POVERTY AND CORRUPTION IN POST-SOVIET RUSSIA: A COMPARISON OF YELTSIN AND PUTIN ERAS

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_____

Prof. Dr. Sencer AYATA
Director

I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Science.

_____

Prof. Dr. Raşit KAYA
Head of Department

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Science.

_____

Assoc. Prof. Dr. Pınar Akçalı
Supervisor

Examining Committee Members

Assoc. Prof. Dr. Pınar Akçalı	(METU, ADM)	_____
Assist. Prof. Dr. Oktay Tanrısever	(METU, IR)	_____
Dr. İpek Eren Vural	(METU, ADM)	_____

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Name, Last Name: EMEK YILDIRIM

Signature:

ABSTRACT

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YILDIRIM, Emek
M.S., Department of Political Science and Public Administration

Supervisor: Assoc. Prof. Dr. Pınar Akçalı

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This thesis investigates the two major problems of poverty and corruption in post-Soviet Russia, by comparing Boris Yeltsin's and Vladimir Putin's terms of office. In order to do that, political and economic circumstances during these two presidents' eras, the reasons of these two problems, and the consequences of certain policies adapted by these two presidents are focused on. The main argument of the thesis is to analyze interactively the certain conditions of poverty and corruption in the Russian Federation under the presidencies of both Yeltsin and Putin.

Keywords: The Russian Federation, Vladimir Putin, Boris Yeltsin, poverty, corruption

ÖZ

SOVYET SONRASI RUSYA'DA YOKSULLUK VE YOLSUZLUK:
YELTSİN VE PUTİN DÖNEMLERİNİN BİR KARŞILAŞTIRMASI

YILDIRIM, Emek
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Bu çalışma, Boris Yeltsin ve Vladimir Putin dönemlerini karşılaştırarak Sovyet sonrası Rusya'daki iki temel sorun olan yoksulluğu ve yolsuzluğu incelemektedir. Bu amaca yönelik olarak her iki liderin döneminde ortaya çıkan siyasal ve ekonomik koşullar ve bu iki liderin uyguladığı belirli politikalar üzerinde durulmuştur. Tezin temel argümanı hem Yeltsin hem de Putin dönemlerinde Rusya Federasyonunda ortaya çıkan yoksulluğun ve yolsuzluğun belirli koşullarının etkileşimli olarak analiz edilmesidir.

Anahtar Kelimeler: Rusya Federasyonu, Vladimir Putin, Boris Yeltsin, yoksulluk, yolsuzluk

To My Family

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INTRODUCTION

This thesis aims to investigate the conditions of poverty and corruption in the Russian Federation during both Boris Yeltsin's and Vladimir Putin's presidential terms of office between 1991 and 2006. In order to do that, economic and political circumstances of the country in this period will also be analyzed interactively with the concepts of poverty and corruption. The thesis will comparatively look at Boris Yeltsin's and Vladimir Putin's policies regarding poverty and corruption and their impact of these policies in the country. In general, it is possible to suggest that Putin attempted to solve those problems related to poverty and corruption that had emerged during the implementation of Yeltsin's economic transformation policies, such as privatization, liberalization, stabilization and deregulation of state facilities.

The reason why I chose to study the Russian Federation (*Rossiyskaya Federatsiya, Российская Федерация*), first of all, is due to the importance of this country in terms of several social, political, economical, cultural and historical factors. Russia is a major country, geographically having the largest landmass in the world. It is also one of the most important countries in terms of its demographic structure. It is one of the top global oil and gas producers, an as such, it is vital to both multinational companies and

powerful states in the world. In addition, the country is the heir of both the Tzarist Russian Empire, and the Union of Soviet Socialist Republics (USSR, *Soyuz Sovetskikh Sotsialisticheskikh Respublik, SSSR, Союз Советских Социалистических Республик, СССР*), the latter being one of two superpowers in the post-Second World War era. Russia was also the first socialist state in history. Today, not only is it one of the most dominant countries in the global political, economic, social and cultural scene, but also a major nuclear military power that plays an effective role in important regions such as the Middle East and Central Asia. Besides, it has powerful oligarchs[1], who are generally thought of as the influential members of the global transnational business. Therefore, to analyze poverty and corruption and their impact on Russia is seen critical, because these factors can in the long-run have the potential of resulting in economic, political and social decay, which not only affects Russia, but also its foreign relations with the regional and global actors. It must, however, also be mentioned that these issues are common for all of the post-communist countries, and they continue to be a major threat not only for the region, but for the world as well. These issues, although they were rooted in Soviet times, have affected the current Russian society in a much more significant manner. As such, it is important to understand the underlying reasons of poverty and corruption in the Russian Federation.

As was explained above, this thesis focuses on the periods of Boris Yeltsin and Vladimir Putin. Yeltsin's political agenda revolved around rapid economic transformation of Russia from a command economy to a free

[1] This word is used as a Russian term for describing the strong Russian tycoons who possess big corporations that mostly deal with oil and gas, and have strong power in political life especially during Yeltsin's era. Marshall I. Goldman asserts in his book, *The Piratization of Russia: Russian Reform Goes Awry* (London; New York: Routledge, 2003), that Russian people call seven most powerful and influential oligarchs as the "Big Seven" (*Semibankirshchina - Семибанкирщина*) composed of Boris Berezovsky, Peter Aven, Mikhail Fridman, Vladimir Gusinsky, Mikhail Khodorkovsky, Vladimir Potanin, and Alexander Smolensky, all of whom supported Yeltsin not only in his election campaigns but also during his presidency.

market economy. Most of the problems related to poverty and corruption emerged as a result of this rapid transformation during Yeltsin's period. These problems had to be dealt with after Putin came to power. He was (and still is) viewed as one of the most powerful and active leaders of the Russian Federation in both domestic and international arenas. Especially in his first presidential period, he seemed to be very determined to fight not only with poverty and corruption but also with the newly emerged oligarchs, who had been linked to these social problems. Moreover, he also aimed to change the state system into a more centralized one in order to strictly control the whole country. This aim also included those areas in which non-Russian Muslim populations of the country resided, such as the Caucasian and the Chechen regions, which were riddled with problems regarding corrupt administrative units with links to several crimes. In general, Putin had (and still has) a reliable support of the Russian society regarding these aims.[2] Furthermore, the percentage of votes he received in both of the Presidential elections in 2000 and 2004 was high (52.9% in 2000 and 71.3% in 2004).[3] Despite all that support, however, it must also be mentioned that Putin could not effectively solve poverty and corruption during both of his presidential terms.

1.1 Literature Review

In the literature on the transformation of post-Soviet Russia, there are different ideas, claims and suggestions coming from a wide-range of scholars. No scholar seems to support Boris Yeltsin or Vladimir Putin completely. The scholars either support or criticize the politics of Kremlin

[2] See "Putin's Performance in Office" for some public opinion polls conducted in March 2007 among the Russian people by the Centre for the Study of Public Policy (CSPP), University of Aberdeen, and the Levada Center, Moscow. http://www.russiavotes.org/president/presidency_performance.php.

[3] According to "Results of Previous Presidential Elections", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/president/presidency_previous.php.

within the framework principles such as democracy, freedom of speech, freedom of media, social welfare, integration to the global capitalist system, fight against poverty, corruption, crime and Russian mafia, relationship of oligarchs with *nomenklatura*[4], and the Chechen problem. In spite of the existence of various comments, however, the scholars seem to agree on one subject: Russia should solve two major problems of poverty and corruption.

During the Yeltsin era, the government, in order to realize its goal of rapid destruction of the old Soviet structure and building up of a new system (mainly based on democracy, freedom of speech, human rights, liberalization of both economic and political structure and attempts to construct Russian civil society mechanisms) inevitably prepared the grounds for the emergence of some problems, such as poverty and corruption. In early years of Yeltsin's presidency, his advisors[5] claimed that Russia could become a welfare country by being a less powerful state and a having a stronger market, which necessitated well-built links with transnational organizations such as the International Monetary Fund (IMF) and the World Bank. Furthermore, it was also suggested that this could be realized only by neo-liberal policies and a democratic perspective as shaped by transnational corporations and global free-market economy. As Kees van der Pijl asserts,

> …the Yeltsin forces favored a more radical break with the past. Allying with new strata of entrepreneurs, traders and intellectuals, as well as with foreign investors active notably in the media, Yeltsin embraced neo-liberal tenets and like his counterparts in other republics, fostered the overhaul of the All-

[4] *Nomenklatura* (*номенкла́тура*) is a Russian political term used in the meaning of the technocrat class of the Soviet administration or Soviet elites. According to Richard Sakwa, "the class of people appointed by or deriving their status from the Communist Party." (*Russian Politics and Society*, (London; New York: Routledge, 2002), 14)

[5] Such as Anders Aslund, Jeffrey Sachs, Richard Layard, Stephen Cohen, Andrei Shleifer, Maxim Boycko, Robert Vishny, Jonathan Hay, Stanley Fischer and Laurence Summers. See Marshall I. Goldman, *The Piratization of Russia: Russian Reform Goes Awry*, (London; New York: Routledge, 2003) for more information.

Union structures in order to entirely alter the terrain of struggle.[6]

The specialists[7] who supported Yeltsin and his political agenda in early 1990s, have believed that Russia should construct a free-market economy and a liberal democracy by a rapid economic transformation, results of which would later give rise to political and social transformations. Anders Aslund[8], one of the specialists behind Yeltsin's program, supported a drastic reform agenda that he claimed would induce a transition to capitalism, and then lead to political transformations, whereby market-supporting institutions would emerge under these circumstances. He maintained that high levels of intervention on the part of state in the economy could very well be the reason of economic failure. The economic reform program, therefore, had to be handled mainly by domestic and foreign private enterprises.

According to Joel Hellman, "The radical reformers…believed that liberalization and privatization would generate the demand for effective institutions. They believed that once property rights were established, markets would evolve toward the establishment of more efficient institutions."[9] Yet, they could not predict that such efficient institutions, upon which the market system was supposed to depend, could not emerge in Russia in a short period of time. Therefore, the same reformers slightly

[6] Kees van der Pijl, "State Socialism and Passive Revolution" in *Gramsci, Historical Materialism and International Relations*, edited by Stephen Gill, (Cambridge; New York: Cambridge University Press, 1993), 257.

[7] See, for example, Andrew Felkay, *Yeltsin's Russia and the West*, (Westport; London: Praeger, 2002).

[8] See Anders Aslund, "The Russian Road to the Market" in *Current History*, 94:594, October 1995, 311–316; *Building Capitalism: The Transformation of the Former Soviet Bloc*, (Cambridge; New York: Cambridge University Press, 2002); and "The Myth of Output Collapse after Communism", Working Paper 18, Carnegie Endowment, March 2001.

[9] Joel Hellman, "Russia's Transition to A Market Economy: A Permanent Redistribution?" in *Russia after the Fall*, edited by Andrew C. Kuchins, (Washington, D.C.: Carnegie Endowment for International Peace, 2002), 94.

changed their attitude and started to support more "evolutionary" approaches for the construction of effective institutions organizing the free market system in Russia.[10]

On the other hand, according to Michael McFaul, by the collapse of the socialist system, after being ruled by despotic rulers for hundreds of years, the Russian democracy finally came into existence. However, "Russia's transition from communism to democracy has not been smooth, fast, or entirely successful."[11] Because "Russia has undergone a transition by imposition"[12] from the Russian upper class, rather than a public agreement on transition to democracy. Yeltsin only followed the guidelines of the program imposed by upper political elites and oligarchs, especially after 1993.

Peter Rutland[13] states that Yeltsin could not successfully construct a fully democratic society or a state system administered by liberal principles by adopting those economic policies and liberal principles shaped mostly by the IMF and other Western transnational institutions. According to Yoshiko M. Herrera, the reasons for the failure of the reform program were due to the misconceptions concerning both the economic and the political schemes within the framework of a new Russian state. Without enough power, the reforms overlooked the need for the appropriate market-supporting institutions, as "successful states and markets work in concert with one

[10] Hellman, "Russia's Transition to A Market Economy: A Permanent Redistribution?", 94.

[11] Michael McFaul, *Russia's Unfinished Revolution: Political Change from Gorbachev to Putin*, (Ithaca, N.Y.: Cornell University Press, 2001), 1.

[12] Ibid., 21.

[13] Peter Rutland, "What Comes After Socialism?" in *Restructuring Post-Communist Russia*, edited by Yitzhak Brudny, Jonathan Frankel, and Stefani Hoffman, (Cambridge; New York: Cambridge University Press, 2004).

another."[14] On the other hand, Steven Rosefielde claims that:

> Russia's economy has not transitioned in accordance with the idea of the West; instead, it has undergone a Muscovite metamorphosis (within the liberal authoritarian paradigm)… The new regime is best conceived as Muscovite economic system, with the word "Muscovite" intended to conjure up historical images of autocratic privilege, rent granting, servitor rent-seeking, rapacity, subjugation, inequality, and social injustice. Above all, authoritarian politics, not free enterprise, is in command, and the closed, opaque character of the system fosters moral hazard and stultifying corruption.[15]

In other words, Yeltsin put forward some socio-economic policies such as privatization, liberalization, and deregulation of state facilities, which were suitable neither to the Russian political construction nor to the socio-economic structure. These policies were applied to all areas of the Russian Federation in order to totally erase the communist ruins and construct a neo-liberal structure for integrating to the capitalist world by accelerating the transition period. However, in late 1990s, there emerged poverty and corruption, which would increasingly become vital crises in Russian society.

So, a large number of authors[16] have criticized the Yeltsin government because of his policies that caused fundamental political and socio-economic crises in both the Russian society and within the administrative

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[14] Yoshiko M. Herrera, "Russian Economic Reform, 1991-1999" in *Russian Politics: Challenges of Democratization*, edited by Zoltan Barany, Robert G. Moser, (Cambridge; New York : Cambridge University Press, 2001), 137.

[15] Steven Rosefielde, *Russia in the 21st Century: The Prodigal Superpower*, (Cambridge; New York: Cambridge University Press, 2005), 84.

[16] For example, see Boris Kagarlitsky, *Russia under Yeltsin and Putin: Neoliberal Autocracy*, (London: Pluto Press, 2002); Boris Kagarlitsky, *Restoration in Russia: Why Capitalism Failed*, translated by Renfrey Clarke, (London; New York: Verso, 1995); Gregory Schwartz, "The Social Organisation of the Russian Industrial Enterprise in the Period of Transition" in *Russian Transformations: Challenging the Global Narrative*, edited by Leo McCann, (London; New York: Routledge, 2004), 63-86; Neil Robinson, "Russian Presidents and State Power: Elections, Institutional Power and Reform in Russia under Yeltsin and Putin" in *Russia in Transition*, edited by Frank Columbus, (New York: Nova Science Publishing, Inc. , 2003), 167-188.

units. According to Pınar Bedirhanoğlu, "the rise of corruption, crime and authoritarianism in the socio-political sphere and the development of an olipolistic market structure in the economy"[17] was the major fact of the Yeltsin era because of the shock therapy policies imposed by the IMF. Additionally, according to Marshall I. Goldman[18], economic collapse was an outcome of inappropriate application of the reform program used by Yeltsin administration. James R. Millar also states his ideas on the failure of Yeltsin as the following:

> The severely negative economic consequences of shock therapy for the majority of Russian citizens soured most on market reform and created political opposition to further reforms in Duma and in the various republics of Russia. As a result, the process of creating new market institutions under Yeltsin was fraught with obstacles, and the process remained incomplete when he passed power to Vladimir Putin.[19]

With the new millennium, the Russian Federation experienced a shift of power from Boris Yeltsin to Vladimir Putin, who was the last prime minister of Yeltsin. On a television broadcast on the Christmas night of 1999, Yeltsin announced that he was stepping down and that he was appointing Putin to be his successor. Consequently, by the presidential elections held on 26 March 2000, Vladimir Putin became the second president of the Russian Federation with 52.9 percent of the votes.[20]

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[17] Pınar Bedirhanoğlu "The Nomenklatura's Passive Revolution in Russia in the Neoliberal Era" in *Russian Transformations: Challenging the Global Narrative*, edited by Leo McCann, (London; New York: Routledge, 2004), 19.

[18] Marshall I. Goldman, "The Russian Transition to the Market: Success or Failure?" in *Restructuring Post-Communist Russia*, edited by Yitzhak Brudny, Jonathan Frankel, and Stefani Hoffman, (Cambridge; New York: Cambridge University Press, 2004); see also, Goldman, *The Piratization of Russia: Russian Reform Goes Awry*.

[19] James R. Millar, "Putin and the Economy" in *Putin's Russia: Past Imperfect, Future Uncertain*, edited by Dale R. Herspring, (Lanham: Rowman & Littlefield, 2003), 116-117.

[20] According to "Results of Previous Presidential Elections", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/president/presidency_previous.php.

Putin began his presidency by launching reform programs mainly aimed at constructing a reliable political atmosphere and a stable economic situation for the country. Consequently, Putin followed a significantly different path from Yeltsin, as he tried to reverse the negative effects of some of the policies that caused socio-economic and political crises during Yeltsin's presidency. Putin endeavored to carry out a slower and more profound transformation by balancing the relationship between the state and the market in order to solve some significant problems such as poverty and corruption in Russia.

In order to realize his goals, Putin put into effect several policies such as nationalization of privatized state companies; regulation of the economy; centralization of the federal system; and new social reforms that included additional assistance to state pensioners, the unemployed, and to the working class.

> Today many large-scale industries have been privatized, but many also remain either state owned or owned in part and dominated by the state. Privatization created a tiny class of very wealthy individuals, known as the oligarchs, and a large portion of the population became destitute. Market institutions are in place for the most part, but many need regulation or restructuring. The banking system remains weak and needs reform. Investment opportunities in Russia are so few and so risky that foreign capital fears to enter and domestic capital takes flight.[21]

According to Vadim Volkov[22], Putin was aware of the fact that a stable and trust-worthy economy required a strong state system based on law, so he tried to construct a strong state system in spite of the evident challenges of

[21] Millar, "Putin and the Economy", 116-117.

[22] Vadim Volkov, *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*, (Ithaca; London: Cornell University Press, 2002).

powerful tycoons and regional authorities who were against him and his political agenda.

Putin himself called his ideology "statist liberal".[23] As Eugene Huskey states, the statist liberal idea assumes that in the crisis conditions produced by the post-communist transition, the Russian society was incapable of self-rule, and that it required the guiding hand of the state in order to both guarantee social order and to introduce the structures of market economy by building a strong state (*Derzhavnost' - Державность*)[24]. S. Moshin Haskim suggests that as of "winning his first presidential elections in 2000, [Putin] has intensified his mission to build a strong and centralized Russian state that stresses 'dictatorship of the law' over the 'rule of law'."[25] As Alexander Chubarov states:

> Putin's "dictatorship of law" may well be necessary to transform Russia from a barter economy run by robber tycoons, corrupt bureaucrats, and crime syndicates to a modern capitalist economy with a transparent civil service and judiciary. His methods of squeezing the oligarchs and frightening the governors cannot always be described as democratic. The

[23] Eugene Huskey, "Overcoming the Yeltsin Legacy: Vladimir Putin and Russian Political Reform" in *Contemporary Russian Politics: A Reader*, edited by Archie Brown, (New York: Oxford University Press, 2001), 94.

[24] Derzhava (*Держава*) means both "power" and "state" in Russian language. Derzhavnost' (*Державность*) is a Russian political term used for expressing the concepts of building a strong state and the great power of the state. In *Putin: Russia's Choice* (London; New York: Routledge, 2004), Richard Sakwa translated this term as "the greatness of Russia" when he was translating the article "Russia at the Turn of the Millennium" written by Vladimir Putin and appeared on the website of the Russian Federation government (http://pravitelstvo.gov.ru) on December 28, 1999. As Putin said in the article (as quoted by Sakwa): "Russia was and will remain a great power. It is preconditioned by the inseparable characteristics of its geopolitical, economic and cultural existence. They determined the mentality of Russians and the policy of the government throughout the history of Russia and they cannot but do so now. This Russian mentality however should incorporate new ideas. In today's world the might of a country is measured more by its ability to develop and use advanced technologies, a high level of popular wellbeing, the reliable protection of its security and the upholding of its national interests in the international arena than in its military strength." (Sakwa, *Putin: Russia's Choice*, 257)

[25] S. Moshin Haskim, "Putin's *Etatization* Project and Limits to Democratic Reforms in Russia" in *Communist and Post-Communist Studies*, 38, 2005, 26.

> problem is that it may well be impossible to create an effective state in Russia by purely democratic methods. As is now recognized even by more conservative free market thinkers, a limited but effective state is absolutely necessary to ensure the conditions for a working free market. Somehow, the power of the oligarchs, corruption, and organized crime have to be curbed, and a measure of discipline and honesty restored to the state service. So when Putin speaks of the need for a stronger state, he is reflecting not just the Russian tradition but also Russian realities.[26]

Authors, such as Haskim[27], who support Putin for making Russia a strong state, focus on his political agenda, including socio-economic reforms against poverty and corruption. According to Chubarov[28], Putin endeavored to create a stable economic atmosphere together with a trust-worthy and powerful political approach to the Russian state, supported by the 81 per cent of Russian population who approved his performance[29]. According to Anastasia Nesvetailova[30], Russia needed a political leader with insight and willpower, "not merely an agile political operator"[31] as Yeltsin was.

According to Igor Pushkaryov, a member of the Federation Council's Budget Committee, "It seemed that the lawlessness of the 1990s was a thing of the past, but what has happened sends us right back to those chaotic

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[26] Alexander Chubarov, *Russia's Bitter Path to Modernity: A History of the Soviet and Post-Soviet Eras*, (New York; London: Continuum, 2001), 267.

[27] Haskim, "Putin's *Etatization* Project and Limits to Democratic Reforms in Russia", 25-48.

[28] Chubarov, *Russia's Bitter Path to Modernity: A History of the Soviet and Post-Soviet Eras*, 264-265.

[29] See "Putin's Performance in Office", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/president/presidency_performance.php.

[30] Anastasia Nesvetailova, "Globalization *Po-Russki*, or What Really Happened in August 1998?" in *Russian Transformations: Challenging the Global Narrative*, edited by Leo McCann, (London; New York: Routledge, 2004), 42-62. See also *The Economist*, "Putin the Great Unknown", January 08-14, 2000. This article can be retrieved from http://www.cdi.org/russia/johnson/4016.html#3.

[31] Nesvetailova, "Globalization *Po-Russki*, or What Really Happened in August 1998?", 50.

days."[32] As these noteworthy words of Pushkaryov, a state officer, point out about the catastrophic situation of the Russian Federation since early 1990s designates, although the former Russian administration ruled by Boris Yeltsin could not manage to control the chaotic situation arisen by the transition progress and to realize a complete transformation to liberal democracy, the later administration ruling by Vladimir Putin cannot achieve to overcome the vital social troubles and to realize an order that depends upon the rule of the law. However, in general, it is possible to claim that he failed to construct a democratic country that provides the freedom of speech to every Russian citizen. According to Rutland[33], neither Yeltsin nor Putin could achieve building a democratic political structure in Russia.

