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Introduction

The collapse of the Soviet Union was "the greatest geopolitical catastrophe of the 20th century."

Vladimir Putin, April 24, 2005

The year 1980 can be viewed as the beginning both of the end of Soviet communism and a time of turbulent Russian transformation.[1] The era that ensued began on a humdrum note with Soviet declarations of socialist superiority, tempered by concerns about the changing *correlation of forces*, and western expectations of Kremlin *muddling through* with no appreciation that the economy might have entered a period of protracted stagnation. And it continued through what can be called Vladimir Putin's imperial authoritarian restoration. In between, the Communist Party of the Soviet Union, which oversaw a *socialist* centrally planned, authoritarian martial police state, tried to liberalize, modernize, and partly westernize by adopting Mikhail Gorbachev's ambitious program of *glasnost* (political candor), *demokratizatsia* (democratization), *uskorenie* (GDP growth acceleration), *perestroika* (radical economic reform), and *novoe myslennie* (new thinking to end the cold war). Although widely heralded at home and abroad, these programs contributed variously to an acute economic depression, the destruction of communist power, and the dissolution of the USSR into fifteen independent republics, culminating in the Kremlin's loss of 30 percent of its territories and 48 percent of its population.[2]

[1] This treatise is part of a Cambridge University Press nation studies series covering the period 1980 to the present.

[2] Steven Rosefielde, *Russian Economics from Lenin to Putin*, Blackwell, London, 2006, chapter 8.

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The post-Soviet years were similarly convulsive. Boris Yeltsin, Russia's first postcommunist president, undaunted by the results of Gorbachev's Muscovite liberalization,[3] chose an even more extreme course mislabeled *perekhod* (radical market transition), which purportedly sought to expand the scope of late Soviet era business, entrepreneurship, and private property with *shock* therapeutic methods, to open the economy to globalization, and forge a multiparty democracy. In the process, Yeltsin restored media freedom, drastically cut military expenditures, and curbed the powers of the secret police. Had these liberalizing, modernizing, and westernizing policies reflected the government's primary motive they would have been more beneficial. But they were mostly secondary policies abetting or concealing the asset-grabbing and revenue misappropriation that immiserized much of the population.[4] Democracy too was honored more in word than in deed, leading to a palace coup d'etat orchestrated by the *Federal'naia sluzhba bezopasnosti Rossiiskoi Federatsii* (FSB) that installed secret police head Vladimir Putin as Yeltsin's successor in 2000.[5]

Putin's presidency marked the end of the first phase of post-Soviet regime change. Under his aegis, multiparty democracy, which survives in name only, all but vanished in practice. Power was consolidated in his hands, despite the facade of balloting, much like arrangements during Soviet times. The secret police was revitalized, military spending revived, civil liberties curtailed, the press muzzled, and the independence of large corporations restricted.[6] Although Putin proclaimed an ambitious program to end mass poverty, his first initiative drastically pared Soviet era social welfare programs,[7] pauperizing many and further widening the gulf between rich and poor, despite an oil boom. This action, together with the disintegration of the Russian Communist Party led some analysts to declare 2004 as the real start

[3] Muscovite refers to autocratic governance strategies characteristic of Ivan the Great, founder of the Russian state in the fifteenth century. See Chapter 1.

[4] Ibid., chapter 11.

[5] Stephen Blank, "The 18th Brumaire of Vladimir Putin," in Uri Ra'anan (ed.), *Flawed Succession: Russia's Power Transfer Crisis*, Lexington Books for Rowman and Littlefield, Lanham, MD, 2005, pp. 133–70.

[6] Steven Rosefielde, *Russia in the 21st Century: The Prodigal Superpower*, Cambridge University Press, London, 2005.

[7] Irina Skliarova and Ksenia Veretennikova, "The Social Pyramid," *Johnson's Russia List*, No. 8281, Article 2, July 5, 2004. "There will be no 'monetization of benefits.' Essentially, the previous system will be replaced by a hybrid of in-kind benefits and monetary compensation. Benefits will be retained only by disabled persons and World War II veterans. Other pensioners will lose everything."

