

Great Promise Unfulfilled

How Russia lost its way after independence

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This paper reviews the most important events in Russian history since the collapse of the Soviet Union in 1991. It focuses on general trends in Russian development as the country underwent a triple transition to democracy, market economy, and federal state. At first, Russia hoped to quickly become part of the world community and to join the ranks of the fully developed market economies. The failure of market reforms through at least 1998 to improve living standards among the vast majority of the population, the rapid increase in crime and corruption in the country, and the waning of Russian influence in world affairs all combined to create a climate of disillusionment with the post-communist transition.

In this atmosphere, many of the failures of the transition were blamed on Western policies that, it was argued, either did not take into account Russia's unique historical and cultural characteristics or were deliberately designed to weaken Russia politically and economically. These attitudes first appeared among communists and other leftist groups. As the general Russian malaise lingered through the mid-1990s, these attitudes spread to ever larger segments of both the political elite and the electorate. As Russian politicians realized that they had to attend to these popular perceptions, and given their intense concentration on internal affairs—that is, the necessity of building a Russia that worked, which had never existed before—Russian cooperation with Western states and particularly with the U.S. stagnated.

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By the end of Yeltsin's presidency, that is, at the very end of the century, Russian distrust of Western policies had led to the suspension of most military cooperation programs and a concurrent decline in political cooperation. President Putin undertook an effort to revive this cooperation, at least in the realm of the fight against global terror. At the same time, his curtailing of civil liberties and partial dismantling of democratic institutions brought unease in the West and prevented a fuller alliance between the U.S. and Russia against Islamic terrorism from developing.

Whatever Russia's discomfort about relations with the rest of the world, and the West in particular, growth picked up upon the salutary effects of the crash in 1998, and with it average wages and salaries grew at a faster rate than the economy overall. By the end of 2005, the Russian people were generally content with their personal condition and with the political situation. Putin has remained popular, but with diminishing returns. The people still fear terror, and the Chechen situation remains intractable, with some signs of disorder spreading across the Caucasus region and into Dagestan. The country is benefiting greatly from higher oil prices, but because smaller industry is not taking off yet, higher incomes go to buy greater imports. The economy is marked by the classic Dutch disease, which results in one's own goods being priced out of the market.

Yeltsin's First Term: The disappointment with the Western model

Although most Western leaders initially preferred Mikhail Gorbachev to Boris Yeltsin, Yeltsin's performance during the August 1991 coup solidified his reputation as the leading figure of Russian democracy. His first term as the president of Russia thus began with great hope for Russia's transformation into both a Western-style democracy and a state with a well-functioning market economy. But long before the start of his reelection campaign in 1996, these hopes were disappointed and Russia began a long, slow turn inward. Disillusionment with the West was caused primarily by the collapse of the country's economy through 1998, although the decline of Russia's importance in world politics and the attribution of various internal and external political conflicts to the incompatibility of American-style democracy ("that government's best that governs least") with Russian culture, values, and the need for strong government also played a role.

The failure of economic reform

As initially conceived, Russia's economic reform program was designed to transform the country as quickly as possible into what some thought was a Western-style free market economy, though that looked like "wild capitalism" rather than the law-based regulation of predatory activity. The first steps in this effort took place in January 1992, with price liberalization and the end of restrictions on private economic activity. The subsequent sharp increase in prices of retail goods, combined with a pre-existing economic recession, led to a sharp decline in manufacturing, with industrial production falling by twenty percent in 1992, on top of an eleven percent drop in 1991—notwithstanding that much of that drop was in useless military production, coupled with a severely deficient consumer goods base.

The combined impact of price increases and production declines led to widespread shortages of goods and food during the winter of 1991-92, although these shortages disappeared after prices reached market levels and imported products began to flow into the country. In an effort to reduce inflation, the government pursued tight monetary policies in the first half of 1992. The result was a cash shortage, which led to the non-payment of wages to government employees, who in 1992 still comprised about ninety percent of the workforce. The combination of price increases and wage arrears caused financial hardship for most of the country's population. By 1993, the ubiquitous empty store shelves of the late Soviet period had been replaced with stores fully stocked with goods that the majority of the population could not afford.

While the initial economic decline was widely expected by the shock therapy reformers, they believed that conditions would improve within one to two years. However, these expectations were not met, both because the reformers were not able to fully implement their program and because the parts of the program that were implemented were overwhelmed by corruption. While price liberalization was extensive, it was not carried out in all sectors of the economy. Most significantly, energy prices continued to be set by the government below world market levels. In addition, many state-owned industrial firms continued to operate (as they did in the Soviet economic system) by using fictional electronic currency rather than real money. These policies contributed to the cash shortage discussed above.

As far as the Russian public was concerned, the real Achilles' heel of the economic reform program was the corrupt privatization of most state owned companies. The initial privatization scheme involved the issue of vouchers to each Russian citizen. In theory, these vouchers could be used to purchase shares of companies during privatization auctions. In actual practice, most of the vouchers were purchased for relatively small amounts of money by speculators or managers of the plants being privatized. In the end, the first round of privatization concluded with the most valuable companies owned either by their directors or by former highly-placed Communist Party or Komsomol functionaries. These officials were able to use their positions to purchase company shares at significantly lower prices than the actual value of the assets offered for sale. In many cases, these new owners stripped the physical and capital assets of their newly purchased factories and then refused to pay salaries to the employees, usually citing a lack of revenues due to the economic downturn as the culprit for the firm's poor financial situation. Incomes from the stripped assets were usually deposited in offshore bank accounts or used to build ostentatious private dwellings (derisively called cottages) for the Russian nouveau riche. The evident corruption that accompanied the first stage of privatization led most of the Russian population to lose faith in the politicians in charge of the economic reform program, as evidenced by the emergence of the pun label "prikhvatizatsiia" (grabbing) in place of the Russian word "privatizatsiia."

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The spread of corruption went hand in hand with a rapid increase in both economic and violent crime. Much of the violent crime in fact had economic motivations, as rival criminal gangs faced off for control of protection rackets in most major Russian cities. These protection rackets came into being because local police were either incapable of protecting legitimate economic activity, or because they had become corrupt and were themselves involved in protection schemes. Businesses that refused to pay protection money were routinely ransacked and, in some cases, their owners were killed. For several years during the early 1990s, contract killings of businessmen became a practically routine part of the Russian economic scene. This environment resulted in the virtual elimination of honest people from the Russian business scene.

The corruption of Russian business contributed to yet another problem that plagued the Russian economy during the early and mid 1990s: the non-payment of taxes. The combination of a cumbersome tax code and a culture in which evasion of payments to the government was considered acceptable led to very low rates of payment of both individual and corporate taxes. The result was a large budget deficit and missing wage payments in the state sector of the economy.

By the end of Yeltsin's first term in 1996, the Russian economy had suffered five years of steady decline, most of the population was economically much worse off than at the start of his rule, and corruption had become an integral part of the Russian economic system. The few bright spots included the proliferation of goods that had previously been in short supply, the liberalization of foreign economic activity, and the emergence of private small businesses. Since many of the newly available goods were not affordable for most people, who had seen their savings wiped out by inflation and their incomes dry up due to the non-payment of wages, this was not really regarded as a positive achievement of Yeltsin's economic program. Overall, the failure of Yeltsin's economic policies was the most important factor in his low popularity in the mid-1990s.

Internal political conflicts and the stalemate over reform

Although most of the Russian political establishment was (at least on the surface) united in opposition to the August 1991 coup, conflicts began to emerge even before Russia became an independent state in December 1991. Initially, the conflicts centered around the respective powers of the president and parliament, with parliamentary leaders attempting to limit Yeltsin's ability to rule by decree in the fall of 1991. In 1992, this conflict gradually became more personal, with Ruslan Khasbulatov, the speaker of parliament, and Alexander Rutskoi, Yeltsin's vice-president, coming to personify the opposition to Yeltsin and his policies on economic and political reform. As early as February 1992, Rutskoi labeled the economic reform program as "economic genocide."¹ As this confrontation shifted from institutional rivalry to personal vendetta, Russian policy-making largely ground to a halt. From late 1992 through September 1993, the president usually vetoed laws passed by the Congress of People's Deputies, while parliament often overturned the president's decrees. Various unsuccessful measures were undertaken to resolve this stalemate, beginning with unproductive negotiations

1. Celestine Bohlen, "Yeltsin Deputy Calls Reforms 'Economic Genocide,'" *New York Times*, February 9, 1992.

between Yeltsin and Khasbulatov's representatives in 1992, followed by an inconclusive April 1993 referendum on early presidential and/or parliamentary elections.