Consequently, it is possible to observe that most authors have critical views on Putin because he neither acted as a politician who tries not only to avoid corruption but also to make Russia a democratic and egalitarian country. Goldman[34] criticizes Putin on the same grounds, claiming that he did not make any attempt to fight against corrupted administrative units after he was elected. According to Dmitri Trenin, "Vladimir Putin has been more interested in establishing control than in expanding freedom. In his view, there had been too much freedom under Boris Yeltsin, leading to loss of control and chaos."[35]

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[32] From "Brazen Shooting Brings Back Memories of the Lawless '90s" in *The Moscow Time*, Issue 3498, on September 15, 2006, 2. http://www.themoscowtimes.com/stories/2006/09/15/010.html. Pushkaryov made such a speech because of the assassination of the first deputy Central Bank chief Andrei Kozlov on September 14, 2006.

[33] Rutland, "What Comes After Socialism?".

[34] Goldman, "The Russian Transition to the Market: Success or Failure?".

[35] Dmitri Trenin, "Putin's Russia is Embracing Czarism: Trud Interviews Dmitri Trenin" in *Trud*, on November 14, 2006. http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=18861&prog=zru

According to Vladimir Shlapentokh[36], Putin failed because of his undemocratic and non-pluralist policies; and in the Chechen problem, he behaved as a Tzar, denying free speech to the opposition camp. Similar arguments regarding how ineffectively Putin dealt with the war in Chechnya were also made by Anna Politkovskaya[37].

As for the economic policies followed by Putin, some scholars assert that the economic success in Putin's presidency was not only a result of his own economic reforms, but also certain international economic developments. For example, according to James R. Millar:

> [Putin's] presidency has benefited from two windfalls: a rising and relatively high price of oil and the devaluation of the ruble in the financial crisis of 1998. Unfortunately, he has not used this breathing space to push economic reform vigorously… With a few exceptions the oligarchs remain[ed] in place, economic and bureaucratic corruption and crime remain[ed] almost untouched, and capital flight continue[d] unabated.[38]

Another scholar, Boris Kagarlitsky[39] asserts that Russia needs a pluralist and egalitarian democracy without corruption and crime in administrative bodies, and most importantly, it is possible to realize an equitable distribution of wealth in the Russian society**.** He states that problems such as poverty and corruption in Russia need to be eliminated, although this has

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[36] Vladimir Shlapentokh, "Putin's First Year in Office: The New Regime's Uniqueness in Russian History" in *Communist and Post-Communist Studies*, 34, 2001, 371-399; and "Wealth versus Political Power: The Russian Case" in *Communist and Post-Communist Studies*, 37, 2004, 135-160.

[37] See Anna Politkovskaya, *Putin's Russia: Life in a Failing Democracy*, translated by Arch Tait (New York: Metropolitan Books, 2005), and *A Dirty War: A Russian Reporter in Chechnya*, translated from the Russian and edited by John Crowfoot, (London: Harvill, 2001). Anna Politkovskaya was an opponent journalist towards the Putin's administration, especially regarding his policies about the Chechen problem and human right abuses in Chechnya, and she was killed by an unknown assassin in Moscow on October 7, 2006.

[38] Millar, "Putin and the Economy", 119.

[39] See Kagarlitsky, *Russia under Yeltsin and Putin: Neoliberal Autocracy*.

been only a promise on the part of the elites in post-Soviet Russia.

1.2. Methodology and Outline

My methodology will basically focus on utilizing the empirical data about poverty and corruption in the Russian Federation that are available in related textbooks, journal articles and internet sites. From these sources, I will address my major questions and seek some answers. Besides, my perspective in this study will follow an interpretative–textual technique, which will be based upon both my and other scholars' argumentations on these two problems in the Russian Federation by using mostly quantitative data and qualitative conceptualizations on poverty and corruption. For the purposes of this thesis, I will also use socio-economic data, such as GDP rates, inflation and unemployment rates, crime indications, as well as data on oligarchs' links with the administrative bodies of both the central government and federal authorities. The latter information will be evaluated by looking at the relationship between poverty and corruption during both the Yeltsin and Putin eras.

There are two mainstream conceptualizations of poverty in the literature: *absolute poverty* and *relative poverty*.[40] The former is derived from "subsistence, a minimum standard needed to live", and it can be declared as "a 'poverty line' on the basis of minimum needs", as Seebohm Rowntree asserts.[41] According to the Copenhagen Declaration of the United Nations, poverty is "a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health,

[40] The explanations of these two kinds of poverty notion are drawn from "Social Need: Poverty", from the web site of Centre for Public Policy and Management (CPPM) at The Robert Gordon University. http://www2.rgu.ac.uk/publicpolicy/introduction/needf.htm.

[41] "Social Need: Poverty". http://www2.rgu.ac.uk/publicpolicy/introduction/needf.htm. See also Benjamin Seebohm Rowntree, *Poverty: A Study of Town Life*, (London: Longman, 1901), mentioned in this article.

shelter, education and information. It depends not only on income but also on access to social services."[42] The concept also is related to "a comparison of poor people with others in society", and includes, according to Peter Townsend, "the absence or inadequacy of those diets, amenities, standards, services and activities which are common or customary in society."[43]

In general, in the studies on poverty in Russia the *absolute poverty* argument is used, with the calculation of minimum subsistence level as the poverty level of the Russian society. In this thesis, my chief focus will also be based upon the *absolute poverty* argument in analyzing the conditions of poverty in the Russian Federation under Yeltsin's and Putin's rule. As Simon Clarke states, in Soviet times, there had been an authorized "minimum consumer budget" as a reference point for determining wages, child benefits and pension wages. However, with the collapse of the USSR, average income groups (being the majority of the population) became quickly impoverished. This was more the case in especially the crowded families with only one salary, handicapped people, and lonely pensioners, as their average earnings decreased by half.[44]

As for the concept of corruption, John Girling gives the following normative definition: "[t]he abuse of a public position of trust for private gain."[45] As such, corruption is used mostly for bribery and illegal activities within

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[42] Quotation from the United Nations, *The Copenhagen Decalaration and Programme of Action*, (Copenhagen: UN, 1995), in "Social Need: Poverty". http://www2.rgu.ac.uk/publicpolicy/introduction/needf.htm.

[43] Quotation from Peter Townsend, *Poverty in the United Kingdom*, (London: Penguin, 1979), in "Social Need: Poverty". http://www2.rgu.ac.uk/publicpolicy/introduction/needf.htm.

[44] Simon Clarke, "Poverty in Russia", from the web site of the Russian Research Programme of the Centre for Comparative Labour Studies (CCLS), University of Warwick, and the Institute for Comparative Labour Relations Research (ISITO), Moscow. http://www.warwick.ac.uk/russia/Poverty_Russia.doc.

[45] John Girling, *Corruption, Capitalism and Democracy*, (London; New York: Routledge, 1997), viii.

administrative bodies. As Michael Waller asserts, this type of corruption was very widespread in the Russian society, even prior to the collapse of the Soviet Union,[46] especially within the administrative units of the central Soviet system. In the post-Soviet era, it continued to survive and even improved because of the power gap, which emerged by the collapse of Soviet state. This gap could not be filled by the new Russian state. The criminal behaviors and corrupt conducts in the Soviet Union were even survived in the actual mechanisms of the new regime.[47] In this thesis, I will also use four forms of the corruption, as classified by S. Rose Ackerman. According to this, there were four main conditions resulting in corruption: the first one was "surpassing regulations which may hinder business development and threaten efficient allocation as regards market transaction"; the second one was "accepting bribes as a form of a payment in addition to the low level of the official salary"; the third one was giving money, which was "reasonable for firms to reduce the tax bill or other monetary obligations against the public budget"; and the fourth one was the need of self-protection "from prosecution by bribing officials in case of illegal activities."[48]

My thesis is composed of six chapters. After the introduction, the second chapter deals with the economic and political developments in Russia

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[46] Michael Waller, *Russian Politics Today: The Return of A Tradition*, (Manchester; New York: Manchester University Press, 2005), 238.

[47] Quotation from Stephen Handelman, *Comrade Criminal*, (New Haven, CT: Yale University Press, 1995), 8, in James Leitzel, "Rule Evasion in Transitional Russia" in *Transforming Post-Communist Political Economies*, edited by Joan M. Nelson, Charles Tilly, and Lee Walker, Task Force on Economies in Transition, Commission on Behavioral and Social Sciences and Education, National Research Council, (Washington, D.C.: National Academy Press, 1997), 122.

[48] Quotation from S. Rose Ackerman, *Corruption and Government: Causes, Consequences and Reform*, (Cambridge: Cambridge University Press, 1999), 9-10, in Ralf Wiegert, "Obstacles to Growth and Competition: The Political Economy of Corruption and Rent-Seeking in Russia" in *Economic Opening Up and Growth in Russia: Finance, Trade, Market Institutions, and Energy*, edited by Evgeny Gavrilenkov, Paul J.J. Welfens, Ralf Wiegert, (Berlin; New York: Springer, 2004), 177.

during Yeltsin's presidency. The third chapter investigates the conditions leading to the emergence of poverty and corruption in the post-Soviet context. The fourth chapter, in a similar fashion, looks at the political and economic developments in Russia during Putin's term of office. The fifth chapter examines the ways and methods with which Putin attempted to solve poverty and corruption in the country. This chapter also focuses on the consequences of these policies. In the last chapter, the conclusion is a summary of the thesis as well as focuses on general points of comparison regarding Yeltsin's and Putin's policies on poverty and corruption are given. This part also discusses the successes and failures of Putin's attempts, as compared to the Yeltsin era.

CHAPTER 2

ECONOMIC AND POLITICAL CONDITIONS IN THE YELTSIN ERA

In this chapter, I will describe the economic and political conditions that resulted in the emergence of problems of poverty and corruption in the Russian Federation, by looking, first, at some of the policies of the Yeltsin government carried out between 1992 and 1999 as the basis of these problems, and second, the political agenda of Yeltsin in this period. My aim is to answer questions such as how and why the transition agenda had been applied, and what kind of the effects these policies had as the foundation of problems of poverty and corruption in Russia during Yeltsin's term of office.

After the Warsaw Pact declared the decommissioning of the alliance by the end of March in 1991, the Russian Federation established its independence from other Soviet republics. In June 1991, Boris Yeltsin became the first president of Russia by a national election. After he was elected, Yeltsin initially abolished most of the Soviet institutions. In early November 1991, the Communist Party of Soviet Union (*Kommunisticheskaya Partiya Sovetskogo Soyuza, KPSS, Коммунистическая Партия Советского Союза, КПСС*) was closed, and the Yeltsin government seized its funds and

properties.[49] On 8 December 1991, *Belavezhskaya Pushcha* (*Белавежская Пуща*) or Belovezhsky Accords emerged as the agreement bringing an end to the Soviet Union. These accords gave approval to the actual independence of post-communist countries and established the Commonwealth Independent States (CIS) in Belarussia.[50] By the agreement, the USSR was now disintegrated into 15 countries, and Moscow became the capital city of the Russian Federation. On 26 December 1991, the Supreme Soviet of the USSR officially announced the break up of the USSR,[51] and the Yeltsin government seized total control of the Russian Federation.[52] In the last days of 1991, "[t]he Soviet flag was lowered for the last time from the Kremlin Wall, and the Soviet Union ceased to exist."[53]

2.1 Economic Circumstances

In January 1992, Yegor Gaidar, the deputy prime minister, announced the new economic program based on market-oriented policies, which was formed by the shock-therapy approach that had been applied to Latin American and post-communist Eastern European countries, within the framework of the suggestions of the IMF. This reformist agenda aimed to develop the collapsed Russian economy in a short time by market-based arrangements. "The Gaidar's [*sic*] reform strategy was aimed predominantly at loosening at the state control over the economy. This was to be achieved by a variety of means: the privatisation of state property, lifting of state

[49] Luke March, *The Communist Party in Post-Soviet Russia*, (Manchester; New York: Manchester University Press, 2002), 26.

[50] Sakwa, *Russian Politics and Society*, 37.

[51] See Russia-IC, "Disintegration of the USSR". http://www.russia-ic.com/culture_art/history/154/.

[52] See BBC, "Timeline: Soviet Union, A Chronology of Key Events". http://news.bbc.co.uk/2/hi/world/europe/1112551.stm.

[53] Jan Hallenberg, *The Demise of the Soviet Union: Analysing the Collapse of A State*, (Aldershot, England; Burlington, VT: Ashgate, 2002), 65.

control over prices, decentralisation of state management of the economy, creating conditions for development of market institutions and infrastructure in Russia."[54] New economic program was composed of certain steps:

- Economic stabilization based on tight monetary and credit policy, strengthening of the rouble (although one of the major problems was the influx of roubles from the Former Union republics) up to the creation of a separate Russian currency to protect the economy.
- Price liberalization.
- Privatization and the introduction of a mixed economy with growing private sector, accelerated land reform.
- Reorganization of the financial system, tight control of budget expenditure, reform of the tax and banking system.[55]

The new economic agenda of the government included three fundamental policies: liberalization, stabilization and privatization.[56] In early years of transition period, by new economic plan of the Yeltsin administration, these three policies were predicted as being the dynamic motives for Russian economic growth. In fact, by these policies, Russian officials tried to eradicate the old centralized economic system dominated by the state power, and aimed for deregulating this state authority over the economy by constructing a regular operating market system together with political stability and social cohesion. According to Clarke, the transition program composed of three key steps:

> The structural adjustment model is a three-stage model of transition from a regulated to a market economy. In the first stage, fiscal and financial 'stabilisation' force the reduction in

[54] Vladimir Tikhomirov, *The Political Economy of Post-Soviet Russia*, (Houndmills, Basingstoke, Hampshire; New York: St. Martin's Press, 2000), 227.

[55] Sakwa, *Russian Politics and Society*, 282.

[56] Herrera, "Russian Economic Reform, 1991-1999", 137.

> the level of state activity, including the levels of social and welfare provision, and the closure of unprofitable state and private enterprises, leading to rising unemployment. In the second stage, the reduction in public borrowing leads to falling inflation and interest rates and the stabilisation of the exchange rate, while an increase in unemployment lubricates the [labor] market and allows wages to fall to levels which in the third, recovery, stage make new investment in new sectors profitable for domestic and foreign investors.[57]

By this economic recovery program, Russian government could foresee some socio-economic difficulties that the society could have experienced for a short time. Yeltsin and Gaidar also claimed that because of this program the Russian society could experience a tough transformation but this would be finished by the end of 1992.[58] Nonetheless, as Volkov suggests, "the number of real problems created by ill-conceived transition policies and the consequences of the rapid privatization of the Russian economy was incomparably higher. Major policy measures included the removal of price controls, the liberalization of the trade, and the privatization of economic assets. The speed of change was a key issue."[59] The major expected social trouble was the impoverishment of the people for a short span of time. The declining life standards could not be supported by social security opportunities because the lack of budget for social assistance had been cut off for the stabilization policies of the Russian state.

The initial reform of this program was liberalization defined as "lifting of

[57] Simon Clarke, "Structural Adjustment without Mass Unemployment? Lessons from Russia" in *Structural Adjustment without Mass Unemployment? Lessons from Russia*, edited by Simon Clarke, (Cheltenham; Northampton, MA: Edward Elgar, 1998), 13.

[58] Tikhomirov, *The Political Economy of Post-Soviet Russia*, 227. Bertram Silverman and Murray Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism,* (Armonk, New York: M.E. Sharpe, 2000), 42.

[59] Volkov, *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*, 43.

state controls over retail prices and the deregulation of foreign trade."[60] However, this policy resulted in high inflation fluctuations, the birth of a new group entrepreneurs and the liberalization of retail prices of a big portion of consumption goods except some significant vital goods.[61] Together with the price liberalization policies, liberalization of the labor market policies also caused increasing unemployment, decreasing incomes, and extending inequality in Russia.[62] For that reason, Gaidar tried to overcome the high wavy inflation by applying some policies such as "limiting the money supply" and "voucher privatization" but all these attempts resulted in higher inflation rates and more significant problems such as "acute cash crisis" and "acute investment crisis."[63]

The other reform of this program was privatization of the state corporations, which were later turned into "privatized or semi-state enterprises" and "private entrepreneurial start-up firms".[64] In late 1992, as the first stage of privatization, by "voucher privatization", privatizing companies continued to be governed by their former administrators assigned during the Soviet era.[65] In other words, the main goal of the privatization reform could not be actualized by applying "voucher privatization" policy.[66] As of 1993, the Russian state continued to apply the reform program by boosting the development of "voucher privatization" and cut the social service spendings and financial assistance under the leadership of Victor Chernomyrdin who

[60] Tikhomirov, *The Political Economy of Post-Soviet Russia*, 228.

[61] Ibid.

[62] Clarke, "Structural Adjustment without Mass Unemployment? Lessons from Russia", 81.

[63] Tikhomirov, *The Political Economy of Post-Soviet Russia*, 230.

[64] Victor Zaslavsky, "The Russian Working Class in Times of Transition" in *Russia in the New Century*, edited by V. E. Bonnell and G. W. Breslauer, (Boulder, Colombia: Westview Press, 2001), 203.

[65] Tikhomirov, *The Political Economy of Post-Soviet Russia*, 77 & 237.

[66] Ibid., 238.

was the next prime minister of the Russian Federation after Yegor Gaidar.[67] The government followed a political program for decreasing the state expenses in the budget, controlling the high inflation and improving the life standards of the Russian population.[68] Furthermore, according to Victor Zaslavsky:

> The ongoing privatization initially affected the restructuring of the labor market in a contradictory fashion, simultaneously providing incentives to lay off superfluous labor and promoting the substitution of wage reduction for unemployment. The formal change from state property to private property has been one of the key developments of the period; yet privatization did not transform former state enterprises overnight into real private firms working to meet market demands and controlled by private owners who select managers capable of running efficient production. Instead, Russian privatization has been a gradual process: As many enterprises became nominally employee-owned, "the managers – in the name of all employees – continued to dominate both the formal ownership and the reins of control of the very firms the government hoped would change with privatization." The first wave of privatization has resulted in the predominance of inside ownership and blurred the distinction between real and nominal owners.[69]

In mid-1994, the "voucher" privatization was finished officially. Subsequently, the second stage of privatization appeared in the form of both cash privatization and "loans-for-shares".[70] Consequently, the government could be successful in neither first stage of privatization nor second stage of privatization in the name of both stabilization and development of the Russian economy. The privatization program was providing monopolization of the former Soviet elites and people from criminal groups, instead of

[67] Ibid., 235.

[68] Ibid.

[69] Zaslavsky, "The Russian Working Class in Times of Transition", 206-207.

[70] Tikhomirov, *The Political Economy of Post-Soviet Russia*, 78.

setting up a competitive free market system.[71] According to Goldman:

> In the absence of an adequate system of controls designed to limit corruption and voucher manipulation, the privatization effort – which in every way was poorly designed – ended up with the massive theft of a substantial portion of the country's most lucrative assets. Some of these enterprises ended up in the hands of the former nomeklatura of the Soviet Union's Communist Party, including former industrial ministers, high-ranking officials, and factory directors. Their competitors in this takeover were a band of upstarts and outsiders, what in the Soviet days would have been considered traders, speculators, and black-market dealers.[72]

By 1994, the attempts of Chernomyrdin administration resulted in decreasing inflation and stabilized economy, yet the low life standards could not be sufficiently improved as had been predicted.[73] "Despite the fact that in 1994 the real per capita income slightly increased, it was still far beyond the late Soviet 1991 levels…Unemployment also increased: at the end of the year it stood at the level of % 7.4 of the economically active population."[74] Besides unemployment, "cuts to the funding of health and social services" for the aim of stabilization of the state budget decreased life standards, and gave rise to the widespread impoverishment. Clarke denotes the *de facto* outcomes of the economic program aiming the stabilization of the Russian economy as follows:

> Those who are burdened by a legacy of debt, an outdated industrial structure, unfavourable location, an absence of easily mobilisable reserves of [labor] or exploitable natural resources find themselves locked in to a vicious circle of decline as

[71] Yury G. Bobrov, "A Balance Sheet of Capitalist Restoration in Russia" in *World Socialist Web Site*, on May 2, 1998. http://www.wsws.org/news/1998/may1998/rus-m2.shtml.

[72] Goldman, "The Russian Transition to the Market: Success or Failure?", 124 -125.

[73] Tikhomirov, *The Political Economy of Post-Soviet Russia*, 236.

[74] Ibid.

> 'stabilisation' leads to rising unemployment, falling incomes, a deteriorating social fabric, rising inequality, a shrinking domestic market and an explosion of crime with few prospects for domestic investment, which is further discouraged by the need to retain high interest rates to stem capital flight.[75]

In other words, the predictions about privatization could not be realized because the privatizing corporations or firms were sold to those people who could not achieve the renovation and development goals of the Russian economy in the proper sense. According to Yury G. Bobrov:

> The government expected that the privatisation of state-owned property would bring high revenues: firstly, the proceeds from their sale, and, secondly, the taxes on the profits of the new owners. However, the semi-criminal owners made every effort to "minimise" these incomes. They bribed officials in order to undervalue the property put on sale. Among the new businessmen, tax evasion was considered "good manners"… Having sold off the "inefficient" state-owned property, the "reformers" failed to create anything better. The multi-billion-dollar incomes of the new owners bypassed industry, science, education, culture. During the years of "reform" the total wealth of the country was extremely unequally redistributed among various layers of society. Having handed over the national wealth to assorted crooks, the state lost the means to finance industry, the army, social services.[76]

By 1995, for fighting the social stress of rising prices, and generating a steady system of the Ruble, fiscal strategy continued to stand in the front of political assessments. The aim was "to fix the rouble to a band of values against the dollar, in what became known as 'the rouble corridor'."[77] By this attempt, Moscow tried to stabilize the economy as well as managing inflation, thus creating a general feeling of trust among people regarding the

[75] Clarke, "Structural Adjustment without Mass Unemployment? Lessons from Russia", 12–13.

[76] Bobrov, "A Balance Sheet of Capitalist Restoration in Russia". http://www.wsws.org/news/1998/may1998/rus-m2.shtml.

[77] Edwin Bacon with Matthew Wyman, *Contemporary Russia*, (Basingstoke; New York: Palgrave Macmillan, 2006), 97.

political and economic situation.[78] However, "[w]alkouts, hunger strikes and mass protest actions against non-payment of wages became part and parcel of the country's political life in 1997. Chernomyrdin-style financial stabilisation has meant the impoverishment of the population."[79]

Hence, by August 1998, the fiscal and social problems became overwhelming due to certain circumstances, and thus they caused an economic crisis first appeared as "the announcement by the Russian government that it was devaluing the [Ruble], suspending trading in the short-term Treasury bill [GKO] market and imposing a 90-day moratorium on international debt repayments"[80]. According to Goldman, the real grounds of the 1998 crisis were corruption; state subsidies to privatized enterprises, which could not gain any profit; incapacity to acquire the deductions from the military and industry sectors, and government's failure in efficient tax collection,[81] besides the pressure of the IMF to the Russian government on the devaluation of the Ruble. Hence, one may put forward that the 1998 crisis was the outcome of such unsuccessful policies of the transformation agenda, which was the main ground of widespread poverty and corruption, as failed privatization of state corporations, significant failure of the dependence on the benefits from military industry, failure of the Russian fiscal system besides the taxation and banking system, and the misguidance of the IMF concerning liberalization and stabilization efforts.

