

## Part II: Inside the New Russia: Political and Economic Change

For more than seven decades, the Communist Party dominated the Soviet Union. The party did not tolerate political opposition. In the final years of Mikhail Gorbachev's rule, the Communist Party's hold over society crumbled.

A new era in Russian history began on August 19, 1991, when Russian President Boris Yeltsin climbed on top of a tank in front of the parliament. He was opposing a coup organized by hard-line communists against Mikhail Gorbachev, the leader of the Soviet Union. Yeltsin called on Russians to launch a general strike and appealed to the military to turn against the coup plotters. Within three days of Yeltsin's appearance, the coup attempt collapsed. The failure of the August 1991 coup marked the end of the road for the one-party communist system.

Russia has changed significantly since then. In contrast to past generations, Russians today are free to voice their opinions and travel abroad—if they can afford it. Russia has held presidential and parliamentary elections. Russian voters say they value the right to elect their leaders. More than 80 percent state that freedom of the press, expression, and thought are important to them.

Today the Russian economy is growing quickly, driven by the high prices it is getting for its vast petroleum and natural gas resources. On the other hand, change has not been easy for most Russians. After the summer of 1991, successive waves of political and economic tumult ended visions of a smooth transformation from the Soviet era. In addition, Russia's fall from its position as one



Boris Yeltsin (with fist raised) stands on a tank on August 19, 1991 in front of the Russian Parliament.

Diane Lu Hovasse, Getty Images.

of the world's two superpowers produced a strong sense of humiliation and resentment among the Russian people.

In this part of the reading you will learn more about the starts and stops of Russia's transformation since 1991. You will read about the emergence of a new Russian political process, and the impact of economic change on Russian society. As you read, consider how these events might affect Russia's role in the world and relationship with the United States.

### A New Russia

The new Russian state began its life without a stable political system. Unlike the United States and other mature democracies, Russia lacks a tradition in which two or three well-established political parties compromise and share power.

There have been three Russian presidents since the end of the Soviet Union. The first was Boris Yeltsin. During the Yeltsin administration (1991-1999), dramatic economic changes funneled enormous wealth into the

hands of a few, economic reform hurt more people than it helped, and political divisions repeatedly paralyzed the government and led to turmoil and even violence.

### ***How did ethnic differences lead to political problems in Russia?***

Politics took on a new ethnic dimension for more than twenty-five million non-Russians within Russia after the Soviet collapse. The Russian government sought to win over some non-Russian regions by transferring authority to the local level. For instance, a 1994 agreement with Tatarstan, a predominantly Muslim republic in central Russia, gave Tatar leaders broad decision-making power over local affairs and allowed them to keep a large share of the tax revenue on oil production in the republic.

In sharp contrast, in the mountainous southern border region of Chechnya, the Russian government responded with force after failing to come to terms with the republic's leaders. The results were tragic and disastrous. Chechen guerrilla forces outmaneuvered Russia's huge army in fighting that began in December 1994. Roughly sixty thousand people died before a temporary peace settlement was reached in the summer of 1996.

### ***What role did the oligarchs play in the new Russia?***

After the Soviet Union disintegrated, Russia's wealthiest men—often referred to as the oligarchs (a small group of extremely wealthy and powerful businessmen) competed for political power. For the oligarchs, politics was less about issues and ideas and more about

gaining control of Russia's key industrial, financial, and military institutions.

During the Yeltsin era, Russia's most powerful oligarchs established giant business empires by buying formerly state-owned enterprises. These early winners in Russia's economic transformation took advantage of privatization (a process to place state-run companies in the hands of private owners) to gain a stake in profitable companies.

The privatization process gave government and industry officials from the Soviet era an inside track. In many cases, they were allowed to buy valuable state assets at rock-bottom prices. The oligarchs often used their money and influence to prevent competition, claim questionable tax breaks, and gain access to special import and export licenses. Each kept close ties with top politicians and organized crime. Ordinary Russians quickly came to resent these powerful figures.

