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Neoliberalism and the Russian transition

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ABSTRACT

This article aims to assess the role of neoliberal ideas in shaping Russia's transition to a market economy. Prevailing ideas of the Washington Consensus undoubtedly encouraged Russia's leaders to embrace radical reforms, but Russia's reformers were not blindly following an ideological agenda set for them in Washington, DC. The actual policies that were implemented diverged considerably from the prevailing neoliberal orthodoxy and were heavily shaped by the self-interest of the elites who were making the policy decisions. While prices were freed and international trade and currency flows opened up, an insider-dominated privatization process left the Russian economy in the hands of a narrow circle of oligarchs. Russia's corrupt, oil-dependent and state-centered economy is far removed from the decentralized, competitive market system that the reformers had envisaged. Democracy, which was initially seen as integral to the transition process, also fell by the wayside. While critics argue that Russia suffered from an overdose of 'market fundamentalism', neoliberals themselves still insist that Russia did not go far enough in unleashing genuine market forces. Either way, Russia has now joined the global market economy, while at the same time preserving many of the institutional features that are the product of its unique geography and historical heritage.

KEYWORDS

Russia; neoliberalism; privatization; transition; shock therapy.

1. INTRODUCTION

This article examines the extent to which a specific body of ideas, which we call 'neoliberalism', played an independent causal role in Russia's post-Soviet transition. The article begins with a discussion of the rise of neoliberal ideas and their role in economic development. the framework of analysis. The third section describes the reforms introduced in Russia in the 1990s, while the following section assesses lacunae in the neoliberal approach. The final section examines developments since Vladimir Putin took over the Presidency in 2000.

The conclusion is that certain general assumptions about how the market economy works did enable and encourage radical economic reforms in Russia at a critical juncture. But it is very difficult to separate the causal role of ideas from the host of practical concerns that were pushing leaders to act in a certain direction. Leftist critics of globalization portray neoliberalism as a package of inflexible policies that was imposed on governments around the world – Russia included – through the sticks and carrots of International Monetary Fund (IMF) loan conditionality (Harvey, 2007; Klein, 2007). However, examination of the historical record shows that the Russian leadership took a selective approach to the neoliberal policy package, adopting some proposals and spurning others. And even the policies that they did embrace were often radically altered in the course of implementation.

One possible way of trying to judge the influence of neoliberal ideas would be to assess the final results of the reform process. If Russia emerged from the tunnel of transition as a prosperous, competitive market economy, then that could be construed as *ex post facto* support for the importance of neoliberal ideas. But the evidence is mixed and observers are divided over how to evaluate Russia's subsequent economic trajectory. Russia is now a market economy in which most assets are owned by private corporations and most transactions take place at market-clearing prices. However, Russia's markets are highly oligopolistic and prone to capricious state intervention. Anders Aslund (1995, 2003) and Daniel Treisman (2011) portray the Russian transition as a qualified success, while Joseph Stiglitz (2002) argues that an alternative, gradual approach with more state regulation could have worked better. Marxists such as Gareth Dale (2011) concede that the reformers succeeded in integrating Russia into the global capitalist economy, but they argue that this was to the detriment of the Russian people. For example, in the course of the 1990s, Russia saw a radical contraction of employment in agriculture and manufacturing and a growing dependence on the extractive sector – oil, gas and metals (Tabata, 2012). To market advocates, this is to be welcomed as evidence of comparative advantage in action. To market critics, it is a sign of a failure to preserve a balanced, diversified economy, capable of sustained growth and social equality.

Whether one adopts an optimistic or pessimistic stance on Russia's performance as a market economy, it is very difficult to isolate the specific causal impact of neoliberal policies (to the extent that they were implemented by the Russian authorities) on Russia's economic transition.

2. THE ROLE OF IDEAS IN ECONOMIC DEVELOPMENT

2.1. The global transition and the rise of neoliberalism

In politics, timing is everything. If the Soviet Union had collapsed in the 1950s, post-Soviet leaders might well have adopted the social market economy that was then delivering rapid growth in West Germany. But the Soviet collapse came in 1991, by which point many policy makers in the developed capitalist countries had lost faith in the Keynesian model that had been in place since 1945. The global economy was experiencing a wrenching set of transformations that cast doubt on the prevailing economic paradigms.

By the 1970s, the American and European economies were suffering from slow growth, high unemployment and inflation; social and political unrest; the breakdown of the Bretton Woods currency management system, which had been in place since 1944; and the 1973 oil price hike that introduced new instabilities to the global financial system. Add to this debt crises and political instability in the developing world, which discredited prevailing strategies such as the import-substituting industrialization favored by the Left (under the influence of dependency theory) and the infrastructure lending favored by the World Bank (shaped by traditional growth theory). At the same time, there was a revolution in transport and information technology that led to the globalization of manufacturing processes and the rise of assembly plants in East and Southeast Asia. It was an open question to what extent national governments had the capacity to steer their countries through these turbulent times. Increasingly, economists and decision makers were coming around to the view that it was better for the state to step back and work with, rather than against, market forces – in what Philip Cerny has called the 'competition state' (Cerny, 1997).

A group of radical market advocates who came to be known as 'neoliberals' urged governments to shed the Keynesian interventionism and welfare state spending of the post-war era and, instead, embrace the logic of deeper market relations, both externally (through greater involvement in the international division of labor and global capital markets) and internally (by removing barriers to market forces and shrinking the role of the state). Neoliberalism is more a broad political philosophy, inspired by the writings of Milton Friedman and Friedrich Hayek, than a specific set of policy proposals (Mirowski and Plehwe, 2009; Shleifer, 2009). For its defenders, it is a philosophy that maximizes human freedom and prosperity; for its opponents on the Left, it is a façade behind which capitalist elites advance their class interests (Dale, 2011; Klein, 2007; Harvey, 2007). Neoliberalism now has a strongly negative connotation amongst international policy elites, and especially in academia (Hartwich, 2009). Proponents of the policies identified as 'neoliberal' almost never use the term about themselves. Rather, they describe themselves as advocates of the free market, or of capitalism.

Neoliberalism did not always have such negative connotations. One early branch was the German economic thinkers of the period from the 1920s to the 1950s known as the Ordoliberals. They were devoted to rescuing and reviving the power of capitalist institutions in a continent that had seen the market crushed by the state under fascist and communist regimes. Unlike contemporary neoliberals, the Ordoliberals viewed the market as socially embedded and stressed the importance of developing political institutions (rule of law, federalism, democracy) that would be congruent with and supportive of market competition (Zweynert, 2006). Classical liberalism had never erected a wall between economic behavior and other forms of social interaction. After all, the same Adam Smith who wrote *The Wealth of Nations* had previously written *The Theory of Moral Sentiments*. It was only after German Ordoliberalism migrated to Latin America in the 1960s, where it was known as 'neoliberalism', that the label started to be used primarily by its adversaries and that liberal economic prescriptions became divorced from attention to the political institutions without which they cannot function (Boas and Gans-Morse, 2009). This historical excursus is relevant because it draws attention to the fact that, in the 1990s, neoliberal economics got divorced from its political context, with unpleasant consequences.

The costs of this separation were particularly salient in Russia, a country that was simultaneously attempting to make the transition to *both* democracy *and* a market economy (Aslund, 2009). Neoliberalism has a complex relationship with democracy. Neoliberals themselves are firm advocates of the spread of democracy, but critics argue that it was unrealistic to expect countries just starting on the path to democracy to take the kind of tough, controversial decisions that radical market reforms require. Neoliberal reforms bring immediate and substantial short-run costs with the promise of (mostly) long-term benefits. Also, despite promises that market reforms would benefit the majority of citizens, in practice, liberalization tends to increase social inequality. This means that there is going to be substantial political resistance to such a policy innovation both within the ranks of the ruling party and in the electorate at large. However, the record shows that neoliberalism and democracy are not incompatible. It is not the case that neoliberal reforms were only or even primarily introduced by authoritarian rulers. The authoritarian regime of General Augusto Pinochet, which came to power in Chile in 1973, may have been a trailblazer, but it was something of an exception. The next wave of neoliberal reforms were launched by democratic governments: Margaret Thatcher's Conservative government in the UK and the Labour government in New Zealand, which came to power in 1979 and 1980, respectively. With strong leadership able to articulate a convincing political vision, neoliberal reforms can be launched by democratically-accountable governments, too.

