



**Can oil wealth explain the political development in Post-
Communist Russia?**

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Preface and acknowledgements

Studying the effects of oil on politics is a fascinating topic, and Russia certainly is a world of its own with a unique history like no other. The chance of combining these two passions of mine has been very interesting and valuable. With the oil price racing to the bottom in recent time and with Russia back as the West's favourite bad guy, this research has also been very relevant in today's international climate.

This has been a long journey to finish this master thesis, much longer than expected. But life has its ways of changing plans.

I would like to use this opportunity to thank all those people making it possible to cross the finish line.

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1. Introduction.

In 1995, a paper published by Sachs and Warner, started a new interest around a paradox suggesting that economies with substantial resource wealth grew slower than economies without. (Brunnschweiler and Bulte, 2008, p. 248) This master thesis will present a short overview of some of the central research that has been done on the link between vast oil rents and weakening and lack of democratization, and the thesis that oil hinders democracy and supports autocracy. Then I will take a closer look at the latest work of Michael L. Ross (2012), more explicitly I will perform a case study on one of his examples in the book *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. He uses Russia as an example of how oil rents negatively influences democratization. These findings are seemingly valid from a quantitative perspective, and the case of Russia fits nicely into the rest of the material.

In his book, Ross identifies four different properties which are unique for oil- and gas-revenues (will from this point be joined and simplified into oil-revenues), which again has a large potential to hinder democratization. These are:

- *Scale*: the scale of oil revenues can be massive, and oil-producers statistically have a 50% larger government as a fraction of their country`s economy.
- *Source*: Oil-funded governments are not financed by taxation of their citizens, but by sale of state owned assets. This in theory leads to reduced accountability. (Ross, 2012, p. 5)
- *Stability*: The instability of oil-revenues and the volatility of world oil prices results in huge variations and little certainty for the government`s finances. Makes tasks harder to manage.
- *Secrecy*: Oil-revenues are exceptionally easy to hide, and the secrecy of petroleum revenues amplifies the other problems as both national and international oil companies are not very transparent. (Ross, 2012, p. 6)

I will focus on one of these properties of oil-revenues: namely source. If Ross is correct, there will be a causal relation between large oil-revenues for the government and tightening of civil liberties and freedoms in Russia. That both have happened during Putin`s reign is well known. But to establish and confirm or reject the connection will be my main focus. It is my thesis that if one takes a closer look, one will see that that the link between oil and Russia`s troubled relationship with democracy is at best indirect. My main research question will be:

Is there a causal link between the huge oil-revenues and the weakening of democracy in Russia in the period between 2000 and 2008?

Going through thoroughly year by year in this period would be too time consuming, as every year of that period witness a drop in democracy score. I will instead focus on the years 2003 and 2004, which are the years with the most dramatic downgrading in scores by Freedom House, to see if vast oil rents can be a plausible explanation to these results. I will use process-tracing to see if I can establish a connection between these, which I will try to achieve by analyzing what lies behind the decrease in score.

Ross goes far in suggesting that there is causality in this case. According to him, democracy started to deteriorate at the same time as the Russian oil industry recovered from the 1998-crisis. (Ross, 2012, p. 91)

In his argument he connects the ability to perform withdrawal of civil liberties with the personal popularity of President Putin, which in his opinion comes from cutting taxes. Which again according to Ross` logic he was able to do due to increased oil revenues from renationalizing oil companies and a increased oil price. This leads to my second research question, since if I can establish a causal link here, his argument will be strengthened, and conversely, if other causal explanations have more explanatory power, his argument will be weakened:

Was the large reduction in tax-rates caused by the increase in oil-revenues during the period 2000-2008?

2. Theory.

2.1 – The economy of oil.

One of the main concerns with an oil-fueled economy is that as a result of the wave of nationalizations in the 1960s and 70s, most of the revenues from the oil and gas industry goes straight into the governments` purse. This is problematic as it makes the government grow relative to other, private sectors. While one would think that a rich public sector would be a blessing for a country`s citizens, the reality can be quite another.

Ross identifies three main forces behind this pattern. The first is the fact that as many other natural resources and minerals, the government owns the oil reserves. The state`s sovereign rights over oil and gas deposits makes the revenues flow to the governments instead of to private companies if it were privately owned. (Ross, 2012, p. 44) The second force Ross identifies is the “enclave” nature of most oil projects, even if the state is the one running the show. This is due to the fact that the oil industry is capital intensive rather than labour intensive. This means that it does not require a large workforce, but costly and advanced machinery and equipment. This equipment is usually highly specialized and manufactured in high-income countries. As a result it often creates an economic enclave with a highly paid, but small and often international workforce with few direct links or spillover effect to the rest of the economy. (Ross, 2012, p. 44-45)

The resource curse-theories have two main strains of explanation, thou not mutually exclusive. The first one is concerned around the behavioral effects of large rents flooding the economy. The focus here is that actors in the economy are chasing their share of the huge revenues, instead of productive activities, neglecting to pursue economic growth in other sectors like industry. (Mehlum, Moene, and Torvik, 2006, cited in Kolstad and Wiig, 2009, p. 5318) This is called rent-seeking. As the resource

course has been linked to state ownership (Luong and Weinthal, 2001, p. 368), the important feature here is how the state redistributes the resource rents and how domestic actors, either it is members of the Saudi royal family or Russian oil companies, fight to gain the biggest piece of the pie as possible. The result of this is poor economic growth and little incentives for international competitiveness and economic efficiency. The quality of institutions is also key in this strain of the resource curse-theories. (Mehlum, Moene, and Torvik, 2006, cited in Kolstad and Wiig, 2009, p. 5320)

The booming oil revenues can also hurt a country`s economy, more specific the agricultural and manufacturing sectors. This phenomenon, which is the other strain of the resource curse theories, has been branded the Dutch disease. The logic is as follows: rising resource prices drains investment from the manufacturing and agricultural sectors to the resource and service sectors. Higher wages and income levels as a result from the competition for workers create a spiral with increasing demand and increasing pressure on the domestic currency. This in turn makes both the manufacturing and agricultural sectors less competitive both on the internal and the international market, and contribute to de-industrializing and growing dependency on the resource sector. (Dobrynskaya and Turkish, 2009, p. 15; Ross, 2008, p. 3)

In both strains the resource dependent economies are extremely vulnerable to price fluxuations on the resource. This is often referred to as boom-bust cycles, where the economy follows the resource prices, and petroleum is a resource that have extreme fluxuations in price. So the economy will go from enormous windfalls with extreme revenues from high prices, to severe problems when the prices are low. Here again institutions are a key element; in weak states with weak institutions, the regime are often tempted to spend vast amounts of money on e.g. prestige projects, and when the resource prices hit rock bottom, there are no money saved for migiating the huge loss of income which both the state and its economy is dependent on.

On the other hand, non-tradable goods and the service sector are usually shielded from these effects since some are hard or impossible to import, and service usually thrives under the new booming resource sector. (Ross, 2012, p. 49) Put simply, a county will be better off if the income from the resource industry is greater than what is lost in the agricultural or manufacturing sectors. However, simple economic models are usually too simple, and the others usually have positive spillover effects, while for the resource sector this is mostly not so. A potentially harmful side effect is the fact that while most of the agricultural and manufacturing sectors are in private hands, and a reduced profitability here will shrink the private sector's share of the economy. The resource sector will usually be in government hands, increasing government income and as a result expand the size of the government itself, and increasing its share of the economy. Another problem is the extreme volatility of oil prices, making the economy more unstable (Ross, 2012, p. 49)

The short version of the Dutch Disease is that it tends to make the labour intensive sectors such as agriculture and manufacturing shrink and more dependent on the state, while the services sector expands, partly through government contracts. Together with the enclave effect, the Dutch Disease helps explain why contrary to earlier beliefs, large revenues from oil does little for the rest of the economy, and why the surviving businesses become more reliant on the government. (Ross, 2012, p. 49)

2.2 – Russia's experience with democracy and market capitalism

Out of the ashes of the Soviet Union, Russia emerged as the heir of the once superpower. From the ruins of the collapsed communist state with its dysfunctional planned economy, President Yeltzin tried to implement market economy with the help of his advisors through shock therapy, making the transition to market economy faster and less painful, with their theoretical and ideological foundation based in the Washington Consensus. (Lane, 2008, p. 177) Unfortunately, this did not go as

planned, as Yeltzin was forced to compromise after meeting though resistance from both the old elite, which now were powerful regional leaders beyond the grip of Moscow, and extremely wealthy businessmen trying to protect and increase their newfound riches.

Under Yeltzin in the 1990s, policy-making authority devolved quickly and nearly completely from the center to the regions. Closing in on the new millenia, the center had no longer really neither power nor authority in many a Russian province. Now the Communist Party was gone and the new Federal Government lacked the authority to dictate the regions. In this power vacuum, many regions seized the initiative and sought to protect and control their local economies. (Bradshaw, 2008, p. 196) This had begun as the Soviet Union was beginning to crumble in 1991, where regional leaders declared their laws sovereign on provincial territory, took federal taxation privileges for their own, imposed internal tariffs not permitted by Russian federal laws, established citizenship requirements of their own, and even issued their own currencies. By the late 1990s, provincial ambitions were threatening Russia`s cohesion as a single political and economic unity, and Yeltzin was doing little to stagger this development, making bilateral treaties with many regions to secure funds for the state and reelection for himself. (Stoner-Weiss, 2006, p. 109)

The resulting chaos in all spheres would be affiliated with the democratic experiment for many of those experiencing it. Scholars like Hilary Appel (2008, p. 301) have heavily criticized this ideological lab experiment from the Western powers, and especially the United States. Many others have also criticized the US` lack of engagement in helping their former nemesis making a successful transition to “their” system after the long ideological war they emerged victorious. But in the 1990s, the US failed to exploit the perhaps only opportunity to show themselves as the good winners and nurture a close relationship, aiding them only with empty words and advice.

