The Long Road to Normalcy: Where Russia Now Stands.

The world economic recession is hitting Russia harder than other countries. In 2009 due to the collapse of oil prices and the outflow of capital caused by world recession Russian GDP is expected to fall by about 10%. From 1989 to 1998 Russia experienced the transformational recession – GDP fell to 55% of the pre-recession 1989 level. In 1999-2008 Russian economy was recovering at a rate of about 7% a year and nearly reached the pre-recession peak of 1989. Now, with some luck, pre-recession GDP is to be surpassed only in the period 2010-12. In sum, therefore, for two decades, there has been no improvement in living standards for most Russians.

In 2004-05, Andrew Schleifer and Daniel Triesman published an article entitled, "A normal country: Russia after communism." They compared Russia to Brazil, China, India, Turkey and other developing countries, and argued that, in terms of crime, income inequalities, corruption, macroeconomic instability, and other typical curses of the third world, Russia is by far not the worst – indeed, somewhere in the middle of the list, and better than Nigeria, although worse than China. In short – Russia is a *normal* developing country.

The USSR was an *abnormal* developing country. The Soviet Union put the first man into space, had about 20 Nobel Prize winners in science and literature, universal free health care and education – the best among developing countries – low income inequalities and relatively low crime and corruption. By 1965, Soviet life expectancy increased to 70 years – only 2 years less that in the US, even though per-capita income was only 20% to 25% of the US level.

The transition to a market economy in the 1990s brought about the dismantling of the Soviet state: the provision of all public goods, from health care to law and order, fell dramatically. The shadow economy, which the most generous estimates place at 10% to 15% of the GDP under Brezhnev, grew to 50% of the GDP by the mid-1990s. In 1980-85, the Soviet Union was placed in the middle of a list of 54 countries rated according to their level of corruption, with a bureaucracy cleaner than that of Italy, Greece, Portugal, South Korea and practically all the developing countries. In 1996, after the establishment of a market economy and the victory of democracy, Russia came in 48th in the same 54-country list, between India and Venezuela.

Income inequalities increased greatly: the Gini coefficient increased from 26% in 1986 to 40% in 2000, and then 42% in 2007. The decile coefficient – the ratio of incomes of the wealthiest 10% of the population to the incomes of the poorest 10% – increased from 8 in 1992 to 14 in 2000, and then to 17 in 2007. But the inequalities at the very top increased much faster: in 1995, there was no person in Russia worth over US $1 billion; in 2007, according to *Forbes*, Russia had 53 billionaires, which propelled the country to second or third place in the world in this regard after the US (415) and Germany (55). Indeed, Russia had 2 fewer billionaires than Germany, but Russia's billionaires were worth a total of $282 billion ($37 billion more than Germany's richest). In 2008, the number of billionaires in Russia increased to 86, with a total worth of over $500 billion – a full one-third of national GDP.

Worst of all, the criminalization of the Russian society grew dramatically in the 1990s. Crime was rising gradually in the Soviet Union since the mid-1960s, but after the collapse of the USSR there was an unprecedented surge – in just several years in the early 1990s crime and murder rates doubled and reached one of the highest levels in the world. By the mid-1990s, the murder rate stood at over 30 people per 100,000 inhabitants against 1 to 2 persons in Western and Eastern Europe, Canada, China, Japan, Mauritius and Israel. Only two countries in the world (not counting some war-torn, collapsed states in developing countries) had higher murder rates –

South Africa and Colombia – whereas in countries like Brazil or Mexico this rate is two times lower. Even the US murder rate, the highest in developed world – 6 to 7 people per 100,000 inhabitants – pales in comparison with the Russian one.

