

ILLUSION OF TRANSITION: RUSSIA'S MUSCOVITE FUTURE

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“Personally, I would not like to see Khodorkovsky behind bars. But responsibility must be taken for things that have been done. I sincerely want our entrepreneurs to be the best. But boys, stop cheating, stop stealing.” –Deputy Prosecutor General Vladimir Kolesnikov, 21 October 2003, (quoted in Page [2003])

INTRODUCTION

The Russian economy, according to statistics that should be taken with buckets of salt [*Economist*, 2003], has been in a sharp ascent since the infamous financial crisis of 1998. Although official data indicate that Russia's post-Soviet depression is still nearly as deep as the nadir of America's Great Depression, economic activity has partially rebounded, sparking a heated and sometimes acrimonious debate about past failures and future prospects. Critics of the Washington consensus have tended to focus their attention on missed policy opportunities¹ and path dependence, arguing not only that Russia's hyper depression was needlessly severe, but that its future is blighted by the institutionalization of the super-rich “oligarchs.”² Until recently, defenders of the International Monetary Fund (IMF)/World Bank position counter-argued that the painful medicine of yesterday was the elixir of tomorrow's prosperity because the property rights created have made oligarchy a flash in the pan.

The IMF reversed field in the spring of 2004, though, questioning oligarchic efficiency [World Bank, 2004] and raising the possibility that Russia's transition may have been “pirated” [Goldman, 2003; Havrylyshyn, 2004]. A discordant note sounded by Andrei Shleifer and Daniel Treisman [2004] claiming that Russia has already become a “normal country” challenges the IMF's new orthodoxy,³ but cannot withstand serious scrutiny [Rosefielde, 2005a; Shlapentokh, 2004; Yuriev, 2004]. Consequently, the main question that needs to be explored is whether Russia can become a normal country, understood as democratic free enterprise, or EU social democracy, in the foreseeable future.

This seemed possible throughout the first half of 2003, when all reports from Moscow were ebullient.⁴ Kremlin spokesmen vied with each other in upgrading their growth forecasts, until it seemed as if the glory years of Stalin's rapid industrialization

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had resumed. But, as often happens in the land of Rus, suddenly and without warning Putin punched a gaping hole through the fiction of inalienable property rights, clearly demonstrating by his handling of the “Yukos affair” that Russia has returned to Muscovy and has no intention of transitioning to democratic free enterprise, despite his Orwellian liberal democratic rhetoric.⁵ This surmise was swiftly confirmed by the marginalization of Russia’s liberal parties in the Autumn Duma elections, the growing bureaucratic dominance of military and secret police officers (FSB), presidential control over the media and judiciary, and the absence of parliamentary oversight over the FSB (Federal’naya Sluzhba Bezopasnosti) leading to Putin’s managed presidential reelection in March 2004. The Russian government is now being variously described as stealthy, or soft authoritarianism, and Richard Pipes [2004] laments that this is precisely what Russians want. His conclusion is justified, but does not adequately convey the deep senses in which Russian authoritarianism uniquely impedes a transition to democratic free enterprise. Before examining prospects for Russia becoming a normal country, therefore, it is essential to diagnose its abnormality and resistance to change.

MUSCOVY

Russian authoritarianism, at least since the rise of Muscovy under Ivan the Great in the 15th century, has been predicated on rent granting (the obverse of rent seeking) rather than inalienable property and the rule of contract law. Unlike its western counterparts, it has been a patrimonial society, where the ruler owned all he surveyed, and granted (*pomestie*) his supporters “*kormlenie*” (feeding troughs) in return for state service [Hedlund, 2005; Pipes, 1999]. Czars could and did make gifts of private property, but they were revocable, without the right of judicial appeal. Property and the rule of contract law accordingly were always tenuous, raising serious problems of deceit, moral hazard, and adverse selection. No one in Russia was secure. No one was protected by the rule of contract law, and therefore everyone had to erratically optimize as best he or she could in an imponderable world. Investment, innovation, and entrepreneurship were seriously hampered, encouraging the state to compensate for its backwardness with oversized land armies and foreign technology transfers.

