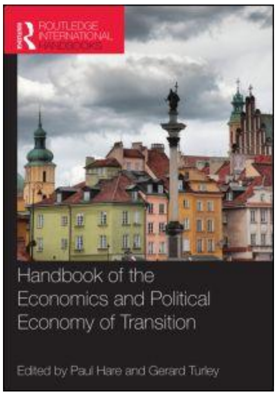

Handbook of the Economics and Political Economy of Transition

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Russia Since Transition

Publication details
https://test.routledgehandbooks.com/doi/10.4324/9780203067901.ch31
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Published online on: 25 Apr 2013

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RUSSIA SINCE TRANSITION

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Introduction

Post-communist economic change in Russia has attracted a lot of attention. This is partly for the obvious reason that the country is politically important. Russia is after all the main successor state of a nuclear-armed former superpower. However, that is not the only reason. Russia's experience has been exceptionally chequered, and the Russian transformation has attracted the interest and active engagement of several leading economists. They, along with home-grown economic reformers, played leading roles in some titanic policy struggles. There has been no shortage either of drama or of expert witnesses.

In this chapter I shall provide a narrative of Russia's reforms and outcomes. Narratives are not highly regarded in economics. However, there is plenty of thematic comparative analysis elsewhere in this handbook. A (mostly) one-country story can shed some light on the influence of initial conditions and political and social background in one particular attempt at post-communist transformation.

What follows is organized chronologically. The next section deals with the 1990s, for almost all of which decade Boris Yeltsin was president. Then there is a shorter section devoted to the 'Putin period' covering Vladimir Putin's presidency (2000–08) and premiership (2008 to the time of writing in mid-2011). I start with the conjecture: that weak social and political support for private ownership and competitive markets has been a problem for reform; coupled with a lack of effective state administration, this made for an erratic course in policy-making in the 1990s; and the resulting harsh experience, for most Russians, in that first decade has encouraged support in more recent times for statist policies.

The Yeltsin years

Boris Yeltsin was elected president of the Russian Soviet Federative Socialist Republic (RSFSR) in 1991. At that time the RSFSR was still a component of the nominally federal USSR. Reform plans for the RSFSR, separate from and more radical than, those for the Soviet Union as a whole, were developed during that year. The three Baltic states achieved their independence by the autumn of 1991. When the USSR disintegrated in December 1991, Russia, now officially known as the Russian Federation, was the best-placed for economic reform among the 12 independent nations that emerged (excluding the three Baltic states). It had a group of dedicated reformers in senior policy-making positions and a leader who was both popular and anti-communist.

Those advantages evaporated in the next few years. Two circumstances contributed to this. One was that the initial extent of economic distortion and product shortages was exceptionally high. The other was that an IMF-supported attempt to follow the Polish example of rapid liberalization and stabilization soon revealed the lack of political support in depth for Yeltsin and his small band of liberal reformers.

There were several features of Russian institutions, as they existed in the early 1990s, which made systemic reform a very fragile process.

- There was, for practical purposes, no rule of law or control of corruption, and the government lacked effective authority.[1]
- In particular, the political heads of the 89 regions that then made up the Russian Federation had considerable formal and even more considerable informal autonomy, so that in effect conflicting economic policies were pursued at the sub-national level
- The considerable formal powers of the President did not extend to the Central Bank, which reported to the parliament.
- Parliament was hostile to systemic reform so most economic measures were pushed through by presidential edict (*ukaz*) rather than by the passing of laws. This weakened the legitimacy of the reform programme.

Liberalization and stabilization

The initial conditions in Russia at the start of 1992 were singularly unfavourable for quick liberalization and stabilization, even if the institutional defects listed above are put to one side.