As with the Soviet economy after Gorbachev's reform attempts, the Russian economy post-Soviet was divided into two "parts": The energy sector, the metal industries and the financial banks on the one hand earning capital by exports, mainly to the Eurozone and the CIS countries, and the banks through currency speculation. On the other hand an increasing number of sectors and enterprises were demonetized. Demonetization is "*the use of monetary substitutes such as bills of exchange, promissory notes, barter and payment in kind.*" (Robinson, 2009, p. 434) Some estimates suggest that nearly half of all transactions in Russia in 1997 were demonetized. (Gaddy and Gale, 2005, p. 1591, cited in Appel, 2008, p. 303) The cause of this development was a Soviet problem, the collapse left Russia with a capital intensive economy. And the cheap capital and credit disappeared with the system. Combined with lack of interest from the financial sector to invest in production, and reformist subsidy cuts, the solution was a typical Soviet solution made possible by old networks of trust. Failure to commercialize resulted in the continuation of heavy subsidies, though now mainly through cheap energy, and counter-productive production.

Neither of the parts mentioned above would support Yeltsin's attempts for market reform, and continued to increase their pressure on the state's finances. Not helping either was that the non-demonetized sectors saw economic gains by delaying and avoiding tax payments along with tax concessions to the energy companies for making fuel deliveries, was furthering the capital deficiency. This structural problem was even further deepened by the fact that the demonetization was turning into a downward spiral encompassing more and more firms, either by choice or demands by trade partners. (Robinson, 2009, p. 437)

The attempted solution to increase state revenue was opening a market for sale of government debt. It worked insofar that the state got the capital accumulated by the financial institutions, but it also created two negative side effects. First of all it created an incentive for using revenue to buy the government debt instead of

investing it into production. And secondly it boosted demonetization where businesses would increase the use of payment by kind to taxes and bills, so they could free capital to buy very profitable government debt. In sum this amounted in little investments in the economy. (Robinson, 2009, p. 438)

Another huge problem for the newborn Russian Federation was the immense state capture which started in the final years of the Soviet Union. Private individuals robbed the Russian state of its assets and put them into their private pockets. So through the entire 1990s, the Russian government had almost no source of income as they had no assets left and the massive corporations that emerged cheated along with the newly rich people on the taxes in such a vast amount that the tax revenue was not even close to allow the government to fulfill its obligations. The chronic lack of capital put the government at the mercy of some extremely wealthy and powerful individuals known as the Oligarchs. This made it impossible for the government to make policies which went against their interests.

2.3 – Oil and taxation – what taxation?

Through the study of political budget cycles, scholars have knowledge concerning politicians` manipulation of public budgets and the public`s responses. Several studies have shown how governments use economic and fiscal policies at times of election, where they increase public spending and reduce taxes to appeal to the voter`s wallets. This phenomenon does not only occur in democracies, but also authoritarian leaders use this tool to rally support at times of election, despite the lack of free and fair elections. (Ross, 2012, p. 66)

So which implications does taxation have on the process of democratization? Historically the link between tax and democracy is strong, as historians claim many monarchs have been forced to surrender some of their powers to parliamentary institutions in order to collect new taxes. This gave way for representative

government in their view, and points to early modern England and continental Europe. Some scholars argue that this also holds for authoritarian governments, where if they raise taxes, they risk triggering demands for representative government from its citizens. (Ross, 2012, p. 66)

Ross' statistical analysis found evidence to support the contention that citizens object to paying higher taxes if they do not receive commensurate benefits. This suggests that citizens care about both their taxes and government benefits. They do not necessarily want to minimize their tax burden, regardless of the consequences for their benefits. Nor do they wish to maximize their government benefits, regardless of what they must pay in taxes. Instead, they wish to simultaneously minimize the taxes they must pay while maximizing the benefits they receive. If taxes rise but government benefits do not, or if government benefits fall but taxes do not, citizens will protest. So his modified version is that citizens object to paying taxes if they do not receive benefits which can somewhat justify the increase. (Ross, 2012, p. 66-67)

This implies that citizens do not want minimal government but rather an efficient government – one that provides them with the greatest “bang for the buck”.

Authoritarian governments that kept taxes low as a percentage of government spending are more likely to avoid democratic transitions. The idea is that a rise in taxes relative to government spending can produce democratizing rebellions is closely related to the notion of a political budget cycle. They both imply that citizens will support governments that provide them with more benefits and lower taxes, and try to replace ones that supply fewer benefits with higher taxes. If these tax rebellions occur in dictatorships, they can bring about transitions to democracy, (Ross, 2012, p. 67)

To show the logic that connects a country's oil wealth to the accountability of its government, Ross arguments as follows:

He uses an informal model – the citizens as a single actor, and a ruler. He then uses the following example: We have a ruler whose goal is to stay in power leads the

government. To accomplish this, he or she uses his or her fiscal powers to build political support—both by spending money on patronage and public goods, and keeping taxes low. Citizens are concerned with their own economy, both present and future. Their support for the ruler is determined by the government's impact on their economy: they favor governments that takes little from them in the form of taxes, but give them much like patronage and public goods. If their government provides them with large benefits and low taxes, they will support the ruler; if it provides them with few benefits and high taxes, they will try to replace him. He then continues with the argument that if the country has no oil, then all the government's revenues comes from taxes, where there is a one-to-one ratio between the taxes it collects and the benefits it distribute. (Ross, 2012, p. 68)

As he correctly notes, that throwing out a dictator does not automatically turn a country into a democracy. He then makes the argument that if they are smart, they push for democratic reforms for safeguarding against future potential unpopular dictators. Alternatively, that the dictator himself agrees to relinquish some of his power to stall his removal. He then adds the ingredient oil into his argumentation, and points to the fact that oil production leads to a rise in non-tax revenues—enabling governments to deliver more benefits to citizens than they collect in taxes indefinitely. (Ross, 2012, p. 69)

So far Ross's model rests on an important assumption that he himself identifies: that citizens are concerned about how their government uses its tax revenues, but are indifferent to how it spends its oil revenues. However, he points out that most people in oil-producing countries seem to believe that they are entitled to benefit from their nation's mineral wealth. Since it makes little sense to pretend that they do not care, he then suggests that it is rather the spending-to-revenue ratio the people care about. If they believe their government delivers too few services, given the size of its revenues, they will rebel. (Ross, 2012, p. 69-70)

He then argues that the reason we have not seen more rebellions in oil-rich autocracies, comes from the fact that since the citizens do not have complete information, just what is given to them in the media and from the government. He combines this with the fact that it is very easy to hide revenues from oil and gas, and thereby it is easy for governments to hide just how large their revenues are in reality. (Ross, 2012, p. 70) In short, rulers in general and autocrats in particular remain in power when citizens believe that their governments are delivering many benefits relative to their revenues. In authoritarian states, leaders can ironically make themselves more popular by concealing a portion of their oil revenues from the public. (Ross, 2012, p. 71)

Ross admits that while there are some evidence that authoritarian governments with higher government spending-to-revenues ratios will be less likely to democratize, this argument is hard to measure, and additionally it is difficult to answer if the extra revenues from oil actually go to buy public support, or if it is just lost to corruption. While there is proof of big spending on costly benefits and subsidizes, for example is gasoline more subsidized in authoritarian states than other, it is still hard to measure how much of the revenues are used for this. (Ross, 2012, p. 77-79)

3. Methodology

My initial strategy was to narrow this even further is to find a point in time within the period of President Putin`s two terms where the oil price soared and check if it was followed by a significant weakening in democracy-score in the wake the next year or two. If this was the case, as I expected to find, I will use process-tracing to see if I can establish a connection between these two events. And of course I will have to identify what lies behind the decrease in score. However, reviewing the data and comparing the price of crude oil and change of democracy score, this seemed not to be the case. Or to be more precise, there was a drop in democracy score each year throughout the period, but the biggest changes happened before and at the

beginning of the oil price boom of the mid-2000s. This brought me to change to an alternative strategy, where I look closer at the two years with the most significant drop in democracy scores. We shall come back to the results of this later.

As George and Bennett writes, the research objective may not focus on outcomes of the dependent variable, but on the importance of an important independent variable – e.g. as in this case oil rents – in shaping outcomes in a number of cases. (George and Bennett, 2005, p. 80)

For case research, and single case research, there are as always some pitfalls. First, single case research designs can fall prey to selection bias or over-generalization of results. Single-cases studies rely almost exclusively on within-case methods, process-tracing and congruence, but they also make use of counterfactual analysis to posit a control case. (George and Bennett, 2005, p. 80)

Single cases serve the purpose of theory testing particularly well if they are “most likely”, “least likely” or “crucial” cases. Prominent case studies by Arend Lijphart, William Allen, and Peter Gourevitch, for example, have changed entire research programs by impugning theories that failed to explain their most-likely cases. Similarly, single-case studies can also serve to reject variables as being necessary or sufficient conditions. (George and Bennett, 2005, p. 80-81)

3.1 - Case selection

When it comes to case selection, one should select cases not simply because they are interesting, important, or easily researched using readily available data. George and Bennett stresses that case selection should be a central part of the research strategy to achieve already well-defined objectives. Hence, the primary criterion for case selection should be relevance to the research objective of the study, whether it includes theory development, theory testing, or heuristic purposes. Cases should also be selected to provide the kind of control and variation required by the research

problem. This requires that the universe or subclass of events be clearly defined so that appropriate cases can be selected. (George and Bennett, 2005, p. 83)

Often researchers begin their inquiry with a theory in search of a test case or a case in search of a theory for which it is a good test. Either approach is viable, provided that care is taken to prevent case selection bias. Important criticisms have been made of potential flaws in case selection in studies with one or a few cases i.e. David Collier and James Mahoney; such concerns are influenced by the rich experience of statistical methods for analyzing a large-N. (George and Bennett, 2005, p. 83)

3.2 - Coding variables

Usually the researcher turns to the task of case study analysis, establishing the values of independent and dependent variables in a case through standard procedures of historical inquiry. The researcher should always articulate the criteria employed for “scoring” the variables so as to provide a basis for inter-coder reliability. (George and Bennett, 2005, p. 90) Fortunately, the “scoring” in this thesis has already been done beforehand. The dependent variable “democracy score” by the diligent researchers at Freedom House, and the independent variable is the WTI (Western Texas Intermediate) oil price measured in American Dollars per barrel of crude oil. Normally European oil is traded in Brent Crude Oil prices, however, WTI is the U.S. benchmark in crude oil prices—and WTI and Brent were historically very close in pricing until 2007. Since they were so close in pricing during the period analyzed, I have chosen to use the WTI as the price standard for crude oil as the historical data are more readily available for this standard.