As might be expected, the patrimonial rent-granting system came under perpetual attack from would be “stationary bandits” [Olsen, 2000] seeking to transform rents into inalienable private property rights. Some succeeded, but not enough to serve as a prelude either to free enterprise under the rule of contract law, or democracy. Muscovy was always able to keep rent granting in command, and Pareto at bay, through political intrigue, the secret police, and the army. It refused to serve Douglass North’s role of credible enforcer for an autonomous society, preferring autocracy to economic and political liberty [North and Thomas, 1972]. Russia and its people consequently remained backward, lagging developments in Europe and America [Gerschenkron, 1966], but survived nonetheless. The Soviet Union proved it was possible to produce enough to enrich the sovereign and his coterie, and achieve great power, even in the worst case, in which the state criminalized business, entrepreneurship, and private property.

The system “worked” in its own inimitable way for more than half a millennium. Its properties throughout, including the communist epoch, have been the same.

Regardless of ideology, rent granting and servile rent seeking have provided a lavish existence for the few and a Spartan one for the many, adorned by public opulence, a grand army, and vicious secret police. The model is pliable. It permits the sovereign to defend his realms, survive in isolation, or seize targets of opportunity for conquest and plunder, relying on rent granting combined with markets, physical systems management, plans, virtual subeconomies, and mixed arrangements.⁶ But it has an Achilles heel. The Muscovite system is microeconomically and macroeconomically inferior to Pareto-efficient profit seeking. It adds value, but cannot compete with American democratic free enterprise or European social democracy. Russia's post-Soviet market-assisted, martial police state has a higher potential than its communist predecessor, but as the Kremlin has repeatedly discovered it is intrinsically inferior.

Muscovy has also proven resistant to fundamental reform. Russia's leaders always have been reluctant to explicitly acknowledge how Muscovy really works, preferring to deny the existence of trade-offs, and deferring hard choices. Czar Nicholas II was prepared to make limited concessions to democracy, but none to rent granting. The Bolsheviks rid Russia of its Czars, but retained the core model behind a facade of central planning. Today, Vladimir Putin, Shleifer, and Treisman proclaim that the federation is normal, when it is not, rendering the regime impervious to enlightened westernization [Huntington, 1996].

PATH-DEPENDENT TRANSITION

Russia's future has been vigorously debated for more than a decade. The primary divisions have been between transitologists, who believe that one way or another the Federation will evolve toward democratic free enterprise, and those who envision alternatives such as authoritarian managed enterprise, or a "virtual economy" [Gaddy and Ickes, 1998; 1999; 2002; Gaddy, 1996]. The transitologists themselves are divided into various camps. The Gavrilentov-Stiglitz school, in differing degrees, consider Russia's new economic system to be an inefficient, path-dependent hybrid shaped by its culture, a Soviet residue, and the peculiarities of its post-communist market institution building. They do not reject the idea that this legacy may be overcome, but are cautious about the near and intermediate terms. Aslund, Shleifer, and Treisman are the leading exponents of the optimistic school, which until recently considered Gavrilentov's and Stiglitz's position old news.

During late 2002, the Gavrilentov-Stiglitz school's main worry was that Russia's flawed system impaired its growth possibilities. Stiglitz placed the blame on permanent damage caused by the IMF's and the Gaidar government's malpractices. He contended that "Theoretical and empirical research at the World Bank and elsewhere, including the examples of Poland and other countries that took different approaches, has shown that restructuring is possible before privatization; that how privatization occurs does make a difference, both in the short and long run. Privatization without good corporate governance typically does not lead to faster growth. It does, however, lead to a whole host of problems. In the long run, we should be concerned not just with the pace of economic growth but with the kind of society that is being created" [Stiglitz, 2002b].

Evgeny Gavrilentov, former director of Moscow's Higher School of Economics and Chief Economist at Troika Dialog, echoed these sentiments, apprehensive that adjusting the money supply, interest rates, foreign exchange rate, tax rates, and otherwise improving regulations are no more decisive in the current system than they were during the Czarist and Soviet eras. To illustrate the point, he cites Ivan Aksakov, a mid-19th century businessman who lamented, "Above all, it is the lack of common honesty in Russia, in its narrowest and most ordinary sense, which astounds. This fatal flaw in character deprives the government of the opportunity to wield any reliable executive power, by robbing it of a necessary number of honest, faithful lower-ranking officials" [Gavrilentov, 2002].⁷ Gavrilentov [2002] finds that recent economic growth is attributable to natural resource investment and government feather-bedding, with few spillovers into manufacturing. Even a modest decline in oil prices will sharply reduce growth, already under pressure from a state-manipulated appreciation of the foreign exchange rate. He complains about the fragile fiscal mechanism, the inexorable rise of non-interest federal expenditures as a share of GDP, feeble employment growth, capital flight, and "capitalism without capital" due to the bank sector's underdevelopment. The old Soviet savings bank, Sberbank, which remains state owned, controls around 70 percent of the retail market, prompting Gavrilentov [2002] to observe that "One of the first decrees of Lenin's government was to nationalize banks and little has changed since then, despite the fact that Russia is now home to over 1,900 banks."⁸ Arkady Dvorkovich, Deputy Economic Development and Trade Minister, warned in the same vein that the economy will start shrinking in 2004 if the pace of reforms does not accelerate, and Andrei Illarionov, Putin's top economic advisor, insisted that growth through 2015 will drop to 0.2 percent per annum if state spending rises to 40 percent of GDP from its current level of 35 percent [Startsev, 2002].