***“Ordinary Russians do not understand what it means. What they see are the rich seizing power. They have a fatalistic approach and hate everyone in power.”***

—Tatyana Tolstaya, Russian writer,  
March 1998

### ***How did dramatic changes in the economy affect the Russian people?***

In 1989, the old Soviet economy had begun a steep decline. In the years that followed, Russia's economic output shrank by more than half (twice as deep a drop as the United States suffered during the depression of the 1930s). Private ownership replaced state control as the

## **The Oligarchs Help Elect Boris Yeltsin**

The 1996 presidential campaign—the first after the collapse of the Soviet Union—illustrated the influence of the oligarchs. Russia's seven leading oligarchs, fearing the election of the communist Gennady Zyuganov, spent millions to re-elect Yeltsin. They also used the two major television networks under their control to polish Yeltsin's image. Yeltsin defeated his communist rival 54 to 40 percent. In the months before the vote, Yeltsin spent billions of rubles (Russian currency) to increase pensions to the elderly, give tax breaks to industry, and pay back-wages to workers who had gone for months without their salaries—all in an effort to increase his popularity.

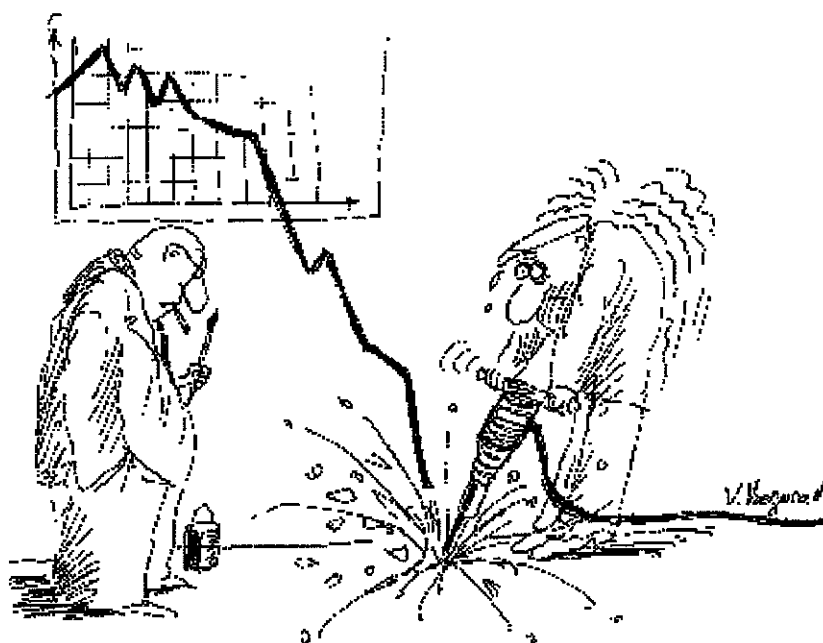
foundation of the economy, and a handful of Russians amassed fortunes. The great majority saw their living standards plunge.

These sudden changes shocked the Russian people, most of whom were accustomed to the economic security and the law and order of the Soviet system. During the Soviet era, few people other than the top Communist Party elite would have been considered rich by American standards, but few lived in desperate poverty either. Soviet officials kept down costs for housing, bread, utilities, public transportation, and other basic necessities through government subsidies. Apartment rent, for example, typically amounted to less than 5 percent of a family's income. Guaranteed employment was the foundation of the communist system. Soviet workers understood that their jobs were protected regardless of economic conditions or changes in technology. Housing, free education, health care, and other benefits were all tied to employment. The end of the Soviet Union also ended this economic security.

### ***What was shock therapy?***

After the failed coup of 1991, a group of economic advisers dismantled much of the old Soviet economic system. With the help of advisers from the United States and other Western countries, the reformers drafted a program known as "shock therapy" to lay the groundwork for a free-market economy in Russia. (A free-market economy is one in which prices are determined by supply and demand and unrestricted competition between businesses.)

Significant changes began in January 1992. The government lifted price controls on 90



This Russian cartoon shows the fall of the Russian economy in the years immediately following the end of the Soviet Union.

