-six of the 48 countries had at least one incident.

How should one compare the severity of such repression across countries? Here, the conclusions one draws are affected by the metric one chooses. One possibility is to compare the total number of incidents in different countries. Within the OSCE, the total ranged from zero (for many countries) to 121 (for Turkey). On this measure, Russia looks relatively bad, coming in second place with 30 incidents during the two years. However, to compare the absolute number of newspaper closures in a country with hundreds of daily newspapers (like Russia) to the number in a country with just three (e.g., Macedonia) seems somewhat dubious. A second approach is to deflate the number of incidents of state interference by the number of media outlets. We could not find cross-national data on the number of television and radio stations, but UNESCO publishes estimates of the number of daily newspapers in countries around the world. Russia, as of the mid-1990s, had 285 (plus about 4,600 non-daily newspapers). Figure 3 shows the number of cases of state censorship, imprisonment of journalists, and suppression of

³¹ “Censorship” includes the banning, confiscation, or suppression of media by state officials, as well as the forced closure of publications. “Suppression by law” covers cases in which journalists were sentenced to prison or excessive fines, including libel suits aimed at impeding the journalist’s right to report freely; the introduction of restrictive legislation; and official denial or suspension of credentials. Imprisonment is defined as incarceration or detention for longer than 48 hours.

journalists “by law” *per daily newspaper* in the OSCE countries monitored by the IPI.³² On this measure, Russia’s record of state interference with press freedom is only a little worse than average. Russia falls between Lithuania and the Czech Republic. Fifteen OSCE countries have poorer records, including Ukraine, Belarus, Turkey, Cyprus, and even Austria.³³ In sum, Russia’s patterns of press ownership and oligarch influence over the media are quite typical. The degree of state interference with journalistic freedom may have been higher than average after 1999, but it was not extreme for middle income countries.

[Figure 3 Here]

4.3 Corruption

In the late 1990s, the then Chairman of the US House Banking Committee, James Leach, wrote that he had made a study of the world’s most corrupt regimes, including the Philippines under Marcos, Zaire under Mobutu, and Indonesia under Suharto. Bad as these were, each was outdone by the “pervasiveness of politically tolerated corruption” in postcommunist Russia.³⁴

Other perceptions of corruption in Russia are equally grim. The anti-corruption advocacy

³² There are problems with this measure, too. If journalists are effectively intimidated, this may reduce the number of times a repressive state actually has to intervene. Still, this is also a problem with the figures used by critics of Russia’s record of press harassment. The deflated figures are likely to be less misleading than the raw numbers.

³³ Obstacles to press freedom do not all involve official state action. The IPI also published data on the number of cases of assault or killing of journalists in 1999-2000. Such figures provide a measure of the level of danger journalists face—although not exclusively from the state, since cases of violence often involve private actors or journalists hurt in war zones. It would be desirable to deflate the number of assaults and killings by the number of journalists in the country in question. Lacking such data, we calculated the rate of assaults and killings per daily newspaper, on the assumption that the number of journalists nationwide varies with the size of the daily press. Russia came tenth out of the 48 countries. It was around the level of Ukraine and Bulgaria, and far below the levels of Cyprus, Turkey, Albania, Belarus, and Moldova.

³⁴ James A. Leach, “The New Russian Menace,” *New York Times*, September 10, 1999; US House of Representatives, Committee on Banking and Financial Services, “Opening Statement of Representative James A. Leach,” September 21, 1999.

group *Transparency International* compiles annual ratings of countries' "perceived corruption," based on a range of business surveys. The World Bank has compiled a similar composite rating. In both of these, Russia scores toward the bottom. For instance, in the 2001 version of the World Bank's "graft" index, Russia was 142nd out of 160 countries. In TI's 2002 corruption perceptions index, Russia came 71st out of 102.

But what about sources less dependent on the perception of outsiders? In the summer of 1999, the World Bank and the EBRD conducted a survey of business managers in 22 post-communist countries. They asked respondents to estimate the share of annual revenues that "firms like yours" typically devoted to unofficial payments to public officials "in order to get things done." Such payments might be made, the questionnaire added, to facilitate connection to public utilities, to obtain licenses or permits, to improve relations with tax collectors, or in relation to customs or imports. They also asked respondents to what extent the sale of parliamentary laws, presidential decrees, court decisions, etc., had directly affected their business, in the hope of measuring the extent to which policymakers were coopted by business interests (Hellman, Jones, Kaufmann, and Schankerman 2000).

