

# A Normal Country

*Andrei Shleifer and Daniel Treisman*

## RETHINKING RUSSIA

DURING THE LAST 15 YEARS, Russia has undergone an extraordinary transformation. It has changed from a communist dictatorship to a multiparty democracy in which officials are chosen in regular elections. Its centrally planned economy has been reshaped into a capitalist order based on markets and private property. Its army has withdrawn peacefully from both eastern Europe and the other former Soviet republics, allowing the latter to become independent countries. In place of a belligerent adversary with thousands of nuclear missiles pointed at it, the West finds a partner ready to cooperate on disarmament, fighting terrorism, and containing civil wars.

Russia's reinvention would seem cause for celebration. Twenty years ago, only the most naive idealist could have imagined such a metamorphosis. Yet the mood among Western observers has been anything but celebratory. Russia has come to be viewed as a disastrous failure and the 1990s as a decade of catastrophe for its people. Journalists, politicians, and academics have described Russia not as a middle-income country struggling to overcome its communist past and find its place in the world, but as a collapsed state inhabited by criminals and threatening other countries with multiple contagions.

As the 1990s drew to a close, the left and the right in the United States were united in this view. To Republican Dick Armey, then House majority leader, Russia had by 1999 become "a looted and bankrupt

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zone of nuclearized anarchy.” To his colleague, House banking committee chairman James Leach, Russia was “the world’s most virulent kleptocracy,” more corrupt even than Mobutu Sese Seko’s Zaire. From the left, Bernard Sanders, the socialist member of Congress from Vermont, described Russia’s economic performance in the 1990s as a “tragedy of historic proportions.” A decade of reform had earned the country only “economic collapse,” “mass unemployment,” and “grinding poverty.”

More recently, a glimmer of optimism briefly broke through the gloom. As the economy grew rapidly and a young, disciplined president replaced the ailing Boris Yeltsin, some saw hints of an emerging stability in Russia. President George W. Bush, in late 2003, praised President Vladimir Putin’s efforts to make Russia into a “country in which democracy and freedom and the rule of law thrive.” But the happy talk did not last long. When Russian prosecutors arrested the oil tycoon Mikhail Khodorkovsky in October 2003, threw him in jail, and froze his shares, the critics’ worst fears of an authoritarian revanche seemed to be coming true. Russia, according to the *New York Times* columnist William Safire, was now ruled by a “power-hungry mafia” of former KGB and military officers, who had grabbed “the nation by the throat.” When the pro-Putin United Russia Party was announced to have won more than 37 percent of the vote in the December 2003 parliamentary elections, Safire lamented the return of “one-party rule to Russia” and declared the country’s experiment with democracy “all but dead.”

Yet data on Russia’s growth, macroeconomic stability, income inequality, and corporate finances—as well as on its elections, press freedom, and corruption—suggest there is a large gap between the overwhelmingly negative assessments of the country and the facts. Although Russia’s transition has been painful in many ways, the country has made remarkable economic and social progress since the end of communism. It began the 1990s as a highly distorted and disintegrating centrally planned economy, with severe shortages of consumer goods and a massive military establishment. It ended the decade as a normal, middle-income capitalist economy. Although economic output fell initially after the Soviet Union collapsed, plausible estimates suggest that the decline had been reversed by 2003. Politically, Russia started out as a repressive dictatorship, dominated by the Communist Party and security

services. Within a decade, its political leaders were being chosen in generally free—if flawed—elections, citizens could express their views without fear, and more than 700 political parties had been registered.

Russia's economic and political systems remain far from perfect. But their defects are typical of countries at a similar level of economic development. Russia was in 1990, and is today, a middle-income country, with GDP per capita around \$8,000 (at purchasing power parity) according to the UN—comparable to Argentina in 1991 and Mexico in 1999. Almost all democracies in this income range are rough around the edges: their governments suffer from corruption, their judiciaries are politicized, and their press is almost never entirely free. They have high income inequality, concentrated corporate ownership, and turbulent macroeconomic performance. In all these regards, Russia is quite normal. Nor are the common flaws of middle-income capitalist democracies incompatible with further economic and political progress—if they were, western Europe and the United States would never have left the nineteenth century.

To say that Russia has become a “normal” middle-income country is not to overlook the messiness of its politics and economics, nor to excuse the failures of its leaders. The average middle-income country is not a secure or socially just place to live. Nor is it to say that all middle-income countries are exactly alike. No other such country has Russia's nuclear arms or its pivotal role in international affairs. Yet other countries around Russia's level of income—from Mexico and Brazil to Malaysia and Croatia—face a common set of economic problems and political challenges, from similarly precarious vantage points. Russia's struggles to meet such challenges strikingly resemble the experiences of many of its peers.