Victor Bogorad in the St. Petersburg Press.

percent of the goods sold in Russia, allowing prices to rise sharply. Policy makers slashed government spending and drew up plans to place state-run companies in the hands of private owners. The "Boys in Reeboks," as the team of economic advisers was called, decided that many of the inefficient, state-run factories that had been kept alive during the Soviet era would have to close or drastically trim their work forces. But they predicted that free-market competition would give rise to new companies and generate new jobs.

At first President Yeltsin's popularity overwhelmed many of shock therapy's opponents. But by the summer of 1992, the factory managers, farm directors, and other defenders of the old Soviet economic system were ready to fight back. The main point of contention was the budget. The reformers favored cutting government subsidies (government payments) that help keep state-run industries afloat. Their opponents countered that the reform plan would result in massive unemployment, hardship, and scarcity of necessary goods.

***How did disagreements over economic policy lead to civil unrest?***

The political struggle over economic policy prevented the reformers from fully enacting their plans. Critics of shock therapy succeeded in preserving government subsidies to big industries. Consequently, unemployment rose only slightly. Government printing presses worked overtime to print money so that state-run factories and farms could pay their workers. At the same time, government officials imposed heavy taxes to hold down the budget deficit. In 1992 and 1993, prices for consumer goods increased dramatically while the wages of workers did not.

By September 1993, the confrontation over economic policy led Yeltsin to dissolve parliament. Street violence between anti-Yeltsin forces and troops loyal to the president erupted in Moscow in early October. The clash left the top floors of the Russian parliament in flames and killed at least 140 people. Although Yeltsin defeated his political foes, his country's economic performance failed to generate popular support for the free market system.

***What were the initial results of economic reform?***

Russia's early economic reforms failed to bring about the changes that economic reformers had anticipated. The expected surge of new businesses never actually materialized. Only a small trickle of investment entered the economy, not the ample stream that had been forecast.

Meanwhile, the central government proved unable to manage Russia's finances. At the insistence of the *duma* (parliament), subsidies continued to flow. Widespread tax evasion deprived the government of badly-needed revenue. Basic government services, such as education, health care, and road maintenance, were starved of funding.

Russia's budget problems eventually rippled through the entire economy. Companies that did not receive payment from the government typically refused to pay other companies with which they did business. In turn, workers

who went without their paychecks were unable to pay their bills for housing, electricity, heating, and other services. Many struggling workers could not make a living in the new economy.

***How did Russia respond to the economic crisis in August 1998?***

To make matters worse, a drop in world energy prices in the mid-1990s reduced government revenue from exports of oil and gas. The lack of revenue forced Moscow to borrow more from foreign lenders to fund government spending. In August 1998, the value of Russia's currency (the ruble) fell more than 300 percent compared to the dollar.

The fall of the ruble triggered an economic and political crisis in Russia. President Yeltsin appeared to most Russians to be disabled by medical problems and alcohol. Yeltsin, battling accusations of corruption, incompetence, and rising dissatisfaction with worsening economic conditions, would change prime ministers three times in a year before settling on Vladimir Putin in August of 1999.

***President Putin***

On December 31, 1999 Yeltsin resigned, and appointed his prime minister, Vladimir Putin, as Russia's second president. Many Russian citizens found hope in this move, as they blamed Yeltsin for their country's difficulties.

Putin used the time between his appointment and the presidential elections in March 2000 to build an image as a strong, competent leader by vowing to stamp out corruption and defeat separatist forces in Chechnya.

Putin won his first election handily, with nearly 54 percent of the vote. His closest opponent, Gennady Zyuganov of the Communist Party, won only 29 percent.

***What did President Putin do to strengthen the central government?***

President Putin's government took decisive steps to reduce the power of the oligarchs, particularly those critical of his policies or

those who challenged his authority. The government used political, financial, and legal pressure to reduce the oligarchs' influence and even dismantled their companies. Others fled the country or were arrested. Putin tolerated oligarchs who did not oppose him or publicly flaunt their power.

In addition to his efforts to decrease the power of the oligarchs, Putin took steps to strengthen the power of the central government and the president. One important example is how he dealt with the governors of Russia's eighty-nine regions.

