**Essay: Putin’s Patrimony
Robert Skidelsky
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When asked about the effects of the French revolution, Zhou Enlai is famously supposed to have said: "It is too early to tell." After only 15 years, post-communist Russia is still near the start of a film which clearly has a long time to run. Official and editorial commentary from the west takes the form of criticism and exhortation—the attitude of an improving, sometimes despairing, schoolmaster. Recently Russia has had an exceptionally bad press. The expulsion of "illegal" Georgian and other trans-Caucasian, central Asian and Chinese immigrants, the unexplained murders of Anna Politkovskaya and Alexander Litvinenko, the interruption of oil supplies to Belarus, the forced sale to Gazprom of a controlling stake in Royal Dutch Shell's Sakhalin-II project have all been pilloried. These incidents follow a long period of attrition of fledgling democratic institutions and civil society, and the brutal war in Chechnya. Like naughty schoolboys, Russians react to western sermons with a defensive truculence ("double standards") or by changing the subject. Rather than continue this sterile tit for tat, it is more useful to try to understand the structural features of the Russian system that stop Russia doing what the west wants it to do. Two of these stand out: first, the domination of its economy by a monopolised energy sector; second, the fusion of power and property. These two features together have created Putin's system. They are a product both of Russia's history and geography and the way the transition to post-communism was handled in the 1990s. They shed light on the three questions of most interest about Russia today. How solid is its economy? How solid is its political system? And is it a "reliable partner"?

How solid is Russia's economy?

As we know, the Russian economy suffered a severe collapse between 1990 and 1996. Official GDP fell by 50 per cent. The average standard of living probably fell by much less, but there was a big increase in inequality and in absolute poverty. Growth started in 1997, but there was another collapse following the rouble crisis of 1998. Since 1999, the economy has been growing at an annual average rate of 6.7 per cent. Russia is now the tenth largest economy in the world, and its income per head has doubled since 1999 to around $12,000, about the same as Chile's. The stock market has been doing even better: 2006 was the fourth year in which it notched up returns of over 50 per cent. Russia runs big annual budget surpluses, it has almost no foreign debt, and has the largest foreign exchange reserves outside Asia. No wonder investors love Putin.

However, Russia is a single-track economy. Its boom is driven by rising energy and commodity prices. The dominance of the energy sector is the result of two factors: the failure of "shock therapy" to restructure the Soviet economy in the 1990s, and the belief that energy—oil, gas, pipelines—keeps Russia in the great power game. Since 2001, energy prices have more than doubled. By 2006, oil and gas made up 40 per cent of GDP; energy and minerals accounted for 60 per cent of Russian exports, and 40 per cent of government revenue. Commodity stocks comprised 80 per cent of the stock market. The economy is more dependent on the production and export of natural resources than it was in Soviet times, a unique case of de-industrialisation.

In the short run, Russia has benefited hugely from the energy boom. But the long-run effects are quite possibly dire. This is because of what economists call the "oil curse," or the "natural resource curse." Broadly speaking, a country with poor natural resources has no alternative, if it is to grow, to developing its industry and services. Japan, China and now India have climbed up the economic ladder by exploiting their abundant labour, and keeping it artificially cheap by means of undervalued exchange rates. By contrast, a resource-rich country can become wealthy quickly by exploiting its abundant natural resources, even if it also has cheap labour. But this may be at the cost of its long-term future.

There are several reasons, obvious and not so obvious, for this. First, commodity prices are more volatile than industrial prices, so a country which depends on commodity exports is exceptionally vulnerable to price shocks. Second, large foreign cash inflows from commodity exports destroy the competitiveness of non-oil industry by forcing up the exchange rate. Third, a natural resource economy is more likely to be a politicised economy, as natural resources are viewed as part of the nation's "patrimony," to be kept out of foreign hands and made available for political deployment. Fourth, natural-resource abundance diverts economic and political energy from creating wealth to fighting over its distribution. The wealth is already there: the question is, who will control the "rents" from it? Fifth, it decreases the demand for democratic representation, as governments don't need to rely so much on income tax to finance expenditure. This promotes authoritarianism. Finally, it makes control of territory a central concern of politics. The uneven distribution of resources within a resource-rich country can either encourage resource-rich regions to try to break away, or encourage resource-poor regions to establish control over the whole country by dictatorial means. Both pulls have been evident in Iraq.