3.3 - Explaining cases

The researcher must develop explanations for the outcome of each case. As George and Bennett put it, this phase is a matter of detective work and historical analysis rather than a matter of applying an orthodox quasi-experimental design. *“Social scientists performing case studies will need to familiarize themselves with the craft of the historian’s trade – learning, from the context in which the case is embedded, the special difficulties presented by various kinds of evidence that may be available; using multiple weak inferences rather than single strong inferences to buttress conclusions; developing procedures for searching through large masses of data when the objectives of the search are not easily summarized by a few simple search rules”.* (George and Bennett, 2005, p. 90)

3.4 - The provisional character the result of case studies

George and Bennett caution us that case explanations always should be considered to be of a provisional character. Therefore, the theoretical conclusions drawn from case study findings such as this one will also be provisional. The explanations presented in this thesis may of course very well be challenged by other scholars on one or another ground – some theoretical reasons might be that I may have overlooked relevant data or misunderstood its significance, or that I failed to consider an important rival hypothesis. (George and Bennett, 2005, p. 90-91)

Usually the researcher should demonstrate that he or she has thoroughly considered alternative explanations outcome in the case to avoid providing the basis for a suspicion, justified or not, that he or she has “imposed” a favored theory or hypothesis as the explanation. (George and Bennett, 2005, p. 91) In this case, since the goal of the thesis is to test Ross` argumentation and hypothesis, I see no need for considering a specter of alternative explanations, but suggesting through my analysis that this should be done in future studies.

3.5 - The challenge of competing explanations

A challenge many case study scholars encounter is to reconcile conflicting interpretations of a case or to choose between them. This problem can emerge if one comes up with an explanation that opposes an earlier scholar's, but fails to adequately demonstrate the superiority of the new interpretation. The competing explanations can both fit the available historical data, which makes it difficult to decide which is the superior explanation. But there is also the possibility that both explanations might be over-determined, or that they in fact address different parts of a complex case. And of course as with all research there is the risk that while one of them is in reality causal, the other might be spurious. The interpretations may also never be reconciled if they turn out address and attempt to explain different aspects, or if the researchers disagree on what are the facts of the case, and then are not competing at all when it comes to the point. (George and Bennett, 2005, p. 91-92)

3.6 - Transforming descriptions to analysis

In theory formulation or theoretically formulated explanations, loss of information and simplification are unfortunately unavoidable. But what is critical is whether this loss and simplification jeopardize the validity of the conclusions drawn from the cases for the theory and the utility of that theory. Through this transition from a specific to a more general explanation, a researcher risks dismissing some of the causal processes at work in the case for several reasons. One is of course the risk that they are not already captured by the general theory, another is that he or she might fail to recognize a variable's general significance. Avoiding these errors unfortunately depends on the sensitivity and judgment of the researcher, which makes them hard to detect and avoid for even experienced researchers. (George and Bennett, 2005, p. 93)

3.7 - Some challenges in attempting to reconstruct decisions

There are some seriously challenging problems connected to reconstruction of the policymaking process in attempting to explain decisions. The data on such processes derives from research done by historians. While these historical studies can prove invaluable in the research process, it is not without its challenges in political science. (George and Bennett, 2005, p. 94-95)

It is easy to be tempted to rely on a single, seemingly authoritative study of the case at hand by a historian. This is problematic due to the fact that there often is disagreement among historians concerning the explanation of the case at hand. By relying upon a single or too narrow set of account, one risks overstating the performance of the favored hypothesis. This makes it important for the researcher to identify and analyze different perspectives and alternative explanations trying to control for biases, and if necessary present them as alternative hypotheses. (George and Bennett, 2005, p. 95)

Since the research objectives determine the questions to be asked of a case by a political scientist, even by using the best available historical studies of a case, one should be careful to expect that these authoritative studies will give the answer one is looking for, since the author's research objectives can be quite different from one's own. Other challenges posed by the use of studies are knowledge gaps, new materials and lack of systematic measuring from the historian. (George and Bennett, 2005, p. 96) Fortunately there are rich enough materials on my case at hand, that consulting historic studies can be avoided by studying historical accounts already made by political scientists and adapted to the requirements of the field. If possible knowledge gaps were to be discovered, there would be a theoretical possibility of having to turn to original sources such as archival materials, memoirs, oral histories, newspapers, and new interviews. (George and Bennett, 2005, p. 96-97) This would not be without its severe challenges, as most—if not all, original sources would be in Russian. Translating these sources would be beyond the timeframe and resources

available for this thesis, and non-translated sources would seriously challenge the validity and the possibility of other researcher to reproduce the results. Additionally the case is to close in time to have available memoirs from key actors. There is also the significant possibility that these sources would by themselves be sufficient to give answers to the questions at hand, as they also have some important limitations connected to them. Daily media for example can be important and vital for understanding the context that the policymakers act within, but are more a supplement than substitute for archival sources. There is also the likelihood that important data are not available for the researcher due to classified material or just plainly the lack of documenting important conversations. (George and Bennett, 2005, p. 98) These limitations are especially acute when studying cases that are authoritarian and/or have little transparency concerning decision- and policymaking.

3.8 - Over-intellectualizing the creation of policy

George and Bennett warn us about some of the pitfalls made by many scholars due to the fact that that they assume an unrealistic rational policymaking process in attempting to reconstruct how and why a decision was made. Scholars are also not immune to cognitive bias toward using univariate explanations, which are clear and simple, failing in their eagerness to consider the very likely possibility that there is many considerations, motivations and forces behind most, if not all, decisions. One would not be much of a statesman if there were not multiple considerations behind every decision, and trying to maximize payoffs across several fields. (George and Bennett, 2005, p. 98) A prudent and fitting example here would be the Kremlin's imprisonment of its powerful rival Khodorkovsky. A simple, but too narrow explanation would be that President Putin was just getting rid of a thorn in his side. But a good explanation would include the considerable payoffs for making way for renationalization of Yukos' assets, making an example for the public that the oligarchs will not get away with corruption and their criminal ways of enriching themselves—and thereby increasing his popularity (even if mostly for show), the

decreased flow of capital to political opponents and, in the Kremlin's eyes, bothersome NGOs.

Several considerations usually influence a decision-making process in other ways as well. A number of actors are trying to participate and influence policymaking in every regime type, but especially in a pluralistic political system, where agreement on what should be done could be a result of countless different reasons and motivation. It is sufficient that members of the policymaking group agree only on what to do without having to agree on why to do it. (George George and Bennett, 2005, p. 98)

3.9 - Assessing the value of archival materials

Case analysts making use of historical studies produced by other scholars, unfortunately cannot assume that his or her research weighed the evidentiary significance of primary sources in a proper manner. There is always the risk that scholars tend to bias the significance of items that fits into their interpretation, while attaching less significance to items that does not. This is not so much a conscious choice as unconscious double standards everyone operates with. As George and Bennett puts it:

“They more readily accept new information that is consistent with an existing mind-set and employ a much higher threshold for giving serious consideration to discrepant information that challenges existing policies or preferences.” (George and Bennett, 2005, p. 99)

In handling archival materials, diligence is required to avoid distorted interpretations from one's bias. But also misreading and/or disregarding the context of these sources are serious pitfalls. All documents are as a rule communication with underlying motives and an intended message for its readers. So in interpreting the meaning and significance what is communicated, it is important to bear in mind not only the background, but also who is speaking to whom and what. The value of its contents is hard to evaluate without having these questions in mind. George and Bennett also

emphasize the usefulness of asking for what purpose the document was intended to achieve, its place in the policymaking process, and its relation to other communications and activities—past, present, and future? As if all this was not already enough, one should also consider the circumstances surrounding the document's declassification, since this act also usually have its motives and purposes. (George and Bennett, 2005, p. 99-100)

When studying the policies of a complex policymaking system, it would be less useful if one operates with a too simple model or set of assumptions on how the policies come to be. In most modern states, there will be a powerful and influential set of actors and agencies in each issue area. Leaders usually turns to their advisors for critical information and advice in formulating policies, and these again usually have difference in status and power as participants in high-level policymaking (George and Bennett, 2005, p. 100)

A common challenge in following the "paper trail" behind policy formulations, is how much of a leader's decision can be attributed to his or her personal opinion, and how complete is the information underlying this decision. For example might some of the influential policymakers decide amongst each other what advice and options to present and recommend for personal gains and interests? Speeches and reports are usually written by advisors and speech writers, so one must consider who's words and rhetoric the leader presents. (George and Bennett, 2005, p. 100-101)

