

Russian Federation

Status Index (Democracy: 3.0 / Market economy: 3.0)		6.0	Management Index		5.5
System of government	Presidential-parliamentary democracy		Population	144.9 mill.	
Voter turnout	69 % (Presidential elections 2000)		GDP p. c. (\$, PPP)	7,100	
Women in Parliament	6 % (State Duma)		Unemployment rate	10.2 %	
Population growth^a	0.3 %		HDI	0.779	
Largest ethnic minority	0.04		UN Education Index	0.93	
			Gini Index	45.6 (2000)	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

The first democratically elected President of the Russian Federation, Boris Yeltsin, was reelected in the summer of 1996. Yeltsin faced harsh criticism in his second term. Health problems kept him away from his office for more than one-third of his term, and great influence accrued to administration figures close to the president and members of business, none of them democratically legitimized. These persons have become known in Russia as “the Family” or the “oligarchs.” Economic problems culminated in a dramatic financial crisis in August 1998. Although Yeltsin himself never won the approval of more than 10 % of the population from 1997 onward, he was able to groom Vladimir Putin as his successor.

In the December 1999 elections for the State Duma, the lower house of Parliament, the new Edinstvo party, with close ties to Putin, achieved unexpected success, placing a close second to the Communists. Yeltsin resigned at the end of the year, and Putin assumed control of the government, in conformity with the constitution. In the March 2000 presidential elections, he won the necessary absolute majority vote in the first round.

Putin quickly achieved great popularity, earning approval from significantly more than half the population in his first two years in office. One of the core reasons was his decisive action to combat the country’s “state emergency.” Here he won especially great approval for his military campaign against Islamic separatists in the Northern Caucasus and for tough government’s measures against the oligarchs in 2000. Other important reasons included taking all nationwide mass

media under government control and the economic upswing, with annual growth rates as high as 9 %, which had already begun during 1999. Subsequently, the government attempted to solidify the economic improvement with a number of radical projects for reform.

Thus the period of study for this assessment extends from the year of the crisis in the Yeltsin presidency to the upward phase under Putin. Assessing the status of democratic and market-economy transformation for the past five years yields an ambivalent result. Politically, new constraints were imposed on democratic principles, especially through interventions against press freedom and through extensive human rights violations in the Chechen war.

Economically, by contrast, there was considerable progress in reforms toward a functional market economy. Thus, safeguarding democratic principles would require a reconception of political leadership in some segments, the success of economic reforms largely depends on the government's ability to put the provisions of law into actual practice. Significant obstacles to this process include widespread corruption, an extensive shadow economy, and the vulnerability to manipulation of the administration of justice in economic matters.

2. History and characteristics of transformation

The economic and political transformation process in Russia began in the second half of the 1980s, with the reforms of Soviet General Secretary Mikhail Gorbachev. But the defining influences for post-Soviet Russia were the reform measures of Russian President Boris Yeltsin. One of the first milestones in democratic transformation was the Russian presidential election in June 1991, when Yeltsin won. Afterwards conflict arose between the reform-oriented Yeltsin and the rather conservative Parliament. In 1993 this situation led in essence to a standoff, which Yeltsin terminated in the fall with a violent, unconstitutional dissolution of Parliament. In parallel, a commission close to the president drafted a constitution calling for a federated presidential republic. The draft was approved by a referendum of the Russian people in December 1993. The constitutional structure of the state has not been altered significantly since then. Parliamentary elections were held at the same time as the referendum. Outspokenly antidemocratic parties won 43 % of the vote. New parliamentary elections, held at the end of 1995 because the legislative term had been abbreviated by prior arrangement, brought no significant change in this balance of power. There was considerable resistance to democratic trends at the regional level as well.

A variety of political regimes, some of them with authoritarian traits, developed at the regional level—often exceeding the already broad authority granted them by the constitution. While the Russian constitution expressly provides for a democratic rule of law, constitutional realities under President Yeltsin were

characterized by significant democratic deficiencies. These resulted not only from antidemocratic forces that stalemated reform projects in Parliament and ignored democratic requirements at the regional level, but also from executive policies for which Yeltsin himself was answerable, in which the executive branch tried to circumvent restrictions on its powers by political manipulation and exerting pressure on the mass media. In this context actors without democratic legitimacy, like the so-called oligarchs, gained considerable influence on political decision-making processes.