These are tendencies rather than inevitable outcomes. They can be offset by good policies. Norway and Holland escaped the oil curse; most of Latin America has succumbed to it. The Soviet Union offered Russia an escape through forced industrialisation. Post-communist Russia has succumbed to it by the speed of industrial collapse and by the failure to introduce the competition which would have enabled a rapid restructuring of the economy.

Three consequences stand out. First, the Russian economy is highly vulnerable to any downturn in oil prices. This is most obvious in its energy-dominated stock market. If the price of crude fell from $60 to $45 a barrel, the stock market could drop by as much as one third. Such a drop would hit the Russian economy through a "wealth effect"—as personal wealth falls, people spend less—while a reduction in the oil price would also hit government revenue through a fall in taxable profits. Both would lead to a fall in aggregate demand, and quite possibly to the collapse of the current real estate boom, buoyed up by oil dollars.

Second, the patrimonial attitude to natural resources has led the Kremlin to restrict foreign investment in them. This makes even the energy sector less productive than it should be. If you have got only one national champion, you might as well make it as efficient as you can.

Third, there is the competitiveness story. Since 2003, the rouble has appreciated 15 per cent against the dollar, despite heavy intervention by the central bank. The November OECD policy brief on Russia states baldly that "the main factors underpinning current growth are transitory." By this it means that the gains from the rouble devaluation of 1998 are exhausted, and that growth due to higher commodity prices will slow as the economy becomes progressively less competitive. One reason for this decline in competitiveness is that the petrodollar inflow has reduced the urgency of reform and innovation, which in turn has produced greater dependence on the energy economy.

Putin's first-term (2000-04) reforming zeal, which saw tax, judicial and land reform, an attempt at social security and education reform, and serious debate about restructuring and privatising the "natural monopolies" (gas, electricity, railways), has dried up. Property rights remain revocable, as the confiscation of the oil giant Yukos in 2005, showed. This did not deter stock market speculators, but it inhibited long-term investment in oil and gas exploration, and production in these areas is stagnant and even falling.

Abundant oil revenues have meant that small and medium-size enterprises (SMEs) have played a much smaller part in Russia's economic growth than in resource-poor countries. Russia's economy is highly monopolised. State ownership of the gas industry covers 90 per cent of gas production; in addition, the state monopoly Gazprom owns all the export pipe-lines. State control of the oil industry has grown from 19 per cent in 2004 to 34 per cent, and will rise to 40 per cent with Rosneft's acquisition of Yukos. In the metal industry, there are three non-ferrous giants (Rusal, Sual and Norilsk) and four steel giants (Severstal, MMK, NLMK and Yevraz). By contrast, the SME sector's share of GDP is below 25 per cent—the lowest in emerging market economies, where it normally accounts for 35-40 per cent (the EU average is 60-65 per cent). There has been little incentive for the Kremlin to reduce over-regulation and corruption, which are still formidable barriers to entry. Although foreign banks have now been allowed in, the banking system is still state-dominated and crony-ridden, keeping old businesses going while choking off capital for new ones. The central bank has closed a number of under-capitalised and/or crooked banks—which may well have cost Andrei Kozlov, the reforming deputy chairman, his life (he was shot dead last September). Venture capital has only recently started to grow, from a very low base.

Russia has also been slow to exploit its comparative advantage in human capital. India and China, not Russia, have been favoured locations for outsourcing, despite Russia's favourable combination of cheap labour and superior scientific and technical prowess. Joint partnerships, like that between Boeing and Luxoft, have been rare. The energy economy does nothing to reverse the emigration of skilled personnel, which aggravates the problem of a falling population. The government is now paying more attention to these issues—but too little.

The economist might well say that a weakening of the oil price is just what Russia needs. A lower exchange rate would help wean the Russian economy off energy by making the non-energy sector more internationally competitive. However, this transition will not be smooth, and it ignores the volatility of the oil market. No one knows what the long-run sustainable oil price is. The budget (and economy) is protected from a cyclical downturn by foreign exchange reserves of more than $300bn and an oil stabilisation fund which now has accrued $90bn; but these very protections are a barrier to restructuring.