Figures 4 and 5 show how Russian business managers compared to their peers in other postcommunist countries on these questions. Administrative corruption is very high in the really poor FSU countries, such as Uzbekistan, Armenia, and Azerbaijan, lower in Russia, Bulgaria, and Lithuania, and lower still in the relatively rich Hungary and Slovenia. Russia falls right in the middle on both the "burden of bribery" and "state capture" dimensions. The responses were very close to what one would predict given Russia's economic development.³⁵

³⁵ The World Bank and EBRD repeated the survey in 2002. In almost all countries, the average percent of revenues paid in bribes dropped—it fell in Russia during these three years from 2.8 to 1.4 percent. But the cross-national pattern was almost the same. Again, Russia's level of administrative corruption was slightly lower than would be

[Figures 4, 5, and 6 Here]

How does corruption in Russia affect individuals rather than firms? The UN conducts a cross-national survey of crime victims. In 1996-2000, it asked urban respondents in a number of countries the following question: “In some countries, there is a problem of corruption among government or public officials. During—*last year*—has any government official, for instance a customs officer, a police officer or inspector in your country asked you, or expected you, to pay a bribe for his service?” The rates of positive responses are shown in Figure 6. Russia is about average for the developing and middle income countries surveyed. The proportion of respondents saying they had experienced demands for or expectations of bribes in the last year in Russia (16.6 percent) was lower than that in Argentina, Brazil, Romania, or Lithuania.³⁶ A simple regression shows that the rate for Russia is almost exactly what one would expect given its per capita GDP.

Looking at crime in general, the reported victimization rate in Russia is not high. Only 26 percent of Moscow respondents said in 2000 that they had been victimized the previous year by property crimes, robbery, sexual assault, assault, or bribery—compared to 34 percent in Prague, 41 percent in Tallin (Estonia), 44 percent in Rio de Janeiro, and 61 percent in Buenos Aires. Moscow’s rate was almost exactly that reported by urban respondents in Finland (26.6 percent) and lower than that for England and Wales (34.4 percent) (Del Frate and van Kesteren 2003).

predicted from its income. And by 2003, it had become less corrupt on the administrative corruption scale than Bulgaria and Belarus.

³⁶ The survey also asked about what type of official expected a bribe, in 14 postcommunist countries. Moscow respondents were the most likely to say the corrupt official was a police officer (55 percent) (Del Frate and van Kesteren 2003). See also United Nations (2003), Table 21.

4.4 Life expectancy and health

The health of a country's population obviously depends on more than just political factors. Still, Russia's rising mortality rate is often taken to symbolize the failure of recent governments to provide for their citizens' basic needs.

The trends in life expectancy are indeed worrying and unusual for countries at Russia's income level, although similar deteriorations also occurred in other former Soviet states. Between 1990 and 1994, male life expectancy in Russia dropped from 63.8 to 57.6 years. It then increased to 61.3 in 1998, but fell back to 58.6 in 2001. Female life expectancy followed the same pattern, although the changes were less extreme: it fell from 74.2 years in 1990 to 71.0 in 1994, rose to 72.9 in 1998 and fell to 72.1 in 2001. Life expectancy for both sexes—at about 65 years in 1993-5, was three years below the average for middle income countries, as classified by the UN.

What explains this deterioration? Some initially tempting hypotheses can be quickly rejected. The rise in mortality did not reflect the effects of mass impoverishment and malnutrition associated with falling living standards in the early 1990s. In the words of leading demographers: "It is difficult to argue... that living standards declined so far in absolute terms that they resulted in a sudden increase in mortality among the Russian population" (Shkolnikov, Cornia, Leon, and Meslé, 1998, p. 2006.) Even at their lowest point, Russian living standards remained much higher than in various other developing or communist countries that had higher life expectancy. If poverty were the culprit, one would expect the greatest increases in mortality to occur among the most economically vulnerable groups, the elderly and children. In fact, almost all of the increase occurred among Russians of working age. Mortality among children

fell throughout the 1990s, and the death rate among the elderly did not change much (Shkolnikov, McKee, and Leon, 2001).

In 1992-3, the Russian Longitudinal Monitoring Survey found no evidence of serious malnutrition in Russia. In fact, the proportion of people whose body weight increased during these years exceeded the share that lost weight. And this did not reflect a deterioration in the quality of diets: “In some way, the nutrition was even healthier than before the reforms because of a decrease in fat consumption which was very high in the early 1980s” (Shkolnikov et al. 1998). As of 1998-2000, only 5 percent of the population was undernourished. This was the fourth lowest figure among the former Soviet states, and lower than those of Brazil (10 percent), Bulgaria (15 percent), Croatia (18 percent), and Venezuela (21).³⁷ Only three percent of children under five were underweight for their age in Russia in 1995-2000, compared to 5 percent in Uruguay and Venezuela, 6 percent in Romania, Macedonia, and Brazil, 8 percent in Mexico and Turkey, 14 percent in Singapore, and 18 percent in Malaysia.

Second, the mortality increase in the early 1990s (although perhaps not that in the late 1990s) was not caused by a deterioration in the health care system. As Shkolnikov et al. note, total medical expenditures decreased only slightly during the early 1990s (Ibid, p.2007). The number of doctors per capita, already one of the highest in the world, rose still higher in the 1990s.³⁸ While “problems in the medical system and the weakening of sanitary control” may have caused a slight increase in mortality, this could not have contributed much to the total change in the early 1990s (Ibid.; Gavrilova et al. 2002, p. 9).

³⁷ United Nations, Food and Agriculture Organization, Rome, *The State of Food Insecurity in the World, 2002*, <http://www.fao.org/docrep/005/y7352e/y7352e07.htm#t>

³⁸ Russian doctors may, however, be too narrowly and inappropriately trained (DaVanza and Grammich 2001).