2.2. Different approaches to the role of ideas in institutional change

How is one to understand the role of neoliberal ideas in the spread of market reform in East Europe in the 1990s? To some extent, it suits both advocates and critics of neoliberalism to exaggerate the importance of that body of ideas in shaping the post-socialist transition. The reality is more complex and nuanced (Ganev, 2005; Bockman and Eyal, 2002).

It is now commonplace to assume that at any given time, one particular set of ideas will tend to exercise hegemony, with all the social actors articulating their identity and pursuing their interests through the language of the ruling paradigm. This notion can be traced back to Karl Marx's 1845 pamphlet, *The German Ideology* ('the ideas of the ruling class are in every epoch the ruling ideas'). More narrowly, such an approach was applied to the sphere of science in Thomas Kuhn's influential work, *The Structure of Scientific Revolutions* (1962). In some domains, there are competing paradigms – as in the field of international relations, for example, where states are pulled between Realist and Liberal Institutionalist frames.

In fields where there is a prevailing orthodoxy, analysts face the challenge of explaining why and how a particular set of ideas was able to establish hegemony and displace the preceding paradigm. It is tempting to adopt a reductionist position and to explain away ideological shifts as mere epiphenomena, reflecting changes in the 'real' economy and relations between competing social groups. Hence, for example, the rise of Keynesianism in the 1930s could be seen as a response to pressure from organized labor in the face of the Great Depression, while the weakening of labor in conditions of global competition led to the demise of Keynesianism in the 1970s. In contrast, Mark Blyth (2002) argues that the rise and subsequent fall of Keynesianism required the emergence of a new epistemic community favoring the new approach, which gained access to mass media and political elites. It was not the case, Blyth argues, that one paradigm arose simply because it was a more 'true' reflection of social reality than its rival.

In East Europe, the collapse of state socialism led to an ideological vacuum that attracted ideas about the superiority of markets and liberal democracy emanating from the West. While Western labor unions and socialist parties tried to promote social democratic values, sending delegations and opening offices in the region, it was radical pro-market ideas that quickly captured the attention of ruling elites across Eastern Europe – and even in Russia itself. The dissemination of neoliberal ideas occurred very quickly and involved a small number of people – Western economic consultants who travelled to the region; missions from international financial institutions; and conferences attended by a handful of young, reform-minded economists from the transition countries (Wedel, 2001). (For an example of one of the earliest neoliberal publications in Russian, see Kapelyushnikov (1989).) The vast majority of indigenous economists in the region remained committed to socialist planning principles or, perhaps, favored some kind of social democratic alternative. There is no evidence that neoliberal ideas became 'hegemonic' across the majority of political and economic elites in the region, still less amongst the population at large. Rather, there was a more diffuse sense that market reforms were necessary – and the Washington Consensus was there ready and waiting as a prescription for change. There was no epistemic community of 'market fundamentalists' in Russia prior to 1989, just a handful of thinkers edging towards market solutions (Sutela and Mau, 1998). Most of the indigenous advocates of neoliberalism in the 1990s were recent converts with little professional training in free market economics. Take, for example, Yegor Gaidar and Vaclav Klaus, both trained as economists in the socialist system, who went on to oversee the introduction of market reforms as Prime Ministers of Russia and Czechoslovakia, respectively (Appel, 2004). They became open advocates of neoliberal ideas only in the late 1980s. In Latvia, neoliberal ideas were promoted by a group of émigré economists known as the 'Georgetown Gang', who returned to Latvia in the late 1980s (Sommers and Berzins, 2011: 123). In some cases, neoliberal ideas were picked up and used as rhetorical clubs by politicians such as Estonian Prime Minister Maart Laar, who claimed to have read only one economics book, Milton Friedman's *Free to Choose* (Aligica and Evans, 2009: 156).

In any event, even within the neoliberal paradigm as it emerged in the West, there was *no* standard theory about how to convert an entire state-run economy into a competitive market system. Previous neoliberal theory had merely tackled the question of rolling back government within an already established market economy. So, transition economists were operating 'without a map' (Shleifer and Treisman, 2001). They had to beg and borrow ideas from whatever experience looked relevant. Many of the theoretical 'principles' shaping policy were invented overnight, and actual practice immediately diverted from the model, such as it was.

Critics often associate the market reforms of the 1990s with the libertarian economics of Friedrich Hayek, also known as the 'Austrian school'. As Aligica and Evans note (p. 23), however, neoliberals invoked the techniques and assumptions of mainstream neoclassical economics, rather than Austrian economics per se. A true Hayekian would object in principle to the very idea that a reform package could be designed in Washington and applied throughout the world by national governments. And if such an effort were undertaken, the results would inevitably be very different from what the reformers intended. Hayek believed that social orders emerge spontaneously as a result of individuals pursuing self-interest and not as a result of some grand design (Petsoulas, 2001).

2.3. The Washington Consensus reaches out to the post-socialist bloc

Pro-market ideas were not just circulating in academia and the press, but also became an instrument of policy for the leading international financial institutions. Throughout the 1990s, the IMF, the World Bank and the newly-created European Bank for Reconstruction and Development (EBRD) made compliance with the standard neoliberal policy package a condition of new lending to governments in the post-socialist countries. Governments were told that they had no choice but to accept the comprehensive package of measures dubbed the 'Washington Consensus' (Williamson, 2008). This was in essence 'a set of policies predicated on a strong faith in unfettered markets and aimed at reducing, or even minimizing, the role of government' (Stiglitz, 2008: 41). That general philosophy certainly resonated in the Soviet bloc and strongly influenced the decision-making of the reform leaders.

The Washington Consensus primarily reflected the experience in Latin America. Efforts to open up those economies to more market competition had been stymied by class warfare and spendthrift populist governments, leading to cycles of debt crisis and hyper-inflation. The Washington Consensus boiled down to a holy trinity of liberalization, stabilization and privatization. The case for free trade and sound money had been around for some time, but privatization, the newest leg of the triad, had only been introduced at a national level by Margaret Thatcher in the UK in the early 1980s. But it was not clear to what extent the British and Latin American experience was relevant to the task of building a market economy from scratch in countries that lacked basic institutions such as joint stock companies, independent courts, a commercial code and private land ownership (Rodrik, 2006).

The argument was that the policies had to be implemented as a package because failure on one front would undermine progress on other fronts – for example, a fiscal imbalance would cause a run on currency. Also, it was important to signal the leadership's 'credible commitment' to better policies – a signal both for foreign investors and for domestic political and economic actors. Failure to pursue consistent policies across the board would send a mixed message and undermine confidence. Consequently, the package favored rule-based policy over discretionary policy and paid little or no attention to indigenous institutions and culture (Headey, 2009).