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of the postcommunist epoch, the year the social contract between Russia's rulers and masses became null and void, replaced by a new form of Muscovite rent-granting beholden to neither aristocrats nor the proletariat.[8] As Yevgeny Yasin, Russia's former economics minister expressed it, "Russia still has no property rights other than the Tsar's – the rest is merely a brief given in return for service."[9]

Of course, Yasin may be mistaken. Putin, now prime minister, and newly elected president Dmitri Medvedev still sometimes insist that their goal is to westernize, to transform Russia into a democratic free enterprise system founded on the rule of law and social justice.[10] And the Kremlin occasionally contends that Russia wants to reduce its military to the bare minimum and integrate into the global economy.[11] The epic therefore continues to unfold. Is Russia heading forward to a new model putting the Muscovite authoritarian police state behind it or back to the future?[12] The situation is murkier than before, and even the G-7 is having second thoughts about the inevitability of the democratic free enterprise transition it desires.[13]

This shouldn't be surprising. Western scholars for centuries have misappraised Russian prospects for liberalization, democratization, westernization, and even a better authoritarianism through the prism

8 Peter Lavelle, "Putin Ends the 'Old Regime.'" *Johnson's Russia List*, No. 8283, Article 11, July 6, 2004.

9 "Privatization Was Economically Ineffective – Audit Chamber," *Johnson's Russia List*, No. 8279, Article 12, July 3, 2004.

10 Alan Cullison and Andrew Osborn, "Russia Shuffle Keeps Putin in Play: Medvedev Offers His Backer Prime Minister Position," *Johnson's Russia List*, No. 254, Article 4, December 12, 2007.

11 But as usual the signals are contradictory. See "Russia's Ivanov Calls for Parity between Russian, US Nuclear Forces," *Johnson's Russia List*, No. 253, Article 425, December 12, 2007.

12 Andrew Kuchins, "Alternative Futures for Russia to 2017," *Johnson's Russia List*, No. 256, Article 4, December 4, 2007; Anders Aslund, "Putin's Three Ring Circus, "*Johnson's Russia List*, No. 256, Article 24, December 14, 2007.

13 *World Bank Report, From Transition to Development: Poverty Reduction and Economic Management Unit Europe and Central Asia Region*, April, 2004, www.worldbank.org.ru; Oleh Havrylyshyn, "Unchartered Waters, Pirate Raids, and Safe Havens: A Parsimonious Model and Transition Progress," paper presented at the BOFIT/CEFIR Workshop on Transition Economics, Helsinki, Finland, April 2–3, 2004, Havrylyshyn, *Divergent Paths in Post-Communist Transformation*, Palgrave Macmillan, Basingstoke, UK, 2006. George Tenet, Director of Central Intelligence, "The Worldwide Threat 2004: Challenges in a Changing Global Context," testimony before the Senate Select Committee on Intelligence, February 24, 2004, excerpted in *Johnson's Russia List*, No. 8089, Article 1, February 27, 2004.

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of their Enlightenment premises.[14] At least since the time of Catherine the Great (1729–96), they have predicted that Russia would emulate and catch up with its west European peers, but the path has never been straight or certain. The dominant motif for nearly a half-millennium has been best described by Alexander Gerschenkron's concept of continuity and change.[15] Russia since Ivan III, called Ivan the Great (1440–1501), grand duke of Muscovy has survived a series of crises, where leaders recognize the nation's backwardness, partially adapt causing a growth spurt, followed by a protracted period of stagnation before resuming a forward course without ever overtaking Europe, or embracing westernization (including democratic socialism). This pattern, and the accompanying persistent backwardness are a consequence of Russia's protean Muscovite culture, which adapts in its own fashion without assimilating the Enlightenment ideal of socially just, democratic free enterprise (consumer sovereignty in the private sector and popular sovereignty over public programs), or shedding its reliance on rent-granting as the preferred form of government control. Instead of making individual welfare the centerpiece of its worldview, Muscovite regimes place the tsar (subsequently the general secretary of the Communist Party, and more recently the president) at the apex of an authoritarian hierarchy. Whether explicit or implicit, the autocrat owns the realm, delegating the management of his assets to rent-seekers who generate incomes for themselves in return for taxes and service. Few restrictions are placed on these *servitors* who are usually permitted to oppress those under their control. Russian serfs were more slaves than feudal peasants. They could be bought and sold and forced to work in industrial factories, without the customary protections of western Europe. There were edicts but no rule of law.[16]