Looking at other statistics on health, Russia does not perform poorly relative to other middle income countries. It inoculated a higher share of one-year-olds against tuberculosis and measles in 1999 than did France, Italy, Ireland, Greece, Korea, Chile, and many other countries (96 and 97 percent respectively).³⁹ Russia had a relatively high rate of tuberculosis infection (91 cases per 100,000 people in 1999); but this was still lower than the rates in Romania and South Africa. Russia's infant mortality rate, 18 deaths per 1,000 live births in 1992 and 15 in 2000, although higher than those of developed countries, is comparable to or better than those in Estonia (17), Argentina (18), Romania (19), Mexico (25), and Brazil (32).⁴⁰ It fell during most of the decade.

Third, the sharp drop in life expectancy cannot be explained by ecological deterioration. In fact, levels of industrial pollution decreased in the early 1990s because of the drop in industrial production. Mortality of children from respiratory diseases has not increased (Ibid, p. 2007-8).

So what does explain Russia's soaring mortality? Increased alcohol consumption probably played a part in the early 1990s.⁴¹ This may be associated with the stress of economic transition, although some other countries undergoing similar stresses had far smaller jumps—or none at all—in alcohol-related deaths.⁴² Alcohol abuse may also have been stimulated by a sharp drop in the relative price of vodka in the early 1990s, which increased sales of vodka

³⁹ Goskomstat Rossii, UN *Human Development Report* 2002.

⁴⁰ UN *Human Development Report* 2002.

⁴¹ E.g. Shkolnikov et al. 1998, DaVanzo and Grammich 2001.

⁴² Brainerd (1998) finds that the jump in mortality in the early 1990s correlated across the transition economies with inflation and unemployment rates, but these correlations did not control for changes in alcohol prices or consumption. She does not find a general relationship between the mortality change and speed of reform: while mortality rose sharply in some rapid reformers (the Baltic states), it fell in others (Poland, Slovenia).

relative to beer. While in 1990 Russians could buy 26 liters of beer for the price of one liter of vodka, by 1994 they could buy only four.⁴³ In the late 1990s, sharp rises in drug overdoses, HIV, and tuberculosis fueled a second surge in the death rate.⁴⁴ These problems may reflect weakness in preventive health, drug treatment, and AIDS awareness. The spread of tuberculosis has been attributed to prison overcrowding (Gavrilova et al. 2002). The contributions of these factors to the male life expectancy tragedy remain to be sorted out.

5 Conclusion: The Roots of Russanoia

As the new millenium began, Russia's economy was no longer the shortage-ridden, militarized, collapsing bureaucracy of 1990. It had metamorphosed into a marketplace of mostly private firms, producing goods and services to please consumers instead of planners. A few business magnates controlled much of country's immense raw materials reserves and troubled banking system, and lobbied hard for favored policies. Small businesses were burdened by corruption and regulation. Still, the economy was growing at an impressive pace.

The country's political order, too, had changed beyond recognition. The dictatorship of the party had given way to electoral democracy. Russia's once-powerful communists no longer penetrated all aspects of social life or sentenced dissidents to Arctic labor camps. Instead, they

⁴³ For the average monthly income, Russians could buy 10 liters of vodka in 1990 and 47 in 1994 (Goskomstat Rossii, *Rossiiskiy Statisticheskii Yezhegodnik 2001*).

⁴⁴ Still, it is quite an exaggeration to say, as one commentator recently put it, that Russia "has the highest rates of HIV outside Africa" (Orlando Figes "In Search of Russia", *The New York Review of Books*, October 23, 2003, p.39). This would be true if it were not for Estonia, Ukraine, Barbados, the Bahamas, Trinidad and Tobago, Panama, Belize, , Suriname, Jamaica, the Dominican Republic, Guyana, Honduras, Guatemala, Haiti, Thailand, and Cambodia, each of which had a larger share of the adult population infected with HIV as of the latest figures (for 2001). (See UNDP, *World Development Report 2002*, Table 7.) The average rate of HIV/AIDS among the 42 African countries for which the UN provides data was 9.1 percent of the adult population infected. In Russia, the rate was 0.9 percent, below the worldwide infection rate of 1.2 percent.

campaigns for seats in parliament. The press, although struggling against heavy-handed political interventions, bore no resemblance to the stilted propaganda machine of the mid-1980s. In slightly over a decade, Russia had become a typical middle income, capitalist democracy.

So why the dark—at times almost paranoid—view? Why the hyperbole about kleptocracy and economic cataclysm? Why were Russian conditions often portrayed as comparable to those in Zaire or Iran, rather than to the far more similar realities of Argentina or Turkey? Our best guess is that a number of factors—psychological, informational, and overtly political—led to the dyspeptic consensus among Russia-watchers in the West.

A first element sustaining this view was understandable, even praiseworthy. Observers saw genuine suffering among Russians dislocated by the transition, and responded with unreflective sympathy. Beside the visible excesses of the new super-rich, the plight of impoverished pensioners seemed shocking. The immediate reaction of many in the West was generous and heartfelt.