Although there were claims that this crisis would cause persistent economic and political catastrophes in the Russian Federation, the revival of the

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[78] Ibid.

[79] Bobrov, "A Balance Sheet of Capitalist Restoration in Russia". http://www.wsws.org/news/1998/may1998/rus-m2.shtml.

[80] Nick Beams, "Russian Crisis Shakes Global Markets" in *World Socialist Web Site*, on August 25, 1998. http://www.wsws.org/news/1998/aug1998/rus-a25.shtml.

[81] Goldman, "The Russian Transition to the Market: Success or Failure?", 129.

Russian economy appeared more rapidly than it had been predicted.[82] More importantly, "industrial production stabilized as early as March 1999 and began to improve steadily after that… One major factor was the sudden increase in the prices of raw materials, particularly oil and gas… An equally important factor, some say the most important for the Russian economy in the long run, was the devaluation of the Ruble."[83] As a result of the devaluation of the Ruble and high oil prices, the Russian economy could be recovered, and economic development has experienced an upswing. As can be clearly seen in Table 2.1, "the crisis served as a driving force, pushing Russia out of stagnation."[84]

Table 2.1: Real GDP Growth and Inflation Rate, between 1991 and 2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP Growth (%)	-5.0	-14.5	-8.7	-12.7	-4.1	-3.6	0.8	-4.6	3.5	7.7
Inflation Rate (%)	92.7	1526.0	875.0	311.4	197.7	47.8	14.7	27.6	86.1	20.8

Source: Paul Frijters, Ingo Geishecker, John P. Haisken-DeNew and Michael A. Shields, "Income and Life Satisfaction in Post-Transition Russia: A New Empirical Methodology for Panel Data", Working Paper Version. http://www.bus.qut.edu.au/paulfrijters/documents/IncomeandLifeSatisfactionRussiaWorkingPaper.pdf

As shown in Table 2.1, the real GDP growth rates displayed significant fluctuations after the collapse of the Soviet Union up to Yeltsin's final year in office. Additionally, the GDP growth rates were mostly in the negative and inflation was high. This table also demonstrates the turbulent processes of the Russian economy in Yeltsin era under the administrations of four prime ministers, namely Yegor Gaidar, Viktor Chernomyrdin, Anatoly

[82] Ibid., 130.

[83] Ibid., 130-131.

[84] Erik Berglöf, Andrei Kunov, Julia Shrets, Ksenia Yudaeva, *The New Political Economy of Russia*, (Cambridge, Mass.: MIT Press, 2003), 13.

Chubais, and Yevgeny Primakov, who had very different strategies for the political and economic transformation of the Russian Federation. Indeed, this table summarizes the quantitative conditions of the Russian economy during the transition period and it provides clues for the qualitative outcomes that appeared as socio-economic problems, such as poverty and corruption.

2.2 Political Circumstances

Besides failed economic process of the transition, political transformation is also one of the conditions contributed to poverty and corruption in the Russian Federation. One of the most significant problems confronted by the Yeltsin government was the authority conflict between his government and the Russian Parliament, which was mostly comprised of his rivals. Shortly after the failure of the economic program of the Yeltsin government, there emerged a dispute between these two institutions[85] at the top of the Russian state. "By the end of 1992 the conflict between the government and the parliament resulted in the change of the cabinet."[86] Then, in October 1993, the political crisis prompted by the declaration of Yeltsin of the dissolution

[85] In fact, the Russian Federation now had a diarchy (*Dvoyeblastiye - Двоевластие*), that is, a system of dual power at the top of the state, according to John B. Dunlop ("Sifting through the Rubble of the Yeltsin Years" in *Contemporary Russian Politics: A Reader* edited by Archie Brown, (Oxford; New York: Oxford University Press, 2001), 56). The first power was the government led by the prime minister and the parliament. The second one was the President and his administrative units. This fact was the main grounds for the political crises between December 1992 and October 1993. As Eugene Huskey states, "as early as the spring of 1992, it was apparent that state building in Russia would be protracted and fraught with crises". ("The Rebirth of the Russian State" in *Executive Power and Soviet Politics: The Rise and Decline of the Soviet State*, edited by Eugene Huskey, (Armonk, N.Y.: M.E. Sharpe, 1992), 251)

[86] Tikhomirov, The Political Economy of Post-Soviet Russia, 231.

of the Supreme Soviet and the Congress of People's Deputies[87] brought the violent October events to an end. On 3rd of October, the military forces under the control of the President had attacked the Russian parliament building, highlighting of the power struggle between the Parliament and the President in the course of state-building efforts.

After the crucial political crisis in October 1993, Yeltsin asked the Russian people to go to polls to vote for the new constitution. In December 1993, new constitution was approved by a majority vote in the referendum, yet the participation of voters was merely 64.5 per cent.[88] However, more importantly, as to this Constitution, the President gained a very powerful position and the removal of the President became a difficult process.[89] In fact, corruption in political institutions and general ineffectiveness of the state was the result of the constitutional amendment in 1993, which expanded the President's authority and generated "new decision-making structures not stipulated in the constitution."[90]

Hence, although the political reforms, which involved reconstruction of both Russian state and Russian society by institutional adjustments, there did not exist necessary institutions to realize such change. According to George Breslauer:

> A corrupt, weak state might have been difficult to avoid, given

[87] The Congress of People's Deputies was the national assembly consisted of local representatives. It had been the decision-making authority for the administration of the USSR. The Supreme Soviet was elected by the Congress of People's Deputies and it had been the highest legislative body of the USSR. The chairman of the Supreme Soviet had become the governor of the USSR previously but this caused problems about the dual power on top of the state. Both of them were closed by Boris Yeltsin in 1993.

[88] Sakwa, *Russian Politics and Society*, 51.

[89] Archie Brown, "Introduction" of Section 2 in *Contemporary Russian Politics: A Reader*, edited by Archie Brown, (Oxford; New York: Oxford University Press, 2001), 49.

[90] Berglöf, et al., *The New Political Economy of Russia*, 51.

> the initial conditions; but the scope and depth of political corruption and criminalization, and the "virtual economy" of 1998, were products of specific policy choices made in 1992 – 1995: the approach to macroeconomic stabilization; the privatization programs of 1992 and 1994; and the "loans for shares" program of 1995. The fragility of democratic institutions might have been a product of the "dual power" built into the constitution that was in force in 1991, exacerbated by the disorientation and political conflict engendered by Russia's loss of its empire and global role. But the political meltdown of 1998 was a product of choices about party-building and state-building made in fall 1991 and choices about constitutional design made in 1993 and 1994. Limited adherence to "rule of law," and spotty protection of the population from physical insecurity, might have been inherent in the aftermath of any state's collapse, but the minuscule progress in building legal and judicial institutions, and the extent of police withdrawal from law enforcement, were products of decisions made in 1992 and of a continuous lack of priority given to legal-institutional development... the Russian state might have been institutionally underdeveloped in any case, given the time it takes to build effective institutions; but the extent of its underdevelopment and fragility was a product of neglect and of policies that undermined institutional goals.[91]

In addition to economic and political disappointments, the public confidence upon both the government and the presidential administration started to deteriorate due to their joint lack of success in the implementation of economic reforms. Steadily rising unemployment, poverty and corruption rates also contributed to this lack of confidence. When the presidential elections in 1991 and the State Duma elections in 1993 are compared, it can be clearly seen that the public support for Yeltsin was decreased by nearly 18 million votes.[92] Moreover, in January 1996, according to public polls, only 4 per cent of respondents preferred Yeltsin as their next president. In

[91] George W. Breslauer, "Personalism Versus Proceduralism: Boris Yeltsin and the Institutional Fragility of the Russian System" in *Russia in the New Century: Stability or Disorder?*, edited by Victoria E. Bonnell and George Breslauer, (Boulder: Westview, 2001), 37.

[92] Graeme Gill and Roger D. Markwick, *Russia's Stillborn Democracy?: From Gorbachev to Yeltsin,* (New York : Oxford University Press, 2000), 169.

these polls, Yeltsin ranked sixth among the other candidates.[93] Nevertheless, for the presidential elections in 1996, the media power of the oligarchs was used in this campaign as well as the government opportunities. Additionally, the international institutions promised economic assistance to Russia during Yeltsin's second term in office.[94] Therefore, in the presidential election of June 1996, Yeltsin was elected as the president of the Russian Federation, propelled by his successful election campaign,[95] although the percentage of his public support dropped progressively from 58.6 per cent[96] in 1991 to 35.8 per cent[97] with 26,665,495 votes in 1996.

Furthermore, as the results of the public opinion survey held between 8-10 January 2000 show, Yeltsin had considerably low public confidence. First, according to the survey, majority of the total respondents declared that the worst of Yeltsin's administration was about economic problems, as can be seen in Figure 2.1.

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[93] George W. Breslauer, *Gorbachev and Yeltsin As Leaders*, (Cambridge; New York: Cambridge University Press, 2002), 214.

[94] Ibid., 215. See also Kagarlitsky, *Restoration in Russia: Why Capitalism Failed*, for looking over Yeltsin's political campaign activities in the presidential election of 1993.

[95] Alexei Avtonomov, "The President and Parliament in Contemporary Russia" in *Russia after the Cold War*, edited by Mike Bowker and Cameron Ross, (Harlow, England; New York: Longman, 2000), 61.

[96] Scott Gehlbach1, "Shifting Electoral Geography in Russia's 1991 and 1996 Presidential Elections" in *Post-Soviet Geography and Economics*, 41(5), 2000, 12. http://polisci.wisc.edu/gehlbach/documents/Gehlbach%20Shifting%20Electoral%20Geography.pdf.

[97] According to "Results of Previous Presidential Elections: 1996 Presidential Election Result", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/president/presidency_previous.php.

	All replies (%)
Economic crisis, fall in production	40
Closures of enterprises, mass unemployment	36
Chechen war of 1995-96	34
Worsening living conditions and loss of buying power for the mass of citizens	34
Inflation, wiping out of savings	32
Collapse of the USSR	31
Rising crime and penetration of state by organized crime	28
Looting of state property and the riches of Russia	28
Non-payments of wages, pensions, etc.	26
Collapse of system of education, health and social security	19
Political instability, conflicts in the leadership	16
Lack of confidence and hope in the future	15
Freedom of action for swindlers and bank robbers	15
Other	23
Don't know	4

Figure 2.1: Public Opinion on the Yeltsin Years – I (Question 2. Bad things from the Yeltsin years)
Source: Nationwide VCIOM survey, 8-10 January 2000, N=1600. http://www.russiavotes.org/president/yeltsin_public_opinion.php#241.

Secondly, according to the survey, 50 per cent of the participators said that they did not like Yeltsin because he was "surrounded by corruption, bribery, abuses" as can be seen in Figure 2.2. [98]

	All replies %
Surrounded by corruption, bribery, abuses	50
Failed to lead the country	47
Doesn't understand the needs of the people	18
Not respected by people around me	16
Not a far sighted politician	12
Incapable of taking charge of people	12
Insincere person	11
No clear political line	9
Weak, indecisive	8
No bright political qualities	8
Unprincipled person	6
Ugly, bad-looking	5
Other	11
Don't know	9

Figure 2.2: Public Opinion on the Yeltsin Years – II (Question 12. Yeltsin's bad qualities)
Source: Nationwide VCIOM survey, 8-10 January 1999, N=1600. http://www.russiavotes.org/president/yeltsin_public_opinion.php#241.

[98] Yet another question demonstrates that 63 per cent of respondents stated that they did not know which quality they did like. See "Question 11. What do you like about Boris Yeltsin?", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/president/yeltsin_public_opinion.php#241.

Thirdly, according to the same survey, 46 per cent of the respondents could not tell anything good for Yeltsin's presidency. More importantly, 31 per cent of the respondents designated the collapse of the Soviet Union as one of the bad things realized by Yeltsin, as shown in Figure 2.1, whereas only 10 per cent designated the break down of communist regime as one of the good things, as shown in Figure 2.3.

	All replies %
Democracy, political rights and freedom	23
Getting rid of shortages, coupons and queues	16
Restoring private property and the possibility to start own business	13
Freedom of action for energetic, capable people	12
Ending Communist rule	10
Improved relations with the West	7
Destroying the totalitarian system, interference by the state in personal life	7
Hope for the renewal of Russia	5
Improved quality of goods and services	4
Removing the threat of a new world war	3
Other	1
Can't name anything good	46
Don't know	8

Figure 2.3: Public Opinion on the Yeltsin Years – III (Question 1. Good things from the Yeltsin years)
Source: Nationwide VCIOM survey, 8-10 January 2000, N=1600. http://www.russiavotes.org/president/yeltsin_public_opinion.php#241.

Lastly, the same survey also revealed that 67 per cent of the total respondents believed that "in historical perspective", Yeltsin's era brought "more bad" to Russia, 15 per cent believed "more good", and 18 per cent did not know.

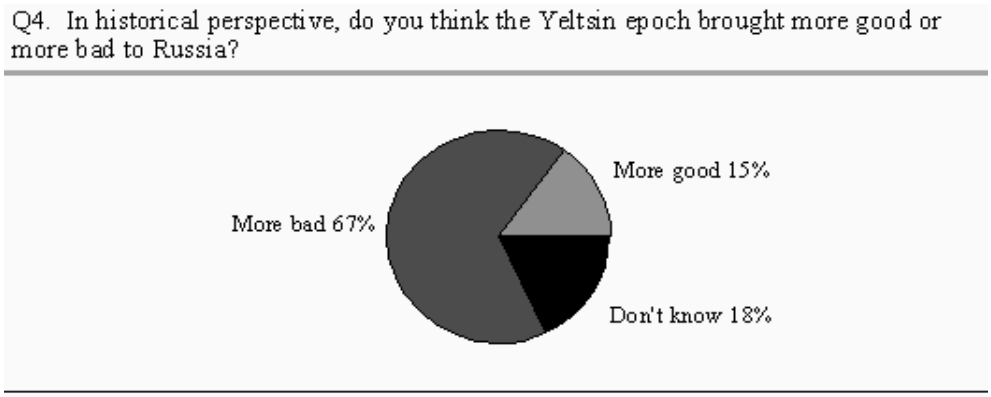

Figure 2.4: Public Opinion on the Yeltsin Years – IV
Source: Nationwide VCIOM survey, 8-10 January 2000, N=1600. http://www.russiavotes.org/president/yeltsin_public_opinion.php#241.

Therefore, two vital problems of the Russian Federation during the 1990s, poverty and corruption, were the results of both economic and political processes realized within the framework of transition agenda, although mostly economic policies were the major foundation of these problems**.** In the next the chapter, problems of poverty and corruption are analyzed in more detail.

CHAPTER 3

POVERTY AND CORRUPTION IN THE YELTSIN ERA

In this chapter, I will focus on the conditions of poverty and corruption in the post-Soviet Russia during Yeltsin's presidency in the 1990s. These two problems are linked to each other, and as such, it is also necessary to investigate their causes and effects. The transition agenda of Yeltsin resulted in a widespread poverty and corruption in Russia during his presidency.

3.1 Poverty

In this part, I will try to discuss both the reasons and the impact of poverty[99] in the Russian society in the transition period. For that reason, I will handle three main socio-economic roots of this widespread social problem during Boris Yeltsin's presidency: unemployment and low wages, social inequality, and significant cuts in social services. I will specifically look into the economic conditions of the Russian Federation in 1990s, as the most important failure of the Yeltsin government was the economic reform program, which markedly gave rise to the widespread poverty in Russian society. Consequently, by experiencing the shift from a planned economy to a market system, a majority of the Russian population was faced with

[99] Poverty is *bednost'* (*бедность*) in Russian language.

poverty, inequality, unemployment and lack of social services, while a small minority was becoming more and more rich.

As mentioned earlier, initially, in early 1992, in an attempt to rescue the totally destroyed Russian economy soon after the collapse of the Soviet Union, the government revealed an economic reform program was shaped by IMF shock-therapy policies based on market-oriented principles. "The economic model chosen by Boris Yeltsin, conceptualized by Jeffrey Sachs and implemented by Yegor Gaidar, in conjunction with the model of privatization worked out by Anatoly Chubais, led to economic and socio-demographic collapse, if not catastrophe, according to numerous Russian and foreign experts."[100] With this new market-oriented economic program, the recovery of economy was expected to take place in one or two years.[101] However, economic transformation in post-Soviet Russia was not normalized rapidly as it had been expected. Far exceeding the expected nine months for the recovery, the Russian economy could not even come close to the expected terms in nearly nine years. Rather, a worse atmosphere has emerged with significantly increased inflation, social inequality, unemployment, and countrywide poverty.

Consequently, after the 1996 presidential elections, Yeltsin, in his second term in office, felt it to be necessary to revise and renovate the economic agenda, underlying the importance of a steady reform progress. But in general he did not show any attempt to solve the economic depression resulting in widespread impoverishment of the Russian population because "'radical reform' meant specific policy measures – legalization of land ownership, improved tax collection, reduced corruption, budgetary restraint, stabilization of the Ruble's exchange rate – that seemed to meet the

[100] William V. Smirnov, "Democratization in Russia: Achievements and Problems" in *Contemporary Russian Politics: A Reader* edited by Archie Brown, (Oxford; New York: Oxford University Press, 2001), 520.

[101] Tikhomirov, The Political Economy of Post-Soviet Russia, 227.

requirements for IMF loans and that sometimes (but not always) ran counter to the entrenched material interests of the oligarchs."[102]

By the time of the August 1998 crisis, both production and consumption had nearly stopped. The industrial output rate hit the bottom, while the inflation reached peak levels. The economic depression caused not only economic failures such as the devaluation of the Ruble and collapse of the banking system, but also crises such as shortages of goods and operational problems in the service sector. As Goldman states, the crisis "was also a result of the faulty nature of the reforms that Boris Yeltsin's government attempted to implement – not that any far-reaching reform of the Soviet system would have been easy."[103]

More importantly, for an overall scheme, Kagarlitsky also criticizes the impact and implementation of the neo-liberal transformation agenda in the Russian Federation. According to him, this neo-liberal path was demonstrated as the only way for the Post-Soviet Russia, among many other alternatives.[104] However, in fact, according to Kagarlitsky, the transformation path brought "poverty and crises" to Russia.[105] Likewise Natalia Artyomenko suggests the following:

> …the 90's were a hard time for Russia. Liberalization of prices, privatization of the state property, political changes were not successful at once. The society became more free but poorer, it was divided into 3 parts: the top (17%) was taken by the political, business and criminal elite, the middle was taken only by 13% of the society, and the rest (80%) found themselves on the edge of poverty. But gradually the Russian society, which

[102] Breslauer, *Gorbachev and Yeltsin As Leaders*, 217.

[103] Goldman, "The Russian Transition to the Market: Success or Failure?", 121.

[104] See Boris Kagarlitsky, *New Realism, New Barbarism: Socialist Theory in the Era of Globalization*, translated by Renfrey Clarke, (London; Sterling: Pluto Press, 1999).

[105] Kagarlitsky, *Restoration in Russia: Why Capitalism Failed*, 9.

> was shocked in all spheres of its life, began to create a new Russian style of life, more or less stable until the financial crisis in 1998, when world oil prices fell down and Russian economy, which depends on the oil (Russia is a big oil exporter) very much, had to overcome one more shock for the last 10 years. The Russian government halted trading of the Ruble on international currency markets. This financial crisis led to a long-term economic downturn and to political upheaval.[106]

In the next part of this chapter, the three problems of unemployment and low wages, social inequality and significant cuts in social services will be briefly analyzed as the main reasons of poverty in the Yeltsin's era.

3.1.1 Unemployment and Low Wages

In this period, unemployment and low wages emerged as a basic problem caused widespread poverty in Russia. According to Clarke, poverty in the country can be explained by three conditions:

> 1) The first stage of structural adjustment necessarily implies the elimination of unviable economic activities under the pressure of competition – high-cost and low-quality producers have to be removed to make way for new activities. This leads to a reduction in incomes and employment, particularly in state enterprises and the public sector.
>
> 2) Fiscal and financial stabilisation implies the reduction of public expenditure to bring it into line with shrinking public revenues. This involves the reduction of subsidies to consumers and loss-making producers, cuts in expenditure on health-care and educational provision and the reduction of social and welfare benefits.
>
> 3) The structural adjustment mechanism… supposed to operate through widening price and income differentials… necessarily implies an increase in levels of inequality. The greater the scale of structural imbalances and the greater the barriers to the sectoral and geographical reallocation of people and resources

[106] Natalia Artyomenko, "History of Russia" in *Neva News.* http://www.nevanews.com/index.php?art=34.

> the greater will be the degree and duration of inequalities generated by the structural adjustment process.[107]

Thus, as to Clarke, the dynamics explained above yielded to growing impoverishment: lessening earnings and jobs diminished citizens' capacity to sustain their own households; deductions in administrative expenses hit those people living under the poverty line the toughest. In addition to that, the adjustments and policies designed by the state to deal with unemployment remained insufficient after a very short time due to rapidly increasing unemployment; and mounting wage disproportions boosted the amount of impoverishment among the employed people.[108]

Accordingly, as Judyth L. Twigg suggests, the main reasons of poverty in Russian society were unemployment and low-incomes.[109] By the deregulation of centralized Soviet economy, unemployment had increased as a significant social factor in post-Soviet Russia. According to Zaslavsky, in Russian labor market, which was composed of high-skilled employees, and the rising unemployment also caused some new options such as "shortened work week, so-called 'administrative vacations' at reduced pay, and unpaid leaves of absence"[110] together with high labor flexibility and secondary employment,[111] non-payment of workers' wage[112] and private

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[107] Simon Clarke, with the assistance of Jeannie Holmes, "Poverty in Transition: Final Report", from the web site of the Russian Research Programme, the Centre for Comparative Labour Studies (CCLS), University of Warwick, and the Institute for Comparative Labour Relations Research (ISITO), Moscow, 3. http://www.warwick.ac.uk/russia/Final_Report.doc.

[108] Ibid.

[109] Judyth L. Twigg, "What Has Happened to Russian Society?" in *Russia After the Fall*, edited by Andrew C. Kuchins, (Washington, D.C.: Carnegie Endowment for International Peace, 2002), 149.

[110] Zaslavsky, "The Russian Working Class in Times of Transition", 203.

[111] See Vladimir Gimpelson, "Labour Market Flexibility and Security – The Russian Way" in *Reconciling Labour Flexibility with Social Cohesion, Forum 2005*, for more argumentation on labor market flexibility of the Russian Federation.

production[113].