As a consequence, pre-Soviet Russia was astonishingly unjust from the perspective of contemporaneous western norms. A small segment

[14] David Engerman, *Modernization from The Other Shore: American Intellectuals and the Romance of Russian Development, Article 1*, Harvard University Press, Cambridge, MA, 2003.

[15] Alexander Gerschenkron, "Russia: Patterns and Problems of Economics Development, 1861–1958," in Alexander Gerschenkron (ed.), *Economic Backwardness in Historical Perspective*, Harvard University Press, Cambridge, MA, 1962, pp.119–51.

[16] Mikhail Tugan-Baranovsky, *The Russian Factory in the 19th Century*, Richard D. Irwin, Homewood, IL, 1970.

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of society lived lavishly off the land, resources, and people, while the vast majority was pauperized without civil rights, legal recourse, or democratic process. These grievances sparked mass movements for political change and social justice during the late nineteenth century. Although political parties had little power, their struggle for social liberation seemed to have borne fruit in the Bolshevik coup d'etat of 1917. Many social romantics claimed that *revolutionary* Soviet Russia embodied superior principles of socialist enlightenment. People not only received the right to vote, to assemble, to protest, to think freely, and to express their views publicly but also were granted equal opportunity regardless of gender, race, ethnicity, and religion. Whereas western democratic free enterprise in practice only provided the illusion of a fair social contract, some contended that Bolshevism eradicated injustice.

This wishful thinking however was soon shattered. By 1922, Emma Goldman fully detailed in *My Disillusionment in Russia* how Lenin had snuffed out political pluralism, creating a one-party police state.[17] There were triumphal claims of empowerment, equality, and social justice, but they had little substance. The state modernized, fostering universal education and employment after 1928 in effort to overcome economic backwardness. Incomes also became more egalitarian because of the *liquidation* of the tsar, nobles, and capitalists as a class, but throughout, the state's primary interest was what the people could do for the party, not how the regime could enhance the people's welfare. Nowhere was this more apparent than in Lenin's nationalization of private property and business. In free enterprise societies, people have the right to run businesses, start new companies (entrepreneurship), and own productive property and financial assets. Each of these rights provides expanded channels for maximizing individual utility, including the right of self-employment. The Bolsheviks by contrast preferred to reserve these rights to the state by criminalizing business, entrepreneurship, and private property. With some small exceptions, almost everyone was prohibited from working for himself under these ground rules. The state became the sole source employer, placing everyone's livelihood and personal freedom at its mercy. Instead of liberating the people, Soviet economic relations, combined with an omnipresent police state, kept most of the population servile. Where

[17] Emma Goldman, *My Disillusionment in Russia*, Thomas Y. Crowell, New York, 1970.

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socialist romanticism dreamed of utopia, reality was transmuted into dystopia (cacatopia), especially under Stalin.[18]

The social upheaval wrought first by Gorbachev's destruction of the Soviet Union and Yeltsin's heady promises of radical westernization have revived Russian aspirations for freedom and social justice. This motif will be used throughout to guide our narrative. The promises of the past few decades will be contrasted with the reality of persistent authoritarianism, rent-granting, inequity, injustice, and repressed civil liberties. At the end of the day, it will be shown that while the struggle for economic, political, and social justice; affluence and national power has yielded some post-Soviet successes, and better outcomes are possible by borrowing from other authoritarian martial police states such as China, Muscovy remains, without a virtuous Russian idea to navigate a superior future.