Aslund (former advisor to the Yeltsin government, and now Director of the Carnegie Foundation for Peace's Russia and Eurasian Program), Shleifer (past head of the now defunct Harvard Institute for International Development project to reform the Russian economy), and Treisman took precisely the opposite position. They contended that the economy was stable, dynamic, and wealth creating because the Kremlin at their urging embraced the "Washington consensus's" stabilization, privatization, liberalization, and democratization program. Contrary to Stiglitz's assessment, Russia is neither "lost" nor deformed. It has been won! [Aslund, 2002a]. Aslund [1995] concedes that full transformation was more protracted and traumatic than he previously anticipated, but blames this on Yeltsin's cautious reforms and an excessive budget deficit of 8 percent, compounded by the European Union's protectionism, and ill-advised obstructionism by "oligarchs, regional governors and the Communist Party" [Aslund, 2002b].

These obstacles he claimed have been overcome by the market. The financial crisis of 1998 bankrupted most oligarchs and transformed many others into progressive businessmen. The communists entered the government, and regional governors have lost half their financial resources to the center. The parliament has emerged with a solid reformist majority, public expenditures have been cut, barter tamed, and a flat personal income tax of 13 percent and a corporate profit tax of 24 percent introduced. Judicial reform has been undertaken, land has been privatized, banking laws improved, and a new labor code adopted, resulting in an economic miracle. "In effect, the Kiriyenko-IMF program of July 1998 has been implemented ever since, and the

results are impressive by any standard, showing that a market economy can work wonders in Russia, and that it does not matter how an enterprise is privatized because private property can be transferred through sales and bankruptcy" [Aslund, 2002b]. Aslund, Shleifer, and Treisman do not forecast Russia's intermediate term rate of sustainable growth, but Aslund clearly expected a surge in direct foreign investment that would propel a rapid catch up to the west's high per capita income frontier.

Stiglitz [2002b], however, contested all Aslund's assertions and accused him of rewriting history to salvage the "Washington consensus." His specific rebuttals, which apply equally to Shleifer and Treisman, have merit, and provide a healthy antidote to the fable of how Russia was won. For example, he observes that the financial crisis of 1998 was caused by the IMF's bad advice, not cured by it.⁹ But this sparring on closer analysis is neither here nor there. The alternative policies Stiglitz recommends, like Aslund's, Shleifer's, and Treisman's, presume that Russia was, and now is, a sufficiently well-functioning market that it can be permanently invigorated by better policies. But the Yukos affair, which implies that Russia has not broken with Muscovy, casts a pall over the assumptions of both transitological schools.

YUKOS AFFAIR

On 2 July 2003, Platon Lebedev, Chairman of the Board of the financial group MFO Menatep and a major shareholder in Yukos oil company (headed by Russia's wealthiest oligarch, Mikhail Khodorkovsky), was arrested and charged with stealing a 20 percent stake in Apatit, a company worth \$283 million in 1994. He was subsequently incarcerated in the FSB (Federal Security Bureau, successor to the infamous KGB) Lefortovo prison and remains there to this date (10 July 2004). Another Yukos executive responsible for company security has been charged with double murder, and Vasily Shakhnovsky, a billionaire Yukos shareholder has been indicted for tax evasion. Menatep and Yukos offices were searched by the police. Khodorkovsky was called in for questioning. These actions were widely interpreted as a warning shot to Khodorkovsky to reign in his political opposition to Vladimir Putin [*Johnson's Russia List*, 2003a; Menshikov, 2003; Baker, 2003], and a reminder more broadly to everyone that authoritarian politics, not the market, are in command. The subsequent arrest of Vladimir Gusinsky, a defrocked Yeltsin-era media oligarch in exile on 24 August 2003, seemed to confirm "that if you don't abide by the rules of the game, we will track you down, so you better sort out your affairs here" [Kostikov, 2003].¹⁰ On 26 October 2003, Khodorkovsky's plane was stormed by security agents in Novosibirsk and he was hauled off to prison in Moscow and charged, among other things, with defrauding the state of \$5 billion in revenue [Belton, 2003].¹¹ Forty-two percent of Yukos' shares were subsequently "frozen," billions of dollars of tax breaks revoked, and on 1 July 2004, the company was forced to pay \$6.4 billion in back taxes, which could bankrupt it and lead to temporary or permanent renationalization, contrary to the expectations of those convinced Putin would operate according to the logic of liberal rationality [Pronina, 2004; Isachenkov, 2004].¹²