The popular vision of Russia resembles the reflection in a distorting mirror: its features are recognizable, but they are stretched and twisted out of proportion. To see Russia clearly, one must return to the facts.

#### DOWN, NOT OUT

ALMOST EVERYONE believes that Russia's economy contracted catastrophically in the 1990s. A report prepared for the British House of Commons in 1998, for example, claimed that living standards in Russia had “fallen to levels not experienced since the immediate post-war years.” According to Goskomstat, the state-controlled body

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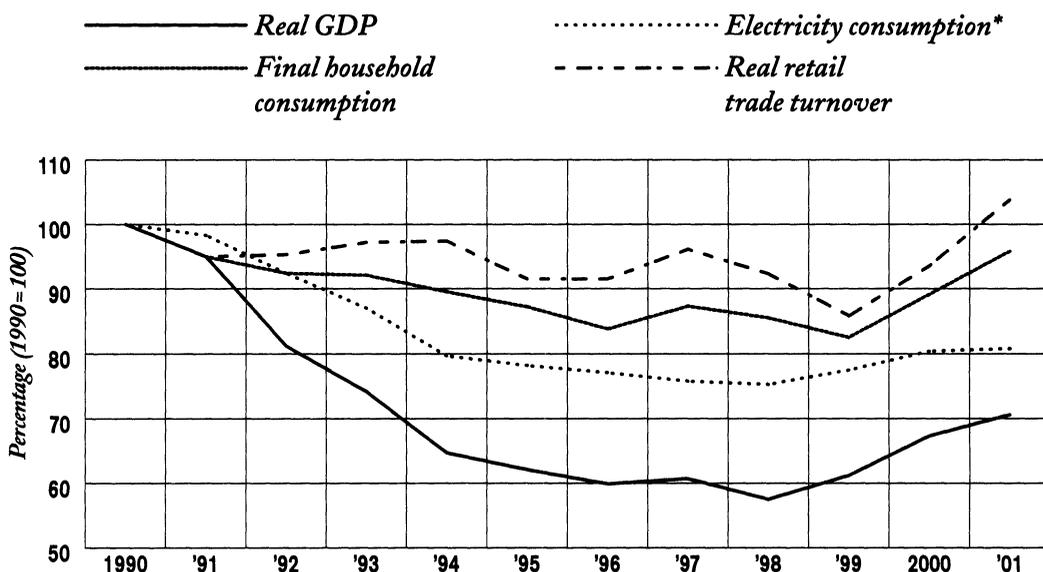
that publishes Russia's official statistics, Russian GDP per capita fell about 24 percent in real terms between 1991 (when Mikhail Gorbachev left office) and 2001 (one year into Putin's presidency). From 1991 to 1998, before the recovery, it had dropped by 39 percent.

Yet there are three reasons to think that Russia's economic performance in the 1990s was actually better than these figures suggest. First, much of the Soviet Union's output consisted of military goods, unfinished construction projects, and shoddy consumer products, for which there was little or no demand after 1991. Under a market system, firms no longer had a reason to produce goods they could not sell. Although reducing wasteful production lowered GDP figures in the short run, it improved the overall efficiency of the Russian economy. Under the Soviet system, moreover, managers routinely inflated their production figures to obtain increased bonuses. With the end of central planning, managers wished to underreport output so as to reduce their tax bills. Thus Russia's pre-reform output was probably substantially lower than officially reported, and its subsequent decline correspondingly smaller.

Second, Russia's unofficial economy grew rapidly in the 1990s. Estimating the scale of unofficial activity is difficult, but (since even underground firms require power) one technique to measure the whole economy's output is to use electricity consumption. The figure below shows the trend in official real GDP between 1990 and 2001 along with figures for electricity consumption. Although official GDP fell 29 percent during this period, electricity consumption fell only about 19 percent, suggesting that Russia's decline in output was not as sharp as indicated by the official statistics. Since firms are likely to use electricity more sparingly under market conditions, the decline in electricity consumption probably still overstates the real drop in output.

Third, other statistics suggest that average living standards fell less dramatically, or even improved, during the 1990s. Goskomstat's figures for final household consumption, for example, fell just 4 percent (in constant prices) between 1990 and 2001. Retail trade actually rose 4 percent between 1990 and 2001. And average living space per person rose from 16 square meters in 1990 to 19 square meters in 2000. The shares of households with radios, televisions, tape recorders, refrigerators, washing machines, and electric vacuum cleaners all increased

### Measuring Economic Change in Russia, 1990–2001



\* Electricity consumption figure for 2001 estimated from production and export figures.