3.10 - Translating case studies to theory

Case studies and their subsequent findings have many purposes. The findings of a case study can lead to everything from strengthen or weaken a proposed historical explanation of the case in question, or they can form the basis of establishing a new explanation. In this process within-case methods like process-tracing are very strong. Especially testing theories which posit a particular causal mechanism for a case,

process tracing can be used to prove or disprove its presence. If the latter is the case, then the theory is greatly weakened as an explanation for this case, however one should always consider the possibility of measurement error or omitted variables. But weakening the explanatory power of a theory for one case, does not exclude the possibility that that the theory explain other, dissimilar cases. (George and Bennett, 2005, p. 109)

The findings might be generalized from the studied case to the type or class of which the case is a member, regardless of the way it points. However, the possibility of generalizing is dependent on the precision and completeness the researcher has defined the class of cases and the degree to which the case exemplifies the class. There is thou always the risk of mistaken inferences when the other cases are not studied, since they might have different values of potentially causal variables omitted from the theoretical framework. (George and Bennett, 2005, p. 110)

Unfortunately the nature of generalizations always involve some loss of qualities and context when moving in the direction of a more general explanation. But as George and Bennett reminds us:

“The critical question, however, is whether the loss of information and simplification jeopardizes the validity and utility of the theory. This question cannot be answered abstractly or a priori.” (George and Bennett, 2005, p. 114)

3.11 - Theory testing

Case studies are an invaluable tool for testing well developed theories. They can of course be used for proving or refuting the theory, but is usually more fruitful to test the scope conditions of the theory. In many cases the scope conditions must be either expanded or narrowed. This presents some difficulties, as it is not always easy deciding if the theory fails to explain the case studied or the whole class of cases. (George and Bennett, 2005, p. 115)

An essential question is whether the theory fails to account for the context, or if it is the internal logic of the theory itself that is flawed. Or perhaps a combination of both. If it is the context making the case anomalous, the easy solution is to narrow the scope conditions of the theory. There is always the risk of allowing this or these anomalous cases to lead a researcher to reject a general theory that might explain other cases, and likewise to narrow the scope conditions to save a flawed theory. (George and Bennett, 2005, p. 116)

Unlike theories that posit simple causal relations which can be falsified by a single case, it is much harder to theories that posit more complex causal relations, such as Ross theory. Unfortunately these theories are the most interesting to subject to tests. However these theories can be put through strong tests if they assume high-probability relations between variables, such as in this case that large oil rents tend to weaken democratization, and posit a manageably small number of variables, interactions, and causal paths. (George and Bennett, 2005, p. 116) Whereas his theory posits too many for the scope of this thesis, I have chosen to focus on just some of the postulated causal mechanics

As George and Bennett states, when it comes to addressing all these complications of generalizing the results, it is sadly no infallible way to be sure. They recommend measuring the strength of an empirical test based on how strong and uniquely the variable's prediction of the outcome was on the case in question. (George and Bennett, 2005, p. 117)

3.12 - Contingent generalizations

To be able to test contingent or typological generalizations, scholars must have clearly specified the scope or domain of their generalizations. The range of institutional settings, cultural contexts, time periods, geographic settings, and situational contexts does the theory apply? Like in the theory at hand, the scope and domain is non-democratic states, or states in transit to democracy that has significant production of oil and natural gas. This kind of theorizing provides the specifications of

the configurations of variables or the types to which the generalizations apply. Tests of contingent generalizations as in this thesis can undertake the examination of cases which falls within the domain of the theory specified by the researcher to see if their processes and outcomes are as the theory predicts. (George and Bennett, 2005, p. 119)

3.11 - An alternative way to testing a theory

Within-case analysis have been suggested to compensate for the limits of statistical and comparative case analyses. As George and Bennett points out, this alternative approach focuses not only on the analysis of variables across cases, but on the causal path in a single case. (George and Bennett, 2005, p. 179)

While the controlled comparison method enjoys greater flexibility, within-case analysis on the other hand requires a theory that predicts outcomes on the basis of specific initial conditions. But the method has no requirements of the predictions themselves. Through the preexisting theory, one establishes the value of the variables in the case at hand, and then compares the empirical value of the dependent variable with that predicted by the theory, given the observed independent variables. The possibility of a causal relationship is strengthened If the outcome is consistent with the theory's prediction. (George and Bennett, 2005, p. 179)

The congruence and process-tracing methods for making causal inferences provide alternatives to controlled comparison, and therefore constitute the basis for different type of comparative method. The results of individual case studies, each of which employs within-case analysis, can be compared by drawing them together within a common theoretical framework without having to find two or more cases that are similar in every respect but one. (George and Bennett, 2005, p. 179) The alternative proposed by George and Bennett is the within-case method of causal interpretation,

which may include congruence, process-tracing, or both, and which does not operate according to the structure or causal logic of experiments. (George and Bennett, 2005, p. 181)

The congruence method is basically that one starts with a theory and then tries to assess its ability to explain or predict the outcome in a particular case. The theory posits a causal relationship between variance in the independent variable and in the dependent variable; which can be a deduction resulting in an empirical generalization. If the outcome of the case follows the theory's prediction, a causal relationship might be the case. However, consistency between a theory's predictions and case outcomes may not be significant, and have the risk of being spurious.

(George and Bennett, 2005, p. 182) As with the theory analyzed in this thesis, there is some consistency between the democratic development in Russia and the size of the oil rents. Russia was at its most democratic while the state was mostly bankrupt and not catching much of the oil rents. About the same time as the state manages to capture more rents, the democratic development declines. However the causal chain here is not so clear, especially when it comes to taxes and accountability, which is one of the main independent variables in his theory.

The congruence method in itself does not prove a causal relationship between the independent and dependent variable, since it does not use process tracing. However the two methods can be combined to attempt to establish causality between the two, or refuting the congruence as spurious. While not a conclusive method, the congruence method is so adaptive and flexible, that it can be used for example to test if a case is worthwhile to study closer if the theory seem to fit the case. (George and Bennett, 2005, p. 182) As in this case study where there seem to be a steady decline on the dependent variable democracy score, at the same time as the value of the independent variable (oil price) was increasing, even if somewhat unstable and more erratic than the dependent variable.

Because as George and Bennett warns, consistency is not the same as a causal relationship, and as mentioned earlier, there is a possibility that the correlation is spurious and must employ safeguards against this, of which process tracing is one of them. (George and Bennett, 2005, p. 183)

Assessing the possible causal significance, the question of causal or spurious consistency must be considered first of all. Then one must consider and assess if the independent variable has considerable explanatory or predictive power or if it is a necessary condition for the outcome of the dependent variable. Perhaps might the same outcome be just as possible with a completely different value? Especially the explanatory and predictive power are vital, as a independent variable may be necessary to the outcome, but still contribute little or nothing to the explanation or prediction of the outcome in question. (George and Bennett, 2005, p. 185) For example the independent variable oil price seems to explain little of the outcome of the dependent variable in this thesis.

One should keep in mind the following when dealing with congruence: it might be more than the one theory that is equally congruent with the outcome; and factors yet not identified might be the cause of the outcome. This should caution scholars to be sensitive to the problems of spuriousness, causal priority, and causal depth in analyzing inferences made on the basis of congruence tests. (George and Bennett, 2005, p. 185)

Spuriousness occurs when the observed congruence of the cause C and effect E is artificial because both C and E are caused by some third factor Z.

Causal priority: If C is necessary for E, but C is itself only an intervening variable wholly or largely caused by a necessary prior variable Z. In this instance, both Z and C are necessary for E, but C has no independent explanatory value.

Causal depth: If a third variable Z would have brought about E even in the absence of C. In other words, Z has greater causal depth because it appears to be necessary and

sufficient for E, and Z may act through C or through some other variable X. (George and Bennett, 2005, p. 185-186)

In the case study of Russia, I will suggest that Ross` theory in this case might be affected by both causal priority and especially causal depth. This might not be so in other cases, but the context in this case suggest that the theory has some weaknesses and that the low tax levels are a direct result of other factors in the special context of post-Soviet Russia.

Thus, the appearance of congruence, especially when only one or primarily one theory is considered, cannot support an inference of causality, nor does the lack of congruence deny a possible causal role. Moreover, even if a congruence test suggests that a variable played a causal role in a given case, this does not mean that this theory proposes causal factors that are necessary, sufficient, or causal in any sense in other cases where contextual and conjunctive variables are different. (George and Bennett, 2005, p. 185)

If the relationship between the values of the dependent and independent variable is supported by a statistical generalization one must seriously consider that the relationship might in fact causal and not spurious. This also raises the timely questions if the independent variable is a necessary condition for the outcome in question, and is the causally related independent variable also consistent with other outcomes. These questions are easier said than done to answer properly. (George and Bennett, 2005, p. 188-190)

3.14 - Process-tracing method

“If statistical work addresses questions of propensities, narratives address the questions of process” (D. Laitin in George and Bennett, 2005, p. 205)

Process-tracing is an indispensable tool for theory testing and theory development not only because it generates numerous observations within a case, but because these observations must be linked in particular ways to constitute an explanation of

the case. It is the very lack of independence among these observations that makes them a powerful tool for inference. The fact that the intervening variables, if truly part of a causal process, should be connected in particular ways is what allows process-tracing to reduce the problem of indeterminacy. (George and Bennett, 2005, p. 207)

Many or most phenomena of interest in international relations and comparative politics are characterized by more complex form of causality. Here the outcome flows from the convergence of several conditions, independent variables, or causal chains. An even more complex form involves interacting causal variables that are not independent of each other. Case study methods provide opportunities for inductively identifying complex interaction effects. (George and Bennett, 2005, p. 212)