Lebedev's prosecution triggered an immediate firestorm of speculation about a power play by the *siloviki* (security services insiders), presaging a "junta," and prompting a presidential denial. Other motives were also suggested. These included a clash between

competing “families” (one of which is the Boris Yeltsin faction) in Putin’s entourage; a ploy by two state-owned oil companies, Rosneft and Transneft, to prevent Yukos from encroaching on their turf; an effort to keep Russian oil out of foreign hands;¹³ an attempt by security elements called “*chekist*” (reference to CHEKA, the forerunner of the NKVD, KGB, and FSB) to bolster the United Russia Party (Putin’s party) as a platform for commandeering oligarchic resources for themselves; and a desire on Putin’s part to discourage their meddling in electoral politics.

Undoubtedly, there may be something to all these political explanations, but lost in the finger pointing is the larger question of what the Yukos and Gusinsky affairs reveal about the underlying system and its evolutionary trajectory. There are two key points. First is the realization that nominal owners and administrators do not have property “rights” in the full western sense. Anders Aslund [2003a] tacitly acknowledged this by publicly calling for an amnesty that would transform oligarchic property control into inalienable ownership rights,¹⁴ but his formulation was narrowly focused on ill-gotten gain rather than inalienable asset control more broadly. It is widely supposed that Putin sincerely desires to found Russian democratic free enterprise firmly on inalienable private property. Yet the Yukos affair, and an ongoing effort to subordinate private military industrial enterprise to state design bureaus under the aegis of the military industrial complex (VPK),¹⁵ originated by former Deputy Prime Minister for Defense (now Minister of Science, Technology, and Industry) Ilya Klebanov, raise the possibility that the Kremlin is really committed to Muscovite authoritarian state control with a liberal democratic veneer.¹⁶ Yukos in this interpretation is signaling more than a jurisdictional dispute between private and public sectors. It indicates that the state aspires to reduce the private sector to an appendage, where asset holders as state agents operate without the benefit of the rule of contract law, much like Soviet enterprise managers under *khozraschyot*,¹⁷ but this time with the guise of formal ownership.

Second, power is shifting from a system in which the state’s and oligarchs’ commercial priorities were consonant, to one in which the government sees its interests increasingly allied with those of the FSB and VPK. Lilia Shevtsova, Senior Associate at the Carnegie Foundation for Peace, has articulated this position most succinctly. Shevtsova [2003] correctly observes that “Neither Putin nor his praetorians had any intention of starting nationalization” because this is superfluous in a society where property is alienable, and would unnecessarily deny the state the benefits of foreign direct investment, to say nothing of intergovernmental assistance. The events of the summer of 2003, Shevtsova continues, have demonstrated instead that Russia’s oligarchs are unable to formulate a corporatist agenda that gives them a *raison d’être* in the state’s eyes. “Russian moguls have been shown up as nothing more than appointees of the apparatus who have been handed the right to control private property and are supposed to act within strict boundaries.” “Oligarchy” she asserts is a “myth” because it no longer has a reason to exist, and therefore cannot hold its own against the security services in fixing national priorities. Bureaucracy, not the market, has once again become the dominant force within the governance system, as it has been through the ages.

Regarding Khodorkovsky, Shevtsova contends that Putin decided to make an example of him because he was using his status as Russia’s richest man to promote transparency

and legality. "It was a challenge to the bureaucracy, which reacted immediately." She goes on to say "The Yukos affair has proven that Russia's stability is not sustainable. The rules of the game can be reversed at any moment. Economic considerations and property rights can become hostage to the political struggle." Society still considers Russian business a hostile force, assuring that Putin and the nation will become increasingly dependent on the "power structures" [Shevtsova, 2003; *Johnson's Russia List*, 2003b].