The stalemate was finally resolved in the fall of 1993, although the way it was resolved signaled the beginning of the decline of Russian democracy as the West envisaged it. In September, Yeltsin, acting in violation of the existing constitution, attempted to dissolve parliament and called for a referendum on a new constitution. Parliamentary leaders refused to agree to Yeltsin's demands, impeached him, and declared Rutskoi to be the new president. Mass protests against Yeltsin's actions culminated with clashes between protesters and army and interior ministry troops at the parliament building and at the Ostankino television tower. In the end, the Russian security forces stormed the parliament building and arrested the top leaders of the opposition to Yeltsin.

After crushing his opponents, Yeltsin quickly moved to consolidate power. In addition to following through in December 1993 with a referendum on a new constitution that gave the executive branch much greater power than the legislature, he called for quick elections to a new bicameral parliament. Although the constitution was approved by a narrow margin, the results of the 1993 parliamentary election were entirely unexpected and amounted to a significant setback for Yeltsin and his supporters. Yeltsin's team was confident that the pro-Yeltsin Russia's Democratic Choice party would win the elections and get a majority of seats in the new parliament. As it turned out, the populist/nationalist Liberal Democratic Party, led by Vladimir Zhirinovskiy, won 23 percent of the vote and took 64 seats in the 450-member Duma. Russia's Choice finished a distant second, with only 15.5 percent of the vote. Overall, democratically-inclined parties controlled only about 100 seats, with communists and their allies controlling another 100; the remaining 180-200 seats went to small parties and to independent candidates running in single-mandate districts.

The unexpectedly poor showing for Yeltsin's team in the 1993 elections led to more political inactivity, as the Communist Party came to replace Ruslan Khasbulatov as Yeltsin's nemesis. In the 1995 election, the Communists won 35 percent of the popular vote, almost three times that of Our Home is Russia, the pro-government party. The result was a deadlock between the president and Duma. Economic and political reform measures either failed to pass parliament or passed only in compromise forms that did not necessarily help revive the Russian economy. Yeltsin and his policies became more and more unpopular, as the majority of the population blamed him for their impoverishment, the lack of political stability in the country, and Russia's loss of prestige in international affairs.

Center-periphery conflicts and the weakening of the Russian state

At the same time as the political conflicts in Moscow intensified, the Russian government also faced a crisis in its relations with its regions. The peak of the crisis came in the fall and winter of 1991-92, when several ethnic republics declared independence and refused to participate in Russian central political institutions or to follow Moscow's mandates on their territory. While Chechnya and Tatarstan went the furthest, with the former acting as a de facto independent state from 1991 to 1994 and

the latter boycotting all federal elections during the same time period, several other regions also sought to upgrade their status. Some ethnic Russian regions, such as Sverdlovsk, sought to become republics in order to increase their political status vis-à-vis Moscow. During the first half of Yeltsin's first term, several provinces and ethnic republics were only selectively enforcing Russian laws, while a number of ethnic republics refused to transfer tax revenues and proceeds from the sale of natural resources to the central government. Most of the conflicts were resolved in the Federal Treaty of 1992, which eventually became part of the Russian constitution. The conflict with Tatarstan was resolved in February 1994, with the signing of a bilateral treaty on relations between the region and the federation. This treaty became a model for treaties that were signed with other ethnic republics and non-ethnic provinces throughout the 1990s. By the end of Yeltsin's presidency, such treaties had been signed with more than half of the 89 regions of the Russian Federation.

At the time of Russian independence in 1991, Moscow faced a center-periphery relations crisis. Although initially the Russian state was too weak to control regional leaders, by the end of Yeltsin's first term, it had come to an understanding with the leaders of all the regions except Chechnya, where it launched a military campaign in October 1994.

The decline of the Russian military

For the Russian military, the early 1990s were a time of catastrophic underfunding, which also meant there were no funds for reform. The military's status and morale had already been shaken by the war in Afghanistan during the 1980s, which culminated in the Soviet Union's withdrawal from that country in 1989. The democratic revolutions in Eastern Europe and the collapse of the Soviet Union led to a round of military withdrawals from Eastern Europe, first from East Germany and Poland, and eventually from the Baltic States. These withdrawals taxed the military's finances, since new bases had to be built for units formerly stationed in Eastern Europe (where the local government paid their housing costs) and pensions had to be paid to an unexpectedly large number of retirees. These extra expenses came at a time of budget cuts for the military, as the government ran out of money during the economic crisis. In 1992 Russian military expenditures were set at a maximum of 10 percent of the total government budget. The budget cuts led to a sharp decline in training and the almost complete cessation of the procurement of new equipment for troops. At the same time, pay for active troops failed to keep up with inflation, leading some officers to sell equipment to paramilitaries in places like the Caucasus in order to supplement their salaries.

The problems plaguing the Russian military led to calls by hitherto suppressed military reformers, especially those in the Supreme Soviet, for a thorough reform of the institution. The main measures advocated included replacing conscription with a volunteer force, reforming the budgetary and planning processes to make them more transparent, and cutting the size of the military to make the institution fit the needs and resources of the post-Soviet Russian state. Of these three proposals, only cuts in the size of the military were implemented during the 1990s. There was much talk of more civilian control in the Ministry of Defense, but only one civilian (Kokoshin) was

appointed a Deputy Minister, while all other positions continued to be held by the military. Many new laws and reform measures were passed by the Supreme Soviet, but were ultimately thwarted by the military bureaucracy. By the end of the 1990s, the details of the military budget were still kept secret even from the State Duma, and only token efforts at creating all-volunteer combat units had been undertaken.²

The first Chechen war was one of the causes for the lack of progress in military reform during Yeltsin's first term. The invasion of Chechnya in December 1994 was supposed to be a quick victorious war that would improve the government's standing among the population, strengthen Moscow's hand in its battles with regional leaders throughout Russia, and show that the Russian military was still a force to be reckoned with, at least at a regional level. Instead, the army found itself bogged down in a seemingly endless counter-insurgency campaign characterized by high numbers of casualties among both the civilian population in the region (made up of ostensibly Russian citizens) and the woefully under-prepared recruits that had been sent to Chechnya by Russian military commanders. Negative publicity about casualties and the army's lack of preparedness further damaged morale in the military and led to internal conflicts that showed that the defense ministry did not fully control the general staff. The single most ready Russian division became bogged down in trying to curb civil war in Tajikistan.

By the end of Yeltsin's first term in office, the Russian military was in very bad shape. Because of the procurement freeze and the lack of proper maintenance, a large percentage of the military's equipment was essentially unusable. This was particularly a problem for the Russian Navy, which had a large number of derelict and rusting ships and submarines that were still listed as active in the force. Because of casualties in the Chechen war and constant reports of hazing of new recruits, the population had largely turned against the military. Most draft age men sought to avoid conscription, either through deferments or by avoiding the draft. Finally, poor compensation and living conditions were forcing many experienced officers to leave the military, reducing the quality of existing troops.

Foreign Policy: Conflicts on the periphery, disenchantment with the West

During the early 1990s, Russia's foreign policy was characterized by the development of relationships with the newly independent states that formerly comprised the Soviet Union, efforts to deal with instability on its southern borders, and shaky relations with the United States and European states, in large part due to Yeltsin's erratic moods and actions by the West that Russia felt it couldn't influence. This was particularly reflected in the Partnership for Peace, the initial program by which Eastern countries could relate to NATO. Russia's association in the partnership was on-and-off, depending on Yeltsin's mood or on opposition noise.

2. For more information on the limits of Russian military reform, see *The Evolution of Military Reform in Russia*, by Sergei Rogov, edited by H.H. Gaffney and Dmitry Gorenburg, CNA Information Memorandum CIM D0004857.A1, October 2001.