Even so, by depending on the OECD reports, Clarke suggests that unemployment rate in Russia was higher than the estimated level by Goskomstat[114]. According to him:

> Registered unemployment remains very low, but this is because of the failure of the majority of the unemployed to register. Survey unemployment stands at over 9%, a further 5% are laid off at any one time, and 8% more of the economically active population are recorded by the [labor] force survey as being neither employed nor unemployed, so that true unemployment is over 20%. Moreover, very low wages, delays in the payment of wages and modest wage differentials feed high [labor] turnover."[115]

Nonetheless, the extreme flexibility of the salaries and low unemployment pays, enabled "the [labor] market to operate smoothly to facilitate structural adjustment without the emergence of mass unemployment."[116] Indeed, it is possible to state the fact that unemployed pay was actually very inadequate, and the legal minimum level of remuneration was very much under minimum subsistence level.[117]

Additionally, after the 1998 crisis, the unemployment level began to

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[112] Zaslavsky, "The Russian Working Class in Times of Transition", 205.

[113] Ibid., 206.

[114] This phrase is the acronym of the Russian name for the State Committee for Statistics (Goskomstat, **Gos**udarstvennii **kom**itet po **stat**istike - *Госкомстат, **Гос**ударственный **ком**итет по **стат**истике*) of the Russian Federation.

[115] Simon Clarke, "The Restructuring of Industrial Enterprises in Russia after Five Years of Reform" in *Russian Economy in Transition*, Bank of Finland and Finnish Ministry of Finance, 'High Level Seminar', Helsinki, September 24 1996. http://www.warwick.ac.uk/fac/soc/complabstuds/russia/documents/helsinkipap.doc.

[116] Clarke, "Structural Adjustment without Mass Unemployment? Lessons from Russia", 50-51.

[117] Ibid.

increase rapidly. According to Zaslavsky, "[r]ising unemployment had always been among the major anticipated manifestations of the crisis".[118] According to a public opinion survey conducted by the All-Russian Public Opinion Research Center (*Vserossiykiy Tsentr Izucheniya Obshchestvennogo Mneniya, VTsIOM, Всероссийский центр изучения общественного мнения, ВЦИОМ*), 30 per cent of the Russian population in 1993, 45 per cent in 1994-1995 and 66 per cent in 1998 expressed that unemployment was the most important social problem of the Russian society.[119] Unemployment rate "in the first half of 1999 grew by 16.1 per cent compared to the first half of 1998."[120] As can be seen in Table 3.1, unemployment rate had a significant increase and labor force rate had a significant decrease between 1992 and 1999. By 1999, nearly 10 per cent of the Russian population was unemployed, and there were nearly 35 per cent unemployment among the working people. In addition to that, the active working population also decreased in this period in spite of the existence of high labor market flexibility in Russia.[121]

[118] Zaslavsky, "The Russian Working Class in Times of Transition", 204.

[119] Ibid.

[120] Ibid.

[121] Gimpelson, "Labour Market Flexibility and Security – The Russian Way", 60.

Table 3.1: Unemployment in Russia, between 1992 and 1999

	Unemployment Rate (ILO definition)[a]	Economically Active Population (millions)	Unemployed (millions)	Unemployed (per cent of active population)	Workers among the Unemployed (per cent)
1992	-	75.7	3.6	4.8	59.2
1993	4.29	75.0	4.2	5.6	61.2
1994	5.42	74.0	5.5	7.4	62.8
1995	6.16	72.7	6.4	8.8	63.6
1996	6.97	73.2	7.2	9.8	64.9
1997	7.80	72.6	8.2	11.3	-
1998	8.50	72.6	8.9[b]	11.2	-
1999	9.28	-	9.1	13.0	-

Source: Victor Zaslavsky, "The Russian Working Class in Times of Transition" in *Russia in the New Century*, edited by V. E. Bonnell and G. W. Breslauer, (Boulder, Colombia: Westview Press, 2001), 203. a) Paul Frijters, Ingo Geishecker, John P. Haisken-DeNew and Michael A. Shields, "Income and Life Satisfaction in Post-Transition Russia: A New Empirical Methodology for Panel Data", Working Paper Version. http://www.bus.qut.edu.au/paulfrijters/documents/IncomeandLifeSatisfactionRussiaWorkingPaper.pdf. b) Vladimir Tikhomirov, *The Political Economy of Post-Soviet Russia*, (Houndmills, Basingstoke, Hampshire; New York: St. Martin's Press, 2000), 170.

3.1.2 Social Inequality

It has been suggested by Silverman and Yanowitch that the basic reason of the widespread poverty in Russia was the increasing inequality,[122] because "the implementation of free market reforms weakened the state's capacity to reduce social distress and inequality."[123] According to the report of the World Bank on poverty in Russia, impoverishment of vast majority of the Russian society was "shallow with significant number of people located above and below the poverty line. Shallowness of poverty is closely linked with the moderate levels of inequality."[124] According to some official reports, as a result of decreasing incomes and increasing disparity, about 20-

[122] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 55.

[123] Ibid., 132.

[124] *Russian Federation, Poverty Assessment*, Poverty Reduction and Economic Management Unit, Europe and Central Asia Region, the World Bank, on June 28, 2004, 31. http://194.84.38.65/files/esw_files/PAR_062504_Eng.pdf.

25 per cent of the Russian population remained under the poverty level.[125] The Gini coefficient rate demonstrates the inequality level in Russia that this level was doubled in 1993 as compared to rates in 1991 and in 1992.[126]

3.1.3 Significant Cuts in Social Services

In addition to the increasing unemployment and insufficient wages, another significant reason of the poverty in Russia was the diminishing role of the state in the Russian economy. This influenced the Russian population in a negative way because now, for the majority of the people certain key necessities of life such as accommodation, education, health services and social security system were no longer covered by the state. According to Twigg:

> The Russian government's acceptance of fiscal responsibility in the early 1990s forced it to slash social spending. Budgets for schools, kindergartens, health facilities, sanatoria, day care, and myriad other formerly state-provided services plummeted. At the same time, workplace-based social benefits, substantial during the Soviet era, were also eroded by the sudden demand for enterprises to either become profitable or go out of business. Inflation decimated savings, and wage and benefit increases could not keep up with even more rapidly rising prices. The state could no longer afford to subsidize a basic floor of material living standards for the entire population. As a result, a significant percentage of the Russian people has sunk into poverty.[127]

Most members of the Russian society, who were unemployed or earned very low incomes, were affected even more severely owing to the deficient social security system. It had been expected that the vacuity in the social services

[125] Clarke, "Structural Adjustment without Mass Unemployment? Lessons from Russia", 53.

[126] See page 48 for the Gini coefficient index in Table 3.2.

[127] Twigg, "What Has Happened to Russian Society?", 148-149.

would be filled by the private sector who had acquired the possession of the state corporations by the means of privatization policies. However, a majority of the Russian population could not meet the expenses of the social services provided by the private sector. According to Nick Manning and Nadia Davidova:

> The process of Russian privatization did not include adequate planning for the reorganization of social provisions, which had always been unprofitable. The vast majority of the Russian enterprises are now technically in private hands and they have been encouraged to transfer their housing to municipal control and to sell off their social facilities, mostly in sport, leisure and pre-school facilities. However, employees are then unable to afford to use these facilities as they become expensive private services. The main consequences of this process have been a reduction of social support for employees, a gradual change in the pattern of social protection and a failure of local authorities, which are struggling with meager budgets to make up for the social services lost to private hands.[128]

Greater part of the Russian society subsisted under poor and insufficient opportunities. At the same time, not only unemployed and active working people, but also pensioners, disabled people, undereducated people and children, were negatively affected by inequality as they fell below the poverty line. [129] According to UNICEF records in 1995, there were 60,000 houseless children on the Moscow streets.[130] Similarly, Russian pensioners lived under harsh conditions due to their very low incomes that were far below the minimum subsistence level:

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[128] Nick Manning and Nadia Davidova "Social Policy after the Cold War – Paying the Social Costs" in *Russia after the Cold War*, edited by Mike Bowker and Cameron Ross (Harlow; New York: Longman, 2000), 156.

[129] See "III. A New Look at Poverty in Russia" in *Russian Economic Report, November 2004*, the World Bank Moscow Office, Economics Unit, 2004. http://ns.worldbank.org.ru/files/rer/RER_9.3_eng.pdf

[130] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 55.

> Since the minimum pension is currently around 20 per cent of the average wage or half the Ministry of Labour minimum subsistence poverty level, and the average pension is around 31 per cent of the average wage or 80 per cent of the subsistence level, the pension rate might be expected to determine the poverty rate. However, the average pension has closely matched the average wage since the mid-1980s, suggesting that the image of impoverished Russian pensioners should be replaced by one of impoverished children, particularly since it is quite common for pensioners also to take on paid work.[131]

Consequently, by the transition agenda, the deregulation of the social security system, which was one most important characteristics of the Soviet regime, resulted in rapid spreading of corruption and crime in the Russian society. Most importantly, as Yakov Gilinskiy asserts that there emerged "a virtual neglect of children and teenagers, whose parents [were] busy with acquisition of subsistence means, while out-of-school centers for children and teenagers [were] being closed down because of the lack of state financing."[132] As a result of the lack of necessary public service opportunities, especially unemployed people or people earning low wages became the focus group of the criminal organizations. Easy money and the luxury life style of the Russian criminal groups' members were among the most attractive points of crime especially for the young Russians. "It is well known that unemployed and delinquent people are easy targets for crime groups. For instance, people without a permanent income are increasingly forming a larger proportion of the total criminal population."[133] In 1990, this proportion was 17.8 per cent but, in 1996, it became 48.1 per cent.[134]

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[131] Manning and Davidova "Social Policy after the Cold War – Paying the Social Costs", 159.

[132] Yakov Gilinskiy, "Organized Crime: A Perspective from Russia" in *Organized Crime, World Perspectives*, edited by Jay S. Albanese, Dilip K. Das and Arvind Verma, (Upper Saddle River, N.J.: Prentice Hall, 2003), 151.

[133] Ibid.

[134] Ibid.

In short, between 1991 and 1993, there emerged widespread impoverishment in the Russian society, and 55 per cent of the families survived under the subsistence level.[135] Furthermore, the poverty rates were also much higher than the unemployment rates. "Employment is no guarantee that a family will escape poverty."[136] Therefore, "family with one or two children with both spouses working is now the numerous category of the poor, representing in 1993, 40 percent of the population below the poverty line."[137] For that reason, low wages and unemployment were two of the foremost conditions of the poverty in the transition period of Russia, but they may have been the most significant ones.

According to the survey of All-Russian Standard of Living Center (VCUG, *Vserossiyskiy Tsentr Urovnya Zhizni, Всероссийский центр уровня жизни, ВЦУЖ*), in the first half of 1994, 39 per cent of the Russian population lived in poverty. According to the survey of the Russian newspaper, *Argumenty i Fakty* (*Аргументы и Факты*), in the period between January and April 1994, 27-28 per cent of the population lived in poverty, and 33-34 per cent was extremely poor[138]. According to the survey of VTsIOM, in March 1994, 50-58 per cent of the population was poor. According to the survey of Tatiana I. Zaslavskaya, in the period between June and December 1993, 31.1 per cent of the Russian society was poor, and 9.6 per cent was extremely poor.[139]

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[135] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 42.

[136] Ibid., 50.

[137] Ibid.

[138] According to Silverman and Yanowitch, (*New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 52), "extremely poor" indicates those people who earn monthly less than one and half of the lowest subsistence level.

[139] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 48.

In 1995, although the extreme poverty rate was less than 1990 and 1998, national poverty line became 26.0 per cent. It was the second high rate between 1990 and 1999 and subsequent to 1998 with 55.0 percent. In addition to that, in 1995, both the Gini index and real personal income rates decreased as compared to the previous year. However, in 1996, there was an increase in real personal income and some improvement in national poverty line, Gini index and the proportion of the population living below the subsistence level. As Manning and Davidova indicate, "Goskomstat data in 1996 suggested that average per capita monthly incomes of 22.6 per cent of households were below the Ministry of Labour subsistence minimum. In 1997, this figure was down slightly to 20.9 per cent".[140] As shown in Table 3.2, this year we can see the highest rate in real personal income and the lowest rate in share of population below the subsistence level throughout the last five years of the Yeltsin era.

Furthermore, after the 1998 crisis, half of the Russian population started to live under poverty line, $4 per day suggested by the World Bank, and 60 per cent of children were living at these life standards.[141] As shown in the Table 3.2, 25.1 per cent of the Russian population started to live under extreme poverty, $2 per day in 1998. Headcount rate, which is the "index measures proportion of the population living below the selected subsistence minimum"[142], of the Russian Federation reached its peak level to 55.0 per cent in 1999 and the share of population below subsistence level demonstrated that the poverty level also increased up to 39.1 per cent from

[140] Manning and Davidova "Social Policy after the Cold War – Paying the Social Costs", 159.

[141] *Stuck in Transit: Rethinking Russian Economic Reform*, the 1999 Report of the Centre for Economic Policy Research (CEPR), and Russian European Centre for Economic Policy (RECEP), edited by Erik Berglöf, Romesh Vaitilingam, (Stockholm: the Stockholm Institute of Transition Economics and East European Economies (SITE); London: Centre for Economic Policy Research (CEPR), 1999), 1.

[142] "III. A New Look at Poverty in Russia", 17. http://ns.worldbank.org.ru/files/rer/RER_9.3_eng.pdf.

24.6 per cent in 1998 by the crisis, as shown in the Table 3.2.

Table 3.2: Economic Indicators of Poverty in Russia, between 1990 and 1999

	Headcount (National poverty line)[a]	"Extreme Poverty" ($2/day)[a]	Gini Coefficient Of Inequality[a]	Real Personal Income (per capita, 1991=1.00) [b]	Share of Population below Subsistence Level[b]
1990	10.1	14.3	28.4	-	-
1991	11.4	-	26.5	1.00	-
1992	23.1	-	28.7	0.49	-
1993	24.7	-	34.6	0.59	-
1994	-	-	40.9	0.68	-
1995	26.0	13.3	38.1	0.58	26.2
1996	21.0	-	37.5	0.59	22.6[c]
1997	-	-	-	0.63	20.9[c]
1998	-	25.1	48.7	0.53	24.6
1999	55.0	-	-	0.46	39.1

Source: a) Paul Mosley, "The World Bank and the Reconstruction of the 'Social Safety Net' in Russia and Eastern Europe" in *Globalization and the Nation State: The Impact of the IMF and the World Bank*, edited by Gustav Ranis, James Raymond Vreeland and Stephen Kosack, (London; New York: Routledge, 2006), 183. b) Paul Frijters, Ingo Geishecker, John P. Haisken-DeNew and Michael A. Shields, "Income and Life Satisfaction in Post-Transition Russia: A New Empirical Methodology for Panel Data", Working Paper Version. http://www.bus.qut.edu.au/paulfrijters/documents/IncomeandLifeSatisfactionRussiaWorkingPaper.pdf. c) Nick Manning and Nadia Davidova "Social Policy after the Cold War – Paying the Social Costs" in *Russia after the Cold War*, edited by Mike Bowker and Cameron Ross (Harlow; New York: Longman, 2000), 159.

In conclusion, during the transition period of the Russian Federation in 1990s, there emerged several factors as the reasons of massive poverty in Russian society, such as unemployment, low salaries, inequality and noteworthy cuts in social services. Life standards of the majority of the Russian population fell significantly. According to Edwin Bacon with Matthew Wyman, poverty in Russia was the end result of the following factors: "[t]he dramatic reduction in state subsidies for basic services such as rents, public transport and energy; the hyperinflation of 1992 which led to rises of some 2,500 per cent in price levels and the wiping out of personal savings; the economic slump and rise in unemployment; the non-payment of

wages and an inadequate welfare system; and the collapse of the rouble in 1998, which again wiped out the savings of many Russians."[143]

3.2 Corruption

In this part, I will discuss both the reasons and the impact of corruption in post-Soviet Russian society in the transition period, by looking at the political roots of this widespread social problem during Boris Yeltsin's presidency. I will mostly focus on the authority gap and the lack of influential political power of the Kremlin as the grounds of the disharmony of the political institutions as well as the explicit relationship between Russian political elite, oligarchs and people from criminal groups in Russia.

In general, the concept of corruption[144] is typically about the bribery and criminal activities within administrative bodies. This was also the case for Russia, especially in the economic area.[145] Although the relation between the Russian crime groups and the state had its roots back in the Soviet times, after 1991, the political and administrative agents strengthened their relationship more explicitly and more profoundly with the criminal people. This was mostly due to the reciprocal interests of these groups that could now be more freely pursued because of the newly emerged authority gap, which was seen as a direct result of the collapse of the strong state system of the former USSR. This fact had been commonly seen within the administrative units of the centrally controlled Soviet system, and after the collapse of Soviet Union, it continued to exist and even improved because of the power gap that could not be filled by the now Russian Federation state.

[143] Bacon with Wyman, *Contemporary Russia*, 50.

[144] Corruption is *korruptsiya* (*коррупция*) in Russian language.

[145] Waller, *Russian Politics Today: The Return of A Tradition*, 238.

After the collapse of the Soviet Union, criminal "organizations [were] interested in access to state structures to influence a rate of economy and favorable policies."[146] The underground groups possessed supplies, such as political and economic power, as well as wealth; and, as such, they aimed to acquire the industrial, financial, and policy-making institutions for boosting the purposes of realizing huge profits by criminal activities.[147] In consequence, the drive to denationalize public enterprises permitted the Russian crime groups to get huge shares from the economic system of the Russian Federation at a very low price. Simultaneously, the criminal organizations could infiltrate into the policy-making bodies, getting collaborators and customers within regional and central authorities.[148]

In other words, "[t]he criminality and corruption of the former regime has already become standard operating procedure in the new."[149] Indeed, according to Gilinskiy, various mistakes were made by the top ranks of the Russian administration, while implementing the transition era policies because the policies were realized "by criminogenic processes: corruption, incompetence, and "governmental" privatization."[150]

According to Russian state reports, "more than half of the country's criminal groups in 1992 had ties to government."[151] Nevertheless, most importantly, the Russian criminal groups were supported by the corrupted officers within all range of administrative bodies. These groups could not

[146] Gilinskiy, "Organized Crime: A Perspective from Russia", 149.

[147] Ibid.

[148] Mark Galeotti, "Crime, Corruption and the Law" in *Russia after the Cold War,* edited by Mike Bowker and Cameron Ross, (Harlow; New York: Longman, 2000), 144.

[149] Quotation from Handelman, *Comrade Criminal*, 8, in Leitzel, "Rule Evasion in Transitional Russia", 122.

[150] Gilinskiy, "Organized Crime: A Perspective from Russia", 151.

[151] Stephen Handelman, "The Russian 'Mafiya' " *Foreign Affairs*, 73:2, March 1994, 84.

survive without the backing and emboldening of the bureaucrats. According to James O. Finckenauer and Yuri A. Voronin:

> Contemporary Russian…[criminality] grew out of the Soviet "nomenklatura" system (the government's organizational structure and high-level officials) in which some individual "apparatchiks" (government bureaucrats) developed mutually beneficial personal relationships with the thieves' world. The top of the pyramid of organized crime during the Soviet period was made up of the Communist Party and state officials who abused their positions of power and authority… The giant state apparatus thus not only allowed criminal activity, but encouraged, facilitated, and protected it, because the apparatus itself benefited from crime.[152]

As a matter of fact, the new economic agenda adopted for the transformation and integration of Russia to the global economy provided a very appropriate ground for the increase of crime and corruption, especially by releasing the strict control over private property and prices. James Leitzel argues the following:

> Liberalization during the Russian transition has resulted in substantially loosened controls on private economic behavior. Forms of rule breaking that were prevalent in the prereform system, such as circumvention of the price controls or "speculation", are, for the most part, no longer against the rules. Nevertheless, there remains a good deal of corruption, illegality, and underground activity.[153]

According to Silverman and Yanowitch, newly adopted economic programs such as privatization "has not led to the growth of a productive private sector in Russia but to speculation, corruption, and crime."[154] Because of

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[152] James O. Finckenauer and Yuri A. Voronin, *The Threat of Russian Organized Crime*, (Washington: National Institute of Justice, Issues in International Crime series, 2001), 5-6.

[153] Leitzel, "Rule Evasion in Transitional Russia", 122.

[154] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, xxi.

corruption, transition policies, especially privatization, led to the emergence of a group of people who could not create a regularly operating free market system. By the year of 1992, "the estimated size of the shadow economy was 2.5 trillion rubles… about 1.3 billion dollars".[155] There was more and more "evidence of corruption and outright criminal behaviour of the business elite"[156] and that would emerge as a big challenge to economic transition.

On the other hand, according to Waller, there were also two main causes of corruption in Russia. The first one was "the low salaries of public servants".[157] Likewise, according to Goldman, as though the situation was "not bad enough, the inflation that soared in 1992 all but impoverished any honest civil servant who tried to rely solely on his official salary. It forced even honest officials to approve of, or even depend on, payoffs and graft… In this climate, the rise of a mafia and the breakdown of law and order at all levels were inevitable."[158] The second cause of corruption was "the over-regulation of administrative life."[159] The large amount of instructions and rules imposed to the Russian bureaucrats restricted the capacity of prevention and effective control on corruption. Moreover, lack of necessary efficient institutions was also one of the conditions for the emergence of widespread corruption in not only the administrative apparatus and fiscal institutions but also the executive branch. According to Silverman and Yanowitch:

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[155] Jasmine Martirossian, "Russia and Her Ghosts of the Past" in *The Struggle Against Corruption: A Comparative Study*, edited by Roberta Ann Johnson, (New York: Palgrave Macmillan, 2004), 85.

[156] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 109.

[157] Waller, *Russian Politics Today: The Return of A Tradition*, 193.

[158] Goldman, "The Russian Transition to the Market: Success or Failure?", 126-127.

[159] Waller, *Russian Politics Today: The Return of A Tradition*, 193.

> The fragility of the state bureaucracy and the devolution of political and economic power to regional and local authorities has reduced the capacity of the state to collect taxes and support social programs. Businesses and citizens avoid paying taxes, and corruption has become commonplace… Nor has the diffusion of government authority eliminated the legacy of corruption and opportunism among government bureaucrats and business… The market has not ended the culture of corruption and cronyism that was commonplace under communism. But today the economic rewards for such behavior are much greater and the punishment less severe. In this environment, criminal organization and corrupt business practices have become pervasive.[160]

Additionally, lack of legislative, political and economic institutions necessary for a harmonious progress of the market system also turned out to be a very steady base for the criminality, being influenced by the widespread corruption in the Russian administration. Although there were also some attempts of the government for decreasing crime and increasing the budget of security forces, these were not sufficient. For example, the 1993 constitution set up "some important principles for reforming the justice system, such as an independent judiciary and the right to private property and business."[161] These principles and arrangements could not be translated efficiently into rules. Nonetheless, aside "from the legislative and penal measures strengthening the criminal laws and enhancing the punishment, it seems more important to reform the economical, social, and political institutions in the country."[162]

This situation influenced the capacity of the Russian state's administrative activities because high-level corruption in bureaucratic units meant "low

[160] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 132.