SOURCES: Goskomstat Rossii, *Rossiiskiy statisticheskiy yezhbegodnik 2001*; *Rossia v tsifrah 2002*; Goskomstat updates.

between 1991 and 2000. And private ownership of cars doubled, rising from 14 cars per 100 households in 1991 to 27 cars per 100 households in 2000. The number of Russians going abroad as tourists rose from 1.6 million in 1993 to 4.3 million in 2000.

Russia has, without doubt, experienced an increase in inequality, in both income and consumption. But indicators suggest that there has been improvement even at the bottom of the social pyramid. Since 1993 (the first year for which comprehensive figures exist), the percentage of Russia's housing with running water has increased from 66 percent to 73 percent; the share with hot water from 51 to 59 percent; and the percentage with central heating from 64 percent to 73 percent. Since 1990, the proportion of Russian apartments with telephones has increased from 30 percent to 49 percent.

A closer look at the figure above also casts doubt on some common arguments about Russia's recession. A popular theory holds that Russia's economic decline was caused by certain misguided government policies pursued in the 1990s. Particularly damaging, so the argument goes, were Yeltsin's privatization program and his "loans for shares" scheme. The privatization program, implemented between 1993 and 1994, transferred shares in most firms from the government

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to managers, workers, and the public. This meant that by mid-1994, almost 70 percent of the Russian economy was in private hands. The loans for shares scheme, inaugurated in 1995, provided for the transfer of shares in a few state-owned natural resource enterprises to major businessmen in exchange for loans to the government. It accelerated the consolidation of a few large financial groups, led by the so-called oligarchs, who subsequently enjoyed great political and economic influence.

However, as the figure makes clear, the effects of privatization and loans for shares could not have caused Russia's economic contraction. Most of the fall in both official GDP and electricity consumption occurred prior to 1994, before the significant part of the mass privatization program was completed and the loans for shares program was even contemplated. After 1994—when the effects of privatization could be felt—Russia's economic decline actually slowed, with rapid growth starting in 1999.

Comparing Russia's performance in the 1990s to that of other postcommunist countries further weakens the claim that Russia's economic malaise was exceptional. Officially measured output fell in all the postcommunist economies of eastern Europe and the former Soviet Union. It declined in new democracies, such as Russia and Poland; in continuing dictatorships, such as Belarus and Tajikistan; in rapid reformers, such as the Czech Republic and Hungary; and in very slow reformers, such as Ukraine and Uzbekistan. The universality of the contraction suggests a common cause. One possibility is the decrease in military and economically useless activities that were previously counted as output. A second possibility is the temporary dislocation that all countries experienced as their planning systems disintegrated. Consistent with both these explanations, officially measured output began to recover almost everywhere after a few years.

The patterns of relative decline in the postcommunist countries challenge another common theory about Russia's output contraction. Some argue that excessively speedy reform exacerbated the decline and compare the "gradualism" of China's economic policies favorably with the "shock therapy" of Russia's. In fact, there is no obvious relationship

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between speed of reform and change in official output among the east European and former Soviet countries. The group of countries that contracted least, according to the official figures, includes both rapid reformers (such as Estonia, Poland, and the Czech Republic) and slow or nonreformers (such as Belarus and Uzbekistan). Those with the largest declines also include both nonreformers (Tajikistan, Turkmenistan) and some that tried to reform (Moldova).

Comparing Russia and Ukraine is particularly instructive. Ukraine had a large population (about 52 million in 1991), an industrial economy, significant natural resources, and a political culture similar to Russia's prior to transition. Unlike Russia, it retained the old communist leadership, albeit renamed, and pursued more cautious reforms, keeping a much larger share of the economy in state hands. Yet its official GDP per capita dropped 45 percent between 1991 and 2001—almost twice as much as Russia's.

From this comparative perspective, Russia performed roughly as one might have expected. The best estimate is that Russia's genuine output decline between 1990 and 2001 was small and that it was completely reversed by 2003, following two additional years of rapid growth. Considering the distorted demand, inflated accounting, and uselessness of much of the pre-reform output, it is likely that Russians today are on average better off than they were in 1990.

#### KRONY KAPITALISM?

THE 1990S were a decade of extreme macroeconomic turbulence in Russia. Between December 1991 and December 2001, the Russian ruble's value dropped by more than 99 percent against the U.S. dollar. In 1998, three years after the authorities managed to stabilize inflation, a speculative crisis broke through the central bank's defenses, forcing the government to devalue the currency. Many people concluded that Russia's attempts at economic reform had failed.