BACK TO THE FUTURE

Advocates of the Washington consensus and development scholars more broadly, who see no contradiction between what Putin has called the "dictatorship of law" and competitive free enterprise, may be inclined to dismiss Shevtsova's analysis. Why would rational westernizing leaders, who had just demolished communist administrative command planning, contemplate tilting back to the future? Stefan Hedlund's [2005] historical research provides the clue. Mikhail Gorbachev and Boris Yeltsin did not set out, as they publicly declared, to democratize, privatize, liberalize, and construct western free enterprise. Like other nonwestern societies feigning westernization, they sought instead to modernize Muscovy in their own interest by transferring patrimonial entitlements to themselves, including rent granting, while preserving elements of the virtual economy and introducing markets and the rule of contract law insofar as they served their purposes. The inner party group always lived lavishly behind closed doors, amid public squalor, but bristled at the constraints on their lifestyle imposed by communist ideology. Pareto was just a fig leaf. Like Lenin, they acted reflexively without a blueprint. The process began under Gorbachev as rent-granting spontaneous privatization, and continued helter-skelter until Yeltsin realized that his tenure, and the retention of his spoils, required an alliance with the FSB and the military to check oligarchic aspirations. Stephen Blank [2004] has provided a full account of how Vladimir Putin used his position as FSB head to secure Yeltsin's authority, his own succession, and ultimately the restoration of Muscovy as a martial police state in modern guise committed tongue-in-cheek to democratic free enterprise, rapid growth, and social justice.¹⁸ But this rule of men is wholly incompatible with democratic free enterprise and ideal socialist planning. It is *sui generis*, and needs to be evaluated without the prejudgments of transitology.

Perhaps this partly explains why Karl Marx concluded that Russia was the least likely western candidate for communism [Howard and King, 1975, 246].¹⁹ If so, events revealed he was prophetic, because Lenin's abolition of property rights in 1917 did not destroy anything that was real. Authoritarian politics remained in command. Only the formal rules of the game changed. Instead of noble "servitors" acting as state agents with "situational" property rights, "commissars" filled the same role as administrators with privileges. For westerners who could not fathom Muscovite realities, it seemed as if capitalism had been displaced by communism. But for more astute observers like Alexander Gerschenkron [1966, 270-95],²⁰ the statism of the Bolshevik autocrats had simply replaced that of the Romanovs. Everyone's shoulder was pressed against the wheel, without any possibility of independent action supported by inalienable property rights. Nor would Gerschenkron [1966, 119-51] be surprised by the latest post-Soviet

twist on the Muscovite model. Russian history in his reading went through cycles of mobilization, Czar-servitor power realignment, and demobilization, which is just where the Federation sits today in the depths of the protracted depression Shleifer and Treisman deny by using the official electricity index as better indicator of aggregate economic activity than the World Bank's GDP statistics.

These observations put the post-communist experience in an illuminating perspective. The same transitological attitudes that caused westerners to misinterpret 1917 as the suppression of Czarist free enterprise lead them to misconstrue 1991 as the dawn of a new era of democracy and competitive economic liberty. The hardships that followed have been attributed for the most part to policy errors and growing pains. Democratic free enterprise, Aslund has repeatedly assured us, has not been arrested, only delayed; however, as he now seems to appreciate, the Yukos affair strongly suggests a different possibility [Wood, 2003]. Russia has not transitioned, it has just metamorphosed. It did it under Peter the Great, Catherine the Great, and Lenin the Great, and is recurring under Vladimir the Great, as Putin is now often called. This is a very disturbing prospect. If correct, it means that democratic free enterprise and Shleifer's and Treisman's vision of Russian "normalcy" have been derailed, not postponed.

The evidence for this surmise lies in the nature of the new Russian state, its agents, and the mechanism the president uses to wield power. Just as under Czar Nicholas II, and in many less developed nations, Russia is a kind of constitutional "autocracy," complete with electoral institutions and markets. Sovereignty, however, neither reposes with the people nor is shared. The president rules politics and the economy. The markets and residual Soviet natural economic institutions play a supporting role, but balloting is decorative. No one seriously doubted that Putin would win or steal the election in 2004, just as he destroyed the liberal opposition in the December 2003 Duma election [Shukshin, 2003].²¹ And, unlike Yeltsin, he may choose not to walk quietly into the gentle night in 2008. His statism is popular [*Johnson's Russia List*, 2003c, e].²² Constitution or no constitution, there is always a compelling pretext in Russia for the sovereign to operate as the law. This makes the system authoritarian. Its unique Muscovite characteristics derive from the peculiar dependency of insider agents on the president, stemming from their weak property rights and entitlements, their prodigal administrative privileges, reliance on the secret police and *siloviki*-dominated bureaucracy, and Putin's superpower military aspirations [Felgenhauer, 2003].²³