The breakup of the Soviet Union created a new diplomatic space. The former republics of the Soviet Union had to get used to dealing with each other as independent states. These states' relationships with Russia can be divided into two categories. About two-thirds of the states were suspicious of Russia and believed it would seek to once again control their countries through covert or overt means. These states included the Baltic States, Georgia, Ukraine, and, to a lesser extent, Moldova, Azerbaijan, and Uzbekistan. Relations between Russia and these states during the early 1990s were characterized by mutual suspicions, accusations of violations of international law, and negotiations over the removal of Russian troops from their territory. The rest of the newly independent states were not really prepared for independence and sought to maintain close relations with Russia for security or economic reasons. These countries were willing to maintain Russian military bases and other facilities on their territory and to join Russia to turn the Commonwealth of Independent States (CIS) into a supra-national organization with actual power. Over time, internal troubles and changes in government led Azerbaijan, Moldova, and, to some extent, Georgia to switch from the first camp to the second.

Russia was not a passive observer in this process, and sought to ensure its dominance in the region by using its economic position, control over energy resources, and appeals to the international community. These efforts were particularly obvious in the Baltic States, where the large ethnic Russian community became a pawn in Russian efforts to slow the Baltic shift away from the Russian sphere of influence and toward Western Europe. Russian leaders argued that citizenship and language laws in Estonia and Latvia were a violation of ethnic Russians' human rights and should derail these states' efforts to join NATO and the European Union. For a time, the Russian government tied the withdrawal of its troops to changes in Baltic policy toward the Russian population, although these issues were quickly de-linked due to European pressure. The troops were withdrawn in 1994.

Russia also became involved in the internal conflicts that plagued several of the former Soviet republics. In Moldova, the 14th Russian army intervened directly on the side of secessionist groups seeking to prevent Transdniestria from being subject to Moldovan laws on language. By providing arms to the secessionist groups, the 14th army ensured that the Transdniestrian forces defeated the Moldovan army. The Russian military played a similar role in the Tajik civil war, ensuring the victory of Kulyabi forces by supplying them with equipment and military advisors from the 201st Motorized Rifle Division, stationed in Tajikistan. Russian forces provided more covert assistance to secessionist forces in Abkhazia and South Ossetia, leading to a stalemate between these groups and Georgian armed forces. Finally, Russian troops sold weapons and other equipment to both sides in the Nagorno-Karabakh conflict between Armenia and Azerbaijan. In this case, the profit motive arguably played a greater role than policy considerations—the Russian economy is now a market economy, after all.

Yeltsin's first term was characterized by a gradual cooling of Russian relations with the West after its initial enthusiasm, under Foreign Minister Kozyrev, for moving closer. Initially, the West hailed Yeltsin as the champion of Russian democracy. Yeltsin, in turn, sought to break conclusively with the legacy of the Cold War by signing the START-II arms reduction treaty and encouraging parliament to ratify the START-I and CFE treaties. In exchange, Western states provided extensive financial assistance (e.g., IMF and EBRD loans) and advice on reforming the Russian economic and political systems.

As it became clear in 1993-94 that the reform process was producing more chaos, more "wild capitalism," and little growth, the government retreated, in part to neutralize nationalist and communist politicians. The Yeltsin government was particularly opposed to the expansion of NATO to include Eastern European states. It also began to complain of an anti-Serbian bias in American and European policy toward the conflict in disintegrating Yugoslavia. Nevertheless, Russia gradually joined the most important European institutions, such as the Council of Europe and OSCE, and became a de facto associate member of the G-7 club. Although relations between Russia and the West were better during this period than during any period since World War II, Russia had to increasingly turn inward because that's where its real problems were—the economy, crime, Chechnya. Playing the old Soviet "great power" role didn't help in any of this.

Yeltsin's Second Term: Muddling Through

The period from 1996 to 1999 was not a particularly positive one for the Russian state. Significant vote rigging and corrupt financial dealings with economic oligarchs marred Yeltsin's re-election campaign. After the election, the president's ill health and continued battle with the Communists in parliament prevented significant reform measures. The Chechen problem was (temporarily) solved with the assistance of General Lebed. The economy continued to decline until the 1998 financial collapse. Relations with the West foundered over NATO expansion and the Kosovo conflict. Yet, by the end of the term, it seemed there might be light at the end of the tunnel, with the first signs of economic growth and the emergence of Vladimir Putin as a strong Prime Minister.

Reelection campaign

In the winter of 1996, few Russians believed that Yeltsin was a viable candidate for reelection. His policies were unpopular, his approval ratings hovered in the single digits, and his health remained questionable. Members of Yeltsin's team were engaged in discussions with politicians like Grigory Yavlinsky about the possibility of uniting behind a single pro-democracy candidate that might have a chance of beating the Communist leader Gennady Zyuganov in the general election. In the end, no agreement could be reached and Yeltsin's handlers decided that they had no choice but to have him run for reelection. What followed was one of the most successful election campaigns in history, bringing a candidate with 5 percent popularity initially to an over 50 percent winning result. The campaign was marked by three crucial aspects:

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- The campaign team succeeded in portraying Zyuganov as a throwback to the “scary old days of communism” by arguing that a CPRF victory would lead to the end of private property, the end of free speech, and a renewed ban on foreign travel.
- Government money was (illegally) used to purchase advertising that blanketed the airwaves with criticism of Zyuganov and the CPRF. At the same time, ostensibly private television networks stopped criticizing the government while broadcasting only limited, and uniformly negative, coverage of the Communists.
- Oligarchs lent their support in exchange for rigged privatization auctions that allowed them to buy major industrial plants for a small fraction of their true value (see below).

In the end, Yeltsin got 35 percent of the vote in the first round, compared to 32 percent for Zyuganov and 15 percent for Alexander Lebed. Between the two rounds, Yeltsin won Lebed’s endorsement in exchange for appointing him national security advisor. This move, combined with the falsification of second round election results in a few regions, was enough to secure Yeltsin’s reelection with 54 percent of the vote, compared to Zyuganov’s 40 percent. Soon after the vote, Yeltsin’s approval rating dropped back into the single digits.

Yeltsin’s health and the health of the Russian political system

A major reason for Yeltsin’s quick drop in popularity was the revelation that he had suffered a heart attack between the first and second rounds of the presidential election and that this had been kept secret from the voters. He had suffered two earlier heart attacks in 1995. These health problems, combined with occasional, and highly embarrassing, episodes of public inebriation, had already established Yeltsin’s image as a sickly and ineffective politician. This image was a radical change from his image in the early 1990s, when even those who hated him and his policies agreed that he was a master at sensing and exploiting political opportunities in order to achieve his goals.

During his second term, Yeltsin continued to suffer from periods of ill health. He was absent from office for several months beginning in November 1996, when he underwent a quintuple heart bypass surgery. He returned to the hospital in January of the following year when his recovery from surgery was set back due to pneumonia. For the next two years, no health problems were officially reported, but Yeltsin was often absent from public view for relatively long periods of time, sparking speculation that his health was worse than officially admitted. In January 1999, Yeltsin was again hospitalized, this time for a gastric ulcer. Yeltsin’s health problems contributed to calls for his impeachment from the Communist leadership of the State Duma. As it was, Yeltsin easily survived an impeachment vote in May 1999 and left office on his own terms at the end of that year. However, Yeltsin’s poor health towards the end of his first term and throughout his second term contributed to the sense that there were few accomplishments during this period of Russian politics. In particular, the Duma, with no dominant government party, was obstinate about passing any reform legislation or

ratifying START II—while during the same period the ABM debate in the U.S. was also making American START II ratification more and more doubtful.

(Temporarily) solving the Chechen War

What initially seemed like an accomplishment in Chechnya proved to be ephemeral. Soon after Yeltsin's reelection, Russian troops lost control of Grozny, the Chechen capital, to rebel fighters. Shortly thereafter, Alexander Lebed negotiated a truce that called for Russian troops to withdraw from the republic by the end of 1996. Although the question of de jure Chechen independence was put off for five years, Chechnya became de facto independent after the last Russian troops left the republic in December. Unfortunately, the peace agreement did not put an end to the region's instability. Although Aslan Maskhadov won a relatively free and fair presidential election in 1997, he was unable to establish control over the entire territory of the republic. Other rebel and clan leaders controlled various parts of Chechnya. Money that was supposed to be earmarked for reconstruction of infrastructure either never arrived or was stolen by local officials.