The first milestone in the transformation toward a market economy was the reform package that took effect in 1992. Its core components were freedom of pricing and mass privatization, but instead of the anticipated upswing, Russia found itself facing a prolonged economic crisis. GDP had declined by more than 60 % until 1998. Russia was competitive on the world market only as an exporter of raw materials. Imported goods dominated many sectors of the domestic market. Capital spending shrank dramatically, while capital flight remained high despite legal.

Core economic reforms, as for example a new tax code and land code, were stalemated in the legislative process. The protracted economic crisis also adversely affected the population's standard of living, and social inequality soared. Social uncertainty spread significantly, and some parts of society no longer had the assurance that their basic needs would be met. This state of affairs was evidenced by such symptoms as a significant decrease in life expectancy and an increase in epidemics.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

During the period under study, Russia made no clear progress in transforming its political regime, taking democratization as the criterion. Backsliding was evident in some areas of assessment. However, the institutional stability of the existing political regime improved significantly.

3.1.1 Political regime

(1) *Stateness*: Problems of state identity in the strict sense exist in Russia primarily in regard to Chechnya. In the second Chechen war, which began in September 1999, the Russian army has been unable to achieve control of the region. Chechen rebels regularly attack representatives of Russia's central power throughout the region. Outside the Chechen region, there are no serious limitations on the state's monopoly of force.

All citizens have the same civil rights. There is separation of church and state. The political process is secularized. Except in Chechnya, the state has a basic infrastructure (i.e., administrative institutions, fundamental administration of justice, making and implementing political decisions) in place throughout the country, but corruption, a lack of funds and the influence of rival state actors have caused performance to be spotty.

(2) *Political participation*: There are no restrictions on free and fair elections, and in the formal political decision-making process, elected representatives have full power to govern. There are some problems in asserting rights to organize and communicate politically. The national government largely accepts freedom of association and freedom of assembly, but there are substantial violations of these rights in some regions. The state-run and private media are subject to occasional influence from the executive branch. Since Putin took office, private media with nationwide reach have systematically been brought under (at least indirect) state control. Media coverage of elections is systematically manipulated. There are extensive restrictions on freedom of the press in covering the war in Chechnya.

(3) *Rule of law*: Transformation deficiencies exist in the checks and balances among the executive, legislative and judiciary branches. Internal squabbling, instability of political factions and organizational deficiencies kept parliament from exercising its full constitutional authority against the executive branch during the nineties. Now that the president has a majority in Parliament, the legislature exercises its review functions only to a very limited degree. The judiciary is fundamentally independent, but lower-court decisions in particular are often influenced by corruption and political pressure.

Political and bureaucratic corruption is perceived as high in Russia. Corrupt officeholders with political connections often elude adequate prosecution. The state's battle with corruption is often interpreted as an expression of struggles for political power. The threat of prosecution for corruption remains a means of intimidating political opponents and critics. Here, however, since 2001 the government has appeared to be seeking improvements as part of its economic reforms.

Outside Chechnya, civil liberties are affected to a minor degree by the lack of legal constraints on government action, or by the bureaucracy's sometimes selective application of the laws. Since the beginning of the second Chechen war in September 1999, all parties to the conflict have continuously engaged in massive violations of human rights there. Arbitrary arrests and abductions, torture, rape, extortion and looting by Russian security forces are hardly ever prosecuted. The OSCE's observation mission in Chechnya was not extended by the Russians at the end of 2002.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Subject to the limitations on the rule of law described above, democratic institutions are stable. Institutional efficiency has been impaired when the legislative and executive branches come into competition; under President Yeltsin, such a situation led to an extensive stalemating of the legislative process until the end of 1999. The bureaucracy's implementation of legislated provisions often remains a serious problem. On the whole, not all relevant actors view institutions of the democratic state as legitimate. However, the institutional stability of the existing political system has increased significantly since President Putin took office.