In Russia, stabilization (that is, the reduction of inflation and closing the fiscal deficit) took longer than promised and came at the expense of ordinary citizens due to increases in unemployment, cuts in public spending, a slump in gross domestic product (GDP) and an inflationary surge that wiped out savings (Popov, 2007). The neoliberal package made controlling inflation a priority since prices are the key signaling device in a market economy. Critics argued that in their zeal to choke off inflation, the reformers exacerbated the transition recession (Klein and Pomer, 2002). Also, lifting capital controls and introducing currency and, later, capital account convertibility made these economies vulnerable to speculative capital flows. Reformers tended to treat the exchange rate as the nominal anchor for anti-inflation policy, seducing governments into costly and often unsuccessful efforts to stabilize the exchange rate. The privatization process was pushed through much faster than skeptics believed possible, but, in most countries, it was accompanied by corrupt dealing that saw choice assets steered into the hands of insider elites (Aslund, 2003).

Apart from its economic core, the package approach also had certain political advantages. Its proponents argued that it was important to move quickly while society was in a state of disarray and before representatives of the *ancien régime* could regroup and turn back the transition. Leading Russian reformers such as Anatolii Chubais and Yegor Gaidar openly stated that the primary motive behind their reforms was political, rather than economic: to shatter the bureaucratic infrastructure, which was the backbone of the power of the nomenklatura, and to make a return to communism impossible[1] (Gaidar, 2007). Speaking in July 1993, Chubais said the reforms were 5 percent economics and 95 percent politics (cited in Nelson and Kuzes, 1995: 158). However, such statements could be seen as an effort to avoid responsibility for the initial failures of the economic program, while trying to claim credit for the progress towards liberty in Russia.

As a result of the market reforms, social inequalities increased and a small number of individuals became incredibly wealthy. It is tempting to argue *post hoc ergo propter hoc*: that those who benefitted from the market reforms were not only its main defenders, but even its principal instigators. So, market reform is seen to be the result of a deliberate policy by far-sighted communist bureaucrats to convert their collective political authority into private negotiable assets, an interpretation favored by both the Left (Kotz and Weir, 1997) and the Right (Satter, 2004; Hedlund, 2000). The implication is that the Western neoliberals were dupes who failed to realize that their reforms had been introduced to benefit venal elites. There is some truth in this argument, but it tends to exaggerate the degree of influence of the individuals who subsequently became oligarchs. Many of them were young and far removed from the core decision-making process in the late 1980s and early 1990s. Their political influence came *after* they became wealthy, not before.

The promoters of neoliberal ideas had a variety of levers at their disposal to persuade post-socialist governments to embark on radical market reform. First, they could claim the authority of Western economic science, portrayed as universal truth akin to the laws of physics or as just common sense. Considerable effort went into training and setting up exchange programs to school East European officials in the prevailing 'best practices', from corporate accounting to central bank independence (Epstein, 2008).

Second, they could portray themselves as speaking on behalf of the international financial institutions without whose assistance the transition countries faced imminent bankruptcy. Indeed, in return for Poland's 1990 'shock therapy' reform package, Jeffrey Sachs won Warsaw a 50 percent write-down of its $40 billion foreign debt (Murrell, 1993; Sachs, 1993). This was similar to the deal Sachs had won for Bolivia in 1985 and came in the wake of the 1989 Brady plan, which granted a 35 percent discount on $60 billion of bad third world debts in return for the acceptance of IMF conditionality.[2]

3. RUSSIA EMBARKS ON REFORM

'In the valley of the blind, the one-eyed man is king'.

H.G. Wells

3.1. The implementation of Washington Consensus policies in Russia

The Washington Consensus had an important impact on the trajectory of economic reforms in Russia in both the initial, chaotic phase of the early 1990s under President Yeltsin and during the return to economic growth in the 2000s under President Vladimir Putin. However, adoption and implementation of the policy package were halting and uneven (Table 1). During the Yeltsin years, Russia implemented roughly half of the policy package associated with the Washington Consensus. Optimists will say the glass was half full, pessimists, that it was half empty. The most significant progress came in the area of currency convertibility and trade liberalization. There was little forward progress during the Putin years, with the notable exception of taxation and fiscal discipline.

Table 1 The implementation of Washington Consensus policies in Russia: A checklist

	Under Yeltsin	Under Putin
Fiscal discipline	Low	High
Public spending reform	Low	Low
Tax reform	Low	Medium
Interest rate liberalization	Medium	Medium
Competitive exchange rate	High	High
Trade liberalization	High	High
Liberalization of FDI	Medium	Medium
Privatization	Medium	Medium
Deregulation	Medium	Medium
Property rights	Low	Low

Note: For parallel exercises in scoring the Russian transition, see EBRD (2005), World Bank (2002) and Ahrend and Tomson (2005). The policy list is from Williamson (2008).

The initiative for reform was generated within the upper echelons of the Russian political elite, who realized that the inherited institutional structure was failing to keep the Soviet Union competitive with rival capitalist powers. Under both Mikhail Gorbachev and Boris Yeltsin, the reforms were top-down; they were not driven by pressure from below, nor were they a direct response to pressure from outside the country (Rutland, 1997). The economic reforms introduced by Gorbachev after he became General Secretary in 1985 were enough to disrupt the functioning of the centrally planned economy, but stopped well short of a transition to the market (Mau, 1996; Ellman and Kontorovich, 1998). Gorbachev decentralized decision-making to the enterprise level and allowed the emergence of small cooperatives. But he balked at lifting price controls and allowing private property. Gorbachev's political reforms were more substantial. The end of censorship and the introduction of semi-free elections quickly eroded the Communist Party's monopoly of power and led to the collapse of the Soviet Union itself.

As President of the newly-independent Russian Federation, in January 1992, Boris Yeltsin inherited a country whose political institutions were in the throes of transition from one-party rule to some sort of electoral democracy. At the same time, the institutions of the centrally-planned system were disintegrating and the economy was in free fall, with $80 billion of international debts and an empty treasury. Russia saw open worker unrest for the first time in decades, as coal miners struck to protest empty store shelves. Yeltsin's hastily-assembled team of economic advisers, led by Yegor Gaidar, decided they had no choice but to liberalize domestic prices to get goods flowing and prevent mass starvation (Gaidar, 1999). On 2 January 1992, something like 80 percent of prices was freed. At the same time, restrictions on private entrepreneurs and on foreign trade were lifted and real markets started to appear. The decision to liberalize prices was taken in a great hurry and reflected more a gut understanding of the logic of supply and demand than a considered reflection of the prescriptions of the Washington Consensus.

Unfortunately, prices exploded, with inflation running at 1,600 percent by the end of 1992. This was partly due to the stock of unspent rubles that people had saved over preceding years, and partly because the Central Bank was pumping liquidity into the system in the mistaken belief that this would prevent a fall in living standards (Murrell, 1993; Popov, 2007). This action by the Central Bank undermined the reformers' pledge that there would be a one-time price adjustment, but no sustained inflation. The problem was that the bank was accountable, not to Yeltsin's government, but to the Congress of People's Deputies, the majority of which came out in opposition to Yeltsin's 'shock therapy'. This was the very same Congress that had rallied at Yeltsin's side to face down the hardliner coup in August 1991, just months before. It took three years of political infighting before

Yeltsin's government was able to bring the money supply and budget deficit under control, with inflation falling to 130 percent in 1995 and 25 percent in 1996 (Rosstat, 2012). The lifting of most controls on foreign trade, the lowering of trade tariffs and the introduction of partial ruble convertibility saw a surge of exports of Russian raw materials and imports of food and consumer goods. Foreign trade went from 17 percent of GDP in 1990 to 48 percent in 2004, so this aspect of liberalization worked more or less as anticipated (Rosstat, 2012).