Given the abundance of weapons and the lack of security infrastructure, it was not surprising that many former rebel commanders turned to kidnapping locals and visitors from Russia and the West as a source of income. At the same time, some rebel commanders, led by Shamil Basayev, were not satisfied with the political settlement and prepared for a new round of fighting. Meanwhile, Russian officials and the Russian public ignored Chechnya—the officials because they sought to forget the humiliating defeat of the Russian army and the public because its chief concern had always been the high number of casualties among Russian conscripts serving in the army. Although in retrospect it seems obvious that the situation in Chechnya in the late 1990s was inherently unstable, at the time there was great hope that Russia had put behind it an episode that had been highly destructive to its international reputation and had dramatically slowed down domestic political and military reforms.

The economy hits bottom and begins to rebound

After the 1996 election, the economy continued to gradually decline, while the oligarchs who had financed Yeltsin's reelection campaign took control of the most valuable assets, particularly in the natural resources, communications, and media industries. This takeover of assets was made possible by the loans for shares scheme, in which the Russian government sold state-owned industrial assets through limited auctions in which the list of bidders included only those individuals who had provided loans to the Russian government. The result was the selling of the most profitable industrial assets by the state for a fraction of their actual value. These auctions were the source of much of the oligarchs' wealth, and it solidified their hold on the Russian economy and Russian politics for the rest of Yeltsin's presidency.

Russia experienced a rapid increase in income inequality throughout the 1990s. The inequality of incomes (the Gini coefficient) doubled during the first six years of

transition.³ While much of the Russian countryside remained mired in poverty, some of the largest cities experienced a revival due to the influx of capital derived from privatization and the exploitation of natural resources. Moscow, in particular, benefited from its status as the capital and the country's gateway to the West. By the end of the 1990s, an estimated eighty percent of Russia's financial assets were concentrated in the city. This concentration of wealth led to the establishment of expensive restaurants and boutiques, as well as a lavish rebuilding and renovation program undertaken by the city government together with private investors. At the same time, even in Moscow only a small part of the population was able to benefit from these new amenities. In fact, income inequality in Moscow was higher than anywhere else in Russia, with the average income of the top ten percent of the city's population being 53 times higher than that of the bottom ten percent.⁴ The high level of income inequality throughout the country fueled popular discontent with the government's economic policies, as the majority's experience with declining living standards at a time when the wealthy were clearly getting richer led to the widespread perception that the economic and political elites were enriching themselves at the expense of the rest of the population.

By 1998, the government was facing a budgetary crisis, due to the non-payment of taxes by individuals and corporations, an overvalued currency, and low oil prices on world markets. The Russian financial system appeared to be teetering on the brink of failure through the spring and early summer of 1998, as the Central Bank struggled to maintain the exchange rate within its target range. During this period, interest rates began to climb rapidly while stock prices fell. Finally, in August 1998 the crisis came to a head; the government devalued the ruble, defaulted on its treasury bill obligations, and declared a 90-day moratorium on paying off foreign commercial debts. As a result, a large number of Russian banks failed, and many regions introduced local price controls and export restrictions in order to ensure the continued supply of basic necessities at affordable prices. The final kick to the Russian economy came when the IMF and other world lending organizations suspended loans to Russia.

The 1998 financial crisis proved to be a blessing in disguise for the Russian economy. The devaluation of the ruble made most imported goods too expensive for the Russian population, leading to a revival in the manufacturing sector. Producers of light industry and consumer goods benefited especially from the new economic environment. At the same time, an increase in world oil prices led to an increase in revenue for the Russian state, allowing it to stop relying on IMF loans for the first time since the collapse of the Soviet Union and even to resume paying off its debts by 1999. By the time Yeltsin left office in December 1999, the government had succeeded in stabilizing the ruble and had come close to balancing the budget. The stage was set for the rapid economic growth of the early Putin years.

3. Grzegorz W. Kolodko, "Incomes Policy, Equity Issues, and Poverty Reduction in Transition Economies," *Finance and Development* 36 (3), 1999.

4. Natalya Arkhangelskaya, "Who's poor in Russia?" *Expert* #16, April 24, 2004. <http://eng.expert.ru/society/04-16bedn.htm>

Relations with the West hit bottom (and don't rebound)

The replacement of Andrei Kozyrev by Evgenii Primakov as foreign minister in January 1996 signaled that those in the Russian foreign policy community who continued to be suspicious of Western intentions toward Russia were now in ascendance. The next several years saw continued cooling of Russian-Western, and particularly Russian-American, relations. The proximate causes included NATO expansion and NATO's intervention in Kosovo. Russian foreign policy elites were opposed to NATO expansion, arguing that the end of the Cold War and the dissolution of the Warsaw Pact had made the organization obsolete. They said that since NATO was established to counter potential Soviet aggression against Western Europe, in a world where Russia and Western states were allies it was no longer needed. Furthermore, they argued that in exchange for the withdrawal of Soviet troops from Eastern Europe, Western leaders had promised Gorbachev that Western forces would not replace them. The expansion of NATO, they argued, was a betrayal of that promise since it integrated East European states into a single military space with other NATO states.

When NATO chose to admit Poland, Hungary, and the Czech Republic in 1997 despite these arguments, Russian politicians condemned the move as a betrayal of Russian trust and a sign that Western leaders and military planners still perceived Russia as a potential military threat. The NATO-Russia Permanent Joint Council that was created simultaneously with the expansion was widely perceived as an ineffective effort to win Russian acquiescence for the enlargement. Russian leaders argued that the Council was not useful because NATO member states worked out their position in advance and did not give Russia a voice in the proceedings, using the council only to inform Russia of decisions that were already made. Russian relations with the West deteriorated further in 1999 as a result of disagreements over the conduct of NATO's bombing campaign to stop Milosevic's ethnic cleansing of Albanians in Kosovo. Some have argued that the Kosovo war was the single most damaging event to Russia-NATO relations since 1991.⁵ In the various wars of the Yugoslav succession throughout the 1990s, Russian politicians had consistently supported Serbia and its president, Slobodan Milosevic. This alliance was in large part a cultural one, with Russian politicians stating openly that they saw the Slavic and Eastern Orthodox Serbs as their traditional allies against the Muslims and Catholics inhabiting other former Yugoslav republics. Russian leaders also felt betrayed and humiliated by the lack of consultation by NATO and Western state officials during the process leading up to the decision to bomb Serbia. They saw the bombing campaign, undertaken without UN authorization, as a violation of Yugoslav state sovereignty and international law. They argued that since primary bombing targets included Serbia's industrial and transport infrastructure, the main victims of the campaign were Serbian civilians. Russian media played up the number of civilian casualties, even though such casualties were in fact limited. In response to the campaign, Russia suspended all cooperation with NATO and all military cooperation with NATO member states. Hostility toward the West was not limited to political

5. Vladimir Brovkin, "Discourse on NATO in Russia during the Kosovo War," *Demokratizatsiia*, September 1999.

circles. Popular attitudes toward the United States, as expressed in polling data, reached a post-Soviet low in the immediate aftermath of the bombing campaign and did not really recover until after the terrorist attacks of September 11.

Despite its hostility toward the air campaign, Russian assistance proved critical in ending the conflict. Victor Chernomyrdin played the key role in convincing Milosevic to back down, withdraw his troops from Kosovo, and accept an international presence in the province. In the aftermath of the ceasefire, Russian troops provoked Western alarm by arriving at the Pristina airport in the middle of the night and ahead of NATO troops. In subsequent discussions, it became clear that top Russian military commanders had carried out the troop transfer without political authorization. The episode came close to provoking a serious diplomatic crisis, although it was eventually resolved and Russian troops stayed on as part of the Kosovo Stabilization Force (KFOR) for another four years.