So one might say that the Russian economy is prosperous but not stable. The cyclical character of its prosperity is more marked than in resource-poor emerging economies, and certainly than in rich ones.

How solid is Russia's political system?

Here the stability is very impressive. There is hardly any political opposition, and Putin enjoys an approval rating of 70 per cent—beyond the wildest dreams of any western leader. Stability is a crucial element of the political predictability that investors crave. However, there is a serious problem of the succession. Who or what after Putin? This is a question which will need to be answered before the next presidential election, due in early 2008.

Putin, and his intentions, remain enigmatic. Is he puppet or puppet-master? To Anna Politkovskaya, who paid for her views with her life, he was the epitome of mediocrity: an over-promoted middle-ranking KGB officer with the attitudes of a secret policeman. This is a serious underestimation, but Putin's success has owed much to his being persistently underestimated by cleverer, or more charismatic, figures. He is physically unprepossessing, averse to risk, a hoarder rather than squanderer of power. One cannot imagine him getting up on a tank as Yeltsin did in 1991. But then he is widely admired in Russia for not being Yeltsin, who left office with an approval rating of five per cent. He is (relatively) young at 52, healthy and hard-working. He speaks good Russian, laced with coarse jokes, which Russians seem to love. People meeting him are impressed. As one businessman put it: "He was relaxed… He looks you in the eye, he has a good sense of humour, he listens intently to questions, and gives thoughtful answers." After three decades of decrepit or erratic leadership, these are formidable pluses. He has also stamped his authority on the government in a way unknown since Stalin, though by consensus rather than terror. He is not a democrat, but neither is he a tyrant. He has imposed as much coherence in policy and decision-making, and in carrying out decisions, as the clash of sectional interests and the confusion over Russia's identity allow, carefully balancing liberals and conservatives. Key members of his government and staff came with him from St Petersburg to Moscow, and he relies heavily on this tribal loyalty—which he reciprocates—not to mess things up for him. The tribe he has promoted most strongly is the KGB (especially KGB officers from St Petersburg), which was discredited but not disbanded under Yeltsin. The security and intelligence apparatus wields greater political power now than it did even in Soviet times, when it was subject to party control. Broadly speaking, Putin has stuck to his original aim of restoring Russia as a great power by restoring central authority, reviving the economy, and using economic instruments to increase Russia's leverage. Concentration on the energy sector thus has a geopolitical as well as an economic logic to it.

However, to understand why the transition from Putin is likely to be so fraught, it is not enough to focus on his personal qualities. It is important to grasp that power in Russia has always been intimately connected with possession. The two words vlast (power) and vladenie (possession, domain, estate) have a common root, both expressing the idea of patrimony. Putin has reconstituted this connection in a particularly striking form.

A former prime minister of Russia, Yegor Gaidar, says of the Russian tradition: "Lose your position—lose your property. Property is the natural prey, and the state is the natural predator, always in pursuit, always redividing and redistributing existing spoils." Gaidar's voucher privatisation programme of 1992 was intended, in his own words, to "cut the umbilical cord between political power and the economy." It failed, handing control of state assets to inside managers. This generated the funds for the notorious "loans for shares" scheme of 1995-97, through which unscrupulous banker oligarchs acquired ownership of the most lucrative state-owned oil companies—Yukos, Surgut Holding, Sidanco, LUKoil, Sibneft—at knockdown prices. This manoeuvre succeeded in getting the Kremlin the cash and media support to secure Yeltsin's re-election in 1996, but had the effect of handing ownership of the commanding heights of the Russian economy, as well as the media, to a handful of billionaires. This created the political headwind for Putin's attack on the oligarchs and his renationalisation programme.