Unlike George Bush, Tony Blair, Jacques Chirac, and Gerhardt Schroeder, Russia's president acts as if the assets of the realm are his to dispense for tenure, or in perpetuity, and are revocable if recipients provoke his displeasure. The economy is governed by insider intrigues over administrative privileges, usufruct, and ephemeral property claims, ultimately adjudicable by Muscovy, not the competitive market or democratic balloting. Commentators have borrowed foreign terms like cronies, oligarchs, kleptocrats, and plutocrats to express this dimension of the post-Soviet landscape. The terms provide insights, but they miss the essence of the matter. Russia's problem today is not that it has suffered from corruption, but that it has re-embraced the Muscovite system, which for more than 500 years has not only institutionalized corruption, but marginalized democracy, markets, and the rule of law. The system

cannot transition to democratic free enterprise as the IMF and World Bank until recently tirelessly predicted because these goals are antithetic to those of Ivan the Great's heirs.²⁴ Putin and his servitors do not mind putting lipstick on the pig. They are pleased to profess democratic values and use markets to private advantage, but never at the expense of their powers and privileges.

This means that Russia cannot be Pareto micro and growth efficient, even if privatization is not "revised," as Sergei Glazyev of the Rodina party urges [*Johnson's Russia List*, 2003d, h]. It cannot be integrated into the world economy on an equal footing with the west, nor provide its people with western living standards. Like the Soviet Union, Muscovy's last incarnation, Putin's Russia can recover and grow in its inimitable fashion, but neither truly prosper nor overtake Portugal [Rosefelde, 2003a, b; 2004a]. It can fabulously enrich the autocrat, his servitors, and other favorites from the proceeds of its natural resource industries, but for the rest, Muscovite arrangements can only benefit the military.

Those rationalists who equate reason with the inevitability of democratic free enterprise, or practitioners who describe Russia as merely being scruffy around the edges, will doubtlessly dismiss the significance of culture in shaping Russia's future. But their concept of reason is naive. The Muscovite approach is more sophisticated than the enlightenment attitude. The Kremlin does not pretend that human aspirations for inalienable property and a Lockean social contract are "rights" or "realities." Nor are they above exploiting the gullibility of those who hold fast to utopian idylls. Muscovite insiders in this way are master opportunists who exploit reality and illusion for their own advantage and are contemptuous of those who fail in their sophisticated game.

Their logic, like Caligula's, is strong, but morally wrong and socially detrimental. One of the great secrets of the enlightenment was the discovery that ethically informed rational self-interest of the kind advocated by Adam Smith could generate sustained improvements in life quality of nations if the few exercised compassionate restraint for the commonweal. The gambit succeeded, but the converse has also proven true. "Sophisticated" Kremlin insiders have demonstrated that they can live more extravagantly than their enlightenment counterparts by being morally obtuse, and begging their societies, with little risk of ever being brought to justice. The hard truth seems to be that predation pays in Muscovy for those on top,²⁶ whatever the ideology, and the system can survive without free enterprise, private property, the rule of law, and democracy for a very long time, even though, as theory suggests, social welfare will fall further and further behind the global norm. As during the Soviet era, statistics will be concocted to show Russia catching up with the high frontier, but when Muscovy unravels next time, the plight of the people will once again be exposed as it was in 1991.

Russia's rulers need a moral awakening. Precisely because predation pays, they have to rise to a higher state of ethical consciousness in the western Judeo-Christian, humanist, and enlightenment traditions, sacrificing their privileges so that the vast majority is given the opportunity for a decent existence.²⁷ Until they do, as the CIA [2004] has concluded, Russia will continue to backslide into a rent-granting martial police state, and G-7 transitology will be much to do about nothing.