Yet another type of casual process to which the technique of process-tracing can be applied occurs in cases that consist of a sequence of events, some of which foreclose certain paths in the development and steer the outcome in other directions. Such processes are path-dependent. A different kind of within-case analysis and process-tracing is needed for dealing with phenomena of this kind. (George and Bennett, 2005, p. 212)

The usefulness of process-tracing is not limited to the study of the international behavior of actors and organizations; it is also applicable to investigations of any hypothesized causal process. As George and Bennett states, process-tracing is particularly important for generating and assessing evidence on causal mechanisms. More generally, process tracing offers an alternative way for making causal inferences when it is not possible to do so through controlled comparisons. (George and Bennett, 2005, p.214)

4. Analysis

The Russian economy and politics

Causal scrutiny of the rise, fall and rise of the world oil price appears to show a striking correlation with the rise, fall and rise of authoritarianism in Russia. (Rutland, P. 2006: 2) Russia has experienced some sharp regime shifts in the past 20 years, from totalitarianism to democracy and back to authoritarianism. Defenders of the resource curse model could argue that Russia's experiment with democratization in the 1990s was a mere blip in the historical record, an irrelevancy that was doomed to fail given Russia's deep structural dependency on mineral exports. According to this view, the resource curse cannot be expected to explain fluctuations in a political regime within a short period (say 20 years). (Rutland, 2006, p. 2-3)

A more nuanced defense of resource curse would be to try to argue that the fluctuations in Russia's resource earnings help explain the rise and fall of democratic hopes over the past two decades. It's true that the oil price fell from a peak in 1985 to a trough in 1997 – precisely the years of Russia's democratic experiment. But Russia's earnings from mineral exports substantially increased from 1992-96, due to diversion of oil and metals from value-subtracting domestic manufacturers to export markets. The benefits from this export boom however flowed into the pockets of the so-called oligarchs – the new private owners of the oil and metals industry, and the impact of low oil price was softened by the low price they had paid for their assets and the low levels of taxation to which they were subject. (Rutland, 2006, p. 3)

Russia has quite the distinctive political history, lurching from the most authoritarian state and largest empire in Europe prior to 1914 to the world's first proletarian dictatorship post-1917. The "Russian curse" predated the "resource curse". So the question is to what extent oil /gas dependency has reinforced Russia's preexisting political distinctiveness as an authoritarian state, preventing it from becoming a

democratic country. Or perhaps to the contrary the resource curse may have worked to neutralize some aspects of Russia's unique historical burden. (Rutland, 2006, p. 3)

Fish (2005) concludes from cross-national analysis that Russian democracy is blighted by a variant of the resource curse. He is unable to find clear evidence that it works through the three vectors identified by Michael Ross – the rentier effect, the repression effect and modernization. Russia was already a modern society, so the resource curse did not prevent modernization. Evidence for a rentier state buying off social discontent is not there as Russian state spending as a share of GDP is low by international standards. Russia does have above average levels of military spending, but Fish did not find this factor particularly decisive. The context of the country for centuries being an international big power, even at its height one of the two superpowers of the World, makes the military spending not so easy to put into the category of state spending to repress the public. Instead Fish traces the causal chain through the impact of oil & gas on corruption and economic liberalization – boosting the former and distorting the latter. There were insufficient funds to “play the role of Kuwaiti rulers, showering the people with services without taxing them. But in Russia there is more than enough money to corrupt the state apparatus” (Fish, 2005, p. 134, cited in Rutland, 2006, p. 3)

The underlying problem in establishing the causal role of hydrocarbons in the failure of democracy in Russia is that the outcome is over-determined. Russia already had multiple factors working against its democratic experiment: the lack of historical experience with democracy; the legacy of 75 years of Soviet totalitarianism; post-imperial ethnic heterogeneity; rising social inequality; and perhaps even its Orthodox tradition. Figuring out where oil and gas fits into this list of possible causes is no easy task. (Rutland, 2006, p. 3-4)

The Russian Federation inherited an economy without sufficient revenues to perform many of the most basic tasks. It was left with severe credit and capital deficiencies after the “bank run” in the last years of the Soviet Union, which is still the major

structural problem of the Russian economy together with the Russian state's lack of administrative capacity. (Robinson, 2009, p. 435) After the central planning system stopped working and the old institutions died with it, the new institutions needed for a functioning market economy failed to get created. (Bradshaw, 2008, p. 195-196)

The liberalization of prices imposed a sudden shock and enterprises responded by developing a barter economy and failing to pay for goods and services. During the Soviet period, Russia had been a federation in name only. The 89 federal subjects that now comprised Russia had previously had very little influence over what happened in their region's economy, power and control had resided with the Party and Ministerial structures in Moscow. Now the Communist Party was gone and the new Federal Government lacked the authority to dictate the regions. In this power vacuum, many regions seized the initiative and sought to protect and control their local economies. Thus, the national economy fragmented, which only served to deepen the recession. (Bradshaw, 2008, p. 196)

From 1999 until the 2008 financial crisis, the improvement of the economic situation in Russia was impressive. GDP growth averaged 7% per year in real terms, consumption increased and the unemployment rate steadily fell. This economic record was driven by rising resource prices that led to windfall gains of export revenues. (Dobrynskaya and Turkish, 2009, p. 3) Additionally, there was in the period a rise in real wages, a decrease in employment in manufacturing industries and the development of the services sector, manufacturing production nonetheless increased. (Dobrynskaya and Turkish, 2009, p. 4) These trends can be explained by the gains in productivity and the recovery after the disorganization in the 1990s, by new market opportunities for Russian products in the European Union and in CIS countries, by a growing Chinese demand for some products and by a booming internal market. Finally, investments in many manufacturing industries were largely encouraged, whereas those in the energy sector were strongly regulated, which contributed to economic diversification. (Dobrynskaya and Turkish, 2009, p. 5)

The annual growth in the manufacturing sector were through the entire period as high as, or higher, than the growth in the resources sector or in the services sector. Although exports of natural resources indeed constitutes the largest share of Russian exports and this share increased in 1999-2007 , exports of manufacturing products grew as well, but at a lower rate. (Dobrynskaya and Turkish, 2009, p.21)

Despite the growth and the claim that Russia has lost little of its competitiveness, there are severe structural problems in the Russian economy. High oil price and expansion of services and non-tradable sectors are threatening the ability to accumulate capital combined with an undeveloped credit market. This puts pressure on the ruble, and hence Russian competitiveness together with the establishment of the Stabilization Fund. The Funds main objectives are to keep money out, inflation and appreciation of the ruble down, and prepare Russia for bust-cycles so the government can avoid taking loans to cover for failing oil revenues. (Robinson, 2009, p. 446 , Appel, 2008, p. 310)

A huge challenge for the Russian economy is the unfriendly business environment in the areas which the government deems to be “strategic”, which has created uncertainty concerning property rights and long term investments. This is certainly true in the hydrocarbon sector, with the dismantling of Yukos (Appel, 2008, p. 317) Other purchases of parts of or whole oil companies have happened under administrative pressures on environment and other license issues, which went away as soon as the acquisition was complete. This is however mainly confined to this strategic sector. (Hanson, 2007, p. 876-877) Still this harassment creates uncertainties throughout the entire economy, and it has been a clearly stated goal from the Putin administration to make sure that vital Russian industries and sectors stay under Russian control, but not necessarily as state-owned. Statism has got a stronger foothold in the Russian economy under Putin. Some sectors like energy infrastructure and defense industry have since the Soviet era stayed in government hands, and with the skyrocketing energy rents got a new dawn. But the expansion

into other sectors and industries like airplane, ship and car manufacturers, titanium production, just to mention some, have both its costs and benefits. Most of them are concerned with the national sovereignty from international, and especially western actors, and protection against the global market. However, still the majority of the Russian GDP comes from the private sector. (Hanson, 2007, p. 878)

It is difficult to overestimate the role of the energy sector in Russia's economic system. According to estimates by John Grace, about 47 trillion cubic meters of natural gas, making about one quarter of the world's natural gas reserves, as well as 100 billion barrels of oil (13 per cent of world reserves) is located within Russia's borders. (Tkachenko, 2008, p. 2) The energy sector brings a major part of currency earnings to Russia's budget and is the key engine driving the country's fast economic growth since the turn of the millennium. (Tkachenko, 2008, p. 3) This is also why Moscow has never viewed oil and gas just as an ordinary commodity. They are viewed as Russia's strategic assets employable for foreign policy purposes as well as for bargaining with leading nations of the world on all issues relating to Eurasian economic and security policy. (Tkachenko, 2008, p. 4-5)

Russia's constitution in the Post-Soviet era is the result of Boris Yeltsin's victory over his opponents. It reflects the reality of Autumn 1993 with Yeltsin's total domination over his opponents, and puts the presidential administration over all other institutions of state power, including the Government, Constitutional Court and both chambers of the parliament. The constitution established a new reality in Russia: on paper the only centre of real power in the country is the president, and any contacts between the president and other state institutions should involve the presidential administration as the only mediator. (Tkachenko, 2008, p. 7) Looking at Russia's political makeup and function, factors such as Soviet totalitarianism and the imperial legacy are not just chapters in the history books, they are vital components in any account of Russian politics over the past decade. By the late 1990s, Russia was in

reality ruled by a group of businessmen who had acquired incredible wealth through the privatization process, and mostly not in a legal manner. At the peak of their power in the 2nd term of Yeltsin they were in the process of transforming their economic power into control over the political system. The election of Vladimir Putin as President of the Russian Federation put this process dead in its tracks, and they were unsuccessful in their attempt. Two elements were key to Putin's rise. First, the war in Chechnya – a specific legacy of empire – was seen as a major threat by the Russian state and the Russian people. Second, Putin's background as a KGB veteran – another Soviet legacy – gave him the public image of being a strong defender of Russia's national interests, not only against Chechen terrorists but also against corrupt oligarchs. Additionally it gave Putin the political skills and network of trusted ex-KGB people known as the Siloviki, with which to staff the presidential administration and turn it into an effective tool for the recentralization of state power. (Rutland, 2006, p. 3)