In the course of Mikhail Gorbachev's *perestroika*, the planning system had been weakened by the introduction of quasi-market reforms. The resulting institutional mixture did not amount to a viable new system. The Soviet Union was entering what has been called a 'systemic vacuum'. One result was a loss of control over household money incomes. These rose, on official data, by 13.1 per cent in 1989 and 16.9 per cent in 1990, while output growth was slowing and then turning negative (Yasin, 2002, p. 103). Price control was somewhat weakened but was still largely in place. By the summer of 1990 shortages of goods in cities were extreme. Rationing had been introduced. In Moscow, for example, one had to show a residence permit before one could buy most items – and few were available.

This meant that when prices in Russia were mostly[2] decontrolled on January 2 1992, the immediate inflation was extreme: over 1500 per cent from December 1991 to December 1992, more than twice Poland's inflation of 1989. Foreign trade and the exchange rate were liberalized soon after, with a unified exchange rate, determined on the Moscow inter-bank foreign exchange market, in effect from 1 July.

The strain the January 1992 price liberalization placed on Russian households was huge, despite the exemptions from de-control (see Note 2). A political difference from Poland was also important: there the last communist government freed prices before the Mazowiecki-Balcerowicz reform team came into office. In Russia the Yeltsin leadership and its reform team led by Yegor Gaidar took all the blame.

Stabilization was correspondingly more of a problem for Russia. In retrospect it is clear that macro-stabilization was politically more fraught in Russia than privatization. The course of Russian GDP and inflation, illustrated in Figure 31.1, shows how high inflation remained for a lengthy period, while levels of economic activity plummeted.

Yevgenii Yasin, who was first a senior advisor and then for a time Minister for the Economy, identifies three stabilization attempts in the 1990s: one that lasted only a few months in 1992, a second attempt in 1993–94 and a third in 1995–97, which finally had some success (Yasin, 2002, Chapter 10). It was however the unplanned, enforced and massive devaluation of the rouble in 1998 that finally triggered a recovery of output.

The stabilization efforts can be briefly summarized as follows. In mid-1992 a brief attempt at an orthodox tightening of the money supply was put into reverse when the Soviet-era veteran banker, Viktor Gerashchenko, was placed in charge of the Central Bank of Russia (CBR). He made credit available to prop up enterprises that were otherwise approaching bankruptcy. The rate of growth of the broad money supply (Russian definition, rouble M2) accelerated in the second half of the year and inflation stayed high. Meanwhile tax collection was falling well behind the reformers' original projections and the budget deficit was rising. The second attempt was also abandoned after a few months, in the face of a continuing steep fall in output. In 1995 a policy was pursued (under IMF guidance) in which the CBR stopped financing (by the issue of money) the government deficit. This stance was maintained into 1997. Inflation fell sharply and industrial output levelled out, rising a little in 1997.

This stabilization was accompanied, however, by the growth of a debt pyramid. Enterprise closures and mass unemployment were fended off by improvised non-monetary settlement arrangements. These ranged from simple non-payment of suppliers (including not paying the wages of suppliers of labour); barter, and quasi-money in the form of bills of exchange. The government was itself a player in this 'virtual economy'. It accepted tax settlements in quasi-money and it allowed state utilities, particularly those supplying electricity and gas, to accept a build-up of debt on the part of customers. Enterprises that faced a lack of final demand,