(2) *Political and social integration*: Problems with institutional inefficiency are associated with the lack of stable patterns for organizing political representation. So far, Russia has been unable to establish an organizationally stable, socially rooted party system. The relevant political parties are predominantly personality-oriented voting associations. They are one of the greatest obstacles to the consolidation of democracy. The Communist Party is the only party with an organized mass base—a state of affairs that is likewise not helpful to democratic consolidation. The ecology of interest groups is sparse. Important social interests are underrepresented. The political leadership's reaction to work by the interest groups has essentially been no more than symbolic.

The population's approval of democracy per se is more than 70 % in representative surveys. Voter turnout is regularly high in national elections, reaching just under 70 % in each of the presidential elections. The population has very little inclination to public protest. The key cause here is presumably that self-organization in civil society runs up against substantial political-cultural and socioeconomic barriers, and thus has not advanced far. After the "chaotic" transformation years of the Yeltsin-era a majority of the Russian population is longing for stability and Putin is seen as the one guaranteeing this stability. Accordingly neither the majority of the population nor the governing elites see a need for reform in the political sphere.

3.2 Market economy

Russia has made considerable progress in transforming its economic order. Regulatory deficiencies are particularly marked in the banking system and capital market, community economies and the social security system. Implementation deficits exist in many areas of policy. The need for action is most urgent in administrative reform and fighting corruption.

3.2.1 Level of socioeconomic development

The key indicators show a relatively high level of development. Measured in terms of HDI, the country's level of development permits adequate freedom of choice for almost all citizens. There is no indication of fundamental social exclusion on the basis of poverty, education or gender discrimination. During the observation period, the economic upswing has enabled Russia to improve its standard of living and reduce social inequality, in a slow but apparently steady trend. However, the tax reform, which took effect in 2001–2002, has counterproductive effects here in terms of income redistribution policy. The income tax is no longer progressive, but has a flat rate for all income groups. There are considerable regional differences in levels of socioeconomic development within Russia. Financial readjustments among regions do not materially reduce these discrepancies.

3.2.2 Market structures and competition

The foundations of market economy-based competition are assured. But state economic policy remains skewed in favor of politically influential large corporations, though this tendency is declining. Additionally, broad sectors defined as significant to national security are shielded from competitive pressure. Thus far there has been only a start toward improving the poor corporate governance of many companies, including some that operate internationally. Further progress can be expected. Despite years of debate, the “natural” monopolies in the natural gas, electricity and transportation industries have not been reformed despite year-long debates. The banking sector remains severely underdeveloped and inadequately regulated, and is not able to perform its economic function as a financial intermediary. Foreign trade has been liberalized in principle, but substantial regulatory exceptions remain and have presented stumbling blocks in Russian negotiations to join the WTO.

3.2.2 Stability of currency and prices

After the 1998 financial crisis, which caused significant inflationary pressure as the ruble lost around 70 % of its value against the dollar, the government and the independent central bank were able to reduce inflation to 15 % by 2002 and stabilize the exchange rate, through a consistent budgetary and monetary policy. Since Putin took office in 2000, the country has adhered to a systematic austerity policy that regularly leads to budget surpluses. These have made it possible to reduce foreign debt significantly.

3.2.4 Private property

Aside from farmland, private property and the regulation of property ownership are well defined in principle under land law and estate law. There are, however, practical problems with asserting the rule of law. Copyrights, minority shareholders' rights, and creditors' rights in bankruptcy proceedings are especially at risk. Private enterprise is the backbone of the economy, but state enterprises continue to exist alongside private businesses, as do market concentrations tolerated by the state, especially in the "natural" monopolies such as natural gas, electricity and railroads.

3.2.5 Welfare regime

Parts of the social security system are well developed in Russia, but they do not cover all risks for all strata of the population. There is almost no state support for the unemployed. Pensions are insufficient to survive on. Without incidental income, such as a job in the shadow economy or private farming, and family support, these social groups are at risk of slipping into poverty. The big cities have large numbers of homeless persons whom state social facilities completely fail to reach. The state-organized health care system suffers from a lack of funds, especially in rural areas, leading to significant shortages of care delivery. Economic improvement since 1999 has mitigated the country's social problems, but with no improvement so far in the state social insurance systems. Equality of opportunity is not fully assured. There are substantial differences from one region to another. Members of non-Russian ethnic groups, especially those from the Caucasus, suffer systematic discrimination in the educational system and job market. Women are underrepresented in the political system and in business management, though not in the educational system.