The level of democracy in Russia arguably peaked in 1990-91, the last year of the Soviet Union, when there was a combative press, considerable political mobilization, and elections whose results were not known in advance. Freedom House had ranked the Soviet Union as "unfree," ranging from a score of 6 for Political Rights (PR) and 6 for Civil Liberties (CL) in 1972 to 7/7, the lowest possible score, in 1984-86. (p. 5) In 1990 was it reclassified as "partly free" with a 5/4 rating, rising to 3/3 in 1991. The new Russian Federation that emerged in 1992 was classed "partly free," with a 3 for PR and 4 for CL from 1993 through 1997. During the years of President Boris Yeltsin (1991-99) elections were regularly held, and though the media were heavily biased in favor of the president, the results generally reflected the will of the voters. But in 1992-96 politics settled down into an ugly standoff between a reformist president and an opposition-dominated parliament. After 1996 the level of competition steadily eroded from election to election, and Freedom House downgraded Russia to a 4/5 in 1999. (Rutland, 2006, p. 5)

The level of democracy has further deteriorated under Vladimir Putin, who was elected president in March 2000. Elections are still held on schedule, but state control over the media (especially TV) and the restrictions on organized political opposition have increased. After the 2003 parliamentary election Putin established secure control over the legislative branch, with the pro-Kremlin United Russia party winning a two-thirds majority in the State Duma. In 2004 Putin abolished popular elections for regional governors, one of the few remaining elements of electoral contestation (about one third of incumbent governors were losing their re-election bids). (Rutland, 2006, p. 5)

Freedom House graded Russia 5/5 “partly free” from 2000 to 2003, and in 2004 Russia was relegated to the category “unfree”, slipping to a 6 for PR and 5 for CL. These scores put Russia’s political below that of Afghanistan, Bahrain or Burkina Faso: presumably the Freedom House index does not weigh women’s rights very heavily. The Freedom House approach arguably over-states the degree of democratic decline in Russia, presumably with the political goal of persuading President Putin not to further erode democratic procedures. (Its website does describe it as an advocacy organization) (Freedom House Nations in Transit 2005 in Rutland, 2006, p. 5)

The Russian political system is still far from a personal dictatorship. As Rutland points out, President Putin (like Yeltzin before him) faces numerous checks on his power. He has to contend with competing groups within the state bureaucracy; and with the several dozen independent-minded wealthy businessmen who controlled about one third of Russia’s economy. He is also constrained by the need to win elections; to maintain a loyal majority in parliament, and to avoid popular protest by non-violent means. Personal daily life is quite free, with the compulsory registration system that regulated movement around the country put on the scrapheap of history. Opposition newspapers still exist at regional and national level, and there have been significant improvements in the judicial system (Rutland, 2006, p. 6)

It is important to bear in mind that Russia really is different from other resource-cursed economies – both in the structure of its political economy and in the path by which it arrived where it is. Russia in 2006 is clearly more dependent on resource exports than was the Soviet Union of 1985, yet it is also more democratic, even by Freedom House measures. (Rutland, 2006, p. 7)

There are several arguments that challenge the conventional wisdom that oil wealth is necessarily fatal for Russian democracy:

- 1) The oil and metal oligarchs may serve as a counterbalance to the security state elite, introducing an element of pluralism that would otherwise be lacking.
- 2) Oil and gas development and export sales requires Russia to engage with the outside world, economically and hence politically.
- 3) Russian state capacity has improved significantly since 2000, and the creation of the Stabilization Fund in 2004 gives cause to hope that the Dutch disease might be averted.
- 4) The persistence of energy cross-subsidization in the domestic economy forces a degree of public accountability on the Russian state, and provides a focal point for the opposition to rally. (Rutland, 2006, p. 7)

Compared to the former Soviet Union, Russia has become much more integrated into global economy with trade increasing from 17% of GDP in 1990 to 48% in 2004. And most of this trade is with Europe, not with the former Soviet states in the CIS. Now the Commonwealth of Independent States only accounts for 15% of Russia`s export and 23% of its imports. This external opening has been the most dynamic and successful aspect of Russia`s market transition, even if Russia`s charge into the global market was led by the energy sector. Clearly, Russia`s comparative advantage in the contemporary global economy lies in energy and energy-intensive industries such as metals and chemicals. Oil and gas accounted for 61% of Russia`s export earnings in 2005, with the amount tripling from \$30 billion in 1999 to \$100 billion in 2004. Whether energy accounts for 9% of the entire Russian economy, as Goskomstat

reports, or 25% as the World Bank calculates, it has been driving the post-1998 economic recovery, accounting for about half of the growth in GDP. Unlike most resource cursed economies, Russia has a developed manufacturing industry, so a high proportion of its energy output is used domestically. Only 56% of its crude oil, 34% of its natural gas, and 42% of refined oil products are exported. (Rutland, 2006, p. 8)

There are at least four ways in which the structure of Russia`s political economy diverges from the resource curse model. First, in striking contrast to other resource-dependent economies, Russia`s post-Soviet privatization process resulted in a pluralistic ownership structure in the oil industry. The oil ministry was split into a dozen independent corporations, along the lines of regional oil fields or packages of oil refineries. In addition to these production companies, there were hundreds of small independent companies created as middlemen for oil operations – typically to hide earnings from the tax authorities and creditors. While it should be noted that many of these are back into state ownership or control, this plurality of ownership is highly unusual in an international perspective. Only the US and UK have significant competition among oil producers – and neither of those countries is resource cursed. In all the other major producers (even Norway), oil production is controlled by one or two state-owned companies. Whereas in most countries it is the oil producers who build and own the pipelines, in Russia the state retained control over the pipeline system, through the state-owned corporation Transneft. (Rutland, 2006, p. 8-9)

4.2 - The weakened centre versus the independent regions

Under Yeltzin, who was president for nearly the whole of the 1990s, policy-making authority devolved quickly and nearly completely from the center to the regions. By decade`s end, the center`s authority no longer really reached many a Russian province. In a trend that had begun as the USSR was beginning to come undone in 1991, regional actors declared their laws sovereign on provincial territory, usurped federal taxation privileges, imposed illegal internal tariffs, established citizenship

requirements distinct from those of the Russian Federation, and even issued their own currencies. By the late 1990s, uncontrolled and open provincial ambitions were threatening Russia's cohesion as a single political and economic unity. (Stoner-Weiss, K. 2006: 109) This regionalism undermined the federal separation of authority. Even if this asymmetrical federalism might have provided a framework for the negotiation and creation of individual tailor-made solutions to Russia's diverse ethnic and political regions, it failed to do this within the framework of universal norms of citizenship. Instead, the spontaneous regionalism divided the country judicially, economically and implicitly it challenged the sovereignty of Moscow. At the beginning of the new millennia when Yeltzin stepped down, the multinational Russian Federation had moved close to becoming a multi-state state, with countless proto-state formations wrenching or buying sovereignty out of Moscow's. Russia was moving towards medieval conditions politically, with small chieftains ruled locally and with overlapping jurisdictions, and huge local differences in administrative and legislative practices. This regionalism also undermined the formation of nationwide parties due to the claims mentioned above made by regional executives, their ability to control patronage and to influence electoral outcomes in their favour. (Sakwa, 2008, p. 887)

Apparently realizing that regional resistance to Moscow's policies was seriously undermining the capacity of the Russian state, Putin wasted little time after his 2000 inauguration in taking steps to strike down such defiance of central authority and to restore the authority of the state. However, this attempt to place the constitution at the centre of relation between the centre and the regions was torn between two forms, reconstitution and reconcentration. (Sakwa, 2008, p. 887) One of them was to quietly nullify most of the complex cluster of preferential bilateral treaties that Yeltzin had set up between Moscow and about half the regions to secure support and stay in power. (Stoner-Weiss, 2006, p.110)

Four years after securing passage of the law that enabled Putin to remove a single regional leader or dissolving a regional legislature through court, it still had not been put into practice. While some had predicted or at least hoped that the law would prove a tool for ridding Russia of corrupt regional leaders, or at least let Putin boot those who had spearheaded noncompliance against Yeltzin in the 1990s, neither of these scenarios had proven true. A crucial test of this authority was the case of Yevgenny Nazdratenko. Instead of charging this seemingly corrupt figure, long a thorn in Yeltzin's side, Putin chose instead to gain Nazdratenko's resignation by offering him a step up the ladder as head of the Federal Ministry of Fisheries. (Stoner-Weiss, 2006, p. 111) Additionally, Putin's administration suffered legal and political defeats that left the regional leaderships structures of the 1990s largely intact. Moreover, while the presidential administration became strongly involved in trying to shape the outcomes of regional elections between October 2000 and January 2002, the incumbency rate for regional governors and presidents was a startlingly high 65,4%. To counter Moscow's attempt at changing the political landscape, business elites involved themselves extensively in regional elections either trying to run candidates of their own or by backing incumbent candidates in exchange for preferential tax and budgetary treatment. So despite what is said to be the rising influence in the regions of Putin's United Russia coalition, the regimes of the 1990s mostly remain in power whether they enjoy United Russia's backing or not. (Stoner-Weiss, 2006, p. 111-112)

The measurable effect of Putin's decision to dissolve most of the bilateral treaties between the Kremlin and some Russian provincial governments remains unclear. Interestingly he chose to leave 14 treaties untouched which tie the central government to some of the more notoriously and persistently noncompliant regions. The treaties were widely variable. Some gave certain regions, such as Tatarstan and Sverdlovsk, considerable economic and tax privileges. Others amounted to little more than expression of friendship and solidarity between the regional signatory and the federal government. (Stoner-Weiss, 2006, p. 112)