If the moving spirit of neoliberalism was the retreat of the state from economic life, then Russia certainly exemplified the program. The initial reforms in 1992 saw the rapid emergence of a multitude of independent economic actors – from street traders up to factory directors, now free to manage their still state-owned factories without supervision by central planners. There was also a leakage of power from state to non-state actors, and from the federal center to the regions. Federal government revenue shrank to a low of 10–12 percent of GDP in 1997 and the government had trouble paying pensions and state employee salaries (Rutland, 1997). Federal financing of education and health care virtually ceased, as did state orders for defense plants. This early period also saw the breakdown of respect for the law and a surge in crime and corruption. The retreat of the state was not so much a deliberate policy of the liberal reformers as a result of the collapse of the Soviet state institutions, a process that began in 1987 and accelerated in 1991, before Yeltsin's administration came into power. In Russia, it was not really the case that '[t]he weaknesses in public institutions were caused in part by the Washington institutions', as Stiglitz argues (2008: 51). At the most, neoliberalism provided a rhetorical shell to explain these developments as the price to be paid for building a new economy.

3.2. The privatization program

Privatization, the shift of economic assets from state ownership into private hands, proceeded in remarkably rapid fashion in Russia. However, the methods used did not conform to neoliberal prescriptions of how it should be done. Western advisers argued for open, competitive auctions that would bring in new owners with capital and expertise. But, in the Russian context, those outside bidders would likely be foreign corporations, and an influx of foreign owners was politically unacceptable. The chaotic economic conditions and the failure of the stabilization program meant that the state assets were, in effect, given away and, '[i]n a sense, what took place was more a definition and clarification of existing property rights than a redistribution of ownership' (Sutela and Mau, 1998: 70).

First, beginning in the late 1980s, there was a process of 'spontaneous privatization' as incumbent directors took over de facto control of state enterprises and started running them for their own personal profit (Nelson and Kuzes, 1994). Some firms managed to register themselves as independent corporations with the approval of their supervising ministry. In this manner, the former Ministry of Natural Gas converted itself into the Gazprom Corporation. Second, there was the mass privatization program launched in 1992 by Anatolii Chubais, the head of the State Property Committee, under which citizens were given vouchers to bid for shares in state enterprises. This was modeled on the successful scheme launched in Czechoslovakia the previous year (Appel, 2004). Unlike the Czech model, however, in Russia, workers and managers were given the option of acquiring a majority of the shares in their own firm (a concession Chubais had to make to win passage of the law through Congress). More than 70 percent of firms chose the insider buyout option and control usually concentrated in the hands of the incumbent directors. Most of Russia's most profitable firms, particularly those in the oil, gas and metals sectors, were excluded from the mass privatization program. Vitaly Naishul, one of the earliest proponents of the voucher approach for Russia, denounced the Chubais program as a giveaway to insiders (Sutela and Mau, 1998: 68).

A third wave of privatization through cash sales began in 1994. The government did not want to sell to foreign investors, but Russian buyers lacked capital. So, in 1995, Chubais proposed swapping shares in a dozen leading oil and metals companies in return for loans from Russian banks. After one year, if the state did not repay the loans, the bank could keep the shares. The scheme was introduced by Presidential decree: there was no way that the scheme would have been approved by the new State Duma, elected in December 1993 and controlled by the communist and nationalist opposition. The transactions reeked of corruption: firms were sold in rigged auctions, at bargain prices, to bidders chosen in advance (Hedlund, 2000). The loans-for-shares scheme enabled the Moscow-based banks to take control of some of the major revenue-generating assets of the economy, such as the Norilsk nickel mine and the Yukos and Sibneft oil companies. In return, these newly-enriched oligarchs helped Boris Yeltsin get re-elected in June 1996 by putting their financial and organizational resources at the President's disposal. Overall, the Russian public viewed the privatization process as fundamentally illegitimate. Summarizing survey data from 2000–07, Kapelyushnikov (2008) concludes that 'about 90% of all Russians and even 72% of "entrepreneurs" are convinced that privatization was carried out dishonestly'. (He also notes that in none of the post-socialist countries are the results of privatization regarded as legitimate by a majority of the population.)

3.3. The role of international financial institutions

What role did the international community play in the launching of Russia's market reforms? The IMF and the World Bank (together with the newly created EBRD) enthusiastically embraced the cause of market reforms in the former socialist bloc. The fall of communism provided these organizations with a chance to redeem their reputation after decades of disappointing performance in the developing world. (It also meant they could expand their budgets.)

Russia turned immediately to the IMF for help with its serious debt crisis. Foreign debts had reached $80 billion by the end of 1991 and Moscow had insufficient reserves to cover debt service and necessary imports. Russia was allowed to roll over its debts by the London and Paris clubs of government and private lenders, but was never granted any debt relief – mainly because the lenders were confident that oil-rich Russia would eventually be able to meet its international obligations. The IMF lent $3 billion to Russia in 1993–94 in the form of a Systematic Transformation Facility, followed by a $6.5 billion standby loan in 1995, and a three-year, $18.5 billion Extended Fund Facility in 1996 (Stone, 2002: ch. 6). These IMF loans provided the Russian government with much-needed cash to cover its yawning budget deficit, but the government routinely violated the conditions of the loans, especially with regard to cutting government spending. Political considerations led the IMF and Western governments to turn a blind eye to Russia's failure to meet reform targets, since Russia was simply 'too big, and too nuclear' to be allowed to fail (Rutland, 1999). Randall Stone concludes: 'The IMF quickly abandoned its attempt in 1992 to enforce rigorous conditionality on Russia and made a series of compromises that culminated in the spectacular violations of conditions during the presidential elections in the spring of 1996.... Years were lost in which the foundations of a competitive economy and consolidated democracy could have been built' (Stone, 2002: 164–5). It was not until the capital markets crashed in 1998 that the Russian government was finally forced to adopt more fiscally responsible policies.

The World Bank was also an enthusiastic participant in aiding market reform after Russia joined the Bank in 1992. The World Bank lent $7.8 billion to Russia in the 1990s for 33 projects, focusing on private sector development and infrastructure reform (such as the privatization of the coal industry). However, it encountered stiff political and bureaucratic resistance, a situation that the Bank delicately refers to as 'lack of country ownership' of the reforms. Many of their investment projects were derailed by the 1998 financial crash. A 2001 report by the Bank's own Operations Evaluation Department concluded: 'Bank advice and lending played a positive but marginal role in the design of policies and in their implementation until 1998' and that 'large volumes of adjustment lending in 1996–97 may have delayed rather than accelerated needed reforms' (Zanini, 2002: ix). In the 2000s, the Bank focused more on technical assistance and reported more satisfactory results.

3.4. Evaluating the reform program

Was there really an alternative to 'shock therapy'? With the benefit of hindsight, one can go back and say that this or that should have been done differently, but it is hard to make the case that a radically different policy package that would have worked better was available for implementation. First, the data show that countries that liberalized more quickly and decisively experienced a shorter and shallower transition recession (World Bank, 2002). Second, those countries that deviated from this pattern have particular characteristics that are not easily replicable elsewhere. Both Belarus and Uzbekistan rejected neoliberal reforms and they seemed to have experienced a smaller post-Soviet recession. In the case of Belarus, the economic 'miracle' was largely due to continued subsidies in the form of cheap Russian oil and gas. In Uzbekistan, the economic stability was the result of a police state keeping farm laborers toiling in the cotton fields to produce 'white gold' for export. Contrary to Margaret Thatcher's famous dictum, there is *always* an alternative, but those alternatives are often less attractive than the chosen course. Critics are right when they argue that the Washington Consensus downplayed the scope for market failure, but they themselves are guilty of overlooking the pervasiveness of state failure in Russia and the other post-Soviet states.

Much of the criticism of the market reforms is exaggerated. It is simple demagoguery to blame all the ills of the 1990s on the reformers' policies. The hyper-inflation, goods shortages, falling living standards and GDP collapse that occurred in Russia during 1990–96 were just as much the product of Soviet socialism as of neoliberalism. They were the result of state failure, not market failure. The Soviet central planning system had broken down by 1991, before the launch of real market reforms. The same is true in Poland, where the crash had come even earlier, during 1980–81. That said, it is true that many neoliberals downplayed or simply ignored worrying signs that the reform process was going badly off track.