But there was more to the common reaction than sympathy. There was a sense that the hardships many Russians endured were avoidable and surprising. Many observers were not just shocked, they were disappointed. They had expected much more, and attributed the messiness and injustices of post-Soviet Russia to the incompetence or ill-will of its governments.

Why were observers *surprised*? Several factors probably contributed. First, many Western observers started with a basic misconception. They believed that, as of the early 1990s, Russia was a highly developed, if not wealthy, country. In fact, as noted already, Russia's per capita income was around \$8,000 a year—about half that of Hong Kong or the UK, and one third that of the USA. But with its brilliant physicists and chess players, its space program and its global military influence, Russia did not look like a typical middle income country. The same

misconception informed some academic analyses. One recent paper, for example, makes the remarkable observation that although institutions to support the rule of law are imperfect in all countries, “between Russia and most other developed, capitalist societies there was a qualitative difference” (Hoff and Stiglitz 2002). Indeed, there was a qualitative difference. Russia was never a “developed, capitalist society.”

Even those without illusions about Russia’s wealth often lacked exposure to the sometimes unsavory politics and economics of middle income countries. Some in the Moscow press corps had served prior stints in Latin America or Asia. But many were fresh off the plane from London or New York, with no idea of how budgetary questions were decided in Argentina, or how businessmen outmaneuvered rivals in Korea. They tended to compare Russia to an idealized image of how capitalist democracies *should* work rather than to how less developed ones actually do. Administrative corruption, organized crime, financial crises, hyperinflation, and back-room political dealing all struck them as aberrant.

There were three less innocent motivations for playing up the dark underside of Russian life. First, sheer sensationalism played a part. With its nuclear missiles, Cold War history, erratic President, swaggering oligarchs, and violent war in Chechnya, Russia was inherently unnerving to Western publics. Newspaper editors and television producers knew they could make money exploiting such anxieties. Second, the intellectual left found in Russia a convenient backdrop for its own crusade against globalization. With Russia’s leaders embracing market rhetoric and reforms, the country’s initial hardships seemed to Western advocates of state intervention to be perfect proof of the dangers of excessive liberalization. Many saw a more promising alternative in China’s combination of markets, public ownership, and tight political control, ignoring the failures of “gradualism” in Belarus, Ukraine, and Gorbachev’s Soviet Union.

But perhaps most important, Russia became a football in American politics. The late 1990s saw a bizarre convergence between the far left and the Republican right on this score. Both, for different reasons, disliked the Clinton Administration. Russia-bashing became a way of attacking Clinton, and, by extension, his right-hand man in relations with Russia, vice president and presidential candidate Al Gore. President Clinton generously supported Yeltsin throughout his two terms (Talbot 2002). So, in a clever stroke of electoral politics, the Republicans adopted the anti-globalizers' critique of Russia and made it their own.⁴⁵ Once in office, the Republicans moved on. President Bush adopted a policy that was every bit as cordial and personalized as the much-criticized relationship between Clinton and Yeltsin. Meeting President Putin in Slovenia in June 2001, Bush claimed to have "looked the man in the eye" and got "a sense of his soul."⁴⁶ While the left continued fulminating against Russia's transition, the right mostly put such concerns behind it.

What does the future hold for Russia? Some see the sudden spurt of growth over the last four years as an indicator of more to come, and expect Russia soon to join Hungary and Poland in the community of poor developed countries, leaving behind the middle income developing ones. They emphasize the country's highly developed human capital, its reformed tax system, and its mostly open economy. Others see a serious barrier to growth in the continued political influence of large firms and the associated bias against small entrepreneurship. They expect Russia to stagnate as a consequence. Either scenario may well materialize: both often do in countries like Russia.

⁴⁵ For evidence of this, see the Cox Committee Report, a fierce attack on Clinton's Russia policy issued by a group of Republican Congressmen at the height of the US election campaign.

⁴⁶ CNN, "Transcript: Bush, Putin News Conference," June 18, 2001, <http://www.cnn.com/2001/WORLD/europe/06/18/bush.putin.transcript/>.

In fact, thinking about Russia as a normal, middle-income country suggests the implausibility of extreme forecasts. Russia is probably developed enough to remain a democracy, although at least in the foreseeable future it will remain an imperfect one. Incumbents may well seek to manipulate the process in order to stay in power, and there are likely to be some temporary reversals. Russia has probably destroyed enough of the vestiges of central planning to stay a market economy, albeit one with flawed institutions and a great deal of counterproductive state intervention. Its bureaucracy will remain corrupt, although as in other countries it will become less corrupt as Russia gets richer and its democracy develops. It is likely to have financial crises, ethnic conflicts, and electoral irregularities, but fewer of them over time.

That Russia is *only* normal is, of course, a disappointment to those who had hoped for more. And it is little consolation to those who have no choice but to endure the insecurities of life in a typical middle-income democracy. But that Russia today has largely broken free of its past, that it is no longer an “evil empire” threatening both its own people and the rest of the world, is an amazing and admirable achievement.