Lambert-Mogiliansky, Sonin and Zhuravskaya have found that Russia`s regional governors, through their considerable influence over the judges in regional arbitration courts, have been able consistently to manipulate the bankruptcy process in order to protect regional enterprises from creditors, including the federal government and its tax-collection agencies. (2003, p. 3, cited in Stoner-Weiss, 2006, p. 115) They also found that this happened frequently in favor of larger companies, for the natural reasons of that the tax possibilities were good for the regional governor; there was a potentially steady source of bribes and side payments to be had by actually retaining the incumbent management in the process; and high employment at these firms was significant for the governor politically. For the governors the larger the corporation, the more money and voters and hence treated delicately and preferentially. (2003, p. 23, cited in Stoner-Weiss, 2006, p. 116)

Research on Russia`s regions examined whether individual regions could adopt policies to promote economic development, either through local protectionism or by embracing market reform. The harsh reality was that the scale of the crisis was such that individual regions could do little to stem the tide of decline. It became increasingly apparent that inherited economic structure, rather than the dynamism of the Governor, was the most significant factor determining the fortunes of individual regions. Only those regions that produced natural resources which could be exported retained any comparative advantage; there was no market for manufactured goods and the military-oriented industrial economy was simply redundant. The structural consequence was a “primitisation” of the economy as the resource sector proved relatively resilient compared to the manufacturing economy. (Bradshaw, 2008, p. 196-197)

4.3 - The democratization of Russia

The analysis of recent democratization has been premised on some core assumptions about transitions from dictatorship to democracy—with the transitional period

understood as beginning with an evident weakening of authoritarian rule and ending with the first competitive elections. These assumptions include the following: that immediate influences are more important than historical considerations in shaping transitional dynamics, that transitions are inherently quite uncertain, that the central dynamic in a transition is bargaining between authoritarian leaders and leaders of the democratic opposition, with outcome a function of their relative power, and that the key issues on the table during the transition are breaking with authoritarian rule, building democratic institutions, and eliciting the cooperation of authoritarians. (Bunce, 2003, p. 170-171)

As in most aspects, Russia is distinctively different from other comparable countries. The most surprising aspect of Russian politics according to Bunce is the absence of significant political polarization among citizens and the relative stability of their political preferences over time. Russia has a highly improbable and seriously flawed, yet durable democracy. The two main flaws of the Russian democracy is the strength of the Russian presidency, and the weakness of the Russian state. While Boris Yeltsin played a central role in the rise of democracy in Russia, many of his actions, beginning in 1993, would seem to have compromised the democratic project, as well as economic reform and state capacity. And his successor, Vladimir Putin and his clear commitment to the recentralization of the Russian state, is often viewed as an even more formidable force against democratic politics. Such an interpretation is particularly tempting, Bunce points out, given the parallels between contemporary Russia and Weimar Germany—for example, disastrous economic performance, downward mobility in the international system, and the existence in both cases of a mixed presidential-parliamentary system, with important powers reserved for the presidency. (Bunce, 2003, p. 180) But as mentioned earlier, the present political system is the result of Yeltsin's victory over the opposition-dominated parliament, where he managed to transfer most of the power into the Presidency through the new constitution to avoid future stand-offs.

If the Russian presidency is a problem, so, too, is the weakness of the Russian state. It is weak because of the absence of rule of law where judges can be instructed and/or bought, continuing conflicts between central and local laws, and the lack of compliance in the regions for Moscow`s policies due to stronger local identities than the national identity. As a result, the Russian state and regime are both spatially fragmented. This fragmentation also spills over to the economy, and reduces severely the capacity of the state to create the economic integration necessary for capitalism to function effectively. (Bunce, 2003, p. 181)

The Russian identity is weak for many reasons, including the absence of institutions necessary to create such an identity during the Soviet era, as nationalism did not fit into the Communist project; the divisions within both the Soviet and then Russian elite over how to define this identity – if at all, and the immense challenge of constructing a common identity based on a population that, while dominant in numbers, is geographically dispersed and located in the larger cities. This is another imperial legacy which is crucial when analyzing today`s Russia. And the Russian nation is not located in a nationstate, but rather in an empire – the world`s largest – with an extremely heterogeneous population with countless other nationalities. Thus, Russian national identity was missing what many other groups within the Soviet Union had which served as the basis for mobilization once the Communist Party and the Soviet Union began to crumble: political, cultural, social, and economic institutions together with geographical compactness. (Bunce, 2003, p. 181)

If one concludes that the Russian state is weak, then this poses a serious challenge for the development of Russian democracy. While most definitions of democracy do not mention the state, but emphasize rights, liberties, and competition, a functioning state is implied, since it is a necessary condition for the above: civil liberties and political rights are unimaginable without the rule of law; it is necessary that power rests in the hands of elected officials and the state must guarantee that there will be

free and fair elections and that public policies will be implemented. Without this political competition would not function properly. (Bunce, 2003, p. 182)

In Russia there was little consensus among publics and among elites about either the regime or the state-in-formation. The collapse of the Soviet Union and the rise of the Russian Federation happened after what can be described as a negative revolution in the sense that the single purpose of the revolt was to overthrow the old regime – without rallying for an alternative regime. As a result, the movement toward the new order was compromised and, because of that, rent seeking became extremely profitable. Rather than jumping on a boat they already knew was setting sails, rent seekers in Russia was waiting to see whether there even was a boat and, if so, where it was heading. In this way, they benefited greatly from the uncertainty of the Russian transition and its consequences—partial economic reform and partial democracy. (Bunce, 2003, p. 185)

In Ross` opinion, the case of Russia since 1998 illustrates how oil revenues can endanger a weak democracy by boosting the popularity of an elected incumbent, who gradually removes checks and balances on their own authority. In Russia, the drop in oil and gas revenues helped precipitate the government`s 1998 bankruptcy. But the great weakness of the government`s finances also opened the door to greater civil liberties, freedom of the press, and meaningful political competition—if not quite a full democracy. Once the Russian industry began to recover in 2000, democracy began to deteriorate. He then presents a figure to display the country`s democracy level along with its petroleum income between 1960 and 2007. (Ross, 2012, p. 90)

Thanks to the ensuing windfall, old debts were paid off and budget deficits were replaced with surpluses. The highest marginal tax rate on corporations was cut from 35 to 24 percent; the top rate on individuals was cut from 35 to 13 percent. (even if he notes in a footnote that these changes not necessarily can be described as tax cuts, his argumentation continues to do so, even if implicitly so). In Ross`view, these

higher budgets and lower tax rates reflected Vladimir Putin`s ability to reassert state control over the oil sector, which had been largely privatized in the early 1990s. But here he neglects to consider that while Russia before this had much higher taxes with progressive rates, this was mostly on paper. People and corporations paid as little in taxes as they could get away with, constantly cheating and using old networks of trust and corruption to achieve this. So in reality the income from taxes to the state was just a fraction of its potential. It is more reasonable to view the changes to a low, flat tax rate as way of making the tax system simple, and attempting to create a culture where people actually pay their taxes.

Nevertheless, placing this colossal wealth in the private sector contributed to the weakening of the Russian state, which found it difficult to collect taxes from the largest corporations, and hence to fund public services and balance the budget. Privatization also brought great political influence to the owners of these firms. Boris Bezerovsky, the head of the oil giant Sibneft, created a media empire and was deeply involved in Kremlin politics. Mikhail Khodorkovsky, the head of the oil group Yukos and one of the world`s wealthiest people, reportedly offered Russia`s two liberal parties a hundred million dollars to jointly oppose Putin, and he successfully blocked efforts in the parliament in 2001 and 2002 to increase taxes on petroleum producers. The mayor of Nefteyugansk, the headquarters of Yukos` major production unit, was murdered after he criticized the failure of Yukos to pay taxes. (Ross, 2012, p. 91-92)

In the 2000s, Putin aggressively renationalized much of the oil and gas companies, as a clear strategy to strengthen the state and secure what the government deemed as strategic sectors to be controlled by the state. The Kremlin`s greater control over the allocation of oil rents along with the skyrocketing size of those rents gave Putin sufficient popularity to rescind many of the political liberties of the 1990s. By the time he assumed the prime minister position in 2008, Putin had curtailed freedom of the press, restricted freedom of assembly for government opponents, and weakened the parliament even further. (Ross, 2012, p. 92)

Ross argues that Russia's oil boom contributed to deterioration of Russian democracy by increasing the government's financial resources, at least once Putin reasserted state control over the oil industry. The resulting cascade of revenues allowed Putin to simultaneously boost government spending and cut tax rates, which helped make him extraordinarily popular; just before leaving office, polls taken by the highly respected Levada Center showed that 85% of the public approved of his performance. With petroleum prices at record levels, Putin used his personal popularity to reverse many of the democratic reforms of the 1990s and draw Russia back toward one-party rule. Despite its drift away from democracy, in one way Russia looked like an exception: until 2010 it had significantly greater budget transparency than any other oil-producing authoritarian state. (Ross, 2012, p. 92-93)