4. WHAT THE CONVENTIONAL ACCOUNT LEAVES OUT

For heuristic purposes, transition debates tend to portray leaders as facing choices between two alternative models: shock therapy versus gradualism. It is important to remember that politics is a messy business, driven by diverse factors that muddy the waters of alternate economic programs. No expert's policy agenda can survive an encounter with political reality, especially not a reality as chaotic as the Russia of the 1990s. There are five important dimensions to the political process that the focus on the neoliberal policy package tends to leave out.

4.1. The art of political compromise

On the economic front, it is now widely recognized that none of the post-socialist governments came close to implementing the Washington Consensus package in its entirety. Rather, reformers selected certain dishes from the menu of policies and adapted them to local conditions. For example, contrary to advice to cut public spending, in Poland, the government of Leszek Balcerowitz actually increased pensions to fulfill election pledges to correct some of the inequalities of the socialist pension system (which had excluded farmers) (Orenstein, 2001: ch. 2). In 1992, the Slovenian government rejected the privatization plan proposed by Jeffrey Sachs and went on to become one of the best-performing economies in the region (Ganev, 2005). In Czechoslovakia, the IMF was initially opposed to the voucher privatization program on the grounds that it was unrealistically ambitious, would fail to generate revenue and would delay the influx of foreign investors. Finance Minister Vaclav Klaus pushed ahead with it anyway, correctly calculating that completion of the first round of the mass privatization program would secure victory for his Civic Democratic Party in the June 1992 elections (Appel, 2004).

Anatolii Chubais saw what Klaus was doing in Czechoslovakia and tried to replicate the approach in Russia. As noted above, Chubais watered down the program in order to have it passed into law by the Congress. Yeltsin's market reforms were narrowly approved by Russian voters in an April 1993 referendum. His forcible dissolution of the Congress in October 1993 was a body blow to Russian democracy and, in the semi-free elections that followed in December 1993, pro-government parties lost to opposition communists and nationalists. These details are important because they show that Russia was a hybrid, transitional regime: it was not a dictatorship ramming through reform in the manner of Pinochet's Chile.

The actual mechanics of privatization in Czechoslovakia and Russia are often overlooked by critics who portray them as top-down, foreign-imposed programs. The IMF's most prominent critic was Nobel prize winner Joseph Stiglitz. In *Globalization and Its Discontents* (2002), Stiglitz argues that privatization in Czechoslovakia and Russia should have been done in a more decentralized way, empowering local managers. But in reality, in both countries, incumbent managers were indeed charged with drawing up the privatization plan and, in the Russian case, they were overwhelmingly successful in keeping control for themselves.

4.2. The importance of historical legacies

Neoliberals tend to treat the world as 'flat' and assume that the laws of economics, as interpreted by them, apply uniformly across space and time. The experience of the post-socialist countries showed that initial conditions and historical legacies played an important role in shaping the reform trajectory. Ideas matter, but culture matters, too.

Although some market reforms took root with bewildering speed, in many areas of Russian society, norms and practices were slow to change. For much of the 1990s, pockets of Soviet society lived on alongside the emerging market economy, as managers struggled to keep loss-making enterprises afloat (Ashwin, 1999). For example, one problem that quickly emerged was the proliferation of non-payments (Woodruff, 2000). As inflation took off and the government tried to restrain the Central Bank from printing money, firms responded to their hardened budget constraints by delaying payments to suppliers, workers and taxation authorities and engaging in barter. By 1995, half of all industrial payments transactions were non-cash, and it was not until 2000 that this parallel economy was shut down. This meant that the government was not able to get inflation under control and it was blamed by some observers for sabotaging the reforms (Gaddy and Ickes, 2002). However, this 'virtual economy' did at least allow firms to keep going and pay their workers some sort of wages. The phenomenon signaled the fact that informal practices of the Soviet shadow economy could persist despite changes in the formal rules of the game (Ledeneva, 2006).

Another example of the relevance of legacies is the fact that some of the socialist countries had a vibrant tradition of economic debate, culminating in the 'market socialism' movement of the 1960s. These debates continued in Poland and Hungary through the 1970s and 1980s, but they were suppressed in Czechoslovakia after 1968, and never really took place at all in the former Soviet Union. The lack of a cadre of competent economists who could take the Western advice and turn it into a viable policy package customized to the needs of their own country was particularly glaring in Russia.

Equally important was the presence of a political underground during the communist years, which laid the groundwork for the emergence of social consensus post-1989. Poland was the trailblazer, with Czechoslovakia and Hungary some way behind. Again, Russia is an outlier: Yeltsin was a former communist apparatchik and his pro-reform government was drawn overwhelmingly from the ranks of the former nomenklatura. Meanwhile, the former Communist Party lived on as a political opposition that contested market reform at every opportunity.

Neoliberal ideas certainly established a palpable presence in the Russian political spectrum after 1991, but they had to compete with rival schools of thought that had much deeper roots in Russian society. The most prevalent values were those developed during 70 years of Soviet rule: dependence on the state, risk aversion, disrespect for the law, desire for a strong leader, etc. (Ledeneva, 2006). Ideas from deeper in Russian history also surfaced, such as belief in Russia's great power status, mysticism and Eurasianism.

Neoliberal values cut against the grain of nearly all these ideological legacies. The narrow social basis of support for market reform in Russia made it more dependent for implementation on the authoritarian Presidential branch – an institution that proved particularly vulnerable to capture by a narrow circle of elite interests.

4.3. The rise of the oligarchs

While underestimating the resistance to change of parts of Russian society, paradoxically, the reformers failed to foresee and forestall the rise of a new and powerful set of social actors, the oligarchs, who used corrupt public officials and criminal gangs to seize assets and bar the door to future competitors. Some neoliberals argued that it didn't matter who was the initial owner of the privatized assets. In a free market, more efficient owners would come along and buy out the first wave of crooks – a version of the Coase theorem (Shleifer and Treisman, 2001).

Worrying signs of 'state capture' by the new business interests in the mid-1990s were initially brushed aside. It was assumed that the installation of democracy would ensure the long-term responsiveness of the state to public interests. Given the absence of bureaucratic capacity, self-regulation was seen as the best way to approach supervision of new market institutions such as the stock exchange (Frye, 2000). In the long term, the rising capitalist class would realize that it was in their own self-interest to install a democratic, law-based system of government, as had happened in the classic English case. But even before the August 1998 financial crash, there was a growing consensus that the Russian reform process had gone off track. Joel Hellman neatly captured the sense of dismay with his 1998 article about the politics of 'partial reform', whereby the beneficiaries of the first wave of reform were able to 'capture' the state and prevent new competitors from entering the arena (Hellman, 1998).

At the same time, within the World Bank itself, there was new attention to the need for institutional reform, following the appointment of James Wolfensohn as head in 1995 (Burki and Perry, 1998). Only after Wolfensohn's arrival were analysts allowed to use the 'c' word – corruption. Manzetti (2003, 2009) persuasively argues that attempts to insulate policy from politics in emerging markets were counter-productive. Radical market reforms without robust political institutions caused economic instability and repeated crises, which, in turn, undermined political accountability, generating a vicious downward spiral. By the 2000s, a new evolutionary institutionalism had arisen to replace the neoliberal paradigm, with an emphasis on second-generation reforms to improve institutional capacity (Roland, 2000).

As it turned out, no rule of law and no free market in economic assets did emerge in Russia. Instead, by the 2000s, under President Vladimir

Putin, the state had established itself as the arbiter of ownership for key assets in the Russian economy. The turning point in this process was the case of Mikhail Khodorkovsky, who was briefly Russia's richest man with assets of $16 billion. Khodorkovsky acquired control over Yukos in 1995 and turned it into Russia's largest private oil company. But in 2003, as he was preparing to sell the company to foreign investors, he fell foul of the Kremlin and found himself arrested and jailed on trumped-up fraud charges (Sixsmith, 2010).