3.2.6 Strength of the economy

After the dramatic deterioration in macroeconomic fundamentals caused by the 1998 financial crisis, an improved economic environment—characterized by an undervalued ruble, rising prices for Russian exports of raw materials in the world market, and low real wages—laid the foundations for significant economic improvement. Since Putin took office in 2000, the state's economic policy has attempted to maintain this upswing with comprehensive economic reforms. Despite the negative world economic setting, from 1999 to 2002 Russia was able to achieve average annual growth of nearly 6%. At the same time, all key

macroeconomic indicators improved. However, the degree to which this positive performance will continue depends heavily on world market prices for oil.

3.2.7 Sustainability

Russian economic policy is focused on a medium-term improvement of the investment climate. Ecological tolerability is entirely subsidiary to growth efforts, despite a considerable legacy of environmental damage from the Soviet era. The limited institutional base for environmental protection, in both state and NGO settings, has been weakened further by the current economic reforms. Russia inherited from the Soviet Union an educational system with comparatively high standards, able to compete on a world scale in some segments. Under post-Soviet conditions, however, the country has been unable to put this educational potential to good economic use. Rather, Russia has faced mass emigration of top personnel. Funding shortages have now greatly reduced the quality of the state educational system. The private educational sector has not developed far enough to make up this deficiency.

4. Trend

(1) *Democracy*: Even before the period under review, the core characteristics of a democratic system had already been formally established in Russia. There were especially significant deficiencies at the beginning of the period in the freedom of the press, an independent judiciary, combating corruption, and the social rooting of political parties and interest groups. There has been no visible progress in these areas during the period, although the government appears to have serious intentions to reform the judiciary and to fight corruption.

Because all nationwide mass media were put—at least indirectly—under state control at Putin's accession, there has been backsliding in freedom of the press. The massive human rights violations and restrictions on freedom of movement and freedom of the press, all of which have been associated with the second Chechen war since 1999, have been a considerable setback for the country's democratic development. Irrespective of these setbacks, the political system has stabilized under President Putin. The consistently anti-democratic opposition has lost influence in Parliament and also, though less plainly, in the regions. The majority of the Russian population supports both democracy as a system of government and the "Putin system" in particular.

(2) *Market economy*: The socioeconomic situation improved slightly during the period under review. This development is the result mainly of economic recovery, and less of state-sponsored measures.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	UN Education Index	Political representation of women^a	GDP per capita (\$, PPP)
1998	0.771	0.769	0.70	0.92	5.7	6,460
2000	0.781	0.780	0.74	0.92	6.4	8,377

^a Percentage of women delegates in Parliament after 1995 and 1999 elections.

Sources: UNDP, Human Development Report, 2000, 2002,

<<http://www.undp.org/hdr2000/english/FAQs.html>>, <<http://www.undp.org/reports/global/2002>> [accessed 22/10/2002].

The economic reforms initiated under President Putin substantially improved the institutional framework for market-economy action in several segments of the economic system. Nevertheless, the strong quantitative and qualitative improvement in overall economic development should not mislead one into ignoring the presence of deficiencies in the economic regime. There are regulatory deficiencies, particularly in the banking system and capital market, community economies and the social system. Deficiencies in implementation exist in many areas of policy. The need for action is most urgent in administrative reform and fighting corruption.

Table: Development of macroeconomic fundamentals (1998–2002)

	1998	1999	2000	2001	2002
Growth of GDP in %	-4.9	5.4	9.0	5.0	4.1
Export growth in %	-15.1	5.7	62.2	-1.6	-6.1*
Import growth in %	-18.7	-28.6	31.9	22.3	-1.4*
Inflation in % (CPI)	84.4	36.5	20.2	18.6	15.2
Unemployment in %	11.8	11.7	10.2	9.0	7.1
Budget surplus/deficit in % of GDP	-5.9	-1.4	1.2	3.0	3.1

* January-September. Source: Bank of Finland. Institute for Economies in Transition: Russian Economy. The Month in Review (Jan. 2003). <<<http://www.bof.fi/bofit>>>.