[161] Handelman, "The Russian 'Mafiya' ", 89.

[162] Gilinskiy, "Organized Crime: A Perspective from Russia", 162.

official accountability."[163] As M. Steven Fish asserts, the existence of "massive, all-pervasive corruption… is the emblem of unaccountable government, since people everywhere and always oppose the appropriation by officials of resources that otherwise could be invested in the provision of public services."[164]

Accordingly, the corrupt behavior within governmental and fiscal bodies, particularly in banks, indicated "that economic crimes [would] flourish and political corruption [would] destroy the faith of the people in the system itself."[165] According to the reports of the Russian Ministry of Internal Affairs (*Ministerstvo Vnutrennikh Del, MVD, Министерство внутренних дел, МВД*), "85 percent of Russians believe most officials are corrupt and that 89 percent think that a small group of super-rich run the country."[166] O. V. Perepelkin suggested that:

> According to a survey of Cheliabinsk entrepreneurs, 30 out of 40 possessors of large holdings think it is impossible to do business without breaking the law; 90 percent of all respondents are convinced that they cannot engage in business without giving bribes to various state agencies; 65 percent of entrepreneurs have bribed workers in financial auditing bodies; 55 percent have bribed deputies at various levels, 32 percent

[163] M. Steven Fish, "When More Is Less: Superexecutive Power and Political Underdevelopment in Russia" in *Russia In the New Century: Stability or Disorder?*, edited by Victoria E. Bonnell and George W. Breslauer, (Boulder: Westview Press, 2001), 27.

[164] Ibid.

[165] Gilinskiy, "Organized Crime: A Perspective from Russia", 163.

[166] Martirossian, "Russia and Her Ghosts of the Past", 89.

> have bribed the police and 27 percent have bribed the courts and prosecutor's office.[167]

According to Waller, one of the three most extensive crimes in Russia was "crimes committed by agents of the state."[168] This crime was based on corruption of administrative units as both pervasive bribery and criminal activities linked with illegal organizations.[169] Especially, the tax system and the activities of the police were exceedingly corrupt.[170] However, more importantly, the corruption cases were seen not only at the top of the state bureaucracy but also in every type of political and economic institution. "The army, the security police, the Presidential Administration, and other government agencies are all linked to… competing elite structures, which contributes to the corruption and weakening of state authority."[171] As Stephen Handelman mentions:

> Throughout 1993, successive corruption scandals paralyzed the Yeltsin government. No institution was left untainted: senior commanders of the Red Army were caught in smuggling rings; cabinet ministers and police officials were discovered working for shady commercial firms. In the most celebrated case, members of the ill-fated Supreme Soviet, led by then Vice President Aleksandr Rutskoi, forced several reform ministers

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[167] Quotation translated into English from O. V. Perepelkin, "The Russian Entrepreneur: Features of A Social Portrait", *Sotsiologicheskie Issledovanii*, 1995, 2, 40, in Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 117-118. (*Согласно опросу челябинских предпринимателей, из 40 обладателей крупных состояний 30 считают невозможным заниматься бизнесом, не нарушая законодательства; 90% всех респондентов убеждены, что нельзя заниматься бизнесом, не давая взятки в различных государственных инстанциях; 65% предпринимателей давали взятки работникам финансово-контрольных органов, 55% — депутатам различных уровней, 32% — работникам милиции, 27% — суда и прокуратуры.*)

[168] Waller, *Russian Politics Today: The Return of A Tradition*, 235.

[169] Ibid., 235-236.

[170] Gilinskiy, "Organized Crime: A Perspective from Russia", 154-155.

[171] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 145.

out of office over charges of corruption.[172]

What was even more disturbing was the emergence of extensive corrupt activities inside the Kremlin.[173] Some of the major critical comments against the Yeltsin government were about the explicit corrupt behaviors of Kremlin household and the "Family"[174]. As Patrick Richter exemplifies, "the Italian newspaper *Corriere della Sera* reported that investigations had been launched into the granting of credit cards to Yeltsin's family. During a probe of the Swiss company Mabetex, records were found relating to credit cards issued to Boris Yeltsin and his daughters, Tatyana Dyachenko and Yelena Okulova."[175]

In addition to these, according to Joel Hellman, the feeble Russian state "unable to enforce the rule of law generates opportunities for grand

[172] Handelman, "The Russian 'Mafiya' ", 90.

[173] George W. Breslauer, "Personalism Versus Proceduralism: Boris Yeltsin and the Institutional Fragility of the Russian System" in *Russia In the New Century: Stability or Disorder?*, edited by Victoria E. Bonnell and George W. Breslauer, (Boulder: Westview Press, 2001), 51. See also Patrick Richter, "What Lies Behind the Corruption Scandals in the Kremlin?" in *World Socialist Web Site*, on September 10, 1999. http://www.wsws.org/articles/1999/sep1999/russ-s10.shtml.

[174] This term is used for describing the close relationship between Yeltsin's family members and powerful Russian oligarchs such as Boris Berezovsky, Aleksandr Mamut, Roman Abramovich, Anatoly Chubais and Vladimir Potanin. The "Family" was especially grounded on the friendship of Boris Berezovsky and Tatiana Dyachenko, daughter of Boris Yeltsin. "The group that formed around the president came to be called 'the family' not only because its central figure was Yeltsin's daughter Tatiana Dyachenko. Far more important was the fact that the relations between the members were thoroughly informal and family-like." (Kagarlitsky, *Russia under Yeltsin and Putin*, 213)

[175] Richter, "What Lies behind the Corruption Scandals in the Kremlin?". http://www.wsws.org/articles/1999/sep1999/russ-s10.shtml. Furthermore, "the *New York Times* has published reports on nine bank accounts with the Bank of New York, through which up to $10 billion was laundered for the Russian Mafia, with Yeltsin's knowledge. Even IMF funds were alleged to have flowed into pockets of the Russian Mafia. According to *USA Today*, in addition to 12 former or current Russian cabinet members, Yeltsin and his daughter Dyachenko were involved." (Richter, "What Lies behind the Corruption Scandals in the Kremlin?". http://www.wsws.org/articles/1999/sep1999/russ-s10.shtml)

corruption that can aid in the building of future economic empires."[176] These leviathan monopolies held by powerful oligarchs became more and more important throughout the subsequent stage of denationalization, or the cash privatization, in 1995.[177] However, afterwards, "often illegally, shares were offered as collateral in return for loans to the government to help finance Yeltsin's re-election in 1996."[178]

In fact, these powerful tycoons had close relationships both with the Kremlin and with other executive agents in political and economic institutions. Because of that reason, it was impossible to hold judicial inquiries against them. For instance, Boris Berezovsky could not be charged for the disappearance of 600 million dollars because Yeltsin and his family members, especially his daughter Tatiana Dyachenko and her husband, were on good terms with him.[179] Put another way, economic agents try to establish "their own means of regulating and enforcing contracts and property rights. Since the state is weak, and authority relationships are informal and personal, few leaders are committed to the rule of law."[180]

Yeltsin could also realize his reform policies with the help of the parliament, although most of the parliamentarians opposed his program mostly due to come corrupt methods.[181] "The link between corruption and

[176] Joel Hellman, "Russia's Transition to A Market Economy: A Permanent Redistribution?" in *Russia after the Fall*, edited by Andrew C. Kuchins, (Washington, D.C.: Carnegie Endowment for International Peace; Brookings Institution Press, 2002), 105.

[177] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 144.

[178] Ibid.

[179] Martirossian, "Russia and Her Ghosts of the Past", 89.

[180] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 145.

[181] Fish, "When More Is Less: Superexecutive Power and Political Underdevelopment in Russia", 27.

superpresidentialism is found in executive's control over public expenditures and in the absence of meaningful external checks on executive-branch officials… Whenever parliamentary cooperation is desirable, the president's enormous discretionary powers enable him easily to buy the support of parliamentarians."[182] According to Fish, corrupt activities within the executive branch remained "unchecked due to the lack of oversight mechanisms. Since neither parliament nor the court possess the means to investigate and monitor the executive, those who control the state's resources at the national level ultimately are accountable only to the president."[183]

While the corruptness "is difficult to observe and measure"[184], certain "crossnational surveys… show corruption to be the very stuff in political life in Russia."[185] As can be seen in Tables 3.3 and 3.4, quite high corruption rates derived from such international surveys are quite high.

Table 3.3: Corruption Scores in Russia, between 1996 and 1999

	Corruption Perception Index [a]	Ranking [b]
1996	2.58	48/54
1997	2.27	49/52
1998	2.40	76/85
1999	2.40 [c]	82/99

Source: a) Vito Tanzi, "Corruption Around the World: Causes, Consequences, Scope, and Cures", *IMF Staff Papers*, Vol. 45, No. 4, December 1998, International Monetary Fund, 580; b and c) Manabu Suhara, "Corruption in Russia: A Historical Perspective", 385. http://src-h.slav.hokudai.ac.jp/sympo/03september/pdf/M_Suhara.pdf.

According to Table 3.3, between 1996 and 1999, the corruption ranking of the Russian Federation was demonstrating that the Russian state had a real trouble with the corrupt behaviors in its economic and political institutions.

[182] Ibid.

[183] Ibid.

[184] Ibid.

[185] Ibid.

In 1996, Russia was the 49th country out of 54 countries, in other words, it was the 7th most corrupt country in this ranking. In 1997, Russia became the 4th most corrupt country among 52 countries. In 1998, Russia was the 10th most corrupt country out of 85 countries, and in 1999, was the 18th most corrupt country out of 99 countries. As the perception index, "10" means "highly clean", "0" means "highly corrupt".[186] Accordingly, the most problematic year due to the corruption in the Russian Federation was 1997 with 2.27 score, although the years 1998 and 1999 also showed high levels of corruption.

Furthermore, as shown in Table 3.4, there was an apparent increase in the numbers of corruption cases between 1990 and 1999, especially on bribery, which nearly triplicated within this period. In 1990, there were totally 49.2 thousands corruption cases committed by Russian officials as 2.7 thousands of bribery cases, 44.4 thousands embezzlement cases and 2.5 thousands abuse of power cases. The highest increasing rate of the bribery fact in Russian administrative bodies appeared in 1993. Bribery in 1993 was seen 4.5 thousand times as compared to 3.3 thousand in 1992. Moreover, after the 1998 crisis, there emerged another wave of increased bribery in 1999: 6.8 thousand cases up from 5.8 thousand in 1998. The total number of bribery and embezzlement cases was 55.3 thousands in 1999. Additionally, according to official records of MVD, "53,000 crimes were committed by government officials alone in 1999 – an increase of 36 percent over 1998".[187]

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[186] Manabu Suhara, "Corruption in Russia: A Historical Perspective" in *Democracy and Market Economics in Central and Eastern Europe: Are New Institutions Being Consolidated?*, edited by Tadayuki Hayashi, (Sapporo: The Slavic Research Center of Hokkaido University, June 2004), 385. http://src-h.slav.hokudai.ac.jp/sympo/03september/2003september-contents.html. http://src-h.slav.hokudai.ac.jp/sympo/03september/pdf/M_Suhara.pdf. This volume contains the papers submitted in this first conference of the "Central And East European (CEE) – Japan Forum for the 21st Century" organized by the Slavic Research Center of Hokkaido University, on September 3-5, 2003, in Sapporo, Japan.

[187] Martirossian, "Russia and Her Ghosts of the Past", 89.

Table 3.4: Number of Recorded Offences Committed by Officials in Russia (thousands)

	Bribery	Embezzlement	Abuse of power
1990	2.7	44.4	2.5
1991	2.5	40.4	2.5
1992	3.3	39.9	2.7
1993	4.5	37.3	2.8
1994	4.9	35.6	3.2
1995	4.9	36.5	-
1996	5.5	39.4	-
1997	5.6	43.4	-
1998	5.8	44.4	-
1999	6.8	48.5	-

Source: Manabu Suhara, "Corruption in Russia: A Historical Perspective", 385. http://src-h.slav.hokudai.ac.jp/sympo/03september/pdf/M_Suhara.pdf.

In conclusion, it is possible to suggest that the shock therapy policies of the transition agenda resulted in poverty and corruption throughout the presidency of Boris Yeltsin.[188] In fact, corruption was facilitated by poverty as well as crime that emerged in the transition period.[189] The transition program itself was the major foundation that contributed to the emergence of relatively high unemployment, insufficient incomes, and inequality in the allocation of wealth and power, lack of sufficient legislative, judicial and fiscal institutions and their inadequate regulations (including efficient political and economic sanctions). As such, the program excessively expanded the sphere of power of both criminality and corrupt officials.

[188] Silverman and Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism*, 143.

[189] Robert J. Kelly, Rufus Schatzberg and Patrick J. Ryan, "Primitive Capitalist Accumulation: Russia As A Racket" in *Journal of Contemporary Criminal Justice*, 11:4, December 1995, 261.

CHAPTER 4

POLITICAL AND ECONOMIC CONDITIONS IN THE PUTIN ERA

In this chapter, I will examine political and economic circumstances, which the Russian society experienced during Vladimir Putin's presidency and the social indicators of the policies enacted between 2000 and 2006. However, in contrast to first chapter, which examined similar conditions during Yeltsin's presidency, this chapter is based mainly on the arguments relating to the political agenda of Putin. In other words, Putin stressed on adjustments that are more political than economic because he believed that political stability had priority over economic development. For that reason, Putin emphasized the political side of transition, although Yeltsin had given influence to economic reforms for the stability and social harmony in the Russian Federation.

In August 1999, Yeltsin changed the prime minister without prior hint or notice. Sergei Stepashin, who was the prime minister after Yevgeny Primakov, was removed from office in April 1999. Yeltsin appointed Vladimir Putin, an ex-KGB (*Committee for State Security, Komitet Gosudarstvennoy Bezopasnosti, Комитет Государственной Безопасности, КГБ*) officer from outside of the Yeltsin's immediate circle,

as the new prime minister on 9 August 1999. Moreover, Yeltsin appointed this new prime minister as his successor in the television on the Christmas Eve of the same year. Consequently, the Russian Federation experienced a shift of power from Boris Yeltsin to Vladimir Putin by Yeltsin's sudden decision to resign voluntarily. On 1 January 2000, Putin became the new acting president of Russia. By 26 March 2000, he was elected by popular vote as the president of the Russian Federation, with the support of United Russia Party[190] (Ye*dinnaya Rossiya Partiya* - *Единная Россия Партия*).

After coming to power, Vladimir Putin realized that he should endeavor both to construct a steady public support and to expand his power in state institutions in order to realize his own agenda. At the preliminary stage, the basic aim of Putin's program was "toward liberal economic reforms under strong political control."[191] For that reason, he launched a program revolving around two main issues: remodifications in economic level, and shift of the major structures in political level.[192] Within this framework, first of all, he

[190] The United Russia Party, whose present leader is Boris Gryzlov, was established in 2001 with the union of Yuriy Luzhkov's and Yevgeny Primakov's Fatherland - All Russia Party (*Otechestvo-Vsya Rossiya* - *Отечество-Вся Россия*), and the Unity Party of Russia (*Yedinstvo* - *Єдинство*), led by Sergei Shoigu and Alexander Karelin. According to Henry E. Hale, "as a major nationwide structure during Putin's first term, it is sometimes assumed that this was what the Kremlin had planned all along in creating the Unity Bloc in fall 1999 to contest the Duma elections of that year. To many, Unity was simply the successor to Russia's Choice, Our Home is Russia, and other attempts by Kremlin insiders to promote a party to support the president in the parliament and in regional elective organs." (Henry E. Hale, "Origins of United Russia and the Putin Presidency: The Role of Contingency in Party-System Development, The" in *Demokratizatsiya*, Spring 2004, 10. http://www.findarticles.com/p/articles/mi_qa3996/is_200404/ai_n9376577/pg_10). There is no an official link of Vladimir Putin with the party but as Hale indicates, "Putin finally endorsed Unity unambiguously on national television in late November. With Shoigu by his side, Putin declared that "I personally, as a citizen, will vote for Unity." Unity immediately capitalized, putting out a press release declaring that "Unity supports Putin and Putin relies on Unity. And this is a union of victors." " (Ibid., 15. http://findarticles.com/p/articles/mi_qa3996/is_200404/ai_n9376577/pg_15).

[191] Berglöf, et al., *The New Political Economy of Russia,* 62.

[192] Lilia Shevtsova, "From Yeltsin to Putin: The Evaluation of Presidential Power" in *Gorbachev, Yeltsin, and Putin: Political Leadership in Russia's Transition*, edited by Archie Brown and Lilia Shevtsova, (Washington, D.C.: Carnegie Endowment for International Peace, 2001), 95.

began with the necessary political adjustments because he believed that he should increase his authority in order to realize his new economic program.[193] In addition to that, Putin wanted to shift political power to the center so as to create a market system that would operate regularly and effectively. As a consequence, before implementing any economic adjustment policies, he focused on two key political issues: shift of power "from the legislative to the executive" and "from the regional to the federal".[194] This would be "a "transmission belt" system, based on strict vertical subordination."[195] Putin wanted to get rid of the political disorder that emerged in the Yeltsin era, and as such he was seeking to stabilize the Russian Federation through solidifying the state power and achieving harmony in social relations.[196]

4.1 Political Circumstances

In his first public speech on 8 July 2000, Putin emphasized the importance of the construction of a more stable and effective Russia in all areas. He "focused on his favorite theme, the need to 'strengthen the state' and to establish 'a single vertical line of executive power' while pursuing liberal economic reforms… Russia was continuing to lose ground economically, despite some economic growth, and was in danger of becoming a third world state."[197] He said the following: "I believe that one of the main purposes of the state is to create rules – universal rules – in the form of laws, instructions, and regulations. And secondly, to comply with these rules, and

[193] Shevtsova, "From Yeltsin to Putin: The Evaluation of Presidential Power", 95.

[194] Berglöf, et al., *The New Political Economy of Russia,* 62.

[195] Shevtsova, "From Yeltsin to Putin: The Evaluation of Presidential Power", 95.

[196] Ibid., 144.

[197] Sakwa, *Putin: Russia's Choice*, 51.

guarantee their compliance."[198] Putin also believed that a more powerful state would yield more free citizens.[199] In general, the idea behind his agenda depended on the supremacy of law and the fight against crime, coupled with reform attempts aimed at erasing the power of both oligarchs and regional authorities.

Vladimir Putin also emphasized that "[S]ustainable growth require[d] sustainable institutions"[200] and that executive reforms aimed at stability were necessary preliminary steps for a more dynamic, and steadily growing economy, which would be attractive for foreign direct investments. Because of this reason, he tried to set up a system in which, on the one hand, federal-level bureaucrats and regional governors were put under executive control, and on the other hand, national and international entrepreneurs and investors were put under central supervision. These necessary economic measures included property rights, a secure banking system and fiscal stability. As Berglöf, et al. explain, "[E]xperience from around the world shows that when a country's rules and laws are unclear or when the power of country's ruler is unchecked, the country's economic growth suffers as a consequence."[201]

Putin could establish a balanced relationship between the three major state institutions, of legislative, executive and judicial branches.[202] He provided some political stability based upon especially the close cooperation between his administration and the Duma. If these two top-level institutions of the

[198] Ibid., 83.

[199] Jim Nichol, "Russian President Putin's Prospective Policies: Issues and Implications" in *Russia in Transition*, edited by Frank Columbus, (New York: Nova Science Publishers, Inc., 2003), 1.

[200] Berglöf, et al., *The New Political Economy of Russia*, 5.

[201] Ibid., 4.

[202] Ibid., 56.

Russian Federation could function in harmony, then President Putin could realize his political and economic reform programs smoothly, together with strong public support for his policies. Moreover, for Berglöf, et al., Putin's "control of the Duma majority increases cooperation between the executive and legislative branches and makes them mutually responsible to one another: The president cannot justify cabinet ineffectiveness by reference to the legislature's sabotage of government reforms, and the Duma majority has no choice but to provide consistent support for cabinet initiatives."[203]

Accordingly, the Unity Party, which explicitly supported Putin's agenda, acquired a little bit more than 23 per cent of the votes in the 1999 State Duma elections.[204] After the elections, "a wide legislative coalition with other parties to support Putin's reform initiatives"[205] was established. The emerging coalition was composed of four parties in the Duma: the Unity Party (23 per cent); Fatherland-All Russia (13 per cent); Unity of Right Forces (9 per cent); and Liberal Democratic Party (6 per cent).[206] This coalition allowed Putin to realize his projects effectively. Now there was no quarrel between the Kremlin and the Duma unlike the previous era and by "the spring legislative session of 2001,… the Putin government successfully passed about 80 percent of its legislative agenda through the Duma: twenty-nine reform laws in such contentious areas as taxation, land property, pensions, law enforcement, and labor relations."[207] In the State Duma

[203] Ibid., 59.

[204] See "Results of Previous Elections to the Russian State Duma", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/duma/duma_elections_93-03.php.

[205] Berglöf, et al., *The New Political Economy of Russia,* 59.

[206] Ibid., 61.

[207] Ibid., 59-61.

elections in 2003, the United Russia Party[208] got 37.6 per cent of the votes,[209] and could acquire 69 per cent of the total seats in the parliament.[210]

In addition to his success in the political arena, Putin also made some territorial arrangements on 13 May 2000 and created seven major federal okrugs, into which 89 constituent units of the country would be attached to.[211] This federal reform aimed to reduce the power of regional/local authorities and also control their unlawful activities, such as widespread corruption and strong links with criminal groups. In other words, Putin altered the administration scheme "to claw back a substantial amount of power from the governors for the benefit of the federal government".[212] This new structure created for a vertical model giving power to federal authority, instead of regional/local authorities.[213] As Thomas Graham states:

> First, [Putin] took aim at the regional governors by establishing seven "superregions" headed by personal representatives charged with coordinating the activity of all federal agents in their regions and monitoring compliance of local laws with the constitution and federal laws. He pushed through two laws that

[208] In 2001, the Unity Party and the Fatherland-All Russia Party came together and stood for the 2003 election as a sole party. See "The Duma Today", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/duma/duma_today.php.

[209] See "Results of Previous Elections to the Russian State Duma", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/duma/duma_elections_93-03.php.

[210] See "The Duma Today", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/duma/duma_today.php.

[211] See Robert W. Orttung, "Key Issues In The Evolution of The Federal Okrugs and Center-Region Relations under Putin" in *The Dynamics of Russian Politics: Putin's Reform of Federal-Regional Relations*, edited by Peter Reddaway and Robert W. Orttung, (Lanham: Rowman & Littlefield, 2004), 21.

[212] Peter Reddaway, "The Historical and Political Context" in *The Dynamics of Russian Politics: Putin's Reform of Federal-Regional Relations*, edited by Peter Reddaway and Robert W. Orttung, (Lanham: Rowman & Littlefield, 2004), 14.

[213] Orttung, "Key Issues in the Evolution of The Federal Okrugs and Center-Region Relations under Putin", 21.