Yet Russia's crash was not an isolated phenomenon: it came in the middle of a wave of similar currency crises around the world. As bad as the 99 percent drop in the ruble's value sounds, International Monetary Fund figures show that 11 other countries—including Belarus, Brazil, Turkey, and Ukraine—suffered even larger currency

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declines during the 1990s. Moreover, although the ruble's value fell by a massive 61 percent in just two months during 1998, similar or larger two-month currency collapses occurred 34 times in 20 other countries from January 1992 to December 2001. The consequences of Russia's devaluation were also less dire than was claimed at the time. In fact, the move was followed by a sustained growth spurt and a reinvigorated drive toward liberal economic reform.

The manner in which economic reforms were carried out in Russia is also said to have exacerbated economic inequality. Privatization is often portrayed as the primary culprit. The European Bank for Reconstruction and Development (EBRD), for example, blamed the loans for shares scheme for generating "sharp increases in wealth and income inequality" in the mid-1990s. Inequality has certainly increased markedly in Russia since the fall of communism. According to Russia's official statistics, the Gini coefficient for money income—a measure of inequality within a country ranging from zero (which indicates perfect equality) to one (which implies absolute inequality)—rose from 0.26 in 1991 to 0.41 in 1994, before stabilizing at about 0.40.

However, privatization cannot have caused the rise in inequality, for one simple reason: the rise in inequality came first. Russia's Gini coefficient rose most sharply between 1991 and 1993 and peaked in 1994, before any effects of privatization—such as restructuring or rising dividend income—could have materialized. Nor was unemployment responsible. In 1992 and 1993, unemployment remained below 6 percent. It grew higher after 1994, peaking at 13.2 percent in 1998, but during this time inequality actually declined slightly.

According to Branko Milanovic, a development economist at the World Bank, 77 percent of Russia's inequality increase can be attributed not to privatization, unemployment, or rising business profits, but to growing disparities in wages. Although some Russians worked in successful firms that rapidly benefited from the free market and open trade, others remained in declining firms and in the state sector. As unfortunate as the growth of inequality in Russia has been, it is largely the result of the inevitable upheavals associated with rationalizing economic activity.

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Russia's economic reforms are often said to have created a small class of oligarchs, who acquired valuable companies for extremely low prices in the loans for shares auctions and then stripped the companies of their assets. Asset-stripping is said to be responsible for depressed investment and poor economic growth.

Russia's big business is certainly dominated by a few tycoons. But in this respect, Russia is typical of almost all developing capitalist economies—from Mexico, Brazil, and Israel to South Korea, Malaysia, and South Africa. Even in developed countries such as Italy and Sweden, the largest firms are generally either state- or family-run, with a few families often controlling a large share of national production through financial and industrial groups. Big businessmen are invariably politically connected, receive loans and subsidies from the government (as in South Korea and Italy), participate in privatization (as in Mexico and Brazil), or hold high-level government offices while retaining connections with their firms (as in Italy and Malaysia). Oligarchical patterns of ownership have also emerged in other transition economies, such as Latvia's and those of various Central Asian states.

Following the Asian financial crisis, this system of politicized ownership has been pejoratively labeled "crony capitalism," even though it accompanied some of the most rapid growth ever seen and underlay remarkable recoveries in Malaysia and South Korea. In the case of Russia, the country's sharp decline in measured output (as already noted) came before, not after, the oligarchs emerged on the scene in 1995. A few years of stagnation followed, and then rapid growth began.

Oligarch-controlled companies have, in fact, performed extremely well—far better than many comparable companies that remained under the control of the state or Soviet-era managers. Consider three of the most notorious cases. In Yeltsin's loans for shares scheme, Khodorkovsky (now in jail) obtained a major stake in the oil company Yukos; Boris Berezovsky (now in exile) won control of another oil firm, Sibneft, along with his then-partner Roman Abramovich; and Vladimir Potanin acquired the nickel producer Norilsk Nickel. Since 1996, profits and productivity at these three companies have increased dramatically along with their share prices. Between 1996 and 2001, the audited pre-tax profits of Yukos, Sibneft, and Norilsk Nickel rose (in real terms) 36, 10, and 5 times respectively. Their stock market val-

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uations also soared, those of Yukos and Sibneft multiplying by more than 30 times in real terms. This performance is markedly better than that of the gas monopoly Gazprom or the electricity utility UES, which remained under state ownership, or of major private companies, such as Lukoil, which remained controlled by pre-privatization management.