5. Transformation management

5.1 Level of difficulty

The level of difficulty of transformation can be considered moderate. Structural socioeconomic conditions that will dominate the political process for the long term are comparatively positive, with a high level of education, a moderate level of economic development, and quite a homogeneous and conflict-free society, apart from the Northern Caucasus. Weak civic traditions and deficits in the rule of law and in governmental administration have an adverse impact on transformation into a market-based democracy.

5.2 Reliable pursuit of goals

While Russian policies under President Yeltsin presented a largely desolate picture of incompetence and short-term power grabs, after President Putin took office in 2000 he immediately defined clear, long-term priorities that have dominated the reform process to date. While economic reforms clearly aim toward improving market-economy mechanisms, political reforms have served to consolidate the power of the presidency, by no means merely as a person, but as an institution. Freedom of the press and, in the case of Chechnya, human rights have been subordinated to this goal. This internally consistent reform strategy has been implemented systematically so far, generally producing a substantial increase in the certainty of expectations about government policies, particularly through the sharp contrast with Yeltsin's administration. However, one still finds arbitrary decision-making, especially at the lower levels of the executive and the judiciary.

5.3 Effective use of resources

Even the reforms under President Putin are far from having achieved an effective use of resources. While a stringent austerity policy has yielded significant progress in the use of government funds, the use of staffing and organizational resources continues to languish because of the problems of an oversized, often corruptible and only modestly competent administrative apparatus. So far the government has largely been able to implement its reform plans.

But it is still too early for any final appraisal, for a number of reasons. First, central plans for reform are still in the preparatory phase, since the push for

reform did not begin until 2000. Second, there will be parliamentary and presidential elections in 2003 and 2004, which might lead to a populist spending program. Third, implementation will represent a key test of efficient resource usage. Here we will still have to see whether the government is in a position to fight corruption as needed. It is also evident that economic policy cannot currently ensure the sustainability of economic development in an appropriate way, especially in human capital.

The political elite surrounding President Putin has been able to make convincing use of existing cultural legacies to shore up its own course of reform and its own popularity. However, the appeal has been mainly to ideas of national unity and greatness, along with charismatic leadership. Democracy and a market economy are hardly highlighted at all as goals for reform in national debates, and are usually replaced with ambivalent slogans like the “dictatorship of the law” or “vertical alignment of power.”

5.4 Governance capability

Under President Putin, the executive branch has responded very flexibly and has proved especially able to learn in organizing the political decision-making process. Outside suggestions for improvements have also been taken into account in central economic-policy reform projects. With its talent for power politics and the President’s great popularity, the executive branch has enough political authority to push its reforms through the legislative process. It remains to be seen whether it also has enough control over government administration to implement reform policies nationwide. The government has already created considerable potential for improvement, by sharply paring back bureaucratic powers and discretionary leeway. This could also improve the distributive efficiency of the markets.

The remaining central reform project to improve the distributive efficiency of markets—the reform of the “natural” monopolies—has not been addressed seriously yet. In summary, so far the reformers have shown great political acuity in selecting their steps, tools and strategies for reform. This is evident both in Putin’s high popularity, despite unpopular reform measures, and in the recognition earned from western experts. It should be pointed out once again that this acuity in the political realm has been serving not to spread democracy, but primarily to improve political stability and consolidate power.

5.5 Consensus-building

Putin has achieved considerable progress in consensus-building compared with President Yeltsin. The notion of the “Putin majority” has now become a fixture in

the country's political vocabulary. Parliamentary opponents of reform have been successfully marginalized. Putin's opponents in the regions have also seen their position weakened. A large majority of public opinion supports the president.

Thus the executive has been successful at depolarizing conflicts. The appeal for broad-based collaboration to overcome the "state emergency" has been a core component of Putin's political rhetoric. It is difficult to say how far the slogan reflects reality. However, it should be noted that the consensus developed under Putin is not primarily oriented to creating a market-based democracy. Accordingly, for example, a partial transfiguration of the past has been taking the place of a social processing of historical acts of injustice.

