Implications of Soviet Rule and the Modernization of Russia

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Democratization

The case of Russia has stumped political scientists around the world who view it as one of the most important test cases for Samuel Huntington's modernization theory. After Russia implemented a series of neoliberal economic policies in the early 1990's, scholars around the world speculated that it would democratize during the third wave. However, despite the enormous economic growth that Russia has experienced since privatization, no legitimate democracy has been consolidated. While the example of Russia has threatened the credibility of Samuel Huntington's modernization theory, in "Political Order of Changing Societies" he argues that the successful consolidation of a democratic regime not only depends on industrialization and economic growth, but also on the pace at which economic growth and industrialization takes place (Huntington 165). Huntington suggests that in rapidly industrializing nations, economic growth may take place too quickly for political institutions to adapt to the structural changes in the economy (185). When looking at the economic and political effects that neoliberalism has had on nations around the world, Russia displays similarities to both East Asia and Western Europe (Huntington 249). For this reason, one must consider the differences in how modernization theory is applied to Eastern and Western nations in order to better understand the effects that modernization has had on democratic development in Russia. In this paper I will argue that despite neoliberalization and economic growth, Russia has not experienced the same level of democratic development as other countries who modernized at the same time due to the rapid pace of economic development, the corrupt manner by which neoliberal reforms were carried out and the personalistic nature of Vladimir Putin's leadership.

The dissolution of the Soviet Union in 1991 spurred radical economic and political change in Russia as it transitioned from a centrally planned economy to a globally integrated economy (Shevtsova 22). The dissolution of the Soviet Union paired with the global debt crisis exacerbated Russia's external debt situation (Rutland 339). In order to save its economy, Russia was forced to sign a structural adjustment agreement with the International Monetary Fund (IMF) and World Bank on the condition that it would restructure its economy by privatizing state-owned enterprises (International Monetary Fund). However, because Russian leaders rejected some of the conditions set by the World Bank and IMF, economic reforms were carried out corruptly (Sachs). Russian leaders took a selective approach to the IMF's privatization package, adopting some policies and dropping others (Evans 43). Even policies that were implemented were designed to advance the interests of Russia's economic and political elite (44).

In contrast to other nations that privatized the public sector of their economies during the end of the 20th century, instead of implementing new economic policies gradually and incrementally, Russia's strategy used a "shock therapy" strategy (Orenstein). In economics, shock therapy refers to the sudden release of price and currency controls, the immediate withdrawal of public subsidies, and privatization of the public sector (Sachs). Because Russia's economy was heavily dependent on oil exports at the end of the 20th century, the drop in global oil prices during the 1980's seriously threatened the future of Russia's economy (Evans 34). In order to avoid an economic crisis, Russia borrowed from abroad. The depletion of foreign loans during the early 1990's contributed significantly to the dissolution of the Soviet Union. "The combination of falling oil earnings, a balance of payments crisis, and soaring budget deficit" led to extreme shortages, skyrocketing black market prices, and the devaluation of the rubble in the black market (Rutland 345). This resulted in huge resource shortages, high inflation and a decline in production (346). Without the Soviet Union, there was no central organization to oversee and control the allocation of resources (Shetsova 26). Prime Minister and economic leader at the time, Yegor Gaidar, was forced to either lift price controls immediately or risk widespread shortages of food and goods essential to survival (Rutland 343).

While other Eastern European countries like Poland engaged in shock therapy when implementing economic reforms, because Russia received little grant aid, stabilization support, or debt relief from the West, Russian leaders had less incentive to adhere to the conditions set by the IMF (Sachs). Additionally, while most countries that democratized during the third wave already had an established market-based economy, Russia attempted to transition to both democracy and a market-based economy (Evans 46). In this context, the dissolution of the Soviet Union isolated Russia's president at the time, Boris Yeltsin, from external political pressures, providing him with a window of opportunity to implement shock therapy policies solely by command (47). Though Russia's Parliament gave Yeltsin permission to use his executive power to implement shock therapy for one year, the Parliament quickly expressed its opposition to the program (Orenstein). In October of 1993, Yelstin illegally ordered the cessation of the Parliament, who in turn, unsuccessfully attempted to impeach him (Orenstein). After Yeltsin escaped impeachment, he created a new Constitution, which extended executive power, reduced legislative power, and weakened legal institutions. Under this new constitution, Yeltsin was able to act unilaterally in advancing economic policies (Orenstein).

Although concentrating power in the executive branch allowed Russia to implement economic policies quickly and efficiently, it also transferred the majority of Russia's wealth into the hands of small group of elites (Evans 48). Russian leaders began privatizing state-owned entities extremely rapidly, ignoring advice from the West regarding how it should be done (Sachs). Western advisors advocated for selling off state-owned enterprises via competitive, open auctions (Sachs). However, because open auctions would attract foreign corporations, state assets were essentially given away (Rutland 342). Auctions served to clarify and define ownership rather than redistribute it (Evans 49). In 1994, the majority of state-owned oil enterprises were privatized "in rigged auctions, at bargain prices, to bidders chosen in advance" (Rutland 342). Survey data indicates that nearly 90% of all Russians and 72% of entrepreneurs believe that the process of privatization was corrupt (343). Because most Western indications of democratic development during the 1990's relied heavily on the emergence of competitive elections, the 1991 and

1996 Presidential elections gave many the illusion that Russia was in fact making the transition to democracy (Bunce 173). However, the manner in which privatization reforms were carried out allowed the Yeltsin Administration to transfer political and economic power into the hands of a small group of Russian elite (Sachs). Because members of this oligarchy were deeply connected to the state, they had extensive influence in national and regional policies (Shevtsova 31).