Have the oligarchs stripped assets from the companies they acquired in privatization, rather than investing in them? The audited financial statements of these companies suggest that their assets have grown dramatically, especially since 1998. Yukos' assets were worth \$4.7 billion shortly after privatization. By 2001, their value had risen to \$11.4 billion. Norilsk Nickel's assets also increased during the period for which figures are available. Sibneft's assets did decline initially, but they have risen each year since 1999. And the major oligarchs have been investing hundreds of millions of dollars annually in their companies. In 2001, for example, Yukos invested \$945 million in property, plant, and equipment, and Sibneft made capital expenditures of \$619 million. In contrast, the greatest asset-stripping scandals occurred in companies that remained under state control. Gazprom's former management has been accused of stealing assets via complicated networks of trading companies. Aeroflot, the state-owned airline, also reported a drop in its assets between 1998 and 2001.

None of this is to say the oligarchs are public-spirited, politically innocent, or protective of their minority shareholders. They benefited from sweetheart deals with the government, and they massively diluted the value of minority shares in order to consolidate control over their companies. Investor protection and corporate governance in Russia remain weak. But here, again, Russia is typical of middle-income developing countries, where expropriation of minority shareholders is a nearly universal practice. Legal reforms eventually alleviate such problems, but such measures typically occur at higher levels of economic development than Russia currently enjoys.

The claim that the oligarchs privatized companies in order to strip their assets gets the logic backwards. In reality, the oligarchs stripped assets from state-controlled companies in order to buy more companies

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when they came up for sale. They sought to minimize the price they paid for state property and pursued various legal (and sometimes illegal) strategies to consolidate their stakes. But once they became full owners, they acted as any other owner would, investing in order to improve their companies' performance. In doing this, they followed the example of oligarchs everywhere—from J. P. Morgan and John D. Rockefeller in the United States to Silvio Berlusconi in Italy.

In sum, Russia started the 1990s as a disintegrating, centrally planned economy and ended the decade as a market system in a burst of rapid growth. Its economy is not a textbook model of capitalism. In common with other middle-income countries, Russia suffers from inequality, financial crises, a large unofficial sector, and intertwined economic and political power. But the claim that Russia's economy is a unique monstrosity is a vast—and ignorant—exaggeration.

#### GRADING GRAFT

IN THE LATE 1990s, House banking committee chairman Leach wrote that he had made a study of the world's most corrupt regimes, including the Philippines under Ferdinand Marcos, Zaire under Mobutu, and Indonesia under Suharto. Bad as these countries were, he argued, each was outdone by the "pervasiveness of politically tolerated corruption" in postcommunist Russia. Other characterizations of corruption in Russia have been equally grim. In annual ratings by the World Bank and the advocacy group Transparency International (TI), which assess countries' "perceived corruption" based on a range of business surveys, Russia scored toward the bottom. In the World Bank's 2001 index, Russia came in 142nd out of 160 countries. In TI's 2002 corruption perceptions index, Russia came in 71st out of 102.

Yet what about sources less dependent on the perception of outsiders? In the summer of 1999, the World Bank and the EBRD conducted a survey of business managers in 22 postcommunist countries. Respondents were asked to estimate the share of annual revenues that "firms like theirs" typically devoted to unofficial payments to public officials "in order to get things done." Such payments might be made, the questionnaire added, to facilitate connection to public utilities, to obtain licenses or permits, to improve relations with tax collectors, or

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in relation to customs or imports. Respondents were also asked to what extent the sale of parliamentary laws, presidential decrees, or court decisions had directly affected their businesses, in the hope of measuring the extent to which policymakers were co-opted by business.

On both the “burden of bribery” and “state capture” dimensions, Russia ranked right in the middle of its postcommunist peers. On average, Russian firms reportedly paid 2.8 percent of revenues on bribes, less than in Ukraine and Uzbekistan, and far less than in Azerbaijan (5.7 percent) and Kyrgyzstan (5.3 percent). The percentage who said it was “sometimes,” “frequently,” “mostly,” or “always” necessary for their firms to make extra, unofficial payments to public officials in order to influence the content of new laws, decrees, or regulations was also about average: 9 percent, compared to 24 percent in Azerbaijan, 14 percent in Latvia and Lithuania, and 2 percent in Belarus and Uzbekistan. In both cases, Russian responses were very close to what one would predict given Russia’s relative level of economic development.

How does corruption in Russia affect individuals? The UN conducts a cross-national survey of crime victims. Between 1996 and 2000, it asked urban residents in a number of countries the following question: “In some countries, there is a problem of corruption among government or public officials. During [the last year] has any government official, for instance a customs officer, a police officer or inspector in your country asked you, or expected you, to pay a bribe for his service?” The percentage of positive responses in Russia was about average for the developing and middle-income countries surveyed. Some 17 percent of Russians said they had been asked for or had been expected to pay bribes in the preceding year, fewer than in Argentina, Brazil, Lithuania, or Romania. Again, Russia’s relative position was almost exactly what one would expect given its per capita income.