After the break-up of the Soviet Union, the governors of Russia's eighty-nine regions increasingly challenged the supremacy of the central government. For the first time in Russian history, they owed their offices to democratic elections rather than to appointments from Moscow. Some of the regional leaders became corrupt or autocratic—or both.

Many were quick to strike deals with foreign companies without much regard for the foreign policy implications or for national laws made in Moscow.

***“There must be a single way of understanding legislation throughout the federation. This is not just correct today; it is absolutely necessary. The looseness of power is very costly for millions of average people.”***

—Vladimir Putin, Russian president,  
May 16, 2000

President Putin announced in September 2004 that in the future, Russian presidents would choose the governors of Russia's eighty-nine regions. Local assemblies would then confirm them.

Putin also appointed administrative leaders in seven newly-created “super” regions who report directly to the president and have authority over the eighty-nine smaller regions. Putin also declared that the governors and the regional legislative leaders will no longer hold seats in the Federation Council—Russia's

counterpart to the U.S. Senate. Some argued that by reducing the power of regional leaders, Putin's methods threatened democracy in Russia.

***What other steps did Putin take to increase his power as president?***

While president, Putin took numerous steps to increase his power. Many in Russia argue that these steps were necessary. Others think that under President Putin, Russia became a less democratic and more authoritarian state.

***“If by democracy one means the dissolution of the state, then we do not need such democracy. ...I don't think there are people in the world who want democracy that would lead to chaos.”***

—Vladimir Putin, Russian president  
September 2003

For example, Putin took steps to muzzle criticism from the media. Previously independent television channels came under government control. Newspapers, which had flourished as independent voices after the fall of the Soviet Union, succumbed to political pressure or were bought out by businesses friendly to the government's policies. Journalists who criticized the government were subjected to intimidation and even violence. Many journalists began to avoid covering topics that would anger the government.

Putin won his second election to the presidency in March 2004 with 71 percent of the popular vote. He benefitted from the largely favorable media coverage on state-controlled television. After years of political uncertainty and change, his message of stability was popular. In addition, the opposition candidates were unable or unwilling to make a serious challenge.

***“Boris Yeltsin took mistaken steps in the right direction toward democracy; Putin took correct***

*steps in the wrong direction toward an authoritarian petro-state."*

—Grigory Yavlinsky,  
Russian politician,  
July 15, 2006

### ***How did President Putin respond to events in Chechnya?***

By the fall of 1999, fighting had begun again between Russian troops and Chechens. Several incidents provoked a strong response from Moscow. In August 1999, Islamic rebels from Chechnya invaded the region of Dagestan. In addition, the government blamed Chechens for a series of bomb explosions in Moscow apartment buildings that killed several hundred Russians in September 1999.

Russian anger about Chechnya continued to grow. More than one hundred hostages held by Chechens at a Moscow theater in the fall of 2002 died in a rescue attempt by Russian authorities. The massacre of more than three hundred school children in September 2004 in the city of Beslan provoked further outrage throughout Russia against Chechens.

All of these events solidified Russian public opinion for an aggressive war in Chechnya. Vladimir Putin increased his popularity by leading a strong campaign against the Chechens. The Russian government claimed that foreigners were fighting alongside the Chechens and that Russia had little choice but to respond forcefully.

Russia's use of massive military force in Chechnya caused widespread civilian displacement and death. Allegations of human rights abuses by Russian troops also brought Putin's government under criticism from the West and in Russia. In October 2006, the Russian journalist Anna Politkovskaya was assassinated just prior to publishing an article detailing human rights abuses by the Russian



Putin and the Russian media.

Cherepanov in Krokodil. Reprinted with permission of Cartoonweb.com.

army in Chechnya. Politkovskaya had been a sharp critic of Russia's conduct in Chechnya. By 2011, fighting in Chechnya had decreased significantly, but the years of violence have devastated the region.