The combination of NATO enlargement, the financial crisis of 1998, and the Kosovo War led to widespread Russian disillusionment with the West. In the late 1990s, Russian politicians and the public came to believe that Western leaders still thought Russia a potential military threat to Western Europe. By 1999, a majority of the Russian population believed that advice from the West had been deliberately designed to weaken the country and to enrich Western corporations and businessmen at Russian expense. Finally, Russians believed that the Kosovo War had shown that Russia had become weak in the international scene and that its opinion no longer mattered in determining international reactions to regional crises.

The disillusionment with the West reflected on those Russian leaders who were most closely tied to the West in public perception. The young economic reformers, led by Yegor Gaidar, Sergei Kirienko, and Anatoly Chubais, largely left positions of power and were replaced by old Soviet technocrats such as Victor Chernomyrdin, Evgeniy Primakov, and Yuri Maslyukov. But even these politicians seemed too disloyal to Yeltsin and his top advisors (or too competent), leading to the search for an acceptable compromise figure that could succeed Yeltsin while ensuring that the interests of Yeltsin's allies were protected. After a false start with Sergei Stepashin, they found an acceptable leader in Vladimir Putin.

The rise of Putin and the fall of Chechnya

Putin was appointed prime minister in August 1999. Within a week of his appointment, Chechen guerrillas led by Shamil Basayev attacked neighboring Dagestan and captured two villages near its border with Chechnya. Although the attacking forces were driven off after sporadic conflict over more than a month, this episode marked the beginning of the second Chechen war. In mid-September, a series of apartment bombings in Moscow and other Russian cities killed several hundred people.⁶ These attacks were blamed on Chechen terrorists. In response to the incursion into Dagestan and the apartment bombings, the Russian government launched a full-scale assault on

6. For an excellent timeline of this conflict, see the Center for Defense Information website: <http://www.cdi.org/issues/Europe/timeline.htm>.

Chechnya that began with an extensive and indiscriminate aerial bombardment of Grozny. In carrying out this attack, the Russian army showed that it had marginally improved its ability to gain and control territory. This time, there were no embarrassing reversals, such as the loss of Grozny in 1996. Much of the improvement had to do with the greater use of more experienced contract soldiers, rather than the recent conscripts that were sent to fight in the first Chechen war.

In the aftermath of the apartment bombings and the incursion into Chechnya, the second Chechen war proved to be far more popular with the Russian public than the first had been. To a certain extent, its popularity was maintained by the limits on media freedom that had been imposed since the early 1990s(although this was not yet the problem in 1999 that it would become under Putin's presidency). In 1999, media freedom was circumscribed less by legal restrictions and more by the concentration of media ownership among a few oligarchs that were generally supportive of the government and its policies.

The popularity and initial successes of the Chechen war established an image of Vladimir Putin as a strong politician. This image proved particularly popular with the public, which was ready for a change from the weak and sickly President Yeltsin. As a result, Unity, Putin's political party, performed much better than expected in the December 1999 parliamentary elections. It won 23 percent of the vote, only one percent less than the Communist Party and ten percent more than the Fatherland – All Russia party headed by Yuri Luzhkov and Evgeniy Primakov. Having seen that Putin was a popular and electable presidential candidate, Yeltsin's handlers decided to secure the transition by having Yeltsin resign early and allow Putin to become acting president for three months until a presidential election could be held. Yeltsin announced his surprise resignation on December 31, 1999 and publicly designated Putin as his preferred successor. Fatherland's comparatively weak showing in the parliamentary elections, as well as Putin's incumbent advantage, discouraged Primakov from challenging Putin for the presidency. In the end, only Gennady Zyuganov of the Communist Party presented a potentially serious challenge to Putin's election. Zyuganov again showed, however, that he could not get support above the 25-30 percent core Communist voters. Putin won the first round with 53 percent of the vote.

Putin's first term: Centralization, fighting terrorism, and economic growth

During Putin's first term, most Russians felt that their country had finally begun to turn itself around. The Russian economy grew rapidly, the president seemed intent on establishing a strong system of authority and was actively promulgating political and economic reforms through a compliant Duma. Russia also came to be seen as a key ally of the United States in the fight against terrorism. At the same time, natural and man-made disasters, followed by increasingly frequent and deadly terrorist attacks, kept the society in a state of tension. Members of the educated elite expressed concern about the erosion of personal freedoms and civil liberties brought about by Putin's campaign to centralize power, but most of the population did not seem to care about this issue and accepted limits on media independence and the increasingly blatant manipulation of elections with indifference. Putin maintained his popularity throughout his first term and easily won reelection in March 2004.

Establishing the vertical of power

After being elected president, Putin sought to quickly strengthen the authority of the central government. His first proposal, made in May 2000 and enacted in July, was to weaken the power of regional governors by establishing seven federal districts, each with an overseer appointed by the president. These federal districts took control of many regional branches of federal ministries away from the governors. The most significant transfers included control over internal security and taxation. In fact, five of the seven initially appointed presidential representatives came out of the central security ministries, thus giving an early indication of the main group of allies that Putin would come to rely on in his first term as president. Putin also revoked most of the bilateral treaties that Yeltsin's government had signed with regions in the mid and late 1990s, arguing that all regions should have the same rights and responsibilities vis-à-vis the central government. As a result of this reform, resource rich ethnic republics such as Tatarstan and Bashkortostan saw their share of oil revenue and tax receipts decline dramatically, since the highly favorable arrangements they negotiated at the height of the center-periphery standoff in 1994 were no longer valid. Initially, Putin also sought to limit all governors to no more than two terms in office, although this policy was later abandoned in favor of the cherished old Soviet goal of "stability of cadres." The new reforms did allow governors to be removed or regional legislatures dissolved for violations of federal law, a potentially powerful tool given the various inconsistencies in federal law and the potential for discretion in its use. However, the tool was rarely used and has not had a major impact on center-periphery relations.

Putin also sought to weaken regional leaders by removing them from the Federation Council. Since 1995, each region's two representatives to the Federation Council had been the governor and the head of the regional legislature. Under Putin's new rules, Federation Council members had to be appointed by the governor and the legislature, but could not concurrently serve in local government positions. The new legislation also removed the requirement that regional representatives to the Federation Council had to be from the regions they represented. In practice, this reform meant that a majority of the Council's new members were part of the Moscow political elite, often more beholden to Putin and his political party than to politicians in the region that they ostensibly represented. In this way, the Federation Council ceased to serve as a mechanism for representing regional interests in Moscow and became relatively obedient to the dictates of the presidential administration.

The president also sought to take control of the State Duma. Having seen how the opposition-led Duma had continuously challenged his predecessor and prevented him from implementing most of his reform program, Putin was determined to ensure that the Duma did not hinder the implementation of his agenda. This task was made easier by the genuine popularity of both Putin and the political party he had supported in the 1999 legislative elections. In 2001, the Unity, Fatherland—All Russia, and Russian Regions factions merged to create a pro-Kremlin majority in parliament. The following year, the Communist Party was stripped of all leadership positions in the Duma.

Halfway through Putin's first term, the once contentious Duma had become essentially a rubber-stamp organ that unquestioningly implemented Putin's agenda.

Duma deputies from the Unity faction were rumored to receive daily voting instructions from faction leaders on their pagers and deviation from these instructions without prior approval could lead the deputy to be expelled from the party. Putin's control over the Duma was fully cemented in the 2003 parliamentary election, when Unified Russia (then renamed Unity) won 38 percent of the party list vote and 49 percent of the total seats, while the Communists received only 13 percent and pro-democracy parties such as Yabloko and the Union of Right Forces failed to clear the five percent barrier. After adding the bulk of the Duma's independent deputies to its faction, Unified Russia controlled more than two-thirds of the Duma's seats, allowing it to change the constitution without the support of other parties, although it has not done this so far.

Reigning in the independent media turned out to be the final pillar of Putin's program of centralizing authority. This effort began concurrently with the campaign against regional leaders, with raids on the offices of Media-Most in May 2000. Beginning in the spring of that year, Putin frequently criticized Russian media outlets for engaging in activities that were harmful to the state. On these occasions, he argued that he was not opposed to media freedom, but that the media had to respect the state's authority and ensure that its reporting did not harm the national interest. The implication was that media outlets that engaged in such criticism might be subject to harassment or could even be shut down under some pretext.