5.6 International cooperation

While Russia under Yeltsin cooperated with international actors, it often applied international aid for inappropriate purposes, and only to a very limited degree toward improving policies. President Putin, by contrast, rejects international aid. His public explanation is that Russia does not need foreign help in order to develop; it can arrange the necessary measures on its own. First, this idea fits in with the president's rhetoric of "national self-awareness." Second, it makes Russia less dependent on foreign criticism of how it deals with basic democratic rights.

This is the context in which one must also understand the termination of the OSCE observer mission in Chechnya. Nevertheless, within its conceptual framework, the Russian government behaves consistently at the international level, and is therefore considered reliable by the international environment. International recognition is in part evident in the—economically unjustifiable— inclusion of Russia in the G8. By calling the Chechen conflict part of the "international war on terrorism," Russia has been able to thrust Western criticism of its policies even further toward the sidelines, but Russia's relations with some of its neighbor states remain tense, especially Georgia, which it accuses of supporting Chechen rebels.

6. Overall evaluation

In view of the originating conditions, current status and evolution achieved, as well as the actors' political achievements (management), this assessment arrives at the following concluding evaluations:

(1) *Originating conditions*: Conditions at the start of the period under study were ambivalent. Formally, the core rules of the game for a market-based democracy already existed. Yet these rules were sometimes incomplete, and were obeyed

only sporadically. At the same time there was a lack of traditions of the rule of law, civil society and democracy that might promote rapid development in the direction of a market-based democracy.

(2) *Current status and evolution:* In democratic transformation, no material progress was achieved during the period under study. On the contrary: There was clear backsliding in freedom of the press and in the human rights situation in Chechnya. Behind this development was the fact that the political decision-makers obviously do not consider a qualitative enhancement of democratic transformation one of their key tasks. Despite the backsliding, there are no evident threats to democracy as a fundamental form of government.

The increase in the institutional stability of the political system under President Putin provides a foundation for a possible new surge of democratization, at least in the longer term. In transformation toward a market economy, there has been substantial progress. The political decision-makers were able to stabilize macroeconomic development. The ambient structures for a market economy-based regime were improved. Yet the economic transformation into a high-performance social market economy is far from complete. There is a considerable need for action, especially in implementation. The social security system is full of gaps and underfinanced.

(3) *Management:* While the political actors at the end of Yeltsin's presidency (i.e., 1998–1999) largely seemed unable to act, and concentrated on the goal of consolidating power for the short term, after President Putin took office a consistent long-term development strategy was very quickly developed for the country, and has been implemented capably and with good focus on reform projects. Two caveats must be noted here: First, it is too early to decide whether it will be possible to implement the reform plans practically, successfully and sustainably. Second, it should be pointed out once again that the transformation strategy in the political arena aims primarily at establishing a stable system; violations of some fundamental democratic rights are apparently considered acceptable. Measured in terms of their own goals, then, the political actors surrounding President Putin have been quite successful. Measured by the normative standards of the ranking procedure, there are considerable deficiencies in the political sector.

7. Outlook

Since President Putin took office in 2000, Russia has had capable political leadership that plans for the long term. At present it seems quite probable that the December 2003 parliamentary elections and the spring 2004 presidential elections will produce no relevant change in the balance of political power. This would mean that the reform strategy initiated under Putin could be continued. In terms of

economic transformation, this would mean the remaining core reform projects could be dealt with at the level of the law. A critical issue for progress in transformation toward a market economy will be the political leadership's ability to achieve comprehensive practical application of the terms of law.

It is difficult to assess what success measures for administrative reform and fighting corruption might have. In the political realm, Putin is likely to continue concentrating on stabilizing the political system. A core challenge here will be to continue integrating the political decision-makers below the national level. No advances in democratic transformation can be expected on the national plane. It must be assumed that there will be further attacks on freedom of the press in the name of ensuring political stability, as Putin understands it. Nor is any dynamic development of civil society to be expected in the medium term, so that one cannot anticipate any strong opposition to democratic deficiencies.

Since neither a political nor a military solution for the Chechen conflict is in sight, the situation there is unlikely to improve for the foreseeable future. The further restriction of media reporting on Chechnya and the termination of the OSCE observer mission are further indicators that the Russian leadership assumes the human rights situation in Chechnya will not improve.