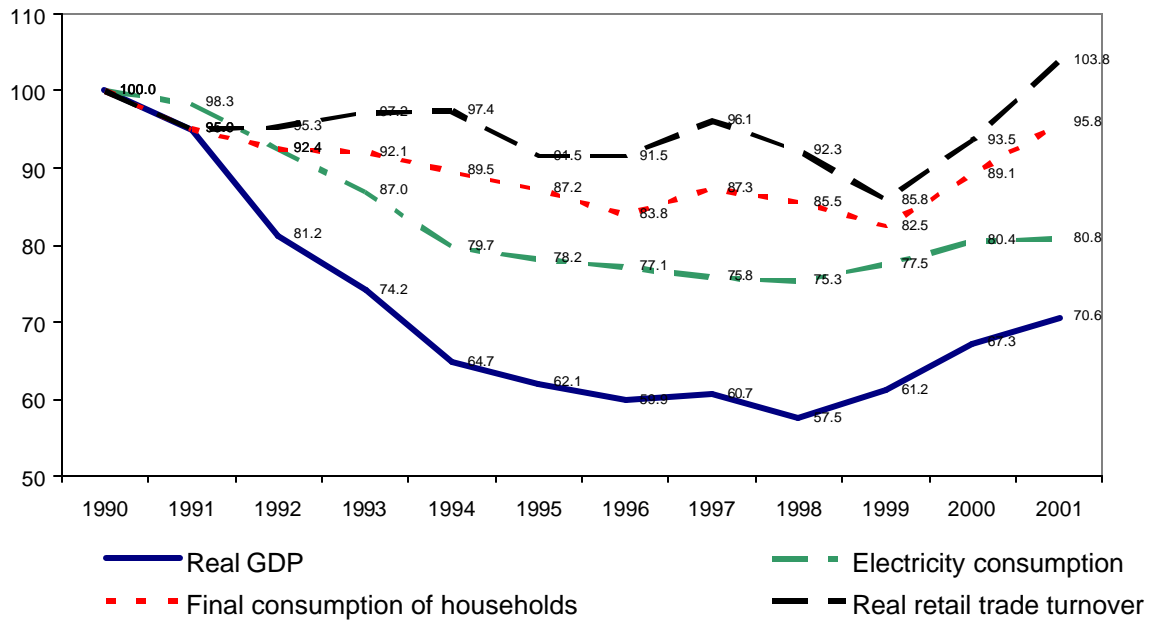
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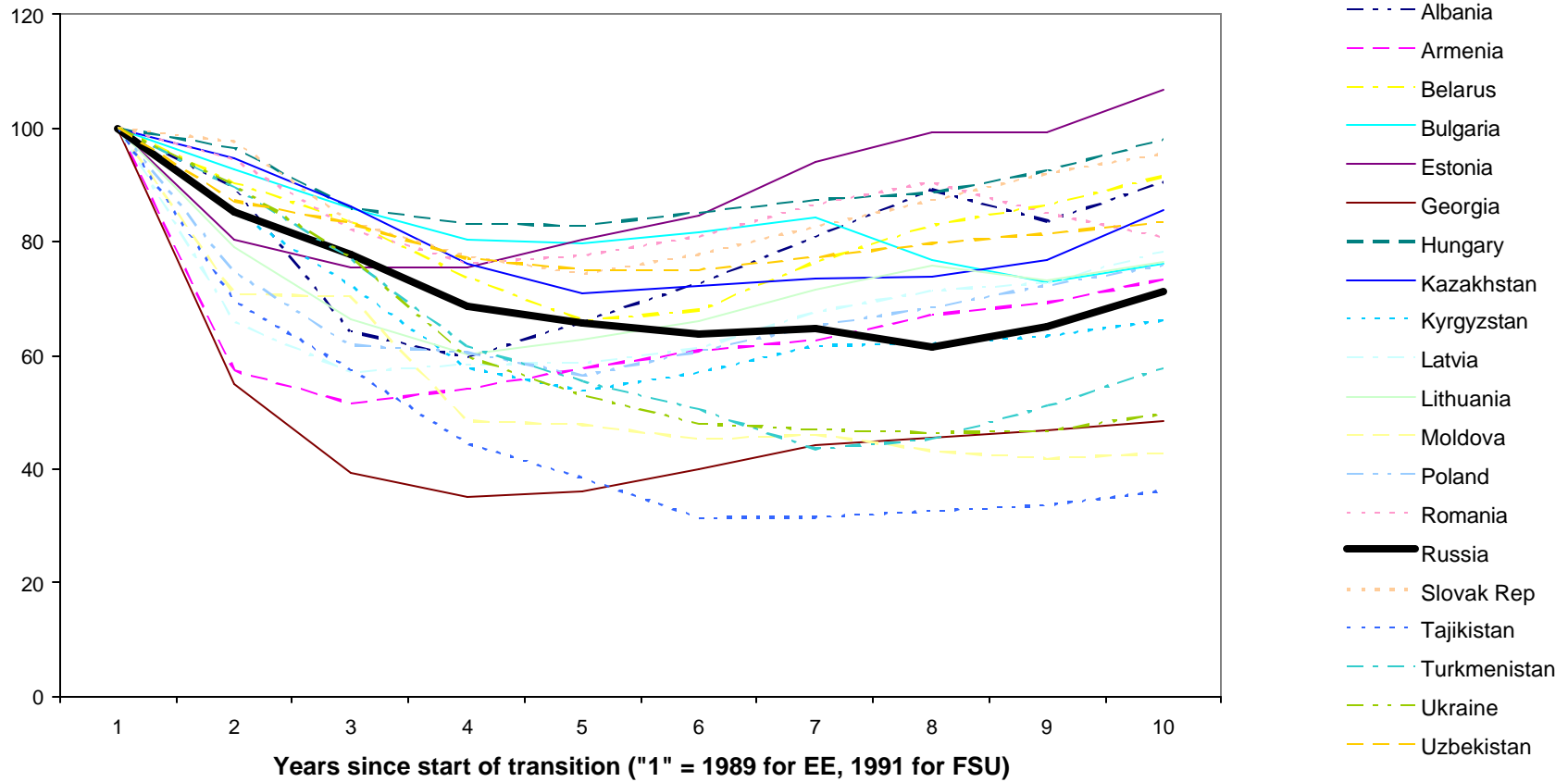
Figure 1: Measuring economic change in Russia, 1990-2001