[18] Steven Rosefielde, *Red Holocaust*, Routledge 2009. Dystopia is the antithesis of utopia, a realm where everything that is supposed to be perfectly good turns out perfectly bad. If utopia is heaven, dystopia is hell. The term was first used by John Stuart Mill in the nineteenth century. Jeremy Bentham coined the synonym *cacatopia*, often spelled *kakatopia*.

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PART I

RUSSIA BEFORE 1980

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1

Muscovy and the West

Russians dislike westerners portraying them as European cultural outsiders and attribute the stereotype to Russophobia.[1] However, they acknowledge and even celebrate their exceptionalism among themselves.[2] As Alexander Gerschenkron phrased it, Russia might have been just like Europe if Tartar domination (1237–1480) and its malign legacy hadn't prevented it from assimilating three great cultural movements: humanism, the Renaissance (fourteenth to seventeenth centuries), and the Reformation (1517).[3] Even this formulation is too generous. Russia also lacked any practical acquaintance with Roman law, which underlay the Magna Carta and the foundations of western economic, political, and civic institutions. For at least a millennium, the land of Russia has been different, even though it has modernized and borrowed western institutions in its own fashion over the centuries.

A deep appreciation of Russia's special characteristics and potential is indispensable for any serious assessment of the post-Soviet epoch, its immediate antecedents, and its prospects. Without it, analysts tend to assume that the economic, political, and societal foundations of Russia and the West are identical, that the only factor dividing them is

[1] "Triumphant Vengeance: Philosopher Zinoviev Considers That the West Regained Its Power Thanks to Russia's Defeat," *Pravda*, June 30, 2004, reprinted in *Johnson's Russia List*, No. 8276, Article 15, July 1, 2004.

[2] Alexander Yakovlev, *A Century of Violence in Soviet Russia*, Yale University Press. New Haven, CT, 2002; cf. Richard Pipes, "Flight from Freedom: What Russians Think and Want," *Foreign Affairs*, May–June 2004; James Billington, *Russia in Search of Itself*, Woodrow Wilson Center, Washington DC, 2004.

[3] Alexander Gerschenkron, *Europe in the Russian Mirror: Four Lectures in Economic History*, Cambridge University Press, London, 1970.

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relative backwardness, and that any unfinished business will be speedily completed, culminating in Russia's full westernization. Where there once was a gulf separating East and West in the tsarist and Soviet eras, the East now is expected to dissolve seamlessly into the West. Indeed, this was the dominant view until the spring of 2004, when Vladimir Putin's growing authoritarianism and economic illiberalism gave pause to both the World Bank and the American Central Intelligence Agency (CIA).[4] Since then, talk of imminent transition by government institutions and specialists has ceased.[5]

Why did Russia disappoint them? It is easy to blame Putin, but his personal priorities and ethics are only part of the story. More than anything else, his actions and those of his predecessors Mikhail Gorbachev and Boris Yeltsin were forged in the matrix of Muscovite

[4] World Bank Report, *From Transition to Development, Poverty Reduction and Economic Management Unit Europe and Central Asia Region*, April, 2004, www.worldbank.org.ru; CIA, *Global Trends 2015 on Russia*, reprinted in *Johnson's Russia List,* No. 8192, Article 3, May 2, 2004; George Tenet, Director of Central Intelligence, "The Worldwide Threat 2004: Challenges in a Changing Global Context," testimony before the Senate Select Committee on Intelligence, February 24, 2004, excerpted in *Johnson's Russia List*, No. 8089, Article 10, February 27, 2004. For a contrary view, see Stanley Fisher and Ratna Sahay, "Transition Economies: The Role of Institutions and Initial Conditions," in *Festschrift in Honor of Guillermo A. Calvo*, April 15–16, 2004. These authors argue that "the accusation that the IFIs lost Russia, and the charge that shock treatment and too rapid privatization produced unnecessary output losses, disorganization, corruption and misery have been familiar parts of the indictment of the approach recommended by western officials and other advisers. In our earlier work (Fischer, Sahay and Vegh, 1996a, 1996b, and 1998) we concluded that the transition experience confirmed the view that both macroeconomic stabilization and structural reforms contribute to growth, and that the more structural reform that took place, the more rapidly the economy grew. In this paper we . . . argue that the charge that the IFIs did not take account of the importance of institutional development, especially the rule of law, is without merit" (p. 3). A similar position is developed in Andrei Shleifer and Daniel Treisman, "A Normal Country," *Foreign Affairs*, 83, 2(March/April 2004). Cf. Steven Rosefielde, "An Abnormal Country," *European Journal of Comparative Economics*, 2, 1(2005): 3–16. Institute for Economies in Transition Discussion Paper, No. 6, 2004. www.bof.fi/BOFIT/.