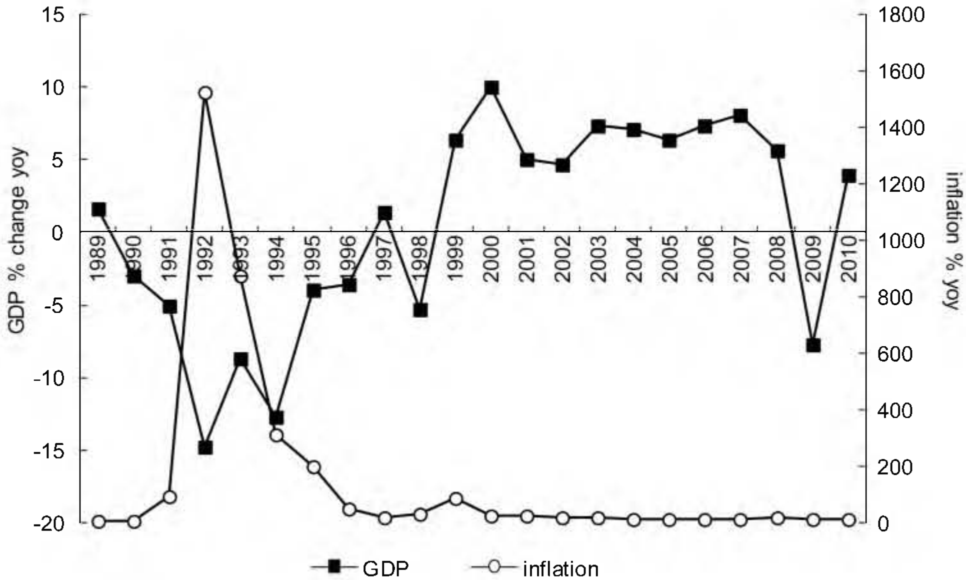

Figure 31.1 Russia: annual per cent changes in GDP and price level, 1989–2010
Source: European Bank for Reconstruction and Development (www.ebrd.com) and Rosstat (www.gks.ru).
Note: The measure of inflation here is the consumer price index, December to December. It peaked at a notional 1500%-plus in 1992 and was 8.8% in 2010.

whether for soft drinks or tractors or military aircraft, remained in operation, accumulating debt or settling accounts in barter or quasi-money with their suppliers, who did the same with their suppliers and so on down the production chain (Gaddy and Ickes, 2002).

These arrangements left enterprises just about afloat. However, the pressure on them to close down or to restructure was eased. To put it another way, they were able to preserve, after a fashion, the soft budget constraints to which Soviet state enterprises had been accustomed. They therefore were able to hold on to land, labour and capital that might have been more efficiently employed by newly-created firms (or by themselves if they had been able to re-structure). The chains of 'non-monetary settlements' left employees nominally employed but mostly unpaid, under-paid or paid in kind in whatever the enterprise happened to produce. They left the government increasingly in debt, which it financed by issuing a form of treasury bills (known in their Russian acronym as GKOs). The GKO issues created a debt pyramid that was sustainable only so long as new buyers of GKOs kept piling into the market, attracted by rates of return that in 1997–98 rose above 100 per cent.[3]

Therefore macro-stabilization, even when, in 1997, it began to show some positive results in falling inflation and a levelling-out of production, was a precarious business. It was conducted in a way that did not enforce enterprise restructuring or facilitate the growth of new firms. Its fragility was finally exposed in the summer of 1998 when investors began to take account, after the 1997 crisis in South-East Asia, of five developments: the fall in oil prices, reducing Russian government revenue; the continuing disarray in Russian state administration and the persistent budget deficit; the continuing flight of capital from the country; the loss of political support for stabilization and reform, and therefore the likelihood, arising from all this, that the Russian rouble was likely to be devalued, as the Thai baht had been the year before.

The Russian tycoon, Boris Berezovskiy, had in December 1997 forecast a major devaluation of the rouble (Yasin, 2002, p. 394). The exchange rate was being supported by the CBR between a regularly-adjusted floor and ceiling. On 17 August 1998 the government announced a partial default on debt and, in effect, let the currency fall. The rouble went quickly from about 6 to the US dollar to about 25.

This was the start of the Russian recovery. Enterprises hitherto unable to compete with imports suddenly found their foreign competitors' rouble prices rocketing. They demonstrated an unexpected ability to respond to price signals. Sales by domestic producers rose, and government coffers began to be replenished. The virtual economy began to turn real. Soon after that, in 1999, a recovery in oil prices assisted this process. Russia's GDP grew at around 7 per cent a year from 1998 to 2008 when a new and more global crisis intervened.