> enhanced his leverage over regional elites. The first restructured the Federation Council, the upper house of their seats (held ex officio) and, thereby, their immunity from criminal prosecution; the second gave the president the right to dismiss regional leaders and legislatures for actions contradicting federal laws. [214]

Therefore, Putin "launched his presidential term with package of initiatives aimed at strengthening the power of Russia's federal government in its relations with regions."[215] In doing this, Putin had two goals. His first goal was political: "[t]aking back the federal powers that the governors had captured during the previous decade."[216] His second goal was economic: "[r]emoving the various interregional barriers and trade impediments that had appeared during these years."[217]

Subsequently, after the stabilization of political power by harmonizing the interrelations of the presidential administration, national executive institutions and regional authorities, Putin launched an economic reform program that basically dealt with the widespread problems about social welfare, such as poverty, taxation, agriculture, social policies, crime and corruption. The program also aimed at re-nationalization of major industries, such as the gas and oil industries of the Russian Federation. According to Clifford G. Gaddy, Putin tried to set up a vertical economic system, "in which the highest priority [was] the center", rather than a horizontal one, in which local government could act due to their own ruling

[214] Thomas Graham, "Fragmentation of Russia" in *Russia after the Fall*, edited by Andrew C. Kuchins (Washington, D.C.: Carnegie Endowment for International Peace; Brookings Institution Press, 2002), 54-55.

[215] Orttung, "Key Issues In the Evolution of the Federal Okrugs and Center-Region Relations under Putin", 20.

[216] Ibid.

[217] Ibid.

scheme within the micro-level economic mechanisms.[218] This economic agenda was mainly based on the economic program of German Gref, Minister of Economic Development and Trade of the Russian Federation that aimed at implementing economic restructuring by 2010. In the next part, these economic reform attempts will be analyzed in more detail.[219]

4.2 Economic Circumstances

According to Putin's initial agenda, by 2001, new economic reforms would result not only in market reconstruction but also in renovation of necessary market-supporting institutions. This new economic program was aimed to restructure the judicial and fiscal systems in Russia, including reforms on agriculture, tax, labor market, banking and socio-economic regulations. Putin "endorsed the 'dictatorship of law' and championed land, tax, credit, banking, trade and regulatory reforms. He… called for improved corporate governance, antitrust legislation, and fiscal federalism."[220] In addition, as Goldman asserts, "[t]he more basic challenge, however, [was] for Russia to deal with its structural impediments. To his credit, President Vladimir Putin… pushed through legislation reducing and simplifying the tax burden and import tariffs."[221]

According to Sakwa, by these legislative renovations, Putin had three main goals: normalization, regulation, and deprivatization.[222] Firstly, he

[218] Clifford G. Gaddy, "Has Russia Entered a Period of Sustainable Economic Growth?" in *Russia after the Fall*, edited by Andrew C. Kuchins, (Washington, D.C.: Carnegie Endowment for International Peace; Brookings Institution Press, 2002), 143.

[219] Millar, "Putin and the Economy", 120.

[220] Rosefielde, *Russia in the 21st Century: The Prodigal Superpower*, 77.

[221] Goldman, "The Russian Transition to the Market: Success or Failure?", 132.

[222] See Sakwa, *Putin: Russia's Choice*, and Richard Sakwa, "Regime Change from Yeltsin to Putin: Normality, Normalcy or Normalisation" in *Russian Politics under Putin*, edited by Cameron Ross, (Manchester; New York: Manchester University Press, 2004).

performed executive and federal reforms for normalization. This was to provide the stabilization of the socio-economic atmosphere of Russia that had been damaged by unsuccessful the economic policies applied in 1990s. Secondly, Putin rebuilt the regulatory function of the Russian state for constructing a strong state system by giving an important economic role to the state whose powers had been eradicated in the transition period for the sake of integrating into the market economy. Thirdly, Putin emphasized de-privatization policies, especially in eradicating the hyper-power of the oligarchs, by nationalizing the privatized old state corporations, which mostly dealt with oil, gas and minerals. The ultimate goal of Vladimir Putin could be perceived as an attempt to stabilize Russia and to construct a strong Russian state system by realizing these three major issues in his roadmap, which in general could be successfully realized.

It must however be mentioned that some global developments contributed to Putin's economic success. On the one side, "[a]mong the favorable factors [was] unquestionably the economic situation, which [was] characterized by economic growth, low inflation, and a stabilizing standard of living. But it should not be forgotten that these successes have been based largely on the high price of oil, not on successful structural reform."[223] In other words, "the global rise in oil prices in 1999 and the economic growth in Russia after the 1998 crisis provided President Putin with resources for launching and sustaining his policy initiatives."[224] For that reason, Putin adopted some economic reforms, such as lessening and easing the taxation charge and trade taxes.[225] As a consequence, the growth "in tax and export revenues resulting from the higher oil prices and increased economic activity allowed Putin's government to pay off old wage arrears, finance the government's

[223] Shevtsova, "From Yeltsin to Putin: The Evaluation of Presidential Power", 98.

[224] Berglöf, et al., *The New Political Economy of Russia*, 57.

[225] Ibid.

current deficit, and repay the due portion of Russian foreign debt."[226]

Moreover, the Russian Federation became a member of both the G-8 at the summit in June 2006 in San Petersburg and the World Trade Organization (WTO) at the WTO summit in November 2006 in Vietnam. In the course of these membership processes, the rapid and steady improvements on political, social and economic conditions of Russia were expected to accelerate as a result of bilateral alliances with the powerful countries in both the G-8 and the WTO. Besides, in contrast to the Yeltsin era, in Putin's era, the transnational institution having strongest political and economic links with Russia, was the European Union (EU) instead of the IMF or the World Bank. The EU was the leading collaborator of Russia in the trade of energy, raw materials and goods.[227] The most important energy supplier to the EU to continues to be Russia as of 2007.

Hence, between 2000 and 2006, the Duma approved hundreds of laws on political, social and economic regulations offered by Vladimir Putin for stabilization of the Russian Federation. As Sakwa mentions,[228] by "spring 2001, Putin pushed forward the implementation of long-delayed judicial, pension, housing, and utility reforms."[229] Moreover, by Putin's economic program together with the important economic progress initiated by the devaluation of the Ruble in 1998 and high oil prices, the Russian economy demonstrated steady improvement. This improvement could be seen in the

[226] Ibid.

[227] See "EU Seeking Stronger Economic Ties with Russia, ASEAN", *Asian Economic News*, on July 15, 2002. http://findarticles.com/p/articles/mi_m0WDP/is_2002_July_15/ai_89070575; Leif Pagrotsky and German Gref, "Economic Link with Russia is Key to EU Future", *International Herald Tribune*, on March 29, 2001. http://www.iht.com/articles/2001/03/29/edpagr_ed2_.php; and Dmitri Trenin, "Russia, the EU and the Common Neighbourhood", Centre for European Reform, September 2005. http://www.cer.org.uk/pdf/essay_russia_trenin_sept05.pdf.

[228] Sakwa, *Putin: Russia's Choice*, 121-122.

[229] Shevtsova, "From Yeltsin to Putin: The Evaluation of Presidential Power", 103.

Table 4.1.

Table 4.1: Economic Comparison between Yeltsin's and Putin's Periods

	Yeltsin Era		Putin Era	
	1997	**1998**	**1999**	**2000**
Percentage Change in GDP	0.009	-0.049	0.054	0.090
Industrial Production Index (%)	102.00	94.80	108.10	109.00
Government Budget Deficit Balance (% of GDP)	-3.80	-5.30	-1.10	1.20
Exports ($US millions)	87,400.00	72,100.00	74,700.00	105,565.00
Current Account ($US millions)	2,060.00	687.00	24,731.00	46,291.00

Source: Berglöf, et al., *The New Political Economy of Russia*, 58.

As can be discerned easily in Table 4.2 below as well as in Table 4.1 above, in 1999, there was a significant increase within the four most important economic activities (industrial production, agricultural production, investment growth, and capital investments) as compared to the numbers of 1998. Additionally, the growth rate of 2000 demonstrated nearly the highest scores in 11 years. On the other hand, it can be seen that there was a slow improvement between 2000 and 2006 but the figures nevertheless demonstrated some improvement in Russian economy with respect to the scores before 2000. The GDP growth rate followed a steady path with neither a huge increase nor a deep decrease, with only a tiny increase from 6.3 per cent from 1999 to 6.6 per cent in September 2006. On the other hand, the inflation rate show an actual decrease from 86.1 per cent in 1999 to 7.4 in October 2006. The investment growth rate has a significant increase from 1.0 per cent in 1999 to 12.6 per cent in October 2006.

Table 4.2: Economic Growth Rates of the Russian Federation, between 1997 and 2006 (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross Domestic Product (GDP)	101,4	94,7	106,4	110,0	105,1	104,7	107,3	107,2	106,4	106,7
Inflation[a]	-	-	86.1[b]	20.2	18.6	14.0	12.0	11.7[c]	10.9[d]	7.4[e] (January-October)
Industrial Production	101	95	109	109	103	103	109	108	104	104
Agricultural Production	102	87	104	108	108	102	101	103	102	103
Investment Growth[a]	-	-	1.0	17.2	7.5	2.5	12.0	10.0[c]	10.7[f]	12.6[f] (January-October)
Capital Investments	95	88	105	117	110	103	112,5	112	111	114

Source: Interstate Statistical Committee of the CIS. http://www.cisstat.com/eng/rus.htm; a) The data between 1999 and 2003 are from Sakwa, *Putin: Russia's Choice*, 187; b) The data are taken from http://www.bus.qut.edu.au/paulfrijters/documents/IncomeandLifeSatisfactionRussiaWorkingPaper.pdf; c) The data are retrieved from: http://en.g8russia.ru/land/russia/economy/; d) The data is taken from: http://en.rian.ru/russia/20061115/55665475.html; e) The data is taken from: http://en.rian.ru/russia/20061025/55115127.html; f) The data are taken from: http://www.interfax.ru/e/B/finances/26.html?id_issue=11625396.

More importantly, in contrast to Yeltsin's presidency, Putin enjoyed strong public support, which is evident from the results of the elections. The percentage of votes for him was 52.9 in the elections held on 26 March 2000.[230] In the December 2003 parliamentary elections, Putin's United Russia Party got 37.6 per cent of the total votes (300 of the 450 seats of the parliament).[231] This situation provided a firm ground for Putin to apply the policies within the framework of his current agenda.[232] In 2004 presidential elections, Putin won a countrywide victory with 71.3 per cent of the votes.[233]

[230] According to "Results of Previous Presidential Elections", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/president/presidency_previous.php.

[231] Rutland, "What Comes After Socialism?", 15.

[232] Ibid.

[233] According to "Results of Previous Presidential Elections", the Centre for the Study of Public Policy (CSPP) and the Levada Center. http://www.russiavotes.org/president/presidency_previous.php.

On the other hand, according to Jim Nichol, during his tenure in government as both prime minister and president, Putin's popularity mostly depended on his determined and uncompromising attitude in the Chechen War (rather than fighting against poverty, corruption and crime).[234] An estimated 52 per cent of Russian population supported Putin's attitude towards the Chechen conflict, 61 per cent has approved of Moscow's military campaign, and over 50 per cent has supported the continuity of the campaign in spite of human rights violations,[235] and the increase of the military budget by 50 per cent.[236] According to Chubarov:

> His leadership of the operation was the chief factor in his soaring ratings and allowed Putin to present himself as defender of the fatherland, determined fighter against terrorism, and war leader even before he became president… There is no doubt that the Chechen war played into Putin's hands, transforming him into a national figure and helping to gain the presidency.[237]

Additionally, the Russian people supported Putin's policies in issues such as nationalization, controlled democracy and relations with the media and regional authorities, as the figures[238] below indicate. As shown in the Figure

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[234] Nichol, "Russian President Putin's Prospective Policies: Issues and Implications", 2.

[235] Jim Nichol, "Chechnya Conflict: Recent Developments," *Congressional Research Service (CRS) Report for Congress*, on May 3, 2000, 13. http://digital.library.unt.edu/govdocs/crs//data/2000/upl-meta-crs-1137/RL30389_2000May03.pdf.

[236] Stuart D. Goldman, "Russian Developments" in *Russia in Transition*, edited by Frank Columbus, (New York: Nova Science Publishers, Inc., 2003), 103.

[237] Chubarov, *Russia's Bitter Path to Modernity: A History of the Soviet and Post-Soviet Eras*, 260.

[238] These figures were obtained from the web site of the World Public Opinion. "These results are among the findings of new joint polls conducted by the Levada Center in Russia, June 9-14 2006, and in the United States, June 26-July 2 2006. In Russia, Levada Center polled 1,600 respondents (margin of error +/-2.5%) June 9-14. In the United States, Knowledge Networks polled 1,059 respondents (margin of error +/- 3.1) from June 27-July 2, using its nationwide panel, which is randomly selected from the entire adult population and subsequently provided internet access." (http://www.worldpublicopinion.org/pipa/articles/breuropera/224.php?nid=&id=&pnt=224&lb=btgov)

4.1, 85 per cent of the respondents have supported the nationalization of oil and gas sector, and 65 per cent have supported the nationalization of the other sectors.

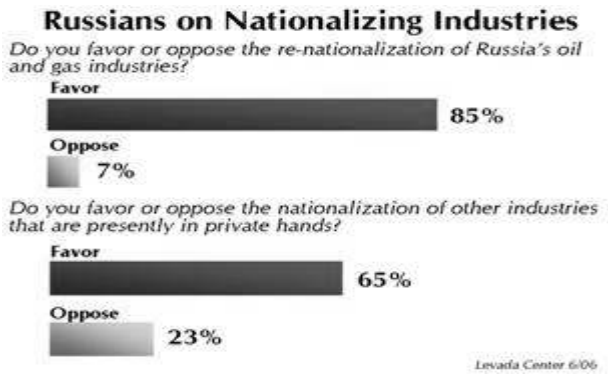

Figure 4.1: Russians on Nationalizing Industries
Source:http://www.worldpublicopinion.org/pipa/articles/breuropera/224.php?nid=&id=&pnt=224&lb=btgov.

As shown the Figure 4.2, 44 per cent of the respondents have supported the "more centrally controlled government as in China," 30 percent have supported "liberal democracy as in the United States," and 33 percent have supported "liberal democracy as in Britain and France."

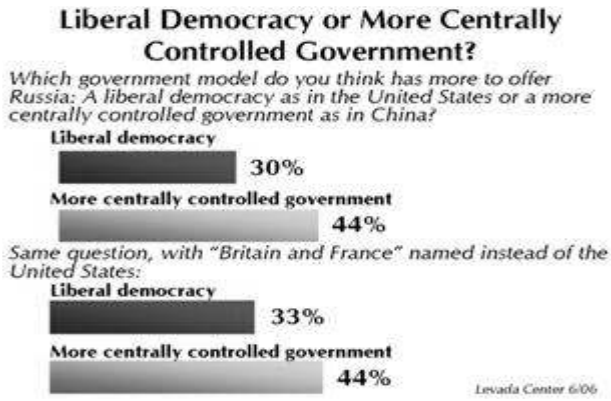

Figure 4.2: Liberal Democracy or More Centrally Controlled Government?
Source:http://www.worldpublicopinion.org/pipa/articles/breuropera/224.php?nid=&id=&pnt=224&lb=btgov.

As shown the Figure 4.3, Vladimir Putin had support from 56 per cent of the

Russians with respect to the control of the media by the government, 43 per cent with respect to the restrictions of the government on the human right activities of foreign NGOs, 37 per cent with respect to the restrictions on the regional authorities.

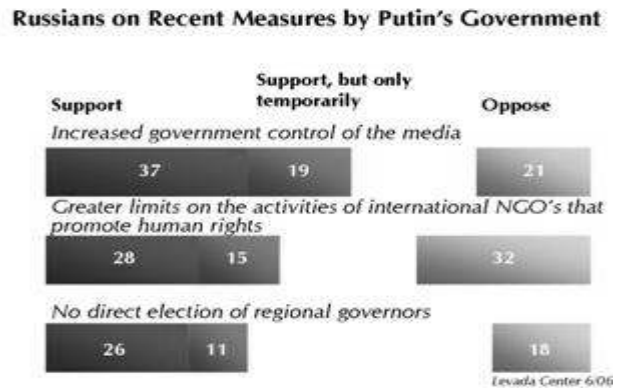

Figure 4.3: Russians on Recent Measures by Putin's Government
Source:http://www.worldpublicopinion.org/pipa/articles/breuropera/224.php?nid=&id=&pnt=224&lb=btgov.

In general, it is possible to suggest that the two widespread problems of poverty and corruption in Russia were among the main aims of the political and economic agenda of Vladimir Putin. For this reason, he attempted to restructure a new program to change both the political and the economic system in the Russian Federation. Putin was aware of the fact that these problems had their origins in transition policies of Boris Yeltsin. Alongside political and economic circumstances, these three significant problems also interlink with each other. In general, poverty provided a very conducive environment for the flourishing of corruption in Russia. In other words, both poverty and corruption were based on the foundation established by each other's consequences interactively. This fact also resulted in the booming of poverty and corruption even to a larger extent. In the next chapter, these two problems will be analyzed in more detail.

CHAPTER 5

POVERTY AND CORRUPTION IN THE PUTIN ERA

In this chapter, I will try to explain the conditions of the substantial problems of poverty and corruption, which are the consequences of the previous policies of the Yeltsin administration, in the Russian Federation in Vladimir Putin's era and to look into any possible improvement or deterioration. For this reason, my objective is to analyze whether the reform program executed by the Putin government induced any visible improvements in the circumstances of the two problems of poverty and corruption in the Russian Federation, and if so, how.

5.1 Poverty

In this part, I will discuss the impact of the political and socio-economic reforms to fight with poverty in Russia during Vladimir Putin's presidency. My primary focus will be Putin's policies for reducing the problems of poverty, unemployment, low wages, social inequality as well as new social reforms to assist the needy.

5.1.1 Unemployment and Low Wages

As was analyzed in the second chapter, unemployment and insufficient incomes were the primary factors of widespread poverty in Russia. After the 1998 crisis, however, parallel to economic growth, there had emerged an actual decrease in unemployment. According to the World Bank's report, this development in the Russian economy "was also accompanied by an increase in capacity utilization, in terms of both working hours and the number of people employed… Better use of labor resources [was] also revealed by an increase in productivity, the average real wage began to increase in 1999… Reduced unemployment, higher wages, and greater earnings contributed significantly to raising household incomes and reducing poverty in the economic recovery period."[239]

Two significant reasons of the decline in unemployment after years were the devaluation of the currency and the high oil prices, which caused an unpredicted economic growth after the1998 crisis in the Russian Federation. Because of these factors, both labor market and the means of production were subject to certain changes that resulted in an increasing demand for the cheapening national products, which could now be found in domestic markets in greater amounts. Moreover, the rising utilization of the labor market and the means of production provided new employment opportunities that resulted in an increasing in employment rates and decrease in unemployment rates.[240] "At the same time, the reallocation of

[239] Radwan Shaban, Hiromi Asaoka, Bob Barnes, Vladimir Drebentsov, John Langenbrunner, Zurab Sajaia, James Stevens, David Tarr, Emil Tesliuc, Olga Shabalina, and Ruslan Yemtsov, *Reducing Poverty Through Growth And Social Policy Reform In Russia / Poverty Reduction And Economic Management Unit, Europe And Central Asia Region*, (Washington, D.C.: World Bank, 2006), 84.

[240] Ibid., 84-85.

labor (both within and across sectors) to higher productivity jobs continued, contributing further to labor productivity."[241]

Table 5.1: Employment and Unemployment Rates in the Russian Federation

	1992	1995	2000	2001	2002	2003	2004	2005
Thousand people								
Economically active population, total	75060	70740	72332	71411	72421	72835	72909	73811
employed in the economy	71171	64055	65273	65124	66266	67152	67134	68603
unemployed[a]	3888.6	6684.3	7059.1	6287.9	6154.7	5683.3	5775.2	5208.3
registered by government employment offices[b]	577.7	2327.0	1037.0	1122.7	1499.7	1638.9	1920.3	1830.1
As percentage of the total								
Economically active population, total	100	100	100	100	100	100	100	100
employed in the economy	94.8	90.5	90.2	91.2	91.5	92.2	92.1	92.9
unemployed	5.2	9.5	9.8	8.8	8.5	7.8	7.9	7.1
Percentage of number of unemployed registered by government employment offices to total number of unemployed[b]	14.9	34.7	14.8	17.8	24.4	28.7	33.3	35.1

Source: State Committee of the Russian Federation on Statistics (GOSKOMSTAT). http://www.gks.ru/free_doc/2006/rus06e/06-01.htm; a) According to the results of the sample survey on employment. http://www.gks.ru/free_doc/2006/rus06e/06-08.htm, b) In accordance with the data of the Federal Labour and Employment Service. http://www.gks.ru/free_doc/2006/rus06e/06-08.htm.

As easily noticed in Table 5.1, there was a steady increase in employment rates, and also an apparent decrease in unemployment rates, especially in 2002 and 2005 due to the number of active people with respect to the previous years. Although there is no significant increase in employment and unemployment numbers, we see a steady progress of the labor market. This growth in labor market is very important in post-Soviet Russian society, especially in comparison with the early transition period of Yeltsin's presidency. However, the pre-privatisation period rates could not be

[241] Ibid., 86.

transcended even in 2005. As can be seen in Table 5.1, in 1992, the working population had been 71,171 thousand people, 94.8 per cent of the total economically active population, and the unemployed people had been almost 3,889 thousand with 5.2 per cent. However, in 2005, the working population was 68,603 thousand with 92.9 per cent, and unemployed people was almost 5,208 thousand people with 7.1 per cent of the total active population. In addition to these numbers, the rate of the percentage of number of unemployed people registered by government employment offices to total number of unemployed people is the most striking figure of the table. There is a double increase in official records from 2000 to 2005.

5.1.2 Social Inequality

Another significant factor of widespread poverty in the Russian Federation was social inequality. Although in February 2007, President Putin declared that "reducing social inequality would be one of his key tasks before he leaves office next year"[242], he did not initiate any specific program for reduction of social disparity during his two tenures. By March 2007, according to the Luke Harding in an article in the Guardian newspaper, there was a significant "gulf between the rich and poor was growing wider, with some 20% of Russians below the poverty line. There is still no real middle-class and there is a significant gap between urban and rural life".[243] Moreover, in this article, Harding declared that "Russia possesses between 30% and 40% of the earth's resources. Revenues from exports of natural resources built the stabilisation fund. But only a very small part of society is getting richer. It is doing so at a pace that amazes even some of the richest

[242] Luke Harding, "53 Billionaires, £100bn In The Black, But For Russia's Poor It is Just Getting Worse" in *The Guardian*, on March 15, 2007. http://www.guardian.co.uk/russia/article/0,,2034018,00.html#article_continue.