In November 2000, oligarch Boris Berezovsky announced that he was going into exile in Britain and gave up his controlling stake in the wide-reaching television network ORT. In 2001, Media-Most's independent NTV television network was taken over by the partially state-owned Gazprom natural gas conglomerate. This takeover had all of the hallmarks of previous and subsequent campaigns against the Russian oligarchs: selective prosecution of oligarchs who criticized the government for corruption and financial improprieties, the use of the courts to issue verdicts favorable to the government and its allies, and frequent statements by government officials that the takeover of particular media assets was the result of financial disputes rather than an attack on media freedoms.

By the end of his first term, Putin had succeeded in consolidating virtually all political authority in the hands of his administration. Most governors supported his policies without reservation, while those who were seen as too independent were forced to step down in favor of new candidates hand-picked by Moscow. While the Communist Party remained a voice of opposition in the Duma, it had been stripped of all ability to influence legislation. While independent voices could still be heard in newspapers and on the internet, national television networks were all either directly or indirectly controlled by the government and there was only one independent radio station with any influence.

The government sought to increase its control even further by manipulating regional elections. The Kremlin sought to assure that regional governors would support Moscow's policies and would not harbor political ambitions to challenge the center. This manipulation primarily involved ensuring either that potential candidates opposed by the Kremlin were refused registration or, if one particular candidate was

supposed to win, eliminating all serious alternative candidates. The latter system was used in local presidential elections in Ingushetia and Chechnya. A particularly egregious example occurred in the 2003 Bashkortostan presidential elections, where Kremlin officials changed their minds between the first and second rounds about which candidate to support, leading the likely winner (based on first-round results) to declare that he was ending his campaign a week before the second-round election. The effort to control all aspects of the political system reached new heights after Putin's reelection, when the government sought to eliminate the popular election of governors and the single mandate districts in the State Duma.

Putin's efforts to reassert centralized control over the Russian political system has been the most successful political campaign of his presidency thus far. In four years in office, he has succeeded in turning a decentralized, semi-pluralistic political system into a strongly centralized political environment where all important decisions are made at the top. It remains to be seen whether the new model will be any more effective at dealing with the problems confronting the Russian state.

Driving economic growth and reaping the profits

Putin's ascendance coincided with the revival of the Russian economy, which grew at an average annual rate of six percent from 1999-2002 and seven percent in 2003-04. At the beginning of Putin's first term, he set a goal for doubling Russia's GDP within ten years. If the Russian economy were to grow at the rates forecasted a couple of years ago, he might have achieved that goal by 2008, but the date is now slipping past 2010. As discussed above, the main sources of the Russian economic turnaround were the increases in world oil prices to three times their level in the mid-1990s and the manufacturing revival that followed the 1998 devaluation. Putin inherited these positive trends and used the opportunity to accelerate the economic reform program. He began with a sweeping tax reform that established a flat personal income tax rate of thirteen percent. He followed by simplifying corporate taxes, with a base rate of 24 percent. These tax reforms, combined with stronger enforcement policies, resulted in a large drop in the non-payment of taxes. The increase in tax payments, combined with the growth in GDP, allowed the government to balance its budget for the first time since independence without resorting to foreign borrowing.

After completing the tax reform, Putin announced that he would next turn to combating corruption. This effort has turned out far less successfully. Instead of seeking to end corruption across the board, the government has focused on using the fight against corruption as a pretext for getting rid off selected oligarchs who oppose Putin politically. At the same time as companies like Media-Most, Yukos, and Sibneft come under investigation for non-payment of taxes and corrupt practices of the 1990s, Putin's allies in the security apparatus have been vying to take over properties that the targeted oligarchs are now forced to sell. The end result is most likely to be a redistribution of wealth among the elites. The potential downside is that most of the existing owners had decided that their business future lay in allying with Western corporations and had therefore begun to transition to greater accounting transparency and Western style business practices. It seems less likely that members of the security community will be as eager to pursue transparent accounting or ties with Western corporations.

Some of the government's most recent economic reform initiatives have gotten negative reactions from the Russian population. Benefits reform has proven particularly unpopular, as the replacement of various discounts and subsidies with a monthly cash payment raised fears that the payment would initially be smaller than the value of the eliminated benefits and subsequently would not keep pace with inflation. Besides, the system was unlikely to be managed well, with the consequence that many of the benefits probably would not have reached their beneficiaries. The enactment of this reform in the spring and summer of 2004 led to the first decline in President Putin's popularity since he was first elected president and he had to back off.

Joining the world alliance against terrorism

Initially, Putin's foreign policy attached prime importance to the reemergence of a multipolar world. To this end, Putin sought allies to balance against the dominant role of the United States in world affairs. During the first year of his term, he traveled to countries such as China, Cuba, and North Korea, while also making overtures to Libya and Iran. U.S. officials were concerned that Russia was ready to harden its opposition to U.S. foreign policy and believed that they could get little cooperation from Putin on critical international security issues such as containing Iraq and preventing nuclear proliferation in rogue states.

Putin's foreign policy shifted dramatically in the wake of the September 11 terrorist attacks on the United States. Despite opposition from top officials in his government and from most of the Russian foreign policy elite, Putin declared his strong support for U.S. efforts to destroy the terrorist safe havens in Afghanistan. To this end, he declared that Russia would not oppose the establishment of temporary U.S. bases in Central Asia and would provide assistance for the U.S. campaign to eliminate the Taliban regime. Putin's decision to support the United States led to a temporary turnaround of U.S.-Russian relations after a gradual but steady decline over the previous decade. However, much of the Russian political elite believed that Russia should get concessions from the United States in exchange for its support.

At the same time, Russia was a low priority for the Bush administration, which became entirely preoccupied with the fight against terrorism in the Middle East. As a result, the rapprochement between the two states culminated in few lasting accomplishments. They negotiated a nuclear arms reduction treaty—the Treaty of Moscow, or the Strategic Offensive Reductions Treaty (SORT) - which would reduce levels of “operational” warheads to 1700-2200 by the year 2012 (START II would only have reduced the levels to 3500). The treaty was widely derided for not actually requiring reductions until the very end, at which time the treaty would expire, but it has led to stability, at least in the debate. The greater worries are the number of warheads the U.S. wishes to keep in reserve (unmounted on delivery vehicles) and the uncounted Russian stockpile of so-called “tactical” nuclear weapons. More importantly, however, nuclear weapons continue to be dismantled on both sides. The two states also developed a mechanism for anti-terrorist intelligence cooperation and Russia resumed its limited cooperation with NATO.

In subsequent months, US-Russian cooperation was continually tested by a number of the by-now traditional irritants in post-cold war bilateral relations. First, the United States declared that it was withdrawing from the Anti-Ballistic Missile Treaty. After the election of President Bush in 2000, the United States moved steadily in the direction of withdrawal, while Russia repeatedly made clear its opposition to the end of the treaty. By the time the formal announcement was made in December 2001, it had been clear for several months that the U.S. was about to withdraw. The Russian government's reaction to the withdrawal was muted, although many Russian foreign policy analysts protested that the Putin administration should have made the survival of the ABM Treaty a *quid pro quo* for its acceptance of U.S. bases in Central Asia.

A similar scenario played out around the admission of the three Baltic States into NATO in 2002. Although Russian leaders had long protested NATO enlargement and were particularly incensed at the possibility that former Soviet republics would become NATO members, by the time NATO invited the Baltics to join, in November 2002, the Russian government had already come to terms with the development and had made it clear that it was not interested in derailing U.S.-Russian cooperation in other areas over this issue. The enlargement was made somewhat easier to swallow by the establishment of a new NATO-Russia Council for dealing with issues of common concern, where Russia had an equal voice to the 19 NATO member states—that is, it was a true council, with 20 equal members.