The response of Russian producers in late 1998–99 showed that the reforms, for all their deficiencies, really had created a population of profit-seeking business entities in place (or at any rate partly in place) of the Soviet-era state-owned enterprises.

Privatization, enterprise restructuring and the growth of new firms

Privatization was politically contentious in Russia but none the less was carried through more rapidly than stabilization. It was carried out, however, in a rough and ready fashion that left several time-bombs in the way of Russia's development.

Small-scale non-farm private enterprise developed in Russia with some impediments, but at first quite rapidly. When street trading was allowed, there was an explosion of market stalls and individual sellers in Russian towns and cities. There was a reaction against this in some cities, partly under pressure from existing, 'official' shops. Street trading was for a time abolished in Moscow, for example. However, the sale of previously state-owned shops and other small enterprises, often to their managers, proceeded rapidly. Many larger enterprises, adjusting to the liberalization and stabilization measures just described, leased out parts of their premises to small concerns, including stores.

In agriculture privatization faltered but in the longer run there was substantial restructuring. Typically, the giant state and collective farms underwent a kind of quasi-privatization in which their workers voted to re-label them companies but tried to keep them otherwise unchanged. Farm-workers were encouraged to withdraw, taking land with them and creating private farm businesses; few did. What did happen, gradually but extensively, was that the small 'household plots' that rural residents and some urban residents legally operated during Soviet times, grew in importance. Many were amalgamated (often without official registration) into *de facto* large or mid-size farms.

In one of the less conspicuous post-Soviet developments, Russian farming was eventually re-shaped: specialization, impeded under the collective-farm system, developed, along with large farm and wholesaling businesses and a general re-fashioning of the management of the food supply chain. Foreign direct investors in the catering and retailing sectors, from McDonald's to Carrefour, played a part in the last of these changes.

The simplest indicator of the transformation in the farm sector is that Russia is once again, apart from an interruption in 2010–11, a major net exporter of grain. The Russian Empire had exported grain. The Soviet Union under Lenin and Stalin endured famines and under Khrushchev and his successors was a large net importer of grain.

The original privatization team, led by Anatolii Chubais, wanted large-scale privatization to be quick. It was. One aim was to break the political resistance to reform on the part of the managers of state enterprises. Another, paradoxically, was to call a halt to the 'wild, spontaneous and often criminal'[4] personal privatization that those managers were conducting as the old order collapsed.

Mass privatization, as it was called, involved in the Russian case the issue of vouchers to every member of the population. These could be used in voucher auctions of shares in corporatized state enterprises. In framing the legislation, the reformers bought the support of the 'red directors' by allowing an option in which managers and other employees could take ownership of 51 per cent of their enterprise's equity. The vouchers were tradeable, and many were bought up from rank-and-file workers by the managers. Enterprise workforces could choose which privatization option their workplace should pursue. The 51 per cent insider stake was the most popular option, and ownership was quite rapidly concentrated in the hands of managers. Problematic though some of the elements in Russia's large-scale privatization programme were, it did shift assets into private hands at great speed: 16,500 large enterprises were privatized with the use of vouchers between summer 1992 and summer 1994 – a remarkable organizational achievement.

Privatization from summer 1994 was supposed to continue through cash purchases only. This stalled. It opened the way for the controversial 'loans for shares' auctions that were held in 1995–96. These have been the subject of a great deal of mystification. The auctions were corruptly managed but the common perception that they entailed a small group of 'oligarchs' acquiring major assets at well below their market value is misleading. Treisman (2010) estimates that about US $850 million was paid for assets with a market value of US $1.5–1.9 billion, and shows that the insiders ('red directors') were the ones who got the best deals while the new entrepreneurs most commonly labelled oligarchs (Berezovskiy, Khodorkovskiy, Abramovich, Potanin and others) obtained assets at the sort of discount commonly observed in emerging-market privatizations.