[243] Ibid.

people in the world. On the other hand, the majority of the population lives in destitution."[244]

Nevertheless, after the 1998 crisis, the *de facto* inequality rate was diminished, and by 1999. "The Gini coefficient… increased from 37.0 percent in 1997 to 39.2 percent in 1998, before declining to 36.8 percent in 2002. It is noteworthy here to mention that inequality in expenditure, incomes, or assets [were] higher than those consumption inequality."[245] In fact, according to some official records in 2002, there were 1 million children at the streets, although the Prosecutor-General's office records give this number as high as 2 million.[246] On the other hand, the Forbes, an American magazine, disclosed the name of 53 Russian billionaires in 2007. Russia was the 3rd country in the ranking of countries, which had most billionaires and the 1st in the greatest increase in the number of the billionaires in 2007.[247] Additionally, "[i]n 2006, 11.9 percent of the population were living below the poverty line of 3,291 [R]ubles ($124) a month. The average monthly-calculated nominal wage due in December 2006 was 14,354 [R]ubles ($541). [Indeed,] average Russian pension

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[244] Ibid.

[245] Radwan Shaban, Hiromi Asaoka, Bob Barnes, Vladimir Drebentsov, John Langenbrunner, Zurab Sajaia, James Stevens, David Tarr, Emil Tesliuc, Olga Shabalina, and Ruslan Yemtsov, *Russian Federation: Reducing Poverty Through Growth and Social Policy Reform / Poverty Reduction and Economic Management Unit, Europe and Central Asia Region*, (Washington, D.C.: World Bank, February 8, 2005), viii. http://194.84.38.65/mdb/upload/PAR_020805_eng.pdf.

[246] Theodore H. Friedgut, "Potholes on the Road to A Flourishing Russia: Structural Problems in the Second Decade" in *Restructuring Post-Communist Russia*, edited by Yitzhak Brudny, Jonathan Frankel, and Stefani Hoffman, (Cambridge; New York: Cambridge University Press, 2004), 141.

[247] Nikola Krastev, "Russia: Youthful Billionaires Storm 'Forbes'" in *Radio Free Europe / Radio Liberty*, on March 9, 2007. http://www.rferl.org/featuresarticle/2007/03/c2d85d2e-4c74-4f6c-a43e-265a163ddd35.html. Harding, "53 Billionaires, £100bn In The Black, But For Russia's Poor It is Just Getting Worse". http://www.guardian.co.uk/russia/article/0,,2034018,00.html#article_continue. David Walsh, "*Forbes* 2007 List: Nearly One Thousand Billionaires in The World, A Misfortune For Humanity" in *World Socialist Web Site*, on March 10, 2007. http://www.wsws.org/articles/2007/mar2007/bill-m10.shtml.

amounted to… 2,844 [Rubles] in January 2007."[248] These numbers indicate the extreme gap between the poorest and the richest in the society.

In addition to these, poverty and eventually social inequality constituted a very secure and appropriate ground for the crime and corruption to develop gradually. According to Twigg, "almost half of the Russians who are subject to persistent poverty have become jealous and indignant over the new inequalities. In their world, growing inequalities have little to do with natural results of free market competition. Instead, success for the few has stemmed not from hard work but from dishonesty and *blat* (political and social connections)… particularly when success seems often to stem criminal behaviour or financial speculation."[249]

5.1.3 Significant Cuts in Social Services

Finally, in 2001, Putin's government launched [so-called] "a comprehensive social reform program" concerning the Russian population living under poverty for the first time since 1991.[250] This program aimed to supply efficient safeguarding on behalf of the impoverished portion of the Russian

[248] Data is based on Rosstat in *IBS NewsletterRussia,* (Statistics Finland, March 2007), 7. http://tilastokeskus.fi/tup/ibsnews/russianetti.pdf.

[249] Twigg, "What Has Happened to Russian Society?", 155. Moreover, the term *blat* (*блат*) is a kind of nepotism but it has a complex meaning to define because of Russian socio-cultural and historical background of this term. As Dawn Nafus explain in his article by referring to the argumentations of Alena V. Ledeneva, "while blat is a term to describe connection pulling in a negative way, it is in fact based on circles of long term reciprocity, and contained a system of morality limiting the proper scope of 'needed' favors one could ask for. Blat is not a term commonly used today, although 'helping' is still central. These circles of friends and acquaintances are not just social primordial soup. If circles rely on long-term reciprocity to circulate resources, then they have to be made to appear to have an existence prior to the favors that come out of them. An implication is 'society' can still then be imagined locally as a matter of widening scale of incorporated persons, without implying reified systematicity." (Alena V. Ledeneva, *Russia's Economy of Favours: Blat, Networking and Informal Exchange*, (Cambridge: Cambridge University Press, 1998), mentioned in Dawn Nafus, "Imagining Postsocialism in St. Petersburg", *Chimera Working Paper*, September 2004, Colchester: University of Essex, 10. http://www.essex.ac.uk/chimera/content/pubs/wps/CWP-2004-08Postsocialism.pdf)

[250] Berglöf, et al., *The New Political Economy of Russia*, 123.

society by two basic measures, to guarantee to the people fundamental welfare services, especially, in areas of education and health, and to ease the financial constraints on funds of national and local authorities, to be used for social services, such as retirement funds, accommodation, schooling, sanitary service and societal security.[251] The program aimed to:

- eliminate exemptions and special provisions in the assistance programs, unless there is a strong economic argument in favor of them.
- generate a shift from overall universal support to targeted assistance for the poor.
- distinguish between social assistance and social insurance programs.
- attract (cautiously) the private sector to the provision of social programs.
- grant more discretion to regions in defining rules governing social assistance provision while meeting minimal federal standards.[252]

However, according to Galina Mihaleva, these policies would be unsuccessful. According to her, "Putin and the government declare the fight with poverty… their priority. But in reality they are pursuing the social policies of the extreme right, depriving the most vulnerable elements of society of the minimal benefits they still have".[253] In 2004, the government announced that it would stop the social assistance services. Approximately 102 million needy people was forced to gradually switching to the money

[251] Ibid., 123 -124.

[252] Ibid., 125.

[253] Galina Mihaleva was the political leader of the Russian Democratic Party Yabloko (*Rossiyskaya demokraticheskaya partiya Yabloko*, *Российская демократическая партия Яблоко*) and had been the director of the Centre for Modern Politics Research as quoted in Nick Paton Walsh, "Russia's Poorest Face Huge Cuts in Benefits" in *The Guardian*, on June 1, 2004. http://www.guardian.co.uk/international/story/0,,1228562,00.html.

payment instead of social assistance services. As a result of this policy, nearly 170 billion roubles were expected to be allocated for covering the budgetary deficit.[254] However, these measures negatively affected the handicapped and retired people who believed that the earlier social benefits were more helpful than the money payment.

Another significant problem related these social security policies was about their insufficiency in both mother and child care, which resulted in lower birth rates of the Russian Federation. Putin himself was aware of this problem and addressed this issue in nearly all of his public speeches. Since the early times of his presidency, he pointed to this problem as an important matter, to be solved because the decline in birth rate would result in a decrease of the active working population in Russian labor market in future. In July 2000, he stated "if the present trend continues, the survival of the nation will be threatened. We are faced by the real threat of becoming an enfeebled nation."[255] In May 2006, he also declared that "[t]he encouragement of childbirth should include a whole range of measures of administrative, financial, and social support for young families… When planning to have a child, a woman is faced with the choice whether to have a child but lose her job, or not to have a child…This is a very difficult choice."[256]

Hence, according to the World Bank's poverty report on the Russian Federation, by "1999, it [was] estimated that four out of ten people were living in poverty. Poverty levels peaked in 1999, as the transition recession

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[254] Walsh, "Russia's Poorest Face Huge Cuts in Benefits". http://www.guardian.co.uk/international/story/0,,1228562,00.html.

[255] Stefan Hedlund, *Russian Path Dependence*, (London; New York: Routledge, 2005), 293.

[256] "Russia: Putin Address Focuses On Demography, Military Growth", *Radio Free Europe / Radio Liberty*, on May 10, 2006. http://www.rferl.org/featuresarticle/2006/05/1ff6d461-e090-4ffe-ab63-6513ef15a186.html.

and the 1998 financial crisis caused incomes to collapse and inequality to increase. Since 1999, there has been a dramatic reduction in poverty. Russia succeeded in cutting poverty in half between 1999 and 2002, from 41.5 percent in 1999 to 19.6 percent in 2002. About 30 million people have escaped poverty in this period".[257]

Nonetheless, as shown in the Table 5.2, there was a definite improvement in poverty in Russian society as a consequence of the real increase in every main socio-economic indicator of living standards after 2000. Moreover, there emerged a significant development not only in Russian economy but also in poverty level of especially the needy people within the Russian population after 1992. For instance, per capita income in Ruble increased nearly 1500 times over a decade, from 1992 to 2005. Likewise subsistence level per month increased nearly 2000 times in this period. However, it can be clearly said that all these developments were not sufficient as living standards had fallen dramatically.

[257] Shaban, et al., *Russian Federation: Reducing Poverty through Growth and Social Policy Reform / Poverty Reduction and Economic Management Unit, Europe and Central Asia Region*, viii. http://194.84.38.65/mdb/upload/PAR_020805_eng.pdf.

Table 5.2: Main Socio-Economic Indicators of Living Standard of Russian Population

	1992	1995	2000	2002	2003	2004	2005
Actual final consumption of households, billion RUR**	7.9	871.6	3813.5	6390.0	7709.6	9573.2	11975.7
percentage of GDP	42.8	61.1	52.3	59.3	58.0	57.2	56.0
per capita, RUR*	53	5874	26014	43976	53330	66563	83680
Average per capita money incomes of population, monthly, RUR*	4.0	515.9	2281	3947	5170	6410	7938
Average fixed pension size, RUR*	1.6	188.1	694.3	1379	1637	1915	2364
Subsistence minimum level (average per capita):							
RUR* per month	1.9	264	1210	1808	2112	2376	-
in percent to previous year	-	305	120	121	117	113	-
Correlation with subsistence minimum level (%):							
of per capita money incomes	211	195	189	218	245	240,3	-
of average fixed monthly pensions	119	101	76	100	102	106	-
Population with money incomes below subsistence minimum level:							
million persons	49.3	36.5	42.3	35.6	29.3	25.2	-
percentage of the total population	33.5	24.8	29.0	24.6	20.3	17.6	-
Deficit of money income of poor population:							
billion RUR**	0.4	34.9	199.2	250.5	235.2	225.6	-
percentage of the total money incomes of population	5.9	3.9	5.0	3.7	2.6	2.1	-
Coefficient of differentiation of incomes, times	8.0	13.5	13.9	14.0	14.5	15.1	14.7
Minimum wages (annual average), RUR*	0.7	42.5	107.8	400.0	487.5	600.0	746.7

Source: State Committee of the Russian Federation on Statistics (GOSKOMSTAT). http://www.gks.ru/free_doc/2006/rus06e/07-01.htm. [*Thousand RUR (The Russian Ruble) before 2000, **Trillion RUR before 2000]

In the Figure 5.1, it can be seen that the rate of the impoverished population in Russian society was also reduced. The bars in the graph show the poverty level, in percentage of the population size, and the line in the graph shows the monetary income deficit, in percentage of the total monetary income of the population. Numbers on the left side of the graph belong to the poverty level scale, and numbers on the right side belong to the monetary income deficit scale. According to these scales, the poverty level in proportion of the whole population decreased in 1999 after the 1998 crisis, although there had been a decline in this level between 1994 and 1998 after real high rates

in 1992 and 1993. Nevertheless, in 2004, there was an actual decline as 17.8 per cent, which was the lowest rate since 1992. Furthermore, the monetary income deficit, in proportion of the total monetary income of the population decreased by 2000, although there had been a wavy progress in last decade. Nevertheless, in 2004, there was a tangible drop of 2.1 per cent, which was the lowest rate since 1992. Thus, all these rates demonstrate that there was experienced not only an economic growth but also improvement in fighting with poverty in the Russian Federation during the presidency of Vladimir Putin.

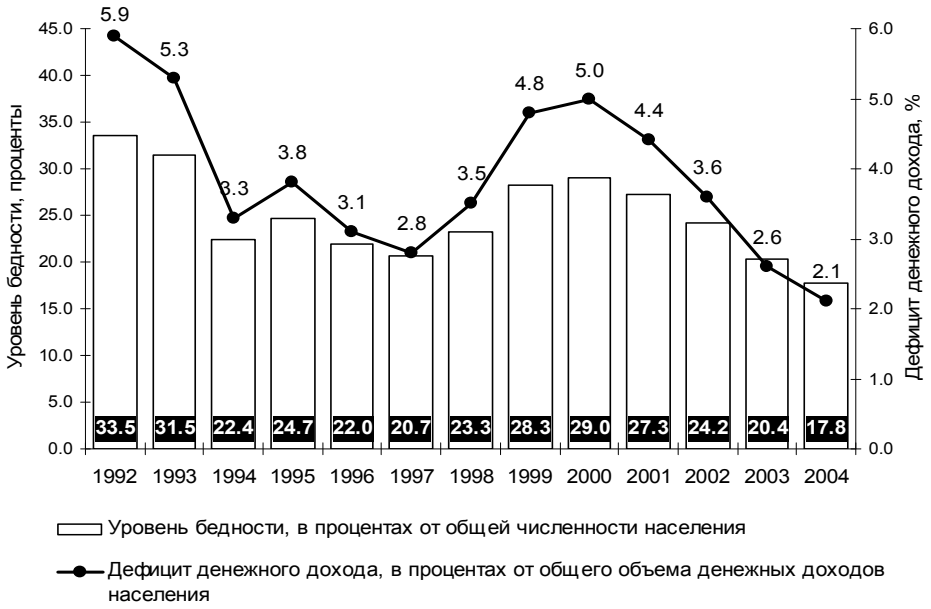

Figure 5.1: Poverty Level Comparison with Monetary Income Deficit
Source: Lilia N. Ovcharova, Daria O. Popova, *Child Poverty in Russia: Alarming Trends and Policy Options*, (Moscow: Independent Institute of Social Policy, UNICEF Report Summary, 2005), 9. http://www.unicef.org/ceecis/Russiapoverty2005.doc.

To sum up, during Putin's presidency, several attempts were made for reducing poverty. Life standards of the majority of the Russian population improved with the new economic agenda carried out by Putin's administration, especially with the devaluation of the currency and high oil prices since 1999. On the other hand, in 2004, Putin declared that "Russia's economy needs to grow by 5% each year to reduce poverty and to be able to

afford the reforms".[258] Hence, it may be said that both the political normalization attempts of Putin and the economic growth resulted in an apparent success in fighting poverty and improving the living conditions of the Russian population.

5.2 Corruption

In this part, I will first elaborate on the impact of the political and socio-economic reforms on corruption in Russian society during Vladimir Putin's presidency between 2000 and 2006. Then, I will look into the situation of this widespread social problem within this period. Hence, I will look into the attempts of Vladimir Putin about the existing relationships of current FSB (Federal Security Service*, Federal'naya sluzhba bezopasnocti, Федеральная служба безопасности*, *ФСБ*) officials and federal and regional authorities with the Russian underground world, which is mostly composed of ex-KGB spies and ex-military officers. For this reason, Putin's policies against corruption, as well as the oligarchs, federal authorities and the administrative apparatus will also be analyzed.

5.2.1 Oligarchs

Initially, Vladimir Putin put the main emphasis on solving the problem of the power confrontation between powerful oligarchs and the government depending on the strong public support he enjoyed his electoral victories. According to Chubarov:

> In his first year as president Putin managed to ease the oligarchs' grip by a combination of different methods, including tighter regulation by the state of economic activity; tougher curbs on the power of the monopolies run by the oligarchs; efforts to set up a normal executive branch comprised not of

[258] "Putin Pledges Sweeping Tax Reform", in *BBC*, on March 19, 2004. http://news.bbc.co.uk/2/hi/business/3550531.stm.

> politically ambitious individuals from different financial-industrial groupings and clans, but of technocrats; and finally, criminal prosecution or the threat of launching criminal investigations to persuade the unwilling tycoons to return part of their ill-gotten assets.[259]

Nevertheless, there still was a relation between Putin and the oligarchs but it was not as excessive as the relation of Yeltsin and his family members with them. As Goldman states, Boris Berezovsky provided financial support for the election campaigns of both Yeltsin in 1996 and Putin in 2000.[260] Goldman also states that Putin was supported in his appointment as the head of FSB, Prime Ministry and lastly Presidency by Berezovsky since he had came to Moscow.[261] "Berezovsky claims that he was involved at each stage of Putin's Moscow promotion process. This must have made it all the more painful when Putin turned on him, threatened him with imprisonment for various illegal acts, and eventually forced him to yield control of ORT, the country's main television network."[262]

Nonetheless, Putin could get more tangible results beyond merely challenging the oligarchs. Although in the Russian Federation, seven oligarchs, including Berezovsky, had controlled 50 per cent of Russian GDP,[263] Putin has been aware of the necessity of further attempts to build a strong Russian state. In order to strengthen the Russian state and eliminate the corrupt conducts of the administrative apparatus, Putin employed various kinds of policies. As was explained earlier, one such policy was the re-nationalization of privatized state corporations during Yeltsin's

[259] Chubarov, *Russia's Bitter Path to Modernity: A History of the Soviet and Post-Soviet Eras*, 264-265.

[260] Goldman, *Piratization of Russia*, 141.

[261] Ibid., 140.

[262] Ibid.

[263] Chubarov, *Russia's Bitter Path to Modernity: A History of the Soviet and Post-Soviet Eras*, 265.

presidency. Another one was to reduce the power of oligarchs and regional authorities. Therefore, Putin significantly focused on the oligarchs' economic wealth as well as their political power upon the Russian state for realizing his political and economic agenda. The first confrontation between Putin and the oligarchs was the Gusinsky case. Vladimir Gusinsky – also the president of the Union of Jewish Communities in Russia – was the owner of the third biggest media corporation of the country, Media-MOST. Gusinsky had large shares of Gazprom (*Газпром*) too. In June 2000, he was arrested on accusations of money laundering and fraud. A month later, he was released, after accepting to sign a secret deal for giving up his ownership rights on his companies and handing these rights to Gazprom.[264] After he was released, he fled from Russia to Spain.

One of the main reasons of confrontation with Gusinsky was about the campaign of his NTV[265] channel against the Putin government about reform policies, and corruption in administrative bodies.[266] The NTV channel had also been conducting a broadcast campaign against the Putin administration's handling of the Chechen problem, Putin's policies against oligarchs and censorship of media for a while.[267]

After that, in January 2002, TV-6 was shut down by the decision of the

[264] Masha Lipman and Michael McFaul, "Putin and the Media" in *Putin's Russia: Past Imperfect, Future Uncertain*, edited by Dale R. Herspring, (Lanham: Rowman & Littlefield, 2003), 78.

[265] The NTV or *Nezavisimaya TV* (*Независимая ТВ* – Independent TV) channel was the first independent television channel of the Russian Federation.

[266] Chubarov, *Russia's Bitter Path to Modernity: A History of the Soviet and Post-Soviet Eras*, 265.

[267] Goldman, *The Piratization of Russia: Russian Reform Goes Awry*, 114 & 130–131.

Supreme Arbitration Court.[268] TV-6 was the television channel of Boris Berezovsky, who was the leading figure of the "Family" in Yeltsin's office and also one of the richest men of Russia. Berezovsky previously fled from Russia to England in April 2001, after the Gusinsky case.

The YUKOS[269] case that emerged in June 2003 was another important incidence in this general picture. Because of criminal accusations of fraud on privatization bid in 1994, this biggest oil company of Russia was taken into judicial consideration. The investigations were concentrating on fraudulence in the bid, money laundering, and tax dodging that totaled to an amount of about $5 billion. The head of YUKOS, Mikhail Khodorkovsky, who was the richest man of Russia with approximately $7.6 billion wealth[270], rejected the accusations and fled from Russia. Yet, on 25 October 2003, he was arrested and then charged for 10 years.

The YUKOS case caused an uncomfortable feeling among the foreign experts, who suspected that Russia would regress from capitalism and progress towards a new kind of totalitarian state system.[271] Yet, Putin portrayed the case as a result of inappropriate privatization deals conducted not in accordance with the regulations. Later, in 2004, YUKOS was sold to two later being oil companies, Gazprom and Rosneft, the latter being the oil

[268] See "On the Situation with the TV6 television channel", *The Political Council of the Russian Party of the Centre - Yabloko, St. Petersburg*, Press Release on January 22, 2002. http://www.eng.yabloko.ru/Press/2002/1/220102.html; and "The Arbitration Supreme Court Confirms TV6 Compulsory Liquidation" in *The Reporters without Borders (RSF)*, on January 11, 2002. http://www.rsf.org/article.php3?id_article=332.

[269] YUKOS (*ЮКОС*) was the biggest oil company of the Russian Federation and it was composed of two parts as **Yu**gansknefteg az and **K**uybyshevnefte**O**rg**S**intez (***Ю****ганскнефтегаз и* ***К****уйбышевнефте****О****рг****С****интез*).

[270] Goldman, *The Piratization of Russia: Russian Reform Goes Awry*, 150.

[271] Rutland, "What Comes After Socialism?", 15.

company of Putin's close friend, Igor Sechin.[272] Additionally, according to Shevtsova, Putin had close connections with some powerful oligarchs, such as Roman Abramovich and Aleksandr Mamut, both of whom supported his administration.[273]

The Russian public opinion on the challenge of Putin against oligarchs has been rather conflictual. According to a poll conducted in 2000, 79 per cent of respondents supported the freedom of the media, while 70 per cent believed that "Putin was an advocate of democracy".[274] For the public, these above-mentioned cases were "either a business dispute or a battle between corrupt oligarchs and the state, whose leader, Putin still enjoyed amazingly positive approval ratings."[275] Moreover, a small number of the free media supporters thought that the Gusinsky case was "such an issue," and a great portion of respondents attached no importance to the Berezovsky case.[276] Among the respondents, 39 per cent accepted that these debates were political but they did not show any concern about the fact that these struggles might have damaged the freedom of the Russian press.[277]

5.2.2 Federal Authorities

As was mentioned earlier, in addition to his challenge against the oligarchs, in May 2000, Putin declared a new federal system, in which the Russian Federation was going to be composed of federal *okrug*s (*округи*) for strengthening the central administration and reducing the influence of

[272] Tom Streissguth, *Vladimir Putin: Biography*, (Minneapolis; Lerner Publications Company, 2005), 103.

[273] Shevtsova, "From Yeltsin to Putin: The Evaluation of Presidential Power", 99.

[274] Lipman and McFaul, "Putin and the Media", 78.

[275] Ibid.

[276] Ibid.