POSTSCRIPT

The Yukos case was concluded on 31 May 2005. Khodorkovsky was found guilty and sentenced to a nine-year prison term [Lowe and Zhdannikov, 2005]. His company, Yuganskneftegaz, was confiscated for delinquent taxes, sold on 19 December 2004 to Baikal Finance for \$9.4 billion, and then transferred to the Sibneft, a state-owned enterprise, as part of a broader plan to renationalize the natural resource sector [*Johnson's Russia List*, 2004c]. The Putin government is now trying to restore investor confidence by placing a statute of limitations on rescinding privatized property, but it can still confiscate at will by creating bogus tax claims.

NOTES

1. The Washington consensus refers narrowly to macroeconomic policies that stress financial discipline, and broadly to the advocacy of democratic free enterprise. See Williamson [1989; 1993; 2002].
2. Russia's oligarchs are a small coterie closely connected to Boris Yeltsin and Vladimir Putin who have acquired formal ownership rights, which however are revocable in a society governed by the rule of men. It is often asserted that Mikhail Khodorkovsky is a "new" business school professional manager, but this characterization has been challenged by Dmitry Mikheyev, who taught Yukos managers. See Mikheyev [2003].
3. On 29 June 2004, a federal judge found Shleifer guilty of violating the False Claim Act with regard to his dealings in Russia; he could face damages up to \$102 million. See *Boston Globe* [2004] and *Johnson's Russia List* [2004b].
4. According to *RIA Novosti* [2003]:
Among the positive trends in economic growth in Russia contributing to the investment process are the following: In the first half of 2003 **1.** GDP grew 7.2 percent. **2.** Capacity utilization increased from 51 percent in 1998 to 70 percent in 2003. **3.** The business component of GDP rose 7.6 percent, construction 12 percent, and industry 9 percent. **4.** The monetary base increased to 7000 billion roubles. **5.** Central Bank gold and hard currency reserves as of July 1, 2003 stood at around 65 billion dollars, meeting all the country's short-term liabilities. **6.** In the first quarter of 2003 alone the country received 6.268 billion U.S. dollars of foreign direct investments. **7.** On top of that Russia has experienced some political stability. **8.** Capital flight abroad has declined appreciably. **9.** Privatization is going full speed ahead.
For an opposing view see *Moscow News* [2003].
5. Soviet leaders routinely used liberal rhetoric to describe their authoritarian practice. For example, Lenin claimed that the "dictatorship" of the proletariat was one million times more "democratic" than parliamentary democracy in England. Orwell correctly noted that the abuse of misnomers is a characteristic authoritarian practice. During the Soviet period the practice was frequently called "Soviet speak."
6. For a full discussion of the various aspects of the contemporary Russian economic system, see Rosefelde [2005b, ch. 5].
7. Ivan Sergeevitch Aksakov (1823-86) was a Russian journalist, entrepreneur, and social activist. He was a founder of the "*slavyanofili*" (slavophil) movement, advocating pre-Petrine traditions and norms. But he was not reactionary. He favored the abolition of serfdom, political liberalism, and co-founded the Moscow merchant mutual credit society.
8. Cf. Lane [2002].
9. Cf. Stiglitz [2002a]. On 29 November 2002, *Pravda* reported that the World Bank acknowledged having given faulty advice to Russia since 1992. See *Johnson's Russia List* [2002]. Stiglitz suggests that the oligarch problem be solved with a 90 percent asset tax. See Stiglitz [2003]. Cf. Gogal [2003].
10. The Greek government subsequently refused to extradite Gusinsky. (From www.gusinky.com, 14 October 2003.)