In terms of ownership, the upshot of voucher and cash privatization was impressive. The economy shifted from being overwhelmingly state-owned and state-run to being a predominantly privately-owned economy. By 1996 the EBRD estimated that 70 per cent of Russian GDP originated from production units that were wholly or mainly privately owned.

It did not follow, however, that existing enterprises were effectively restructured or that an abundance of new firms was created. It can be seen in Figure 31.2 that restructuring lagged behind privatization. (The figure also shows a later reduction in the EBRD's privatization score, but we shall come to that in the section on the Putin era.)

New firms are usually small. The officially reported numbers of small firms and their share in employment and output remain small. The numbers increased quite rapidly between end-1991 and end-1994, but then declined somewhat and thereafter stagnated (Kontorovich, 2005, p. 243, for the period through 2002). The density of small firms (number per 100,000 population) has remained low by international standards.

This picture of only modest enterprise restructuring and limited new-firm development reflects the persistent weakness of product-market competition in Russia, a defect that continued through the Putin era.[5]

It was none the less the case that a population of profit-seeking firms had been created. As has already been noted, these producers responded strongly to the 1998 rouble devaluation, and the inter-crisis boom of 1998–2008 was soon under way.

The nature of policy-making in the 1990s

Yegor Gaidar was the leader of the self-styled kamikaze reform team in 1992, yet he was never more than acting Prime Minister (the parliament refused to confirm him in office), and he lasted in that post barely a year. Yeltsin showed a clear inclination to support the market reformers but political pressures often led him to change his governments, sometimes bringing in members of the old political elite and sometimes recalling younger reformers. Opposition from the parliament was constant.

Figure 31.2 Russia: EBRD transition indicators for large-scale privatization and for enterprise restructuring, 1989–2010

Source: EBRD (www.ebrd.com).

Note: The scale for these indicators is from 1 (as in an unreformed centrally-planned economy) to 4+ (as in an advanced market economy).

When in 1993 the confrontation became acute, Yeltsin used the military, firing on the parliament. He then introduced a new constitution that increased presidential powers. Yet he did not impose autocratic rule. His popularity was low and his authority weak. It seemed to most observers, ahead of the 1996 presidential election, that there was a real possibility that the Communists might win and reverse the entire process of reform. This did not happen. Then, after the 1998 crisis, a government led by a veteran *apparatchik,* Yevgenii Primakov, was expected to put the clock back. It did not. Macroeconomic stability, at least, had come to be seen as desirable and private enterprise and the market as irreversible. Nonetheless, the reform process was a roller-coaster ride.

So was life for most Russian people in the 1990s. Real GDP, as officially measured, fell by 40–45 per cent between 1990 and 1998. Yasin (2002, p. 424) estimates that about half of this decline was made up of a reduction in military output and that the decline in economic welfare was more of the order of 15–23 per cent. Employment, certainly, fell much less than measured output. The informal or shadow economy probably propped up consumption levels without its extent being properly estimated, and military production and fixed investment fell more than consumption. However, there was extensive under-employment, non-payment of wages, a sharp rise in uncertainty about everyday life and a marked rise in age-specific mortality rates. Inequality rose steeply. The measurement of this phenomenon is problematic. Some assessments show a near doubling of the Gini coefficient between the late 1980s and the late 1990s. One major difficulty, however, is that measurements of inequality in a regime of central allocation, as in the 1980s, with privileged access arguably more important than prices and money incomes ('to each according to his official position') is especially difficult. Recovery, moreover, took time. The 1989 per capita level of real gross national income was not restored until 2003 (World Bank estimates, from Myant and Drahokoupil, 2010, Tables A.17 and A.1).

Russia transformed itself in the 1990s, but slowly, incompletely and at great human cost.