[277] Ibid.

regional authorities. "To establish a normal state, Putin needed to reverse a decade of fragmentation of Russia's eighty-nine regions and republics, and stop the confederalization of the country, when there were regions, which grew into independent fiefdoms or even claimed sovereignty."[278] Hence, he transformed the territorial arrangement from 89 regions to seven major federal *okrugs* because he "as [the] head of the presidential Monitoring Administration, and later deputy chief of staff in the presidency with special reference to provincial affairs, gained an intimate understanding of the scale of corruption in the provinces and the problems posed by the lack of an efficient executive hierarchy linking Moscow with the rest of the country… In order to eliminate entrenched networks of corruption and protectionism, Putin believed that it was essential to reorient provincially based federal officials toward Moscow."[279]

Moreover, regional authorities enjoyed less public trust in comparison to the federal government, especially Putin's presidency. According to some surveys, 44 per cent of the respondents expressed the usefulness of the regional administrative units in June 2000, 24 per cent in November 2000. The decline in the public support to regional authorities in a very short period of time was mostly because of the reforms that had been initiated by Putin. Additionally, according to VTsIOM survey conducted in August 2000, 30 per cent of the respondents had confidence in the regional government, 73 per cent supported Putin, and 50 per cent trusted in the central government.[280] As to the study of CEFIR[281] in 2001, entrepreneurs

[278] Chubarov, *Russia's Bitter Path to Modernity: A History of the Soviet and Post-Soviet Eras*, 265.

[279] Eugene Huskey, "Political, Leadership and the Center-Periphery Struggle: Putin's Administration Reforms" in *Gorbachev, Yeltsin, and Putin: Political Leadership in Russia's Transition*, edited by Archie Brown, Lilia Shevtsova, (Washington, D.C.: Carnegie Endowment for International Peace, 2001), 118 & 129.

[280] Orttung, "Key Issues In the Evolution of the Federal Okrugs and Center-Region Relations under Putin", 23.

from both internal and external markets indicated that the most important task of the reform program of Vladimir Putin would be combating corrupt conducts and restructuring administration apparatus.[282] Roland Götz argues that:

> In 2001, the SMEs [small and medium-sized enterprises] surveyed reported arbitrary harassment by individual government agencies. Efforts at deregulation therefore had to be targeted at reducing the discretionary authority of bureaucrats to harass firms. The Russian government began to implement a set of new legal acts (a 'deregulation package') which is designed to set clearer boundaries for bureaucratic intervention. When the new acts come into effect, there existed a huge gap between existing regulatory practices and the benchmarks set out in the new law.[283]

5.2.3 The Administrative Apparatus

In order to fight corruption in administrative units, a general reform program aiming structural adjustments was firstly planned in 2001. Later, in July 2003, this program was officially put into application by a presidential decree. It aimed to restrict bureaucratic and regional authorities in their economic activities as well as their significant influence on the political and social regulations.[284] By 2004, Vladimir Putin announced some new necessary laws and executive regulations for the renovation of the Russian

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[281] CEFIR is the Centre for Economic and Financial Research at New Economic School (*Tsentr ekonomicheskikh i finansovykh issledovaniy i razrabotek (TsEFIR) pri Rossiyskoy ekonomicheskoy shkole (RESH), Центр экономических и финансовых исследований и разработок (ЦЭФИР) при Российской экономической школе (РЭШ)*), and was established in 2000 in Moscow, as an independent research organization to focus on economic and social policies in the Russian Federation.

[282] Berglöf, et al., *The New Political Economy of Russia*, 38.

[283] Roland Götz, "Russian Economic Security in a Medium-Term Perspective" in *Russia As A Great Power*, edited by Jakob Hedenskog, (London; New York: Routledge, 2005), 243.

[284] *OECD Economic Surveys: The Russian Federation / Organisation for Economic Co-operation and Development* (Paris: Organisation for Economic Co-operation and Development, 2006), 125.

administrative system in order to eliminate corrupt elements and to give strict orders to the executive units for fighting against both terrorism and corruption in the Russian state. "One law stated that Russia's provincial leaders would be appointed by the president, not elected by the people. Another law said that lawmakers would take seats in the legislature based on the percentage of votes won by their political parties, not by a direct election by voters."[285]

Nonetheless, together with these reforms, Putin also started to make changes in big Russian corporations, such as Gazprom and RAO UES (Russian Joint-Stock Company Unified Energy Systems of Russia, *Rossiyskoye Aktsionernoye Obshchestvo Yedinoy Energetucheskoy Sistemy Rossii* - *Российское Акционерное Общество Единой Энергетической Системы России*) by replacing the administrative regulations or teams of these corporations with new administrative regulations or teams he personally selected and assigned his old colleagues from the KGB and his San-Petersburger fellow citizens to duties of the top ranks of the Russian state, while he tried to eradicate the power of both oligarchs and *nomenklatura* from Yeltsin's circle. For example, the newly assigned Chief Executive Officer (CEO) of Gazprom after Putin became the president, Aleksey Miller was a San-Petersburger. According to Pavel K. Baev:

> The most striking paradox of all [was] coexistence of Putin's passionately proclaimed intention to build a streamlined 'vertical of power' and his proven inability to organize a coherent executive branch. His 'team' consists of at least three competing clans: (a) the survivors from the Yeltsin 'Family'… (b) the newcomers from St Petersburg (many are from the special services, although 'civilians', such as Minister of Finance Alexei Kudrin, Minister of Economic Development German Gref, and the head of Gazprom, Alexei Miller, are more visible); and (c) the 'heavy-weights' from the power structures (the key trio consists of Defence Minister Sergei Ivanov, Interior

[285] Streissguth, *Vladimir Putin: Biography*, 102.

> Minister Boris Gryzlov, and Nikolai Patrushev, the head of… the FSB).[286]

Additionally, Kremlin approved a package of sanctions to modify the Russian judiciary scheme. Specifically, the government thrusted the course of "new versions of the criminal procedure code and the arbitration procedure code, as well as legislation affecting the status of judges. Additionally, it made provisions for introducing jury trials for serious cases in all Russian regions."[287] However, local judicial units were mostly financed by the local authorities and were for their most important main public utilities. "Such dependence naturally [made] them vulnerable to manipulation by the regional authorities and seriously limit[ed] the independence of the court system."[288]

Subsequently, corruption in the administration units and the strong links between administrative officials and criminal groups represented yet another very secure and appropriate ground for corruption and crime in Russia increasingly. As Slovaj Zizek mentions, "[t]he key feature of the Russian post-communist situation is a direct pact (coincidence even) between the darkest remainders of the past (secret KGB funds) and the most ruthless of the new capitalists-the emblematic figure of today's Russia is an ex-KGB apparatchik turned private banker with shady underground connections."[289] For this reason, Putin used the federal reform program for fighting both corruption and crime not only for the aim of controlling the influence of

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[286] Pavel K. Baev, "Counter-Terrorism As A Building Block for Putin's Regime" in *Russia As A Great Power: Dimensions of Security under Putin*, edited by Jakob Hedenskog, Vilhelm Konnander, Bertil Nygren, Ingmar Oldberg, and Christer Pursiainen, (London: Routledge, 2005), 325.

[287] Orttung, "Key Issues In the Evolution of the Federal Okrugs and Center-Region Relations under Putin", 35.

[288] Ibid.

[289] Slavoj Zizek, *The Fragile Absolute or, Why is the Christian Legacy Worth Fighting For?*, (London and New York: Verso, 2000), 62.

regional authorities but also the mutual interconnection of both the administrative agents and criminal groups' members. For instance, "[g]iven the beautiful natural resources of Siberia and the Far East, crime and corruption flourish[ed] there, as greedy officials cooperate[d] with foreign and domestic crime groups to sell off Russia's energy, metals, and fish for personal benefit."[290]

Furthermore, Moscow systematically shifted "away at the governors' formal control over the police because the police forces under the control of regional/local authorities."[291] However, by first half of 2002, "federal officials were complaining about rising crime rates and the state's declining ability to fight corruption"[292] because local security forces had been depended upon the regional governments and municipalities. Consequently, by September 2002, the MVD pronounced "a new reform that… divide[d] the country's police force into three parts: a federal police dealing with serious crimes; a municipal militia financed from regional budgets and focused on preserving public order; and a new Federal Guard,"[293] for fighting crime. Nonetheless, all-embracing and never-ending corrupt conducts of the Russian security forces made fighting corruption and crime in the Russian Federation almost an impossible task.[294]

Consequently, despite Putin's declared goal against corruption, it can be easily seen that there was not much of an improvement. According to the Transparency International's "Corruption Perceptions Index" (CPI), in

[290] Robert W. Orttung and Peter Reddaway, "What Do The Okrug Reforms Add Up To?" in *The Dynamics of Russian Politics: Putin's Reform of Federal-Regional Relations*, edited by Peter Reddaway and Robert W. Orttung, (Lanham: Rowman & Littlefield, 2004), 294.

[291] Orttung, "Key Issues In the Evolution of the Federal Okrugs and Center-Region Relations under Putin", 35-36.

[292] Ibid., 37.

[293] Ibid.

[294] Orttung and Reddaway, "What Do The Okrug Reforms Add Up To?", 295.

2002, Russia was at the 71st place among 102 countries, and was declared as "seriously corrupt".[295] In 2005, the country had the 126th place out of 159 countries.[296] Together with this index, many international surveys demonstrated that there was an actual increase in corruption. According to the World Bank-EBRD Business Environment and Enterprise Performance Survey (BEEPS) in 2005, there is an increase in corrupt conducts, especially "in the incidence of "unofficial payments" for licenses and state procurement contracts, as well as a rise in the frequency of informal payments to tax, construction and fire-safety inspectors."[297] However, the results of BEEPS also indicated a decrease in "the burden of corruption… with the ratio of bribes paid to total sales falling from 1.43 % to around 1.07 %" but "the frequency of bribes" had an increasing impact.[298] In addition to these, according to Public Opinion Foundation's (FOM) survey conducted in 2006 with nearly similar results of the 2002 survey, 64 per cent of the respondents stated that the majority or the whole of bureaucratic agents had corrupt behaviors, and 29 per cent told that they had given bribe to an administration officer in 2005.[299] Additionally, 60 per cent of the respondents expressed that there was an increase in corruption, whereas only 4 per cent believed that there was a decrease in corruption in administration bodies.[300] According to this survey, 18 per cent asserted that approximately half of the officials had been corrupt.[301]

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[295] Orttung, "Key Issues In the Evolution of the Federal Okrugs and Center-Region Relations under Putin", 35; and *OECD Economic Surveys: The Russian Federation / Organisation for Economic Co-operation and Development*, 123.

[296] *OECD Economic Surveys: The Russian Federation / Organisation for Economic Co-operation and Development*, 123.

[297] Ibid.

[298] Ibid., 141.

[299] Ibid., 123.

[300] Ibid.

[301] Ibid., 141.

Table 5.3 shows some qualifications on the control of corruption, the rule of law, government effectiveness and the regulatory quality in the Russian Federation, according to the World Bank Governance Research Indicator Country Snapshots in 2005. These are composed of two main indicators: the first one is the estimates (the range of which is between -2.5 to 2.5); and the second one is the percentile rank (the range of which is between 0-100). According to the Table 5.3, both the estimates and the percentile ranks demonstrate a very small improvement on the control of corruption. With respect to the rule of law, the estimates and the percentile ranks have a more stable progress. The numbers belonging to the estimates and the percentile ranks in terms of the government effectiveness display an actual increase, and this means a real development in the course of Russian government's efficiency and productivity. Lastly, the regulatory quality indicators reveal a stable progress with small enhancement in scale by 2002.

Table 5.3: Public Opinion on the Progress of Corruption under Putin Presidency

	1996	1998	2000	2002	2004
Control of Corruption	-0.74	-0.69	-1.02	-0.92	-0.72
	26.7	25.7	9.7	18.9	29.1
Rule of Law	-0.84	-0.78	-0.87	-0.84	-0.7
	19.9	22.7	18.7	21.4	29.5
Government Effectiveness	-0.5	-0.62	-0.62	-0.4	-0.21
	31.3	23.5	29	41.3	48.1
Regulatory Quality	-0.41	-0.37	-	-0.35	-0.51
	31.5	31.5	-	43.4	30.5

Source: *OECD Economic Surveys: The Russian Federation / Organisation for Economic Co-operation and Development*, 122. [The first lines belong to the estimates; second ones belong to the percentile ranks]

Subsequently, in the Figure 5.2, there are the percentages of replies to the question: "Do you think that level of stealing and corruption in the country has changed since Putin was elected president by comparison with it was during Yeltsin's period of rule?" However, this survey signifies the unchanged situation of the corruption problem in the Russian Federation in

Putin's term in comparison to the Yeltsin's term. 54 per cent of the total respondents replied that the current situation about corruption was nearly similar with the situation under Yeltsin's presidency. 26 per cent declared their opinion upon the decrease in corruption, and 14 per cent told that there was an increase in corruption.

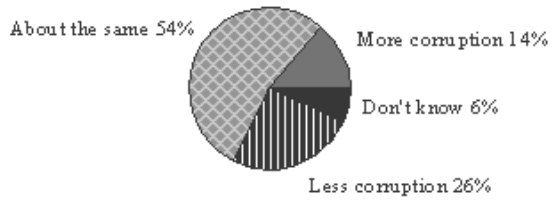

Figure 5.2: Public Opinion on the Progress of Corruption under Putin Presidency
Source: The Centre for the Study of Public Policy (CSPP) and Levada Center, nationwide survey, 8-12 December 2006, "Putin's Performance in Office: Q6. Corruption under Putin". http://www.russiavotes.org/president/presidency_performance.php?PHPSESSID=ec4620a625f8c4d5d8c90fe50dcdf4ff#222.

Thus, Vladimir Putin, especially in his first term of office, had the image of a leader who was determined to fight with corruption by laws and regulations. However, in practice during his presidency, previous crime organizations' leaders became businessmen who dealt with legal activities. Despite of their shadowy backgrounds, these people could not be put to trial because of their strong links with the top ranks of Russian bureaucracy and retired officials from KGB/FSB, military-security forces. However, according to Shevtsova, "[a]n 'elected monarchy' based on the loyalty of cadres to a single figure and their servility – a mere imitation of democratic institutions – could turn out to be a form of strengthening shadowy relations and corruption."[302] Additionally, according to Pavel K. Baev, there were "three main 'pillars' of Putin's regime: the enforcement mechanisms (often called the power structures), the big business interests (nicknamed the 'oligarchs'), and the regional elites (who fully deserve the title of 'barons')".

[302] Shevtsova, "From Yeltsin to Putin: The Evaluation of Presidential Power", 105.

However, "the only visible change Putin has been able to introduce [was] to increase the distance between Kremlin and the three agents, thus making the pyramid of power somewhat taller."[303]

On the other hand, Putin's policies against corruption and crime were not enough for eradicating the massive criminal activities in both federal and central administrative units of the Russian Federation because of its power on both political and economic institutions in the country. Moreover, it can be claimed that Putin's attempts for wiping out the corruption in Russia were basically some legal adjustments but they could not be effectively applied. For instance, Orttung and Reddaway states that "Putin's federal reforms [did] little to address the country's crime and corruption problems."[304] Even, according to Friedgut, "for all his image as a tough and decisive statesman, Putin… neither initiated programs nor proposed them in all too many important spheres."[305] According to Goldman:

> There are, however, even more serious complaints about Putin's record. He has done almost nothing to address the problem of the mafia and corruption. As the former head of the FSB (the successor to the KGB), it would have been natural and probably easy for him to crack down on any number of mafia groups. There is no doubt that he has the information as to who is doing what. Attacking the mafia, even a few selected groups, would have been a powerful symbol that he is a man with agenda of integrity and reform. His hesitation to act may be a consequence of many factors, including that so many former KGB operatives are now working for, or are part of, the mafia. (It could be called the privatization of the KGB). Indeed, there is good reason to believe that he has been hesitant to move against his former colleagues. In any case, the mafia, and along with it, widespread corruption, seem as ubiquitous as before.[306]

[303] Baev, "Counter-Terrorism as a Building Block for Putin's Regime", 324.

[304] Orttung and Reddaway, "What Do The Okrug Reforms Add Up To?", 294.

[305] Friedgut, "Potholes on the Road to A Flourishing Russia: Structural Problems in the Second Decade", 158-159.

[306] Goldman, "The Russian Transition to the Market: Success or Failure?", 132-133.

CHAPTER 6

CONCLUSION

The basic aim of this thesis was to compare and contrast the conditions of the two main problems of poverty and corruption in the Russian Federation during the terms of two presidents of the country, Boris Yeltsin and Vladimir Putin, from 1991 to 2006. The key focus of the thesis was to analyze poverty and corruption in post-Soviet Russia interactively. In this work, I generally investigated the actions of the presidents of the Russian Federation: Boris Yeltsin's socio-economic policies such as privatization, liberalization, stabilization and deregulation of state facilities, which resulted in the emergence and further development of the problems of poverty and corruption; and Vladimir Putin's attempts to solve these problems together with his policies for economic growth and political stability in the country. Moreover, I tried to discuss these issues in a comparative way by taking a look at these two presidents' agendas concerning poverty and corruption and their effects on the Russian society. Hence, I concentrated on both the reasons and the conditions of these two problems in terms of their increasing rate in the Yeltsin's era and their decreasing rate in the Putin's era as the results of their transformation policies.

In the presidential period of Boris Yeltsin throughout the last decade of 20th century, the two problems of poverty and corruption were seen as the outcomes of both economic and political policies of the transition agenda. In this era, especially economic regulations, such as privatization and liberalization, constituted the major ground of these problems. In addition to the unsuccessful economic programs adopted for realizing transformation, political programs also contributed to the increase in poverty and corruption in Russia. After the collapse of the Soviet Union, Russians started to live under tough conditions, especially those people who tried to survive under poverty level with inadequate subsistence standards. However, former *nomenklatura* and new oligarchs, who together constituted the "Family" around Yeltsin and used the country's wealth for their own benefits during 1990s, reinforced their positions and increased their power by developing strong links with the Russian crime groups. Furthermore, although political transformation should have been composed of renewal of both Russian state and Russian society via institutional adjustments, the political agenda of Yeltsin could not be realized mostly due to power disputes, economic collapse and lack of necessary political and social institutions. As such, Yeltsin could realize neither any real economic transition nor much political progress towards democracy.

In the presidential period of Vladimir Putin, there were certain attempts to solve the problems of poverty and corruption in Russia that had emerged as the consequences of Yeltsin's unsuccessful agenda. Within this epoch, Putin obtained a consistent public support from the Russian society. He could be viewed as one of the most popular, charismatic, influential and dynamic leaders of Russia in both national and international arenas since the Soviet times. Especially in his first presidential period, it seemed as if he could successfully reverse the negative circumstances that had emerged during Yeltsin's era by his determined struggle against poverty as well as administrative bodies and oligarchs linked to corruption and crime.

However, the decline in rates of poverty and corruption basically depended upon not only his political stabilization policies but also the economic growth after the 1998 crisis in the Russian Federation. For the political normalization, which was supported the developments in economy with respect to national and international sense; he tried to change the federal state system into a more centralized one in order to control the regions of the country, including the sensitive and problematic Caucasus and the Chechnya. These two regions were dominated by corrupt administrative units linked to crime. The gradually increasing nationalism – and even racism sometimes with extreme cases – and xenophobia within all levels of the society were two significant outcomes of the fact that the corruption and crime in this country was so widespread among regions composed of especially Chechens, Azerbaijanis and Georgians. Indeed, as to the Russian public opinion, Chechnya was seen as the heart of corruption, crime and terrorism spreading from there to all over Russia.

On the other hand, although the negative impact of social crises slightly decreased during Putin's two terms of office, the problems of poverty and corruption still remained to be held with a more influential and comprehensive mode. However, Vladimir Putin did not try to solve these two problems by an extensive and complex socio-political agenda. In general, Putin put the main emphasis on political adjustments because he believed that political stability was a prerequisite for economic development and then this progress could result in an instance for eradicating these problems. For that reason, he followed a very different path from Yeltsin, who had given greater importance to economic reforms than to political ones. In other words, while Yeltsin focused on economic reforms, Putin focused on political and administrative reforms to realize stability and synchronization in the Russian Federation.

Hence, poverty and corruption are two most important problems of the post-Soviet Russian Federation. These problems are not only social facts but are also fundamental economic and political phenomena. Although their underlying reasons had been rooted in the Soviet times, their consequences affected the post-Soviet Russian society in a much more noteworthy mode. In this general picture, Vladimir Putin has been viewed as the leader, who placed due importance and much effort in addressing and solving these two problems. Broadly speaking, it can be suggested that he achieved a certain amount of success in the control of the crisis, which Russia had been undergoing since nearly mid-1970s.

In my thesis, I also studied social conditions during Putin's presidency, comparing them to those of Yeltsin's presidency in order to evaluate the impact of these two problems experienced by the majority of the Russian population. As such, during both Yeltsin's and Putin's era, corruption was based on the condition of poverty. However, poverty issued from social inequality, and in turn strengthened the basis of corruption. In fact, it is possible to suggest that poverty and corruption interacted with each other as in a vicious circle during both presidents' terms of office.

During the transition period of the Russian Federation in the 1990s, there emerged several factors resulting in massive poverty in Russian society, such as unemployment, low salaries, inequality and noteworthy cuts in social services. Life standards of the majority of the Russian population fell significantly. During Putin's presidency, several attempts were made for reducing poverty. Life standards of the majority of the Russian population improved with the new economic agenda carried out by Putin's administration, especially with the devaluation of the currency and high oil prices since 1999. Hence, it may be said that both the political normalization attempts of Putin and the economic growth resulted in an apparent success

in fighting poverty and improving the living conditions of the Russian population.

Corruption had been a very common phenomenon within administrative units of the centrally controlled Soviet system. In the post-Soviet era, it survived and even developed because of the power gap, which emerged due to the collapse of the USSR and could not be filled by the new Russian state. Here, it is important to reemphasize that the shock therapy policies of the transition agenda resulted in poverty and corruption throughout the presidency of Boris Yeltsin. Basically using several means of corruption, transition policies (especially privatization) led to emergence of interconnections of certain people that could avert the establishment a regularly operating free market system in Russia. Vladimir Putin, especially in his first office, was seen as a new, powerful leader who could fight against the corruption effectively.

Lastly, poverty and corruption emerged from the shock therapy policies initiated for the economic transition of the Russian Federation. The transition program itself was the major foundation that contributed to the emergence of relatively high unemployment, insufficient incomes, and inequality in the allocation of wealth and power, lack of sufficient governmental, judicial and financial institutions and their insufficient instructions. These problems had been rooted in Soviet times but their development continued to flourish under the appropriate conditions during both the Yeltsin's and the Putin's eras. Neither Boris Yeltsin nor Vladimir Putin could implement efficient policies to put an end to poverty and corruption in the Russian Federation. Even Putin, who was seen as a determined and influential ruler who would bring social justice, political stability and economic prosperity to his country could not abolish poverty and corruption in Russia. During his presidency, Putin's policies against crime and corruption remained insufficient for wiping out this problem in

the Russian Federation owing to the massive power of those people who involved in corrupt conducts and due to the fact that criminal groups had links with political and economic institutions all around the country. They also had several secure relationships with the bureaucrats and the officers from different administrative units in the Russian state, especially from the KGB/FSB as well as from military-security forces.

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