### ***How did Dmitri Medvedev become Russia's third elected president?***

In March 2008, Russians elected Dimitri Medvedev, a long-term aide of Vladimir Putin, as the third president of Russia. Some had speculated that Putin would try to change Russia's constitution so that he could run for a third consecutive term. Instead he chose Dmitri Medvedev to run for the presidency.

Nearly 70 percent of the Russian people voted in the election; Medvedev received 70 percent of the vote. His closest opponent, Gennady Zyuganov of the Communist Party, received about 18 percent. Observers in Russia noted that Medvedev did not debate any of his opponents, and that his campaign received positive coverage from the state-controlled television networks. His opponents were given little access to the state-controlled media. International observers believed that although the election process was flawed, the results did reflect the will of the Russian people.

After Medvedev assumed the presidency,

Wikimedia. Photo by Alexander Belenky.



Russian President Dmitri Medvedev.

the Russian Duma (parliament) overwhelmingly selected former President Vladimir Putin to become Russia's prime minister. This has ensured that he will continue to play an important and powerful role in Russian politics, including the possibility that he would run for president again in 2012.

## Opportunities and Challenges

Today, Russia has entered a new era. The Russian economy is growing, fueled by the high prices paid for Russia's vast oil and gas reserves, but President Medvedev still faces significant challenges.

### *What are the positive trends in the Russian economy?*

There have been positive trends for the Russian economy since the chaos of 1998. The economic downturn of 1998 cut off the flood of imports and gave Russian firms a chance to begin to compete in their home market.

Although the future is uncertain, Russia enjoys economic advantages. The country has a well-educated workforce and a large market for local businesses. Russia is slowly strengthening its financial and legal system. A growing middle class has gained a foothold in Russian society, mainly in Moscow and other large

cities.

In addition, Russia's high-tech industries in weapons, metals, space research, and nuclear technology are competitive in the world market.

Russia has also begun to make use of its wealth of raw materials. With one-third of the world's natural gas and about one-quarter of global reserves for coal, diamonds, gold, aluminum, and nickel, Russia's natural resources are unmatched.

Investors snapped up many of these industries during the 1990s. Under

President Putin, the Russian government moved to reclaim a controlling role in the mineral, metal, and energy sectors of the economy. For example, when Putin became president, the government controlled only 16 percent of petroleum production; when he left office, it controlled more than 50 percent.

### *What role do Russia's energy reserves play in the economy?*

Russia's vast oil and natural gas reserves are a source of great wealth and important tax revenues. Petroleum and gas make up 20 percent of Russia's gross domestic product and 60 percent of its exports. Indeed, Russia has positioned itself as an alternative petroleum source to the politically volatile Middle East. Russia now produces more barrels of oil per day than Saudi Arabia. World oil prices, as long as they remain high, will continue to boost Russia's economy. On the other hand, relying on petroleum to power the economy can prove problematic. The global economic crisis of 2008-2009 led to a drop in international oil prices. As a consequence, Russia's economy, which depends so much on petroleum revenue, was hit hard by the downturn.

One of Russia's most important and powerful energy companies is Gazprom. Under

President Putin, the Russian government bought back a majority of Gazprom's stock and took an active role in running the company. The government used Gazprom's earnings to buy other industries and energy companies and place them under government control. As Gazprom's wealth and power grew, it even used its money to purchase television and media outlets that had been critical of the government. Gazprom has also used its wealth and political muscle to purchase other energy companies; it is on a course to become the largest energy company in the world.

Gazprom is enmeshed in Russia's economy and politics. Before he was president, Dmitri Medvedev served as chairman of Gazprom. After Putin succeeded Victor Zubkov as prime minister of Russia in 2008, Zubkov became the chairman of Gazprom. Gazprom's role in international politics is also significant. It is a major supplier of natural gas to Europe as well as China and South Korea. (You will read more about Russia and international energy politics in Part III.)

### ***What environmental issues does Russia face?***

The Soviet past continues to affect Russia's big industrial firms. The closed nature of the Soviet economy discouraged technological innovation, leaving many Russian factories with outdated and inefficient equipment. Moreover, Soviet industry was particularly wasteful, using large amounts of raw materials and energy. For example, the Soviet Union used 80 percent more steel than the United States, even though its economy was less than half the size of the U.S. economy.