The Putin years

Putin, a former KGB officer, had served as a manager of external business relations under the reformist mayor of St Petersburg, Sobchak. The most effective of all Russia's reformers, Anatolii Chubais,[6] had a hand in bringing Putin to Moscow and installing him in the federal government, under Yeltsin's presidency. At the end of 1999 Yeltsin, in effect, selected Putin as his successor.

Putin, therefore, began his rule with some reformist credentials. In the early years, 2000–04, he imposed more 'order', by way of increased central political control. He also continued economic reforms. These included the introduction of a flat-rate income tax, the facilitation of a market in agricultural land and a serious attempt to reduce the corrupt bureaucratic impediments to the development of small firms.

The turn to statism

Then came a turn to more, and more opaque, intervention by the state: a way of supervising the economy that Russian liberals, who oppose it, call 'manual control'. The event that signalled the policy shift was the arrest of Mikhail Khodorkovskiy, the main owner of the Yukos oil company, in autumn 2003 (for a full account of the Yukos story see Sakwa, 2009).

Much of this 'manual control' was and continues to be corrupt. It has been facilitated by the weakness and venality of Russian courts and regulatory agencies. 'Corporate raiding' in Russia has a special connotation: assets are acquired by the use of corrupt assistance from the police, courts, licensing or regulatory authorities. Some foreign companies operating in Russia have lost, or come close to losing, assets in this way, but the syndrome is a general one, and is not confined to foreign investors. Foreign direct investment (FDI) has often, none the less, been commercially successful; there would however be more FDI if the risks were less. In the World Bank's 2011 *Doing Business* rankings, Russia was rated 123rd out of 183 countries – an unusually low position for an upper-middle-income country.[7]

Micro bad, macro fairly good

Microeconomic policy and institutional development, in other words, have lately been poor. That shows up in the stagnation of enterprise restructuring and a modest decline in the EBRD assessment of Russia's large-scale privatization (Figure 31.2). Macroeconomic policies, however, have remained robust. Russia's general government balance was in surplus from 2000 through 2008. Inflation slowly declined. The consumer price index finally dipped into single figures in 2006 and 2007. Economic activity boomed in the decade between the 1998 and 2008 crises.

The strength of this recovery, after the initial boost from devaluation, owed a great deal to terms of trade gains from a (mostly) rising oil price up to mid-2008. GDP grew as the Urals oil price rose, though the amplitude of fluctuations was much greater in the latter (Figure 31.3). Gross national income and real household income grew faster than GDP, but the windfall gains from oil revenue also contributed to rising demand for domestic production.

The link between hydrocarbon revenue and GDP was neither tight nor constant over time. Some of the inflow was sterilized, particularly from 2004, when a stabilization fund was established. Some of the un-sterilized inflow was spent on imports. However, by and large Russia's growth between the 1998 and 2008 crises could fairly be described as oil-fuelled, even if it would be misleading simply to regard Russia as a petro-state.[8]

The oil bonanza was managed with some prudence. Aleksey Kudrin, the Minister of Finance, appeared to have Putin's backing, most of the time, in resisting large increases in public