4.4. The elusive 'third way'

A major puzzle of the transition is why we did not see the post-socialist countries follow a social democratic path, a third way between central planning and free markets (Zweynert, 2006). Many accounts of the transition leave out social democracy entirely, portraying a black-and-white world, where there is only central planning or a market economy (Aligica and Evans, 2009).

All the usual preconditions for social democracy seemed to be in place: a large organized industrial working class; an urban, educated workforce with high levels of female participation; low levels of social inequality; full employment; universal welfare state institutions (health, education, pensions, child care); etc. There was an army of bureaucrats and managers accustomed to working within a state-owned economy. There was a broad consensus on the importance of social rights, with polls indicating a preference for Swedish-style social democracy as an ideal form of political regime.

According to the conventional account, the social democratic 'third way' was ruled out by the prevailing post-Thatcher intellectual climate – as Vaclav Klaus liked to say, 'the third way leads to the third world'. The international financial institutions pressed for government spending cuts and showed no interest in including labor unions in the economic policy process (Kubicek, 2004).

But the main obstacle to the spread of social democracy was arguably political. The outgoing communist regimes had claimed to be representing workers' interests and used labor unions as transmission belts for the ruling party. In that context, it was hard for real social democrats to separate themselves, mentally and politically, from the communist past (which was still, at that time, the communist present).

4.5. Nationalism and political identity

Neoliberals tend to assume that their reforms are self-evidently in the long-term interests of the majority of society, so forming a winning coalition should be within the grasp of any competent political leader. That the reforms failed in Russia is largely due to the fact that Yeltsin was unable to forge a political coalition behind the creation of an open, competitive market economy. Arguably, the key factor in explaining reform success in East Europe and failure in Russia was the trajectory of nationalist politics – something that was well beyond the scope of the neoliberal world-view.

Political concerns were of course central to the thinking of key decision-makers. These countries were now democracies and governments had to worry about getting themselves re-elected. Leaders had to forge coalitions and create cohesive political parties based on some sort of ideology. In an influential book published in 1991, Adam Przeworski (Przeworski, 1991) noted the contradictions between democracy and capitalism, mainly extrapolating from the Latin American experience. He argued that workers would never vote for capitalism since this would mean the concentration of wealth and power in the hands of a few. The workers would have to be compensated – through the preservation of welfare state institutions, for example. Events in Eastern Europe quickly turned Przeworski's logic on its head, however, since it was the country with the most active labor movement – Poland – that became the first and most ardent advocate of shock therapy (Orenstein, 2001).

The missing element in most accounts of the market transition is the politics of national identity.[3] Workers voted for capitalism partly because their daily experiences with communism had been so negative, but also because national identity trumped class identity. For the Czechs, Hungarians and Poles, their national identity was vested in breaking with Soviet control and tying their national fate to Western Europe – which happened to be democratic and capitalist. In Russia, nationalism worked initially in Yeltsin's favor – when he was standing up for the Russian Federation and the other republics against the Soviet government headed by Gorbachev (Dunlop, 1995). It was Russian nationalism that enabled Yeltsin to prevail against the August 1991 putsch by appealing to the patriotic feelings of the officers and men of the security forces. However, Yeltsin's nationalist legitimacy eroded as the economic turmoil deepened – and the reforms he was enacting came to be seen as Western impositions. Some of Yeltsin's closest lieutenants – such as Vice-President Aleksandr Rutskoi and Congress Speaker Ruslan Khabulatov – broke with him over the market reforms and went over to the nationalists. Given Russia's history as a great power that defined itself in opposition to the West, it is hard to imagine how market reforms could have been packaged as a re-assertion of Russian identity.

5. NEOLIBERALISM AND PUTIN'S RUSSIA

The Russian economy was hit hard by the 1998 economic crisis, but the incoming Putin administration did not abandon the commitment to a market economy. The on-and-off market liberalization of the 1990s gave way to the creation of a system of state capitalism under Vladimir Putin. This coincided with a political shift from hybrid semi-democracy to centralized authoritarianism and assertive nationalism. The August 1998 financial crash was caused by the slump in global oil prices after the 1997 Asian financial crisis. That led to a dip in Russia's export earnings just as the government was desperately borrowing to cover its mounting fiscal deficit. Despite IMF support in the form of a $22 billion rescue package in July 1998, foreign investor confidence collapsed. In one month, the exchange rate fell from six to 22 rubles to the dollar (Rutland, 1999). Russia suspended payments on its foreign debts and many Western banks holding private debt eventually settled for less than 10 cents on the dollar. Inflation hit 75 percent by the end of 1998, again wiping out the savings of Russia's nascent middle class (the first loss having been the hyperinflation of 1992). Most of Russia's privately-owned banks collapsed, undermining the wealth and power of many of the oligarchs who were the political foundation of the Yeltsin regime.

Many observers feared that the 1998 crash meant the end of market reform in Russia. But contrary to expectations, the Russian leadership did not try to reintroduce a planned economy and the Russian economy made a surprisingly swift recovery after 1998. The 75 percent devaluation of the ruble made Russian exports more competitive and, fortuitously, there was a rebound in world oil prices, which climbed from $12 in 1997 to a peak of $148 in 2008. By breaking the political power of the oligarchs, the crisis made possible the rise of a new, statist elite under Vladimir Putin (after a bid for power by regional bosses was beaten back in the December 1999 State Duma elections). Putin's victory in the 2000 Presidential election was due to a combination of factors: the economic recovery; the war in Chechnya; his own personal charisma; and his political formula of a 'strong Russia'.

During Putin's eight years as President, the Russian economy grew at around 7 percent per year. Gross National Product (GNP) per capita went from $1,710 in 2000 to $9,660 by 2008 (World Bank, 2011). In current dollar prices, GDP rose from $200 billion in 1999 to $1,680 billion in 2008. Russia went from being the 20th largest economy in the world to the eighth. The global commodity boom generated a large fiscal surplus since the government reintroduced export tariffs on oil, which it had reluctantly abolished at the IMF's behest in 1996. The government made sure taxes were paid on time and non-cash settlements, which reached 50 percent of all industrial transactions in 1998, fell to 10 percent by 2004. The eight years of Putin's presidency saw a doubling of living standards; the settling of nearly all of Russia's foreign sovereign debts; and the accumulation of $400 billion foreign currency reserves by 2008 (Rutland, 2008). During the

Yeltsin era, there had been a major financial crisis every two–three years. This did not happen under Putin.

But what exactly was the *model* (if any) behind this remarkable and unexpected economic performance and in what ways did it reflect the impact of neoliberal ideas?

5.1. The market economy is here to stay

One might have expected that the rise to power of a 17-year KGB veteran promising the return of a strong state would have meant the end of neoliberalism in Russia. But this was not to be. Putin's ideas had been shaped by his years reading *The Economist* as a KGB intelligence officer – and by the sobering experience of watching the German Democratic Republic (GDR), the most successful socialist economy, collapse before his very eyes (Putin, 2000).

Putin made substantial changes to Yeltsin's political regime, centralizing political power in the Kremlin's hands (Sakwa, 2007). Within months of winning the Presidential election in 2000, he regained control over all the television stations and reined in the regional governors, his strategy culminating in the abolition of direct elections for governors in 2004. At the same time, Putin preserved the pro-market orientation of Yeltsin's economic strategy. He did not roll back the reliance on private corporations as the foundation of the economic system, nor did he raise tariff barriers to shield Russia from global competition. On the contrary, he maintained a convertible currency and even removed the remaining barriers to cross-border capital flows. Putin clearly understood that Russia's future as a leading power required its integration into the global economy and the preservation of the core market institutions that had been introduced – at great social cost – in the 1990s.