The Russian rate of deaths from external causes (accidents, murders and suicides) had, by the beginning of the twenty-first century, skyrocketed to 245 per 100,000 inhabitants. It was higher than in any of the 187 countries covered by WHO estimates in 2002 – equivalent to 2.45 deaths per 1,000 a year, or 159 per 1,000 over 65 years, which was the average life expectancy in Russia in 2002. Put differently, if these rates were to continue to hold, 1 out of 6 Russians born in 2002 would have an 'unnatural' death. To be sure, in the 1980s, murder, suicide and accidental death rates were already quite high in Russia, Ukraine, Belarus, Latvia, Estonia, Moldova and Kazakhstan – several times higher than in other former Soviet republics and in East European countries. However, they were roughly comparable to those of other countries with the same level of development. Having said this, in the 1990s, these rates rapidly increased, far outstripping those in the rest of the world.

Mortality rate grew from 10 per 1,000 in 1990 to 16 in 1994, and stayed at a level of 14 to 16 per 1,000 thereafter. This was a true mortality crisis – a unique case in history, where mortality rates increased by 60% in just 5 years without any wars, epidemics or eruptions of volcanoes. Russia had never, in the postwar period, had mortality rates as high as those in the 1990s. Even in 1950-53, during the last years of the Stalin's regime, with the high death rates in the labour camps and the consequences of the wartime malnutrition and wounds, the mortality rate was only 9 to 10 per 1,000, as compared to 14 to 16 in 1994-2008.

Russia became a typical 'petrostate.' Few specialists would call the USSR a resource-based economy, but Russia's industrial structure changed considerably after the transition to the market. For all intents and purpose, the 1990s were the period of rapid deindustrialization and 'resourcialization' of the Russian economy, and the growth of world fuel prices since 1999 seems to have reinforced this trend. The share of output of the major resource industries (fuel, energy, metals) in total Russian industrial output increased from about 25% to over 50% by the mid-1990s and stayed at this high level thereafter. This was partly the result of changing price ratios (greater price increases in resource industries), but also due to the fact that the real growth rates of output were lower in the non-resource sector. The share of mineral products, metals and diamonds in Russian exports increased from 52% in 1990 (USSR) to 67% in 1995, and to 81% in 2007, whereas the share of machinery and equipment in exports fell from 18% in 1990 (USSR) to 10% in 1995, and then to below 6% in 2007. The share of spending in research and development was 3.5% of GDP in the late 1980s in the USSR. It has fallen to to 1.3% in Russia today (compared with: China – 1.3%; US, Korea, Japan – 2% to 3%; Finland – 4%, Israel – 5%). So today's Russia really looks like a 'normal resource-abundant developing country.'

To understand Russia today, one has evaluate the record of the last 20 years. In the late 1980s, during Gorbachev's perestroika, the Soviet Union was aspiring to join the club of rich democratic nations, but instead degraded in the next decade to a position of *a normal* developing country that is considered neither democratic nor capable of engineering a growth miracle. For some outsiders, a 'normal developing country' may look better than the ominous superpower posing a threat to Western values. But the insiders feel differently. Most Russians want to find a way to modernize the country so as to make it prosperous and democratic. However, they also feel that something went very wrong during the transition; the policies and political leaders of the 1990s are totally discredited. And so here we are: Putin-Medvedev's policy is getting 50% plus approval rate even in the midst of economic recession.

To understand the popularity of Putin in 2000-08 and now – of Putin-Medvedev tandem, one has to bear in mind that Putin's policy is the *de facto* denial of across-the-board-liberalization policies of Yeltsin, his predecessor. It is in essence a modernization project intended to put a halt to the degradation of the 1990s. The actual achievements of 2000-08 may be modest, but they are real: nearly a decade of economic growth, increase in government revenues and spending, accumulation of foreign exchange reserves, decrease in mortality, murders, and suicides, preventing the disintegration of the country. When Putin was elected president for the first time in 2000, he received 53% of the votes. In 2004 he was elected with 71% of the votes, and over 60% said they would vote for him in September 2007, never mind he was not going to run. Even today, in the midst of economic recession, Putin-Medvedev's policy is getting 50% plus approval rate.

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