Source: Goskomstat Rossii, *Rossiiskiy statisticheskiy yezhegodnik 2001*, *Rossia v tsifrakh 2002*, Goskomstat updates.

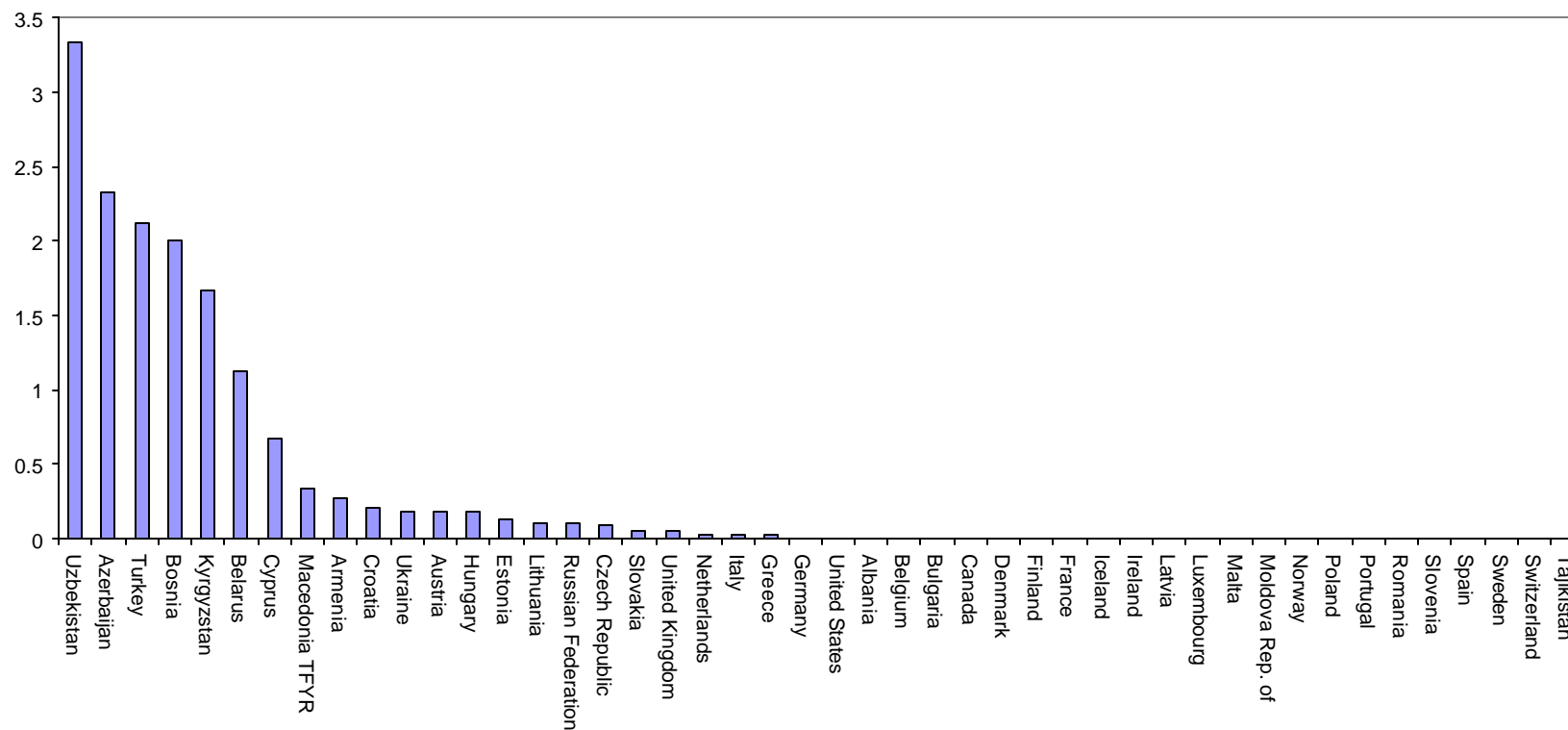
Electricity consumption figure for 2001 preliminary, estimated from production and export figures.