Russian relations with the U.S. suffered somewhat in the run-up to the U.S. intervention in Iraq. Although Russia opposed a military intervention, it was not singled out for the kind of criticism that the Bush administration leveled against France and Germany. It seemed that Bush and Putin had a tacit agreement to disagree which allowed both sides to maintain their positions without increasing tensions in the bilateral relationship. At the same time, Russia undertook some efforts to counter increasing U.S. influence in Central Asia by opening a new military base in Kyrgyzstan and by reaffirming its commitment to maintain troops in Tajikistan. In general, Putin's policy toward the former Soviet republics was characterized by greater pragmatism than that of his predecessor. Under Putin, Russia sought to achieve its policy goals in these states by economic means rather than by using tough rhetoric about potential Russian reactions to violations of ethnic Russians' civil rights or the establishment of closer ties between these states and the West. During Putin's first term, Russian companies bought controlling shares in major utilities and energy suppliers systems in a number of former Soviet states, with Ukraine and Georgia being the most significant ones. As Russia reduced its hostile rhetoric, its relations with its neighbors generally improved, although Russian-Georgian relations remained tense because Russian officials believed that Georgia was supporting Chechen rebels while Georgian officials believed that Russia was propping up secessionist governments in Abkhazia and South Ossetia.

In general, Russian foreign policy under Putin has been characterized by a greater pragmatism and consistency than was the case under Yeltsin. Russia's top priority was to ensure cooperation in the war on terrorism and to tie the Chechen conflict to this war. Other disagreements with Western states were played down for the sake of maintaining cooperation on this issue. Even Western criticism of the conduct of Russian elections in

2003-04 drew no more than a verbal rebuke from Russian officials. This trend in Russian foreign policy was a natural outgrowth of the government's realization that Chechen terrorism posed the greatest challenge to Russia's stability in the coming years.

Putin's foreign policy took a huge blow in 2004 with the Orange Revolution in Ukraine. Ukraine, despite 12 percent growth a year in GDP lately, was becoming more corrupt and engaging in political murders under President Kuchma. Kuchma nevertheless maintained good relations with Putin, and Putin resolved to support Kuchma's hand-picked successor, Yanukovich, who was also from the predominantly Russian-speaking and heavily-industrialized part of Ukraine. Putin's political operatives were sent down to Ukraine explicitly to stuff the ballot boxes for Yanukovich, but the Orange Revolution intervened, Kuchma called off the dogs (his security forces), and opposition candidate Victor Yushchenko won the second run-off election. Many Russians still blame Yushchenko's victory on American political intervention.

Military reform under Putin in his second term

With the surge in government revenues from a more effective tax system and the revenues from rising oil prices, the Putin government has been able to double the defense budget, from about \$9 billion a year to \$18-21 billion, over the last four years. However, it still represents only about 3.5 percent of GDP (another 1.5 percent going to other security ministries, especially the Ministry of Internal Affairs, or MVD, which is doing the bulk of policing in Chechnya). Moreover, Sergey Ivanov from the KGB was appointed as the first civilian defense minister and he brought with him a senior official from the Finance Ministry to oversee budgeting and spending. He relieved General Kashin from his post as Chief of the General Staff, appointing a more compliant and diplomatic Yuri Baluyevskiy. He removed the operational role from the General Staff, reducing it to a planning organization. He is reducing total manpower to one million (from around 1.2 million for several years) and is on track to increase contract personnel to 140,000 in a few years. That still leaves most enlisted personnel as conscripts, and by all accounts the *devdovschina* (hazing) of them continues. There are minor increases in procurement of equipment and more exercising of the forces.

Responding to disasters and homegrown terrorists

Putin's greatest challenge throughout his term was a series of natural and man-made disasters that culminated with several devastating terrorist acts after his reelection in 2004. The Russian state's actions in trying to handle these events showed the fragility of the country's governing system and the perseverance of Soviet modes of thinking in action among both government bureaucrats and top politicians. In all of these crises, secrecy appeared to be paramount, a low value was placed on human lives, top officials displayed little accountability for their mistakes before and during the crises, and foreign agents were, at least initially, blamed for the catastrophe. In addition, the endemic corruption that plagues all aspects of Russian politics and daily life was at least partially responsible for the success of each of the terrorist strikes.

The series of events began with the accidental sinking of the Kursk nuclear submarine during a training exercise in August 2001. The hallmarks of Soviet disaster

response were present throughout this crisis. The explosion on the submarine was not made public for over 24 hours after it had occurred, delaying rescue efforts and probably sacrificing the lives of those who had survived the initial blast. After the government admitted that a submarine had gone down, it refused to allow foreign navies to send divers and assist in rescue operations, even though it was clear that Russian rescue teams did not have the experience or equipment needed to carry out the delicate operation successfully. The Russian Navy and top government officials initially blamed a collision between the Kursk and foreign vessels allegedly observing the naval exercise in secret for causing the Kursk's sinking. They stuck to this story even after all credible evidence pointed to the explosion of a torpedo onboard the submarine as the proximate cause. The Russian navy had continued to use propellant that had long been abandoned by Western navies because of its volatility. An investigation blamed top officials in the Russian Navy for permitting the conditions that had led to the explosion and for mismanaging the rescue efforts. Several top admirals in charge of the Northern Fleet resigned but were immediately given other important positions. One admiral even became a regional representative to the Federation Council. The press was condemned for being excessively critical of the government, leading to the first crackdown on independent electronic media.

Although there were several other less significant disasters caused by negligence, including a fire at the Ostankino TV tower and the sinking of another submarine as it was being towed to the scrap yard, the rest of Putin's first term was regularly rocked by often spectacular terrorist acts carried out by Chechen rebels.

The first major terrorist act since the 1999 apartment bombings occurred in October 2002, when about 40 Chechen rebels seized more than 800 hostages at a Moscow theater and wired the theater with explosives. After a three-day standoff, the Russian security services launched an assault on the theater. The assault teams used a knockout gas to incapacitate the attackers. Unfortunately, the gas also affected the hostages, 129 of whom died from its effects. While the raid itself was far more successful than most observers expected, the rescue effort was poorly planned. The security services refused to reveal the nature of the gas that was used and there was an inadequate number of ambulances and medical personnel on hand to treat the rescued hostages for the effects of the gas.

Many people blamed the government for mishandling the rescue effort and thereby causing the deaths of a significant number of hostages. The government argued that given the circumstances, the number of hostages killed was relatively low and the operation was deemed a success. After the hostages were rescued, the government displayed its characteristic secrecy, refusing to post lists of which injured hostages were located at which hospitals and for several days refusing to allow even relatives to visit the injured. The president argued that the Chechen terrorists were part of the international terrorist network run by al-Qaeda. Members of the independent media were criticized for revealing too much information about the hostage-taking. Some government representatives went so far as to argue that too many reports from the scene of such incidents aided the terrorists' cause by spreading panic among the population.

In the months after the hostage-taking at the Dubrovka Theater, Chechen rebels turned to suicide bombing as their preferred type of terrorist attack. Between July 2003 and March 2004, five individual suicide bombing attacks and two truck bomb attacks occurred in Russia, primarily in Moscow and in the Caucasus. The deadliest attack was the truck bombing of a military hospital in Mozdok, where 50 people died. The attack that received the most notice was the suicide bombing of a subway train in Moscow in February 2004, killing 41 people. The attack also led to the realization among authorities that the threat of Chechen terrorism was escalating. Throughout this period, the Chechen rebels sought to show the Russian people that the continuing conflict in Chechnya was going to extract a high cost from Russians throughout the country, not just those living in Chechnya's immediate vicinity.

The attacks reached a new level after Putin's reelection in March 2004. Akhmad Kadyrov, the Kremlin-sponsored president of Chechnya, was assassinated while attending a Victory Day rally on May 9, 2004. It turned out that the remote-controlled bomb used to kill him had been planted in the stadium's VIP section during renovations well in advance of the event. The following month, Chechen rebels, assisted for the first time by neighboring Ingush, attacked the capital of Ingushetia. During this attack, they killed 92 people, targeting mostly local security and law enforcement officers, and burned a number of police and government buildings before withdrawing from the city. They carried out a similar attack on Grozny in August, which received little media attention because it occurred at the same time as a series of particularly gruesome terrorist attacks outside of Chechnya.