### UNFREE AND UNFAIR?

WESTERN EVALUATIONS of Russia’s political institutions in the last ten years have been scathing. In June 2000, *The Economist* declared Russia to be a “phony democracy.” By contrast, the magazine recently labeled Iran—where scholars can be sentenced to death for religious dissidence and an unelected religious council vets all legislation—

a “quasi-democracy.” The advocacy group Freedom House has given Russia a “5” for political freedom and a “5” for civil liberties since 2000 on a scale ranging from “1” (highest) to “7” (lowest). This score suggests that Russia’s political regime is less free than Brazil’s military junta of the late 1970s and ranks its commitment to civil liberties below that of Nigeria in 1991 under the dictatorship of Major General Ibrahim Babangida. Kuwait—even though it is a hereditary emirate where political parties are illegal, women cannot vote in legislative elections, and criticism of the emir is punishable by imprisonment—gets a better rating for political freedom.

Critics of Russia’s democracy focus on several points. Russian leaders are accused of manipulating elections through control of the state media, harassment or censorship of the independent press, and use of judicial and administrative levers to intimidate or incapacitate rivals. Voters are portrayed as apathetic and gullible. At the same time, big business is seen as subverting the democratic process through its financial support of favored candidates. The combination of voter apathy and official manipulation means, in the grim but quite representative view of one *New York Times* reporter, that during the last decade “there has been no truly democratic choice of new leaders” in Russia.

Just how bad is Russia’s democracy? How restricted are its news media? Certainly, Russia’s political institutions and civic freedoms are imperfect in many ways. And the trend under Putin has been worrying and could deteriorate further. By any objective comparative standard, however, Western condemnations of the country’s institutions in the last ten years have been grossly overblown. Russia’s politics have been among the most democratic in the region. And defects in the country’s democracy resemble those found in many other middle-income countries.

Elections since 1991 have been frequent. Seven national ballots—four parliamentary and three presidential—took place between 1991 and 2003. In each, candidates representing all parts of the political spectrum ran. Parties and electoral blocs were free to organize, with few exceptions, and a large number managed to register. International observers, although critical of imbalanced media coverage and isolated improprieties, have generally given Russian elections high marks. This is in contrast to reports on surrounding countries and on

many middle-income democracies elsewhere in the world. The Organization for Security and Cooperation in Europe (OSCE), for example, characterized the 1993 and 1995 elections as “free and fair.” Later missions described the 1996 and 1999 votes as “consolidating representative democracy.” And the vote-counting process in both 1999 and 2000 exhibited “transparency, accountability, and accuracy that fully met accepted international standards.” The OSCE expressed stronger reservations about the 2003 parliamentary election, noting “the extensive use of the state apparatus and media favoritism” to benefit the pro-Putin United Russia Party, although it also praised the Central Election Commission for its “professional organization” of the election.

Supposedly apathetic Russian voters have actually participated in elections at higher rates than their U.S. counterparts. Turnout in Russian elections has never dipped below about 54 percent (and was as high as 75 percent in 1991), compared to an average U.S. turnout rate of about 50 percent of the voting-age population in recent congressional and presidential elections.

In a “phony democracy,” one would expect reported election results to match the desires of incumbents. Yet in Russia, results have often come as a shock to political elites. In 1991, for example, an outsider candidate, Yeltsin, beat the favorites of Gorbachev and the Soviet communist leadership to win the Russian presidency with 57 percent of the vote. In 1993, elites were horrified by the strong showing of Vladimir Zhirinovskiy and his clownish ultranationalists. And in 1995, the Communist Party surprised observers by coming in first in the party-list vote, with 22 percent, a feat it repeated in 1999, when it won 24 percent. The main party associated with the incumbent regime won only about 15 percent in 1993 and 10 percent in 1995.

Some falsification and improprieties have undeniably occurred. In regional elections, officials have used technicalities to disqualify unfavored candidates. Limits on spending have been breached (although the totals spent—even by the wildest estimates—fall short of those of a typical election cycle in the United States or Brazil). And incumbents at all levels have misused state resources to campaign for reelection.

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Russia's press has come in for particularly harsh criticism. In 2002, Russia scored 30 on a Freedom House scale that rates a country's level of "political pressures, controls, and violence" against the media from 0 (best) to 40 (worst). This placed Russia below Iran, whose government had banned 40 newspapers in just two years, imprisoned more journalists than any other country, and sentenced others to be flogged.