Figure 2: Real GDP per capita in postcommunist countries, first 10 years of transition



Source: calculated from World Bank, *World Development Indicators*, 2003.

Figure 3: Cases of state censorship, "suppression by law", and imprisonment of journalists per daily newspaper, 1999-2000



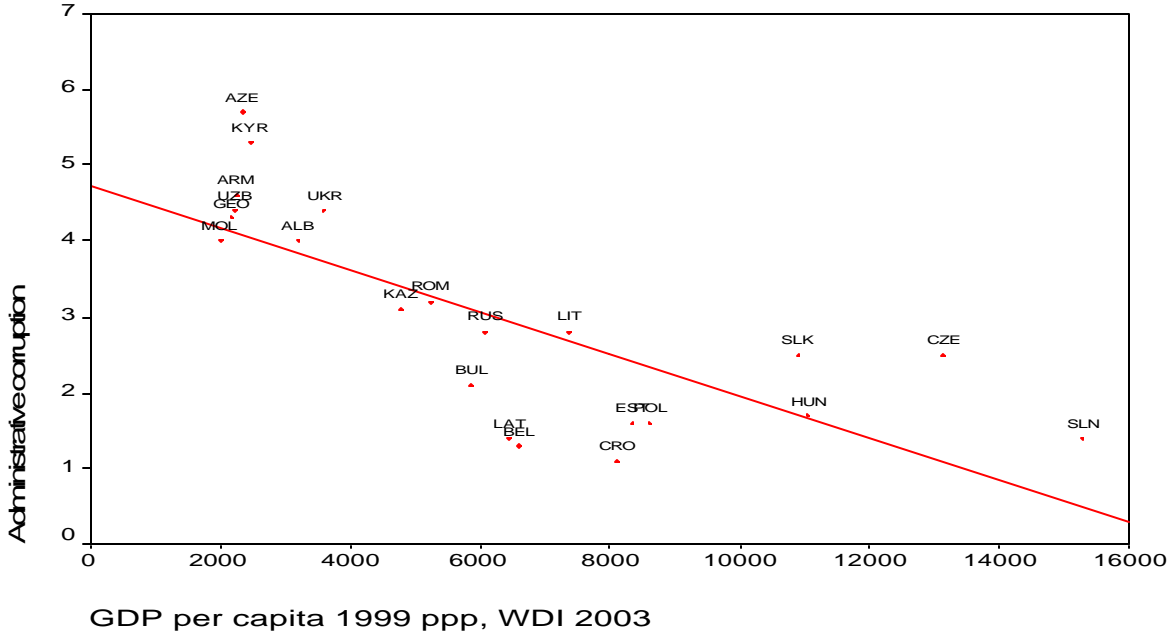
Source: International Press Institute, Vienna; data only available for OSCE countries.

Censored: Banned, confiscated or suppressed by official authorities. Media outlets closed.

Suppression by law: Journalists sentenced to prison or excessive fines, including libel suits aimed at impeding the journalist's right to report freely. Introduction of restrictive legislation. Official denial or suspension of credentials, including denial or withdrawal of visas or other necessary travel documents.

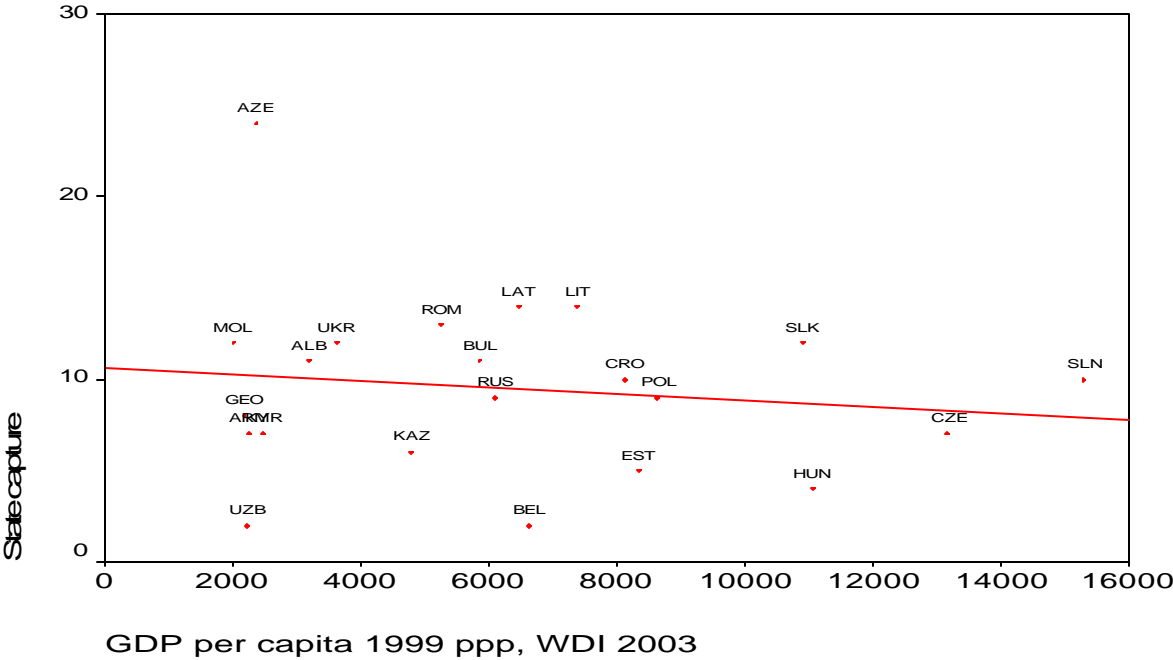
Imprisoned: Incarcerated or detained against one's will for 48 hours or more.