These attacks began on August 25, with the downing of two Russian commercial airplanes by female Chechen suicide bombers. On August 31, another Chechen woman detonated explosives outside a subway station in Moscow after failing to evade security and enter the station. Ten people were killed. The next day, a group of over 30 terrorists attacked a school in North Ossetia, taking over 1200 hostages. They held the hostages for three days, until an accidental detonation of some of their explosives led to a chaotic firefight between the terrorists, members of the security services, and local vigilantes. During this confrontation, at least 330 hostages were killed. Moscow's reaction to this attack was almost identical to its reaction to previous incidents. Government officials gave misleading information to the media, most significantly by underestimating the number of hostages by a factor of three. There was also an effort by government officials to portray the terrorists as members of an international terrorist conspiracy. Initial reports stated that several of the terrorists were Arabs and that none were ethnically Chechen.

After the end of the school siege it became clear that neither of these statements were true. At the same time, the government's lack of concern for civilian casualties was shown in its unwillingness to negotiate with the terrorists and its failure to restrain armed locals from becoming involved in the final shootout. After the tragic end of the siege, the government blamed the media for critical reporting, forcing the removal of the editor of *Izvestia* for "overly emotional coverage." It also criticized any attempts by the international community to connect the terrorist attack to Russian behavior in Chechnya, arguing that one cannot negotiate with "child-killers" (and that one would not expect the Bush administration to invite Osama bin Laden for lunch at the White

House). As with the previous incidents, none of the senior officials responsible for dealing with the attack resigned or were fired in the aftermath of the incident. Although two public commissions have been established to investigate failures in dealing with the incident, it is unlikely that they will lead to punishment for top officials.

Each terrorist attack and disaster that occurred under Putin has exposed the essentially unreformed Soviet nature of the government administration. Unwillingness to share information, disregard for human lives, and an almost paranoid tendency to blame foreign actors for domestic problems have all prevented any serious steps toward systemic reform in Russian crisis management. The initial steps taken to address the security failures that led to the Beslan school siege are not very promising. President Putin's proposals to eliminate direct gubernatorial elections and single-mandate Duma districts in the name of fighting terrorism have been (correctly) perceived as efforts to use the terrorist attack as an excuse to implement the next stage in Putin's campaign to concentrate all authority in his own hands. While his effort to make his power more absolute will almost certainly be successful, Putin runs the risk of becoming the single scapegoat for future failures

Russia's Future: Putin and beyond

While political forecasting is never an exact science, this section attempts to map out the likely direction of the Russian political system over the next several years. Whatever democratic aspects of the Russian political system remained in 2004 are likely to disappear by the end of Putin's second term as president. By eliminating gubernatorial elections and single mandate Duma districts, Putin has removed the last potential independent actors from the Russian political scene. Now that this has been accomplished, it will be relatively straightforward for him to either amend the constitution to allow himself to serve additional terms as president or, if he chooses to step down, to ensure that a hand-picked successor replaces him.

If this were the end of democracy in Russia as Americans envisage it, it does not mean that all aspects of competition will be removed from the Russian political system. Instead, competition will take place inside the presidential camp, as various factions vie for influence and control, much as they did under the Communist regime in the Soviet Union. Elections would merely be the formal procedures carried out to ratify the results. But it may not be this bad if the Russian economy continues to diversify and generate new aspirants to leadership.

At the same time, Moscow is still abuzz with discussions of whether a "color" revolution could happen in Russia, following the Rose Revolution in Georgia and the Orange Revolution in Ukraine. The general feeling is that it is unlikely because the Russian people are generally satisfied with their rising real wages. But the sense that corruption is once more running wild might cause the people to change their minds.

Terrorism will remain the dominant issue in Russian foreign and security policy. Given Putin's unwillingness to negotiate with Chechen rebels and the brutal actions by forces on both sides of this conflict, it seems likely that conflict will continue in the northern Caucasus for at least the rest of the decade. The current military stalemate is likely to continue, with Russian troops controlling major population centers and the

northern plains while Chechen rebels maintain enclaves in mountainous southern Chechnya. Even if the Russian military is able to destroy some or most of these enclaves, Chechen fighters will retain the ability to cause major casualties among the civilian population by carrying out suicide bombings throughout Russia.

Given the dominance of individuals from the security apparatus in Putin's administration (the *siloviki*, or "forces of force") and the popular fear of terrorism and instability in the countries to the south and east, it is possible that the coming years will see a gradual revival of the fortunes of the military and other security ministries. Security agencies such as the FSB have already had most of their Soviet powers restored. Military revival is less advanced, in large part because the security community and the military do not trust each other. While Russia will not be able to afford a significant expansion of military procurement in the near future, continued conflict in the Caucasus and terrorist attacks throughout Russia will increase the influence of the power ministries in society.

Putin will maintain the present course in foreign relations unless forced to change his position by Western pressure over his creeping authoritarianism. He will continue to emphasize shared goals between Russia and the West in the fight against global terrorism, both because he truly believes that this is the key threat to both parties and because he sees it as a means of diverting criticism from his domestic policies. Russian policies toward neighboring states will be focused on extending Russia's influence in the region through economic means and the willingness of top politicians in other countries (like Kazakhstan and Uzbekistan) to play ball with him in order to keep their own positions. But these methods have already been tried unsuccessfully in Ukraine, with Russian media and politicians playing a covert and later derided role in Ukraine's presidential race. In the end, however, the two countries' economic ties will probably prove to be more durable than purely political power plays. At the same time, Putin feels relatively frozen out in his attempts to join the West. The question of Russia joining NATO as a full member seems to have disappeared off the radar. The EU's expansion followed by its closing of collective borders (in line with the Schengen accords) means that Russia is even further excluded. Even Russia's current turn as chair of the G-8, the one Western organization of which it is a full member, started inauspiciously because of conflicts over Russian supplies of gas to Ukraine and Western Europe. While accession into the EU is out of the question, Russia joining the World Trade Organization (WTO) is still being considered, but progress has been slow in recent months. Russia also feels hostility to the south, from Moldova, Ukraine, and Georgia. As a result of this feeling of isolation, Putin seems to be turning more to the east, improving relations with the Central Asian countries, ensuring the Caspian Sea is stable, and enhancing dialogues with China. This is reflected in the apparently enhanced position of the Shanghai Cooperation Organization (SCO), though it is still not much more than talk.

Russian economic growth will continue for the next several years, but at a slower rate than before. Growth will slow down in part because the windfall from increases in oil prices and the 1998 ruble devaluation is playing itself out, but also in part because of an increase in the flight of foreign and domestic capital as the result of further crackdowns against Yeltsin-era oligarchs. Putin and his economic advisors (who are not

siloviki) know that reanimating economic growth requires much more stimulation of small private enterprises, especially as the greater incomes of the people and the cash flowing in from oil and gas sales have led to higher imports, e.g., in automobiles. After the Khodorkovsky case, the remaining oligarchs may have learned their lesson and seem to be left alone for the time being. On the other hand, it is said that the *siloviki* want their opportunity to make fortunes, and it is possible that there could be another drive to get the oligarchs to sell their assets at relatively low prices or face time in prison for non-payment of taxes or for privatization improprieties in the mid-1990s. In any case, the government will continue to control the key energy, communication, and industrial enterprises that have strategic value for the Russian economy.

Will Russia ever be a superpower again? Russians themselves want it to be a “normal” country. Putin and the Russian people especially want the economy to grow so that people’s incomes will grow. To do this, Putin knows he has to keep taxes low, that the government must provide the incentives and keep corruption down so that private entrepreneurs can generate consumer goods—and even eventually be competitive in the world market. Furthermore, Putin and his economic advisors know they have to provide for better infrastructure, education, and health services. None of this can be accomplished by building a big new military establishment and military industrial base, and thus these things have been low on Putin’s priority list. They would certainly ruin the economy again if attempted. Two large factors complicate these aspirations. The first is excessive reliance on the export of oil and other natural resources. The second is that the health of the population is poor and population numbers are dropping drastically due to a combination of high mortality and low birth rates. This also militates against Russia being a superpower again.