While a number of political scientists argue that the unification of elites is essential to democratic development in transitioning nations, the opposite has been true in post-communist countries like Russia (Bunce 185). In *Comparative democratization: Lessons from Russia and the Post communist World*, Valerie Bunce argues that in post-communist nations, pacts between moderate reformers and members of the past regime hinder democratic consolidation and increase the likelihood that the regime will regress back to authoritarianism (186). This correlation is exemplified by the role that Russian elites played in Yeltsin's re-election in 1996. Despite his declining popularity, Yeltsin was able to secure 54.4% of the votes by using the resources contributed by the oligarch he helped create (Evans 49). In the months preceding the election, Russian elite's dominated media outlets, using their financial and organizational assets to rally support for Yeltsin. To this day, there is still speculation that the 1996 presidential elections were rigged.

Within three years of implementing shock therapy, Yeltsin was able to improve the state of Russia's economy. Average inflation rates fell from 413% in 1994 to 204% in 1995 and had dropped down to 53% by 1996 (Inflation Rates Russia). Yet, these improvements were hardly permanent. Political corruption, growing inequality rates, a chronic budget deficit and high fixed exchange rates between the rubble and foreign currencies all led to the 1998 Russian financial crisis (Rutland 350). In order to prevent further economic disaster, the Russian government defaulted on its domestic debt, devalued the rubble, and temporarily postponed its payments to foreign lenders (352). The 1998 economic crisis destroyed the little public support that Yeltsin had left. On December 31, 1999 Yeltsin announced his resignation and appointed Prime Minister, Vladimir Putin as President (Evans 50).

In the aftermath of Yeltsin's resignation, it became clear to scholars around the world that the economic instability that characterized Russia throughout the 1990's resulted from the absence of strong political institutions during the time during which radical economic reforms were carried out (Shevtsova 32). The economic instability during the 1990's created ideal conditions for the creation of a system of state capitalism (Rutland 356). Russia bounced back from the 1998 crisis quickly due to increases in global oil prices. This economic rebound increased Putin's popularity and contributed to his victory in the 2000 elections (Shevtsova 34). During the first eight years of Putin's presidency, Russia's GDP increased by an average of 7 percent per year (Rutland 351). By 2008, Russia's economy went from being the 20th largest to the 8th largest (351). In addition, the standard of living doubled, most domestic debts were settled and $400 billion of foreign currency reserves were collected (352). Putin's model behind this development was far more political than economic (Evans 50). Despite the transition to a market-based economy, Russia's economy has remained highly concentrated and extremely state oriented (Orenstein). A 2004 study discovered that 23 of Russia's largest corporations were responsible for 30 percent of industrial sales and 11 percent of employment (353).

Throughout his tenure, Putin has been able to stimulate economic growth while maintaining popular support by creating two separate discourses that serve as convincing propaganda for deflecting the increasingly authoritarian and personalistic nature of Putin's regime (Casula 4). On one hand, Putin has embraced a free-market economy in order to increase his popularity amongst the international community (Rutland 356). Meanwhile, Putin has promoted himself within Russia as a strong, loyal leader eager to protect Russia's "uniqueness" by standing up to the West (Casula 7). Despite Russia's economic growth during the first eight years of his presidency, the 2008 recession and recent declines in oil prices have threatened the sustainability of Putin's legacy (Rutland 360). In order to maintain economic growth in the coming decades, it is imperative that Putin increase competition within Russian industry. Because competitiveness is unlikely to emerge in a closed political environment, the authoritarian nature of Putin's regime will likely give rise to its collapse if levels of inequality continue to rise, economic growth stays stagnant and corruption remains rampant.

Overall, Russia has not strayed too far from the path Huntington's modernization theory predicted. Because Russia selected a shock therapy approach in implementing neoliberal economic policies, economic growth occurred too rapidly for political institutions to adapt to the changes in the economy, which resulted in widespread economic and political instability (Evans 43). Yeltsin's resignation paired with the economic opportunity that the increase in global oil prices provided at the turn of the century delayed demands for a true democracy. Instead of promoting democratic development in Russia, Putin has discouraged it by exempting Russia from universally acknowledged definitions of democracy (Bunce 8). Under this discourse, Putin has managed to construct a new national identity based off of his personalistic popularity which in turn, has depoliticized Russian society. In the application of modernization theory, Russia is the cross between the East and the West. In presenting his theory, Huntington mentions that while "Western revolutions are precipitated by weak, traditional regimes, Eastern revolutions [are precipitated] by narrow, modernizing ones" (Goldstone 42). He also points out that while Western transitions are precipitated by the collapse of the old regime, Eastern transitions usually involve overthrowing it (43). This being said, one can argue that Russia has not followed the typical path outlined by modernization theory because its previous regime was neither overthrown, nor did it collapse. Instead, the dissolution of the Soviet Union allowed Russia to pursue economic liberalization without creating an opening in the political space for which democracy could successfully be installed and consolidated.

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