Figure 4: Administrative corruption in postcommunist countries, EBRD survey of business managers, 1999 (BEEPS)



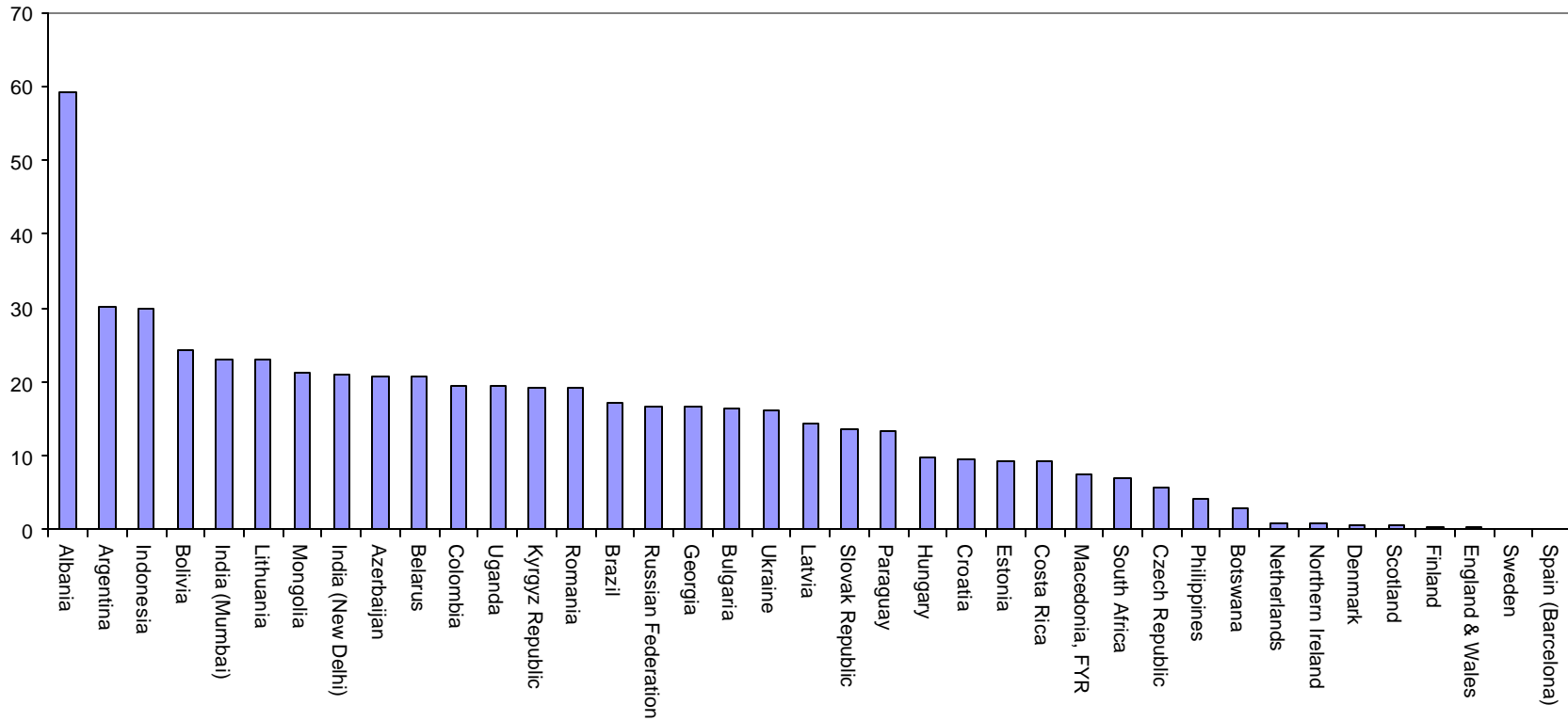
Source: EBRD.
Note: "Administrative corruption" = percent of revenues paid in bribes by "firms like yours".

Figure 5: State capture in postcommunist countries, EBRD survey of business managers, 1999 (BEEPS)



Source: EBRD.
Note: "State capture" = the percentage of respondents who said it was "sometimes", "frequently", "mostly", or "always" necessary for firms like theirs to make extra, unofficial payments to public officials to influence the content of new laws, decrees, or regulations.

**Figure 6: Percentage of respondents who had been victimized by bribery,
1996-2000, major cities**



Source: UN International Crime Victims Surveys, UN Human Development Report, 2002, Table 21, and Alvazzi del Frante, A. and J. Van Kesteren, "Some Preliminary Tables from the International Crime Victims Surveys," *Criminal Victimization in Urban Europe*, UNICRI, Turin, 2003.