Criticism of Russia's press environment has come in two, not entirely consistent, forms. During the 1990s, the main problem was perceived to be oligarchs' control of major television stations and newspapers. More recently, however, critics have charged the state with trying to harass and intimidate independent journalists and close down oligarch-owned media.

Both arguments have some validity. But the claim that Russia has had an exceptionally unfree press does not. In almost every country, the largest television channels, radio stations, and newspapers are owned either by a few families or by the government. Press barons throughout the developing world slant political coverage on their networks to help favored candidates. In many middle-income countries, journalists and their bosses are accused of biasing their reports in return for bribes or favors in the privatization of media outlets. Even in rich countries such as Italy and the United States, journalists shape their broadcasts to fall into line with the views of media tycoons such as Berlusconi and Rupert Murdoch.

What about recent state harassment of the press? A single case of repression is obviously one too many. But state interference with news organizations is, sadly, almost universal among middle-income countries, and it occurs even in some highly developed ones. The International Press Institute in Vienna collects figures on various kinds of state interference with journalism in the countries of the OSCE. Of the 48 countries monitored between 1999 and 2000, 26 had at least one incident in which the media was censored or journalists were imprisoned or sentenced to "excessive" fines. Although Russia's record was relatively bad during this period, it was nowhere near that of the worst offender in the group, Turkey. Russian journalists were sentenced to prison or "excessive" fines 6 times in those two years, as compared to 22 cases in Turkey and 7 in Hungary and Belarus. Russia had 19 reported cases of censorship, compared to 62 in Turkey.

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Considering the pattern of state harassment in other middle-income countries, Russia appears to be depressingly normal. In 2000 and 2001, as Putin's government sought to hound the tycoons Berezovsky and Vladimir Gusinsky out of the media business, the Western press sounded the alarm. But it paid far less attention to a strikingly similar campaign that was unfolding in South Korea. In what was widely perceived as a politicized effort by President Kim Dae Jung to punish newspapers critical of his government, the Korean National Tax Service and Fair Trade Commission investigated 23 media companies and presented them with multimillion-dollar fines. Prosecutors arrested executives from the three conservative newspapers most critical of President Kim and held them in solitary confinement. Kim's aide Roh Moo Hyun, who later replaced him as president, reportedly said that the newspapers were "no different from organized crime" and told reporters that he planned to nationalize them.

### PUTIN PERSPECTIVE

CRITICS of Russian democracy have been energized in recent months, as various developments have seemed to confirm their gloomy assessments. In the last two years, President Putin has stepped up efforts to intimidate the press, and he has used economic leverage to shut down critical media and to scare off potential political rivals. Khodorkovsky's arrest, if it was meant—as many believe—to punish the tycoon for funding liberal political parties, sent a message that Putin will use his official powers to attack those rash enough to challenge him. The October 2003 election in Chechnya, meanwhile, in which 81 percent of voters reportedly cast ballots in favor of the Putin-supported president, had all the credibility of a ballot held in the shadow of a tank.

These developments, along with the shortcomings of the December 2003 parliamentary election, have caused panic in the West. Safire, for example, lamented the return of "one-party rule" and "resurgent autocracy." The sole expression of democracy in the election, according to Safire, was the public protest implicit in "the low voter turnout." In reality, the 2003 election was not exceptional. Official pressures on the media, biased coverage, and harassment of rival campaigns certainly occurred, but at rates comparable to those witnessed in previous Russian

elections and in other middle-income democracies. The argument that such pressures swayed the voters more than in previous elections is also dubious: the official vote share for the United Russia Party—37.6 percent—was almost exactly the total won in 1999 by the two blocs—Unity and Fatherland–All Russia—that subsequently formed United Russia.

Although ballot stuffing in some regions may have altered the vote by a few percentage points, perhaps pushing the liberal Yabloko and Union of Right Forces parties below the five percent threshold for Duma seats, the official results were close to those predicted by independent exit polls. Nor should the high vote for United Russia be taken as *prima facie* evidence of foul play. Given that the population's real income has grown by an average of 10 percent a year since Putin took over (with a massive 17 percent jump between October 2002 and October 2003), it would be surprising if pro-Putin parties were not popular. As for the turnout, even the lowest estimate of 53 to 54 percent is higher than the average for recent U.S. elections.

Although these developments push Russia toward the illiberal end of the spectrum, they do not move it beyond the customary range of politics in middle-income countries. Conflicts between local journalists and regional mayors or governors occur frequently in countries such as Argentina, Brazil, and Mexico, where thugs periodically assault or murder reporters who criticize local politicians. From Malaysia to Venezuela, political rivals of incumbent politicians have ended up in jail in recent years, the victims of dubious prosecutions. In Mexico, some rivals have been assassinated. In disputed territories from Mexico's Chiapas to eastern Turkey and the Philippines' Mindanao, elections have been held under the alert watch of the military. Russia's record, although unenviable, is not unusual.