Tsar Paul I is reported to have said: "In Russia, an important person is only the one I am talking to and only as long as I am talking to him." Paul's fantasy is Putin's reality. He set out to restore the vertical system of power (state authority) which he, and most Russians, felt had been fatally weakened in the 1990s. This has meant neutralising independent centres of action or opinion. Like George W Bush, he has used terrorist outrages to create an atmosphere of a state at war. The Chechen war provided plenty of opportunities, and there is no doubt that the Beslan school crisis of September 2004—when Chechen rebels took 1,200 children and parents hostage and hundreds were killed in the subsequent shoot-out—accelerated the slide to soft dictatorship at home and paranoia in foreign policy. Beslan was Russia's 9/11.

Since he became president, Putin has replaced local elections by appointments to governorships and supervision by seven presidential plenipotentiaries. Except for the declining Communists, Russia's political parties are creatures of the Kremlin: fakes. Stephen Holmes has called the Putin system "Potemkin democracy"; Andrew Wilson has called it "virtual politics," in which the Kremlin manages democracy more by controlling inputs (parties, media) than by manipulating outputs (election results). The prime minister, Mikhail Fratkov, is a cipher, and members of Putin's government are important only insofar as they have direct access to the president. He has cut off funding from the political NGOs, secured the loyalty of the Orthodox church by giving it a religious quasi-monopoly, and crippled that other great barrier to unchecked power, the independent media. By these means he has ensured that the political pillar of the vertical structure is subservient to the Kremlin.

In doing this, Putin has created a highly personalised system of rule more like that of the tsars than Communist party general secretaries. This has serious weaknesses. Apart from the fact that the president cannot do everything, Putin has drastically narrowed the base of support and criticism needed to make difficult choices and to correct policy mistakes. His support is personal rather than institutional. The lack of intermediate bodies between the Kremlin and the people makes the Putin consensus skin-deep, despite the president's own popularity. It also explains his rather desperate promotion of groups like Nashi (the youth movement of his United Russia party) to create a simulacrum of populist politics.

The other vertical pillar of power is the economy, dominated by the strategic industries. Putin has replaced the corrupt oligarchic capitalism of the Yeltsin period with a corrupt presidential-administration capitalism, a patrimonial fusion of executive power and material wealth. In his first term he dislodged the three most ambitious magnates—Boris Berezovsky and Vladimir Gusinsky, because they controlled the two independent television channels, and the Yukos boss Mikhail Khodorkovsky, because he was using his wealth to challenge Putin. The others are on notice to do what the Kremlin wants, or face prosecution or dispossession. But Putin's most striking innovation has been to integrate the political and economic pillars into the vertical system of command. A web of Kremlin staffers and government ministers have been put in charge, or on the boards, of the largest state-controlled companies. Five Kremlin officials chair companies controlling at least a third of GDP, while continuing with their day jobs on the president's staff.

This fusion of power and wealth is key to understanding the modus operandi of the Russian system. By concentrating economic power in this way, Putin has locked up much of the potential for economic growth. There is a massive conflict between treating ownership as an instrument of power and building a broad-based economy which can exploit Russia's comparative advantage in science and technology. As Robert Cottrell, an acute Kremlin-watcher, put it in the New York Review of Books three years ago, Putin and his generation are "reconstructing the secretive, centralised, militarised political culture of their youth, reversing much of what was good, and what was bad, about the Yeltsin years." Caught between "his need for economic growth and his need for political control," Putin, Cottrell accurately predicted, will choose political control, because he can get economic growth too as long as oil prices stay high.

One clear result of this development has been the failure to specify and enforce property rights. This is deliberate. Repeated calls by western officials for Russia to remedy this legal defect ignore the fact that it is in the Kremlin's interest to have unclear property rights. Important segments of the economy have to be kept available for distribution and redistribution to the Kremlin power-holders.

This leads back to the problem of the succession to Putin. The transfer of power in such a system involves not just the replacement of one lot of politicians by another but the transfer of property entitlements and patronage. Putin's political appointees face being dispossessed not only of their government offices but their bloated income streams. The obvious way of mitigating this is the hand-picked successor. But this will not be easy. The current front-runner is the deputy prime minister Dmitry Medvedev, who is also backed by members of the old Yeltsin family. This may fail because he is not strong enough. But the alternatives are much less clearly defined.

