The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Putin Represents What Is Wrong With Russia

By Anders Aslund

September 28, 2010



Some advice to a young Russian woman: "It is better to marry a top state official than an oligarch. The money is the same, but job security is so much greater."

All surveys show that Russia's pervasive corruption is increasingly concentrated to the top. What is the cost of Prime Minister Vladimir Putin? The stock market discount of Russia in relation to Brazil is 45 percent, almost $1 trillion. The Russia risk equals the cost of Putin. It reflects Yukos and other confiscations, as well as Putin's interference in private business. For example, two years ago, Mechel's stock price fell by half in the days after Putin's reckless attack on its main owner.

Few people are as costly to their nation as Putin, but amazingly many think that he will return as president in 2012. His two self-declared claims to fame — high economic growth and stability — are both flawed. Putin was not the cause of the country's average annual economic growth of 7 percent from 1999 to 2007. He simply benefited from President Boris Yeltsin's

market reforms — which came to fruition only when Putin came to power — and, of course, high oil prices. You could split the illusionary "Putin economic miracle" in two — half the growth came from the Yeltsin reforms and half from oil.

Putin arrived at a table that was already decked out with an abundance of food. Impressively, Russia's privatized oil companies raised oil production by 50 percent from 1999 to 2004 through modernization. In 2004, however, stagnation set in after Putin led a campaign to confiscate Yukos. State corporations have taken over NTV, United Machine-Building Company, VSMPO-Avisma, Sibneft, Guta Bank and others. Half of Russia's economy is now in state hands, but all efficiency gains have come from private enterprises. This is a big reason why the country's economy contracted more than any other Group of 20 economy in 2009.

Rampant corruption and inefficient state corporations suffocates Russia's growth potential. Without reforms, a broad consensus foresees a moderate growth of about 3.5 percent a year in the medium term, deriving from improved human capital and international integration.

The purported stability is also a myth. The gruesome second war in Chechnya, which Putin started, has not led to any abating of terrorist acts, while Dagestan and Ingushetia have been destabilized. Repression and censorship do not equal stability.

No, Putin's greatest legacy is corruption and the absence of accountability. Prominent observers such as Stanislav Belkovsky, Boris Nemtsov and Vladimir Milov have detailed how Putin has appropriated $40 billion to $50 billion of state property to his own benefit, which would render him the greatest thief in world history. Since Putin has never refuted these accusations in any detail, they must be taken seriously. None of his close associates accused of multibillion-dollar malfeasance has been prosecuted or even sacked.

Russia will not move forward unless its leaders start fighting corruption. But this will never happen under Putin's rule because he stands out as the country's greatest promoter and beneficiary of corruption. This explains why for years he has done nothing to battle corruption. The rise of authoritarian rule has not promoted reforms or modernization, but it defends top officials against prosecution for embezzlement.

One vivid example of the cynicism of Putin's regime involved Kaliningrad Governor Georgy Boos. He had provoked thousands of residents to demonstrate in the streets after he introduced a transportation tax while escaping that tax on his new private jet by registering it in the Cayman Islands. But Boos' ultimate demise offers some hope.

Russia is not doomed to be extremely corrupt or abnormally authoritarian. Nor is it condemned to a low growth rate. The obvious alternative is modernization, about which President Dmitry Medvedev speaks incessantly. He has analyzed the nation's problems and formulated the right principles for their solution, but little has been done because Putin clearly remains the country's CEO.

In his programmatic speech in Krasnoyarsk in February 2008, Medvedev formulated his election program consisting of four i's: institutions, infrastructure, innovation and investment. But there has been very little progress so far in any of the i's.

The second Yukos trial makes a mockery of Russia's legal institutions. The two relevant

ministers at the time, German Gref and Viktor Khristenko, have both testified in court that former Yukos CEO Mikhail Khodorkovsky could not possibly have stolen 350 million tons of oil from Yukos. Any normal court would have dismissed the case after that evidence. Until this bad joke ends, it is difficult to take Russia's courts seriously.

The sad truth is that Russia cannot build much infrastructure until the government manages to control corruption in public procurement. For large public infrastructure projects, kickbacks of 50 percent appear standard and cases of 90 percent are cited. This is one reason the total length of paved roads has not been expanded since 1997. A regime that cannot build roads cannot have a great future.

Russia has the human and financial capital as well as technology for a modern innovation economy, but it lacks the necessary freedom of enterprise and communication. One prominent Russian business leader said, "Excellent human capital does not help if human conditions are not created so that it stays in the country."

Russia's savings ratio is reassuring, but investment lags because private property rights are too circumscribed. The World Bank places Russia in 120th spot for the best places to do business out of 183 countries, and in 182nd place for dealing with construction permits, showing how bad its investment climate is. Even so, no significant deregulation has been attempted after 2002.

Let us add a fifth i: internationalization, where the contrast between Medvedev and Putin is the greatest. Medvedev has staunchly promoted Russia's accession to the World Trade Organization, which Putin persistently sabotages, but Russia cannot modernize without international integration.

In all these regards, Putin represents what is wrong with Russia. He does not solve problems but causes more of them. In effect, he acts more like the chairman of Gazprom than as the country's chief executive. Characteristically, Gazprom is one of Russia's most discounted companies. Putin's only claim to fame seems to be Rambo-like stints, but who would like to have Rambo as president? The ultimate cost of Putin is the country's relative backwardness. Russia can do better.

Anders Aslund is a senior fellow at the Peterson Institute for International Economics and co-editor with Sergei Guriev and Andrew Kuchins of "Russia after the Global Economic Crisis."

Original url:
https://www.themoscowtimes.com/2010/09/28/putin-represents-what-is-wrong-with-russia-a1790