[5] Marshall Goldman, "Putin and the Oligarchs," *Foreign Affairs*, 83, 6(November/December 2004): 33–44; Michael McFaul, Nikolai Petrov, and Andrei Ryabov, *Between Dictatorship and Democracy: Russian Post-Communist Political Reform*, Carnegie Endowment, Washington, DC, 2004; Jakob H. Hedenskog, Vilhelm Konnander, Bertil Nygren, Ingmar Oldberg, and Christer Pursiainen, *Russia as a Great Power*, Routledge, New York, 2005; Anders Aslund, *Policy Brief No. 41*, Carnegie Endowment for International Peace, August 2005.

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culture, traceable to Ivan III Vasilevich, known as Ivan the Great, Grand Prince of Muscovy (1440–1505). The Muscovite idea is that the ruler, whether he is called grand duke, tsar, *vozhd* (leader), general secretary, or president, is an autocrat who, de facto or de jure, owns all of the country's productive assets and governs for himself in the name of the nation.[6] He is the law and rules by edict absolutely or behind a facade of parliamentary constitutionalism. Everyone else is a *rab* (slave of the ruler). Individuals of other stations may have private lives and may seek to maximize their happiness, but they are always subject to commands, edicts, and rules imposed from above by their supreme lord, without protection of the rule of law. They have no inviolable human, property, economic, political, or social rights. Whatever has been given can be rescinded, regardless of custom or precedent. Social welfare in this cultural framework is synonymous with the autocrat's welfare, given whatever allotment he chooses to share with his people.

On its face, universal autocratic ownership and governance seem intrinsically totalitarian.[7] It is easy to imagine Ivan the Terrible (Ivan IV Vasilevich, 1530–84, first tsar of Russia) assigning his servitors detailed economic, administrative, police, martial, and diplomatic tasks and meticulously monitoring their performance. However, comprehensive control was never feasible, even during Joseph Stalin's reign.[8] Autocrats had only sketchy knowledge of their realm, its potentials, and the requirements for efficient utilization and were never successful at devising an honest and effective bureaucracy to do the job for them. Consequently, they were compelled by circumstances to grant servitors substantial independence in operating the autocrat's

[6] Stefan Hedlund, *Russian Path Dependence*, Routledge, London, 2005; Richard Pipes, *Property and Freedom*, Alfred A. Knopf, New York, 1999; Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*, Harvard University Press, Cambridge, MA, 1961; Edward Keenan, "Muscovite Political Folkways," *Russian Review*, 45, 2(1986).

[7] Hannah Arendt, *The Origins of Totalitarianism,* Harcourt, Brace, New York, 1951, C. J. Friedrich and Z. K. Brzezinski, *Totalitarian Dictatorship and Autocracy*, Harvard University Press, Cambridge, 1956. A. Gleason, *Totalitarianism: The inner history of the Cold War*, Oxford University Press, New York, 1995. Hans Maier, *Totalitarianism and Political Religions: Concepts for the Comparison of Dictatorships – Theory and History of Interpretations,* Vol. 111, Routledge, Abingdon, 2008. While the USSR was variously dictatorial or despotic, the system wasn't totalitarian because it permitted significant autonomy.

[8] Steven Rosefielde, *Russian Economics from Lenin to Putin*, Blackwell, London, 2006.

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