Few of the original team of liberal economists from the early 1990s were still serving in the Putin administration. Among them were Anatolii Chubais, who was put in charge of reforming the electricity monopoly, United Energy Systems (UES), and Andrei Illarionov, who was appointed Putin's personal economic adviser in 2000. An avowed libertarian, Illarionov looked increasingly out of place in Putin's Kremlin. He resigned in 2005 and took up a position at the Cato Institute in Washington, DC. Other notable reformers included Aleksei Kudrin, Finance Minister during 2000–11, and German Gref, head of the Center for Strategic Development, who served as Minister of Economics and Trade from 2000 to 2007. (Interestingly, Gref was a lawyer, with no economics training.) Gref and Kudrin are usually characterized as pragmatic reformers, rather than ideological neoliberals. All four of these men hailed from Putin's home town of St Petersburg.

There is little evidence that Putin had spent any time thinking seriously about how market economies work. On the contrary, his doctoral thesis, submitted in 1997, was devoted to the theme of state planning for natural resource development (Balzer, 2005). Putin was simply reacting in pragmatic fashion to his own observations: that central planning had failed and that market economies around the world were surging ahead. For all his commitment to a strong state, Putin was arguably still more of an economic liberal than the average Russian. According to an Ebert Foundation survey in 2000, 70 percent of Russians favored more state planning and 63 percent approved confiscating the property acquired by the 'New Russians'.[4]

The 1990s had left the task of building a market economy half-finished. Putin's first Presidential term saw the passage of some important new reform legislation, although measures that aroused public anxiety, such as utility price increases, were postponed. In 2001, personal income tax was cut from a top rate of 35 percent to a flat rate of 13 percent (Appel, 2011). Revenue rose after the flat rate was introduced, but not as much as the reformers had hoped – in part because there was still a 36 percent social tax on wages, a disincentive to report income from employment.[5] These tax cuts were offset by the rise in tax revenues from the booming GDP and energy exports. A cautious pension reform was introduced in 2003, introducing a private contributory pension alongside the state-provided pension. Controversy erupted in 2004 over a government plan to streamline social benefits for 32 million recipients by cutting dozens of benefits in kind (like free public transport) in return for cash compensation. After public protests, a modified version of the reform was pushed through.

Large sections of Russian law were still based on Soviet-era legislation, since Yeltsin had been unable to push new bills through the opposition-dominated parliament. Having forged a working arrangement with the communists in the State Duma in 2000, Putin's government passed reforms of the judiciary, the tax code and the banking sector. A new labor code made it easier for employers to hire and fire workers. The new land code allowed land to be sold for the first time, but parliament insisted on exempting most farmland, leaving it up to the regions to set their own rules.

Corporate governance throughout Russia's newly-minted private sector leaves much to be desired. Russia ranked 66th of 142 countries in the World Economic Forum's 2011 Global Competitiveness Index, down from 57th in 2007 – despite ranking 40th in per capita income.[6] Russia scored in the lowest quartile of all countries for quality of public and private institutions and level of competitiveness, but in the upper third for education, infrastructure and market size. The Transparency International 2010 Corruption Perceptions Index rated Russia at 2.4 on a ten-point scale, placing it at 143 among 183 countries.[7]

A 2004 study of the ownership structure of Russian industry found that the 23 largest private corporations accounted for about 30 percent of industrial sales and 11 percent of employment (Guriev and Rachinsky, 2004).

This is a remarkably high degree of industrial concentration by international standards. Moreover, most of those firms seemed to be controlled by a single individual or group of individuals. The report also noted a vast 'hidden' sector of state-owned defense and other plants, which continue to receive subsidies and which account for a quarter of industrial output. Clearly, this highly concentrated and state-oriented economy bears scant resemblance to the kind of open competitive economy that the neoliberal reformers had envisioned. And yet it was the 'neoliberal' reforms that allowed and enabled this economy to emerge.

A main challenge was the need to reform the 'natural monopolies' that were still under state control – the railways, Gazprom and the electricity giant, UES (Rutland, 2012a). Putin changed the leadership of these giant corporations, but declined to open Gazprom or Russian Railways to market competition. He did push ahead with reform of the UES, which, since 1998, had been headed by the former privatization chief, Anatolii Chubais. In the face of stiff opposition from regional governors and rival oligarchs, Chubais broke up the UES into regional energy companies, while creating a national electricity market. It took Chubais a decade to push through the plan, which was completed in 2008.

As with the natural monopolies, the reform of the bank sector proceeded at a snail's pace. A long overdue law introducing deposit insurance for private banks was passed in 2003. But there was otherwise no real progress in restructuring or improving the regulation of the commercial banks, which had been devastated by the 1998 crash. Seventy percent of deposits were still lodged at the state-owned Sberbank. Russian banks behaved in an inefficient and irresponsible manner, making few loans to domestic producers, but pouring money into speculative real estate. They borrowed heavily abroad and were thus very vulnerable to the outflow of foreign capital during the 2008 financial crisis (Gaddy and Ickes, 2010).

Russia's failure to join the World Trade Organization (WTO) was the most salient blot on its image as a market economy. Russia had first applied for entry to the WTO in 1993 and had brought import tariff barriers down to WTO levels. By 2008, Russia's average tariff level was 10.7 percent (Rutland, 2012b). The WTO kept moving the goalposts as the years passed, with much stricter requirements being applied to Russia than to, say, China, which joined in 2001. Russia took steps to meet the WTO conditions. A new customs code was signed into law in May 2003, but implementation was weak, and piracy of software and DVDs remained pervasive. In 2004, Putin won European Union (EU) approval for Russian entry in return for Russia supporting the Kyoto Protocol on greenhouse gas emissions. But the US continued to insist on more access for foreign firms to Russia's finance sector and improved intellectual property protection. The political fallout from the 2008 Georgia war further delayed Russia's WTO entry, which was finally approved in 2012.

Putin's continued pursuit of market reforms was based on his own calculation of what was in Russia's strategic interests – and what would serve the more venal interests of his own political coterie. It did not come as a result of pressure from Western advisers or IMF loan conditionality. There were no Western advisers in the Kremlin and, in 2006, Russia paid off its entire $22 billion debt to the IMF ahead of schedule. Putin wanted Russia to be accepted as part of the global community through entry to organizations such as the Group of Eight (G8) or the WTO, but, at the same time, he portrayed himself to domestic audiences as a strong leader standing up to the West and insisting on Russia's uniqueness.

5.2. Russia's dependence on oil and gas exports

'Our economic foundation, although it has become considerably sounder, is nevertheless unreliable and very weak [because] the monopolists are suffocating the competitive sector of our economy'.