The Soviet system led to nightmarish pollution as well. In many areas, factories dumped untreated industrial wastes into rivers and lakes. Sixty-one million Russians live in environmentally dangerous conditions. In 120 Russian cities, air pollution levels are five times higher than acceptable, according to Russia's own standards. The Russian news agency ITAR-TASS reports that 30 percent of Chechnya is an ecological disaster zone. Until recently, cleaning up the environment had been overshadowed by the need for short term

economic survival. In late 2004 Russia ratified the Kyoto Treaty, an act which will require the country to meet specific environmental standards over time. Russian industry will be compelled to make changes in order to meet those standards.

### ***Why has life expectancy decreased in Russia?***

Mortality rates for working-age Russians are now higher than they were a century ago. Life expectancy for Russian men has steadily fallen since the collapse of the Soviet Union. The average Russian male is expected to live only sixty years (as compared to seventy-six years in the United States). Health experts blame high rates of alcoholism and smoking, but they also report a growing failure to vaccinate children against preventable diseases and an increase in birth defects that may be linked to the environmental abuses of the Soviet era. HIV/AIDS, other sexually transmitted diseases, and tuberculosis are spreading rapidly and pose a significant threat to public health.

Not only has life expectancy declined, the birth rates have dropped as well. Unsure of a secure future, many Russians are simply not having children. Since 2007, the government has given the equivalent of U.S. \$12,500 to women who have more than one child. The money is not given as cash, but can be used to buy property, childhood education, or put into a retirement account. Nevertheless, if these trends continue—and experts think that they are not easily reversible—Russia's population could shrink by one-third to 100 million by 2025.

### ***What are the economic challenges facing Russia?***

Russia faces considerable economic challenges. Russia's rapid integration into the competitive world marketplace doomed many of the country's manufacturing industries. The factories that had once produced household electronics, textiles, and other consumer goods for the closed Soviet market have disappeared. In most cases, Russian factories could not compete with the flood of foreign imports.



They also lacked the funding to improve quality and increase productivity.

Spending on research and development in Russia has fallen dramatically from the level of the Soviet era. The decline in funding for basic science has been even steeper.

In addition, the infrastructure built during the Soviet era has been neglected and is in need of repair. For example, unless significant investment is made in the electrical power system, Russia will face critical shortages of electricity in the coming years.

Government regulations have often made life difficult for new businesses. Russian tax laws and bureaucratic red tape can drive small entrepreneurs out of business or into the black market. Requirements for licenses, permits, and other documents have prompted frustration and bribery. Corruption is widespread.

Violent crime, which soared with the end of the Soviet Union, continues to be a problem. Criminal gangs have made extortion and drug trafficking commonplace, contributing to a murder rate over twice as high as that of the United States. In many Russian cities, the Russian mafia forces shopkeepers, small factory owners, and other businesspeople to pay protection money. Members of Russia's business elite are constantly ringed by bodyguards and travel in bullet-proof cars. Bribes to corrupt government officials have allowed organized crime to evade regulations and taxes.

Throughout the Soviet era, a core prin-

ciple of Russian society was to limit economic inequalities among people. With the end of communism, this goal fell by the wayside. The gap between the rich and the poor in Russia is now among the world's widest. The shift has left many Russians resentful and apprehensive. Many have slipped into poverty. According to some estimates, 15 percent of the country's population lives below the poverty level. Women, elderly people on pensions, and farm workers are among those who have struggled the hardest. The global economic crisis that began in 2008 hit Russia particularly hard.

Russia's transformation since 1991 has been dramatic. You have read about the end of the Soviet Union. You have explored how Vladimir Putin strengthened the power of central government, and brought Russia the economic and political stability that many Russians craved. At the same time, critics argue that Putin moved Russia away from democracy towards authoritarianism.

You have also examined the economic upheaval and change that Russians have experienced, and how rising world oil prices have given a boost to the economy. In Part III you will read about relations between Russia and the United States. Try to keep in mind the economic and political developments inside Russia and how they might affect these relations.