#### MARCH TO THE MIDDLE

AS RUSSIAN VOTERS go to the polls in March 2004 to elect a president for the fourth time, they will do so in a country that none of them could have envisioned 20 years ago. Russia's economy is no longer the shortage-ridden, militarized, collapsing bureaucracy of 1990. It has metamorphosed into a marketplace of mostly private firms, producing goods and services to please consumers instead of planners. A few

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business magnates control much of the country's immense reserves of raw materials and troubled banking system, and they lobby hard for favored policies. Small businesses are burdened by corruption and regulation. Still, the economy continues to grow at an impressive pace.

The country's political order, too, has changed beyond recognition. The dictatorship of the party has given way to electoral democracy. Russia's once-powerful Communists no longer control all aspects of social life or sentence dissidents to labor camps. Instead, they campaign for seats in parliament. The press, although struggling against heavy-handed political interventions, is still far more professional and independent than the stilted propaganda machine of the mid-1980s. In slightly more than a decade, Russia has become a typical middle-income capitalist democracy.

So why the dark, at times almost paranoid, view? Why the hyperbole about kleptocracy, economic cataclysm, and KGB takeovers? A number of factors—psychological, ideological, and overtly political—led to the dyspeptic consensus among Russia-watchers in the West. Many Western observers simply reacted in a generous, if unreflective, way to the visible suffering of Russians dislocated by the transition. Beside the excesses of the new super-rich, the plight of impoverished pensioners seemed doubly shocking. But there were also some less pure motivations for focusing on the darker side of Russian life. First, there is sensationalism. Newspaper editors and television producers knew they could make money exploiting the anxieties of Western publics with chilling exposés of the Russian *mafia*. Second, the intellectual left adopted Russia as the poster child for its crusade against globalization. With Russia's leaders embracing market rhetoric and reforms, the country's initial hardships could be portrayed as proof of the dangers of excessive liberalization. Third, Russia became a football in American politics during the late 1990s. With President Bill Clinton committed to supporting Yeltsin and Vice President Al Gore deeply involved in steering U.S.-Russia relations, bashing Moscow became a way for Republicans to score points in the 2000 election.

Exaggerated despair over Russia was also fueled by a fundamental and widespread misconception. Many Western observers thought of Russia in the early 1990s as a highly developed, if not wealthy, country. With its brilliant physicists and chess players, its space program, and its global

military influence, Russia did not look like an Argentina or a South Korea. Believing that Russia started off from a highly developed base, these people saw the country's convergence to the norm for middle-income countries as a disastrous aberration. The same misconception informed some academic analyses. A recent paper by Nobel laureate Joseph Stiglitz and Karla Hoff makes the remarkable observation that, when it comes to legal institutions, "between Russia and most other developed, capitalist societies there was a qualitative difference [in the 1990s]." There was indeed a qualitative difference: Russia was never a "developed, capitalist society."

What does the future hold for Russia? Some see the sudden spurt of growth over the last four years as an indicator of more improvements to come, and they expect Russia soon to leave the ranks of middle-income countries to join those of Hungary and Poland as a poor developed one. They emphasize the country's advanced human capital, its reformed tax system, and its mostly open economy. Others see bureaucratic regulations and politicized interventions (so vividly exemplified by the Yukos case) as serious barriers that will stymie Russia's growth. In politics, optimists anticipate increased democratic competition and the emergence of a more vigorous civil society. Pessimists predict an accelerating slide toward an authoritarian regime that will be managed by security-service professionals under the fig leaf of formal democratic procedures.

None of these predictions can be ruled out. But thinking about Russia as a normal middle-income country helps put extreme forecasts in perspective. Most countries in this category end up somewhere between textbook democracy and full-fledged authoritarianism. Their democracies are incomplete, unpredictable, and subject to temporary reversals as incumbents seek to manipulate the process to stay in power. When they grow at all, middle-income countries tend to grow in spurts that are often interrupted by financial crises. Russia has probably now destroyed enough of the vestiges of central planning to continue operating as a market economy, albeit with flawed institutions and an unhealthy dose of state intervention.

That Russia is only normal may be a disappointment to those who had hoped for more. And it is little consolation to those who have no choice but to endure the insecurities of life there. But for a country that was an "evil empire" as little as 15 years ago—threatening people at home and abroad—it is a remarkable and admirable achievement. 🌐