Vladimir Putin, 16 May 2003

Russia's economic recovery was driven by the surge in global commodity prices during the boom of the 2000s. The Kremlin opened Russia to the global economy and the message from the market was loud and clear: Russia's clear comparative advantage (both static and dynamic) lay in serving as a source of energy and metals. Oil and gas accounts for about 25 percent of the Russian economy – a high level, though not as high as in Saudi Arabia or even Venezuela, since manufacturing still accounts for about 17 percent of Russian GDP (Rutland, 2008). This was a political challenge for Russian leaders, whose sense of national pride – and strategic security – rested on Russia having an advanced, diversified economy with a high-tech industrial base. Resource dependence was also a problem for market liberals because of the pathologies that usually accompany the 'resource curse'. These include an overvalued exchange rate leading to the hollowing out of domestic manufacturing (the 'Dutch disease') and increased dependence on capital inflows and outflows tied to the volatility of the world oil market. These factors are clearly present in Russia. By 2005, manufactures accounted for only 8 percent of Russia's exports, and only 3 percent of these were in the medium-high technology category (Rosstat, 2012). On the political front, in the absence of democracy, oil dependence tends to produce a concentration of wealth and power in the hands of a small group of elites. Russia certainly fits the pattern. The Russian government faced two challenges: to minimize the negative features of resource dependency in the short term and to promote diversification of the economy in the long term. It was moderately successful in the first task and is failing in the second. The government lacked a full range of monetary instruments to completely sterilize the inflow of cash from the trade surplus and struggled to bring inflation down to single digits. (It was stuck at about 10 percent throughout the 2000s.) The ruble continued to strengthen against the dollar and, by 2004, the competitive advantage of the 1998 devaluation had disappeared. Still, at least until the 2008 crisis, Russia's fiscal policy after 1998 was conservative, closer to that of Norway than Nigeria or Venezuela (Tabata, 2012). In 2004, the government created a Stabilization Fund into which oil exporters pay excess taxes when the price exceeds $20 a barrel. Russia's state foreign debts were brought down to $53 billion (9 percent of GDP) by 2008, from $150 billion in 1998 (Rutland, 2008). Thus, by embracing integration into global markets, Russia deepened its exposure to the 'resource curse'. Neoliberal economists don't have any easy solutions to resource dependency up their sleeve. Given their skepticism about the efficiency of state intervention, they would presumably discourage efforts to tax the energy sector and subsidize other firms in manufacturing or research and development (R&D). But it is intrinsic to the nature of an oil-dependent economy that one will see a strong role for the state. Oil is simply too important to be left to the private sector. Apart from in the US and the UK, oil production is almost always kept in the hands of state-owned firms.

5.3. A highly political economy

The political regime created by Vladimir Putin is often characterized as a takeover by officials from the security services, or *siloviki* ('men of power') (Sakwa, 2007). A small core of these men was personally known to Putin from his days in the KGB. The rest were recruited from the ranks of the security services and armed forces because they were perceived as sharing Putin's values of personal loyalty and state patriotism. The *siloviki* make up roughly one quarter of the upper echelons of the Presidential and governmental apparatus – a significant contingent, but less than a majority. Moreover, the *siloviki* are divided into competing clans and corporate agencies. They do not have a common identity or political philosophy of their own, independent of the will of Putin – and Putin, as we have argued above, is committed to a market strategy for Russia's economic development.

Putin's regime walks on two legs: the *siloviki and* the oligarchs. The oligarchs have grown in number and in wealth in the course of the 2000s – even as Putin was consolidating the power of the central state. Oligarchs who tried to mount a political challenge to the Kremlin found themselves stripped of their assets, and sometimes their freedom. The 2003 arrest of Mikhail Khodorkovsky and the break-up of Yukos is an exemplary case. Many Western observers took the Yukos affair as signaling that Russia was turning its back on the market economy. However, most of the other Russian oligarchs understood Putin's rules of the game and avoided jail or exile. The oligarchs as a class have not disappeared; in fact, they have increased in number and they have seen their wealth multiply under Putin's rule. *Forbes* magazine reported there were 17 individuals in Russia in 2003 with personal assets above $1 billion. By 2012, their ranks had risen to 96, second only to the US.[8]

Putin did take steps to endure tight state control of the energy sector. As a result of the break-up of Yukos and Gazprom's purchase of the Sibneft company in 2005, the share of oil output produced by majority state-owned companies rose from 10 percent in 2000 to 42 percent in 2008 (Rutland, 2008). A new law regulating 33 strategic sectors of the economy barred foreign companies from more than 50 percent ownership of any oil field over 70 million tons and required government approval for even a 10 percent stake. Even beyond the energy sector, the Russian state still holds a large stake in a broad range of Russian industries. The overall state share in the economy (measured by share ownership) rose from 30 percent in 2000 to 40 percent by 2008. In the 1990s, the government did not try to exercise any systematic influence over the privatized companies in which it held shares. Putin made a coordinated effort to regain control over these companies by having trusted aides appointed to their boards, in some cases as chief executive. Dozens of government ministers and Presidential staff members now serve on the boards of companies in which the state has a substantial stake (Volkov, 2008). Guriev's 2004 survey found that 29 percent of the firms in the sample had a government representative on their board. It is an open question whether this hybrid system, in which an intrusive state bureaucracy watches over private oligarchs, can be maintained over time. It is probably *politically* feasible. But is it *economically* feasible? Some argue that the high oil and gas prices will enable the Putin model to continue indefinitely, though the costs of developing Russia's new petrocarbon deposits in Siberia and the Arctic Ocean are also increasing. The sustainability of the Putin recovery hinges on major investment and structural reforms to increase the competitiveness of Russian industry. But the politically closed nature of the 'power vertical' is not conducive to creating the competitive environment needed for sustained economic growth.

6. CONCLUSION

While critics argue that Russia suffered from an overdose of 'market fundamentalism', neoliberals still insist that Russia did not go far enough in unleashing genuine market forces. The Washington Consensus exerted a strong influence over Russian policy in some specific domains, such as currency convertibility and lowering trade tariffs, but it had scant impact on some of the most important decisions, such as whether and how to privatize, the centrality of oil and gas exports, and the concomitant need for an interventionist state. Neoliberalism, which had been twisted and selectively deployed to suit the political conditions of Yeltsin's Russia in the 1990s, went through another metamorphosis and was reborn in Putin's Russia. The prominent role for the state in Putin's economic strategy means that Russia has now moved well beyond a 'neoliberal' approach to economic development. But both the Russians themselves and Western observers lack a conceptual vocabulary to describe the model they are following. 'Neoliberalism' was invoked for tactical reasons by both sides of the political divide. Liberals appealed to the laws of Western economic science to camouflage an asset grab by their friends and allies, while communists pointed to neoliberalism to 'prove' that the reformers were merely serving the interests of the West, keen to turn Russia into a 'raw materials appendage'.

The Russian case shows that in times of tumultuous change, broad and bold theories about how economies work can gain a ready ear amongst harassed politicians desperate for solutions to the challenges they face. However, the political exigencies under which those ideas are taken up and implemented typically carry the resulting policies far beyond the initial conceptions of economic advisers. In addition, the structural characteristics of the economy in question – in Russia's case, its dependence on energy exports – may override the policy prescriptions of global 'best practices' in promoting sustainable economic development. Hence, the Washington Consensus is best understood as a highly conflictual interaction between the dominant transnational policy paradigm (see Babb in this issue) and the specific political challenges facing leaders in individual countries such as Russia. Just as a variety of national Keynesianisms evolved in the developed economies by the 1960s, so too we can see a variety of national neoliberalisms emerging from the reforms of the 1990s.

NOTES

1 Biographies of these and other Russians mentioned here can be found in the Lentapedia database: <http://lenta.ru/lib/>.
2 Somewhat ironically, Jeffrey Sachs is regarded by neoliberals as a Keynesian, as evidenced by his more recent advocacy of large investment programs to cure poverty.
3 Exceptions include Abdelal (2001), Appel (2004) and Helleiner and Pickel (2005).
4 'Anatomy of the Russian Soul', *Izvestiya*, 16 April 2002.
5 The 2001 tax reform cannot be cited as proof of the 'Laffer curve' (the idea that tax cuts actually increase total revenue through improved incentives to work), since tax collection procedures were being tightened at the same time as the tax rate was being cut.
6 <http://www.weforum.org/issues/global-competitiveness> (accessed 14 June 2012).
7 <http://cpi.transparency.org/cpi2011/> (accessed 14 June 2012).
8 <http://www.forbes.com/sites/luisakroll/2012/03/07/forbes-worlds-billionaires-2012/> (accessed 14 June 2012).

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