11. Analysts speculated that Khodorkovsky will be compelled to cede control over Yukos worth \$14.2 billion, which he acquired for \$200 million in a rigged auction in 1995. Cf. Walsh [2003] ("The hawks are Mr. Putin's personal appointees—the former KGB officers Igor Sechin and Viktor Ivanov. They pursue the unchallenged power they think necessary to make Russia great again.") and Bellaby [2002]. For an American professional legal opinion, see Clateman [2003]. Clateman [2003] concludes that the indictment is serious and cannot be "thrown out of court."
12. Yevgeny Yasin, Russia's former economics minister, says the Yukos affair shows "that Russia still has no property rights other than the Czar's—the rest is merely a brief given in return for service." And there is likely to be more attacks on property. See *Johnson's Russia List* [2003g; 2004a]; Zhdannikov [2003a]; and Belton, Korchagina, and Nicholson [2003]. For further updates on this story see Khodorkovsky [2004]; Popeski [2004]; BBC Monitoring [2004]; and Nagornykh, Gevorkjan, and Bulavinov [2004].
13. According to Victor Kalashnikov [2003], Yukos was built up by KGB and Communist Party bosses. Khodorkovsky was a beard to accommodate "Americans." On the Transneft oil pipeline struggle involving Japan and China, see Kohlhaas [2003]. Cf. Balzer [2003]. Balzer [2003] argues that the Kremlin's foreign policy requires control over oil.
14. Cf. Aslund, "The Drama Is Putin's, But so Are the Results," *Moscow Times*, July 25, 2003b.
15. The military industrial complex (VPK) was rechristened the defense industrial complex (OPK) in 2002. The older usage is retained because of its familiarity.
16. *Reformirovanie i razvitiie oboronopromyshlennovo kompleksa, 2002-2006 gody* (The Reform and Development of the Defense Industrial Complex 2002-2006), Moscow, 2002. For further details, see Rosefelde [2005b].
17. Soviet enterprise managers were expected to optimize production subject to constraints imposed by approved *tekhpromfinplans* (technical, financial, and industrial plans), and were rewarded with bonuses for compliance. They were officially classified as *khozraschyot* organizations, that is, self-financing state entities, subordinated to ministerial structures, operating without state budgetary support (except when subsidized). Their ministerial supervisors by contrast were financed entirely with state budgetary funds. For further details see Rosefelde and Pfouts [1988].
18. Helmer [2003] surveys the various rumors swirling around a Yukos-Sibneft buyout. See also *Pravda* [2003]. It was suggested at the Russia-America Energy Conference, St. Petersburg, September 2003, that Putin was contemplating nationalizing the oil industry and making drillers, processors and transporters outside contractors. State contracting (leasing) was the foundation stone of Lenin's strategy for constructing a socialist market in 1921 under the auspices of his New Economic Policy (NEP). See *Johnson's Russia List* [2003g] and Zhdannikov [2003b].
19. Marx was dubious about the possibilities of transforming Russian rural communes into socialist organizations.
20. "Soviet Russia describes itself as a socialist country and its economy as a socialist economy. Those claims are...less valid than is generally assumed" Gerschenkron [1966, 270]. Cf. Latynina [2004].
21. Grigory Yavlinsky accused the government of fraud after his Party Yabloko failed to win enough votes to enter the Duma.
22. Enlightenment social romanticism centered on liberationist politics was an important element of this transitological mindset.
23. Cf. Chubais [2003].
24. Gerschenkron [1966, 294-95] noted: "It is doubtful that a consumption economy can be established in Russia. A decentralized economic system geared to a steady rise in levels of consumption would leave the Soviet dictatorship without a social function, without a justification for its existence. It is much more likely that the dictatorship will continue the policy of willfully provoking one international crisis after the other and of maintaining a high rate of investment as the economic pendant to such a policy. Then a renewed curtailment of such managerial freedoms as have been granted since Stalin's death, followed by a general reversal of the decentralization policy, should be only a matter of time, and enterprise and management in Russia should once more return to the normalcy of Soviet mercantilism, concealed beneath a generous veneer of socialist phraseology." IMF economist David Owen (coauthor of *Russia Rebounds*) is upbeat, however, asserting "President Vladimir Putin's goal of doubling per capita incomes within ten years is attainable" Wood [2003]. Cf. Owen and Robinson [2003].
25. Mikhail Dmitriyev, First Deputy Economic Development and Trade Minister, outlined the next round of reforms at the "Russia and the CIS in 2003: Economic Targets in the 21st Century

Conference,” 9 September 2003: “The economy will be transparent...non-confidential information will be accessible to individuals. Civil servants will be recruited in open contests. Ministries will be financed in accordance with their performance. Federal regulation will be reduced. The budgetary process will be improved. Russia’s integration into the world economy will be a major objective in 2003-05. Joining the WTO and the OECD will top the list of priorities. Russia will also make a decision on integration into the EU.”

26. Brooks [2003], in reviewing four recent books on Russia, takes pains to deny that Moscow is incorrigibly “exceptionalist,” preferring to characterize it as “particularist.” His position, and similar ones taken by others, including former Ambassador Jack Matlock, are a matter of taste. But the economic model of Moscow outlined here is a fact, not a matter of interpretation, strongly confirmed by long history experience. It will determine Russia’s future economic performance far more than the principles of democratic free enterprise. Cf. Poe [2003].
27. The next target is the national pension fund. The government has authorized 55 “asset managers” with no track record or demonstrated qualifications to run Russia’s pension system. Massive theft is inevitable. See Ostrovsky [2003].

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