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Russia's Stunning Self-Destruction

By Alexei Bayer

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Early in the 20th century, three powers were vying for economic supremacy. The United States took over leadership in the Anglo-Saxon world from Britain. Newly unified Germany was also an economic giant, but it was, as the saying goes, too big for Europe and too small for the world. The rest of the world fought two wars to contain it, and by the end of the 20th century most German lands and the German sphere of influence in Central Europe became part of the U.S.-dominated West.

Then there was Russia. It had boundless territory, a huge and diverse population, a wealth

of natural resources and enormous potential. By the start of World War I, it had begun to realize its potential, but when the war ended it had adopted a dead-end Communist ideology, turned inward and, while claiming to blaze a new trail for mankind, removed itself from international economic competition.

Russia did achieve a measure of economic success behind the Iron Curtain, but once its economy was integrated with the rest of the world in the early 1990s only two of its industries turned out to be internationally competitive. It still sells some $10 billion worth of armaments annually, being a distant second to the U.S., but this is a drop in the bucket compared to revenues it derives from oil, natural gas and other commodities.

Over the past century, Russia expended massive capital, both financial and human, to be able to pump crude out of the ground and deliver it to end-users. Its own economy produces little else that the rest of the world — and, for that matter, its own population — wants. A rather poor return on investment indeed.

Russia's oil production has been growing after bottoming out 15 years ago. It has surpassed the mark of 10 million barrels per day, making the country the world's largest producer. Output in the former Soviet Union is now higher than the short-lived peak achieved in the 1980s, and a larger proportion is exported. Oil prices have been high, but they would have been even higher had it not been for Russian oil. China and other emerging economies would have developed far more slowly, and Western prosperity could have been undermined by oil shortages.

Russia's largesse toward the rest of the world doesn't end there. Russia's oil earnings were not used for investment into the Russian economy, infrastructure or quality of life. The traffic jam on the elite Rublyovskoe Shosse outside Moscow, which has been called "the most expensive parking lot in the world," is the best visible symbol of what Russia got out of its oil wealth.

Not so the rest of the world. In the past five years alone, some $350 billion was taken out of Russia in the form of capital flight. The money ended up in real estate holdings from the Baltic Sea to the Adriatic, as well as in France, Britain and Miami Beach, greatly alleviating the impact of the global financial crisis on those countries in general and on their property values in particular. As the Rublyovka traffic jams and numerous fancy boutiques around Moscow show, foreign producers of luxury goods also have reason to cheer Russia's oil boom.

We don't know what the future holds for Russia, but its past 100 years present a spectacle that is wholly unprecedented in world history: a nation that first deliberately destroyed its enormous economic potential and then squandered and pilfered the little that remained.

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