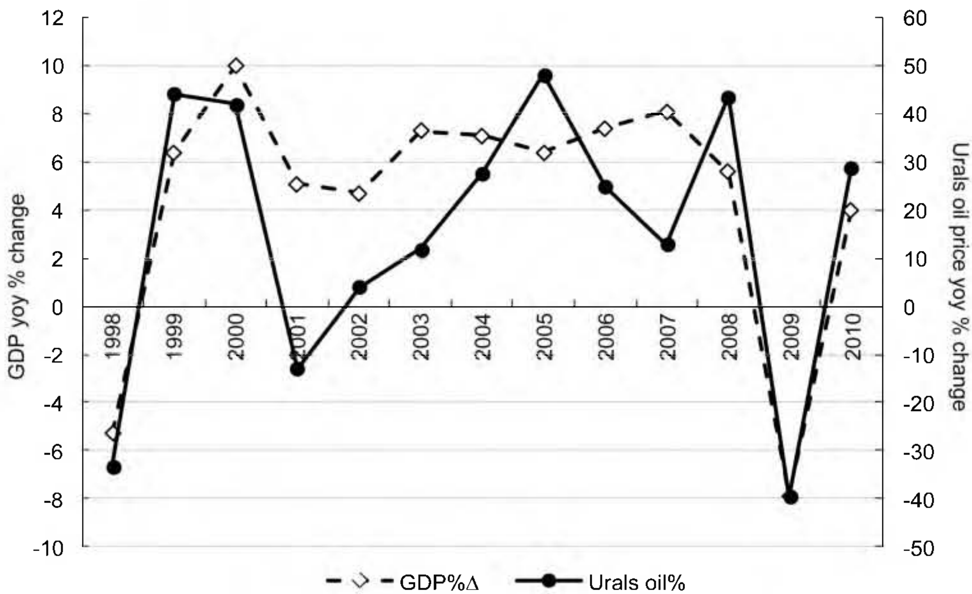

Figure 31.3 Russia: annual per cent changes in Urals oil price and GDP, 1998–2010
Sources: GDP: Rosstat; oil price: Central Bank of Russia (www.cbr.ru).

spending. In the election year of 2007,[9] however, the pressure to raise spending was stepped up and there was some loss of fiscal control. The break-even point, the average annual oil price at which the federal budget would balance, tended to creep up.

Russia in the global crisis

The global financial crisis brought Russia's boom to an abrupt end. There had been some claims in early 2008 that Russia would be a safe haven. It wasn't. Russia's GDP in 2009 was 7.8 per cent below the level of 2008. This was the largest year-on-year fall among the G20 nations. The reaction of the Russian economy contrasted with the continued, if slightly subdued, growth of the Chinese and Indian economies.

The accumulation of reserves during the boom now stood Russia's public finances in good stead. The downturn, though sharp, was relatively brief: four successive quarters. The Reserve Fund was drawn down in 2009 and 2010 to support deficit spending. Year-on-year growth in 2010 was 4 per cent and, at the end of that year, public debt had risen very little, to just 10 per cent of GDP.[10]

Russian policy debates in 2009–11 mostly concluded that the country's vulnerability to external shocks was explained by its heavy dependence on oil and gas. It is true that the average monthly Urals oil price peaked at US $131/barrel in July 2008 and fell back to US $38 in December of that year.[11] However, Saudi Arabia and most other oil-exporting nations experienced only a slowdown in growth, not an actual decline in GDP; Kuwait's GDP did decline, but only by a more modest 5.2 per cent.[12] It seems highly likely that other factors were at play.

In 2008–09 global capital movements displayed a flight from risk. That was bad news for Russia, but also for most other transition and emerging economies. Before the crisis Russia had seen a change in net private capital flows: up to 2006 these had been net outflows; in 2006 and 2007 net inflows of private capital were recorded for the first time. The crisis returned net private capital flows to what had been their default position – a net outflow.

Much of the gross outflow was of funds controlled by Russian companies. Weak protection of property rights has led large Russian private companies, with few exceptions, to be closely held through offshore holding companies registered in tax havens. It appears that in 2008–09 corporate borrowing from abroad, which had peaked in 2007, dropped, and stealth outflows of capital[13] rose. The flight of capital and the payment of dividends offshore appear to have been so extensive that they squeezed working capital in Russian industry. More than 90 per cent of the difference between 2009 and 2008 GDP in 2003 prices (a fall of 7.8 per cent) is accounted for by the difference between inventory accumulation in 2008 and the draw-down of inventories in 2009.[14]

In short, there is strong circumstantial evidence that Russia's output decline in the global crisis reflected the insecurity of property rights in the country, to the importance of which a large and abrupt fall in the oil price drew attention.