If the incoming president is to satisfy his own clique, he will either have to seize control of new property or redistribute existing property now under state control. Putin did both, but his "family" will be harder to dislodge than that of Yeltsin, who was sick and discredited when he left office. The constitution does not allow Putin to stay on, but the system he has created does not allow him a trouble-free departure. The added twist is that under the constitution, he can stand for a third term after one interval. He may nominate a fake successor—someone to keep his seat warm for four years or shorter (before resigning on "health" grounds). But then who governs? So the vaunted stability of the Putin system depends on a highly unstable transition from Putin to Putin. In the longer term, as the economy turns down and social tensions grow, the failure of the Putinists to address Russia's needs will be exposed, and there will be a significant risk of turbulence when they eventually lose power. But "eventually," in the view of most observers, looks like a long way off, unless the Kremlin—which has handled every crisis under Putin with conspicuous incompetence, from the Kursk submarine disaster through the orange revolution in Ukraine to the Beslan hostage siege—is subjected to a major internal or external shock. While energy prices stay buoyant, this is unlikely.

The great advantage of democracy is that it allows the orderly transfer of power. An orderly transfer of power, and concomitant security of property rights, is incompatible with the Putin system. There is no way out of the Putin system except through crisis. It is unreformable.

Is Russia a reliable partner?

Soviet Russia was called a one-track superpower; post-communist Russia is a one-track great power. It has traded its military-industrial complex for an energy complex. This has stopped the diversification of the economy, but given it more choices in foreign policy. Oil has enabled Russia to avoid defining its national interest, or sorting out its confused identity; oil wealth has drowned the classic debates about its place in the world—whether it is western or eastern, a nation or empire, a partner or a pole. It enables Russia to punch above its weight. "Geoeconomics," writes Bobo Lo, "has become for Moscow the geopolitics of the new millennium…"

Mikhail Gorbachev wanted Russia to "join the world," but the world has changed greatly since the fall of communism. The romance of globalisation has given way to the war on terror, the challenge of climate change, the rise of China, the struggle for scarce natural resources. Putin brilliantly exploited the opportunity opened up by 9/11. Overruling his military, he expressed strong support for America, gave the US access to central Asia, closed Russian bases in Vietnam and Cuba, and acceded to US requests to keep the price of oil lower than Opec wanted it. This might have laid the basis for a long-term partnership with the west to reduce its dependence on Opec oil. Officials from both sides started talking about a "strategic partnership" with the US and an "energy space" uniting Russia and the EU.

Putin invested a lot of political capital in this partnership project; Russia's subsequent retreat from it to purely "functional relationships" has been dictated by its failure. There was some mitigation of western criticism of Russia's Chechen policies, but Russia has not been offered a fast track to WTO membership, meaningful anti-missile agreements, a security role in Nato or the middle east, or even a proper partnership with the EU. Moreover, a series of US-inspired (or at least CIA-financed) "coloured" revolutions in Serbia, Georgia and Ukraine have increased Russia's sense of isolation and paranoia by depriving it of reliable clients. Russia retaliated by joining France in opposing the Iraq war, and has been out of step with the west on Iran and Kosovo. Whatever residue of the originally warm Bush-Putin relationship survives, it was an illusion to suppose that the US could have a partnership with Russia on Iran while rolling back its influence everywhere else. (Putin's latest anti-American outburst, in Munich on 11th February, had the tone of a jilted lover.)

The energy partnership with the EU is hostage to the same struggle for influence. Russia has used its energy power to remind its former territories that their future lies with Russia rather than with the EU. This is the symbolic meaning of the interruptions of supply of gas to Georgia and Ukraine, and oil to Lithuania and Belarus. The end of empire didn't automatically spell the end of Russia's imperial reflexes. There are too many Russian people and resources scattered in these now independent countries for Russians not to entertain a hope of reconstituting at least part of their former empire.

We are back to the oil curse. It is this which makes the economy brittle, the political system unstable, partnership unreliable—while shielding Russia from the full consequences of the failure to reform, the failure to democratise, the failure to embrace a realistic destiny. It produces what the writer Viktor Erofeyev called an "imperial discourse" which is "in principle not translatable into other languages." Erofeyev may be right to think that Russia will need a new generation of leaders to overcome the "image war." More importantly, it will need a lifting of the "curse" to make them think differently about Russia's future.