After the crisis: conclusions

The Russian economy has been making a recovery since mid-2009. GDP growth was 4.0 per cent in 2010. The IMF, the World Bank, Russia's own Ministry of Economic Development and private-sector analysts tend to concur in projecting growth at somewhere between four and five per cent a year, on average, in the medium term. This comparatively modest assessment reflects a less favourable external environment (sluggish recovery in Europe, Russia's main export market; tighter restrictions on lending by international banks) and Russia's changing demographics: the working-age population was still growing during the inter-crisis boom period; it is now declining, and it is likely that employment will be falling by about 0.4 per cent a year through 2020.

Russian policy-makers have been stressing the need to 'modernize' and diversify the economy. The need to improve the investment climate is widely discussed. The prospects for institutional change, however, are uncertain. With weak and corrupt courts and a great many predatory officials, Russia does not offer reliable protection of property rights. State-led development is still accepted as normal by most policy-makers, officials and indeed by many leading private business-people. Until further institutional transformation takes place, Russia is likely to remain a country in which returns to investment are not reliably appropriable by the investor, and consequently the investment rate (20.5 per cent of GDP in 2010) remains modest and below the savings rate. The Russian economy will most likely under-perform until there is a return to liberal reform.

Notes

1 The centrality of this problem was perceived at an early stage by the late Alec Nove. In a letter to Morgan Stanley of 15 January 1992, he noted that proposals for a large package of Western aid to Russia ahead of reforms 'underestimate[d] the government's powerlessness and the all-pervasive corruption' (Thatcher, 1998, p. 186).

2 Housing rents and most energy prices were not de-controlled. There was also a list of basic (mainly food) items on which local price controls could be maintained at the discretion of regional authorities. As late as 1 September 1993, the price of bread was still controlled in 40 per cent of 132 cities surveyed, and milk in 26 per cent (*Delovoi mir*, 18 September 1993, p. 7). The exclusion of rents and energy prices was common in other countries' early liberalizations; the regional-level opt-outs were not. If there is such a thing as dirty liberalization, Russia exemplifies it.

3 On IMF advice, foreign investors were allowed to buy GKOs (for roubles; capital convertibility was not established until 2006). The idea was the reasonable one of creating a wider market for government debt. The snag was that the GKO pyramid became subject to exchange-rate risk as well as its other risks.

4 Boris Yeltsin's words, from a speech reported in *Sovetskaya Rossiya*, 29 October 1991.

5 In 2008 the OECD's product market regulation (PMR) score, covering the extent of state control, barriers to trade and investment and barriers to entrepreneurship, was more than twice the OECD average (www.oecd.org/dataoecd/33/12/42136008.xls).

6 Chubais is a controversial figure, to put it mildly, in Russia. His effectiveness in getting an agenda implemented, however, is outstanding. This is suggested, *inter alia*, by his success in the partial privatization of the electricity industry under Putin, when the dominant trend in policy was towards statism

7 www.doingbusiness.org/data/exploreeconomies/

8 Oil and gas in the mid-2000s accounted for less than 2 per cent of employment (less than the Russian railways), about 20 per cent of GDP, 40–50 per cent of federal budget revenue and around 65 per cent of merchandise exports.

9 Parliamentary elections are held in December (in this case, December 2007) and the presidential election the following spring.

10 This is state debt in the usual sense. The figure would be somewhat larger if the quasi-state debt of state-controlled companies like Gazprom were included, but it would still be far below the levels now common in the developed West.

11 CBR data. www.cbr.ru.

12 IMF *World Economic Outlook database*, April 2011.

13 The CBR includes in its assessments of private capital outflows: (a) exports for which payment was not received (in Russia); (b) imports paid for but not received; (c) payments abroad for fictitious securities transactions; and (d) errors and omissions (a net item that is persistently large and negative). These can be loosely described as stealth outflows. They are presumably driven by money laundering and tax evasion, since capital convertibility has been in force since mid-2006.

14 Derived from Rosstat data at www.gks.ru/free_doc/new_site/vvp/tab25.xls.

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