4.4 - The politics of economic chaos

The economic transformation led to decline and severe depression. Even by 2002, the level of GDP in Russia, taking 1989 as the base year (100), had fallen to 63. For 1990-2003, the annual average growth rate of GDP per capita was negative (-1,5). There were immense falls in Russia's ranking in terms of human development. In 1990, the USSR was ranked 31st in the world order (and this when the measure included its Central Asian agrarian republics); by 2001, Russia had fallen to 62nd. Perhaps the most telling statistic is that the probability of babies born in 2000-2005 not surviving the age of 60 was 31,6 per cent in the Russian Federation. The death rate for men is one of the highest known in modern societies in peace time. 53 per cent of the population were living below the poverty line of US\$4 per day in the 1996-1999 period. (Lane, 2008, p. 180) The state had been significantly weakened and, until the arrival of President Putin, was unable to collect taxes, transfer resources, enforce laws and generally foster coherence. – The political and economic elites lacked consensus. Privatization was largely politically and ideologically motivated. A system of modern capitalism, one that systematically and continuously promotes the accumulation of capital, has not been established. A form of political capitalism ensued in Russia,

rather than a modern wealth-creating one. (Lane, 2008, p. 180) In Russia, until the consolidation of power by President Putin, political elites were not only fragmented but also in conflict. A major struggle here was between the state, in the form of the President, and economic elites, especially those having assets in the energy industry, and there were related conflicts between the federal centre and the regions which were also linked to business interests. (Lane, 2008, p. 181) This was the economic situation which the Kremlin had to navigate in. All modern economies is based on a combination of market, state and competitive and cooperative economic institutions. President Putin has moved the country in the direction of a corporate, cooperative state-led capitalism, away from the chaos of the 1990s. Statism is a realistic and appropriate way for Russia to develop its industrial resources. Not only does the state still maintain considerable ownership rights in the economy, but it also is assumed to have a legitimate role in promoting employment and providing comprehensive welfare, in addition to having the financial muscles to invest money. Contrary to the Western countries, the Russian state is able to at some extent influence the private sector. The standard Western attitude is to denounce Putin`s policy, mainly in ideological terms of his departures from democracy and infractions of the principles of good governance. (Lane, 2008, p. 181)

Once Putin had won the presidency in 2000 the effect of the 1998 crisis on politics reached its conclusion: he used his mandate to re-create central political authority. This reassertion of central state control took two forms in the first months of Putin`s presidency: it exerted central power over regional leadership by curtailing the rights of regional leaders and weakening their tenure and voice in central decision making and it launched an attack on major business actors who had media interests, particularly Vladimir Gusinsky and his Media-Most group and Boris Berezovsky, who had a 49 per cent stake in ORT, the main Russian TV channel. Using a much favoured tool of the Russian regime, investigations into the privatization and tax payments of several other financial-industrial groups and businessmen were opened and was accompanied by action against the media interests of banks and powerful business

interest. Together the investigations and the takeovers of business media interests were a strong signal to the Financial-Industrial Groups that the political situation had changed, and not in their favor. Putin made this signal even more explicit in a meeting that he held with business leaders in July 2000. At this meeting business leaders pressed for an end to the investigations and for guarantees that there would be no redistribution of privatized state property. Although Putin made some concessions on the latter, he warned the oligarchs that interference in politics would no longer be tolerated. (Robinson, 2007, p. 252)

4.5 - Putin`s new order

Arriving into the presidency in 2000 Putin declared his goal as the “dictatorship of law”, and indeed this principle was exercised in the attempt to overcome the legal fragmentation of the country in the federal system; but when it came to pursuing regime goals, it appeared more often than not that the system ruled by law rather than ensuring the rule of law. (Sakwa, 2008, p. 879)

As Sakwa points out, Putin`s presidency did not operate in a vacuum, and easy judgments are often made without taking the context into consideration and based on an absolutism of principles which neglects the real challenges faced by the Russian government. These challenges include amongst others the Chechen insurgency, accompanied by incursions beyond the republic—into Dagestan, and even into Moscow with the Dubrovka theatre siege of October 2002, and even the horrific attack on the school in Beslan in September 2004— which would surely put the political order of even the most long-established democracy at a test. (Sakwa, R. 2008: 879) Adding another layer of complexity to the context, is that not all of the most politically active oligarchs to Putin`s clear message to stay away too well. Bein stripped of political power, some of them sat in their exile in England and Israel plotting how to get their revenge. This did not go unnoticed by the Kremlin, especially after the ‘orange’ revolution in Ukraine in late 2004, which saw significant popular mobilization force a rerun of the presidential election. Fearing the exiled oligarchs,

the insurgency in Chechnya spreading across the North Caucasus, and the color revolutions in Russia's "near abroad", it is not surprising that the Kremlin took on a kind of siege mentality with the feeling of being surrounded by threats and its statism took an ever more conservative line. (Sakwa, 2008, p. 883)

Theories of democratic construction, which focused on the mechanics of democracy building and consolidation but neglected history and geopolitics, were tested to destruction in Russia. The transition in Russia arguments in favor of a more "genetic" approach when it comes to putting democratization theory into practice: that any discussion of change must be rooted in the realities of that specific state, and its complex social realities. Sakwa remind us that the contradictions of Putin's leadership reflect those of the society he led. The historical legacy of the Russian Empire and the Soviet Union is as mentioned extremely complex and full of contradictions, with the Soviet period creating a distinctive economy and society. Just to make things even more complex, the experience of reforms since Gorbachev launched perestroika in 1985 made the situation even more unmanageable. (Sakwa, 2008, p. 880) The Soviet bureaucracy was notorious for absorbing and changes and reforms, living a life of its own.

Restoring the state was one of Putin's primary goals, if not the primary one. He was also heir to a tradition of contradiction in which the state itself represented the highest aspiration of the society for survival in the face of mortal dangers, most recently tested during the Second World War, which in Russia is named the Great Patriotic War, Simultaneously the state can be the greatest danger to society itself, as witnessed during the Stalinist purges. This contradictory dualism in viewing the state, also makes the working conditions for democracy harder, as it is not always easy to separate the state as either a means or a goal in itself in Russian mentality. (Sakwa, 2008, p. 881)

As a living witness of the shortcomings of the Soviet Union, he feels according to Richard Sakwa no desire to restore it. His agenda was/is to transform Russia into a

vibrant capitalist economy, but at the same time at Russia`s terms which is sensitive to what is considered traditional Russian values: patriotism, Russia as a great power, statism, social solidarity, and above all a strong state. He is opposed to the restoration of a new official ideology, but does not prevent him appealing to shared values. Throughout his presidency Putin has appealed to the principles of stability, consolidation and the reassertion of the prerogatives of the state. (Sakwa, 2008, p. 881)

His continuously, and to Western eyes unrealistic in a proper democracy, high levels of popularity mostly over 70% throughout his two terms, reflects at least to some extent his ability to not only identify the challenges facing the Russian Federation, but which was also able to provide solutions and a strong leader figure to whom the people could rally behind. His solutions may not be ideal from the perspective of democracy theory or from the perspective of Western leaders and scholars, but they allowed a somewhat stabilization of the political and economic order. One might say that Putin is a transitional leader in the sense that the system he built was inherently, and in many ways deliberately, contradictory, with numerous internal institutional and policy ambiguities that in the longer run ultimately would have to find long-term resolution. In Sakwa`s opinion, President Putin`s leadership represents a neo-authoritarian stabilization, which operate within the framework of the constitution and are not opposed it`s democratic principles. (Sakwa, 2008, p. 882) Putin seems to have an ambiguous relationship to democracy, in the sense that while he is not opposed to it, but neither does he work to allow the full potential of the democratic order to emerge.

Democratization in Russia is faced with the difficult task of creating the conditions for its own existence. To make this task a little harder, President Putin has implicitly noted that this cannot be done by following the logic of democracy itself. And here we find another duality of Russian politics between the stated goals of the

government and administration, and the policies of the regime which is doing the exact opposite in regards to the democratization process. (Sakwa, 2008, p. 883)

The selective approach regarding prosecuting the countless criminal acts of the 1990s, the selective approach on disobedient regions in his reform of regional relations, and the weak commitment to media freedom and human rights, undermines the principles of federalism and democratic pluralism. Putin's statism was full of paradoxes and contradictions. For example, he stressed the universal applicability of law, yet in certain individual cases and in dealing with the insurgency in Chechnya and with the "over-mighty subject" e.g. Khodorkovsky, he ran roughshod over property rights and the rule of law. (Sakwa, 2008, p. 885)

Additionally, the regime has made itself dependent on power structures as part of a flexible alliance of the presidency, the power ministries and a section of the oligarchs whom prefer to support the regime in order to achieve benefits. This alliance has targeted certain powerful regional leaders and other, less-favored oligarchs. Sakwa calls this the reconcentration of the state to distinguish it from reconstituted statism. State reconcentration gives rise to compacted statism, in which the defense of the constitution and its norms and the spoken uniform application of law throughout the vast country threatens the development of a genuine federal separation of powers, moving it towards a unitary state. Additionally it weakens political pluralism as there are fewer arenas and levels to engage in meaningful political activity. The weakening of the freedom of the press risks establishing a new type of single party system in which patronage and preference is disbursed by a neo-nomenklatura class of state officials. The lack of a developed concept of Russian citizenship concerning citizen rights and duties, a feature which is characteristic of much Russian liberal thinking as well, has left the state development open to be seized by reconcentration. (Sakwa, 2008, p. 885)

State consolidation is a tricky track and can act as both the builder and demolisher of democratization, with some traces of both in Putin's regime. The president took on

centralizing, or more correctly recentralizing of state power, and importantly this centralization served to equalize the rights of citizens across Russia after the regionalization in the 1990s. The declared aim was to ensure that citizenship became universal across the country, not undermined by the emergence of various neo-feudal patrimonial regimes or proto-nations. It is however still an open question whether this equalization will eventually result in full civil and democratic rights, or end up as equality in subordination and duties to the state. (Sakwa, 2008, p. 887)

Attempts at enhancing the efficiency of the infamous Russian bureaucracy, through innovations that balanced on the borders of the constitution – yet not threading outside its framework, was established. In practice tasks were moved from the Duma to independent bodies answering to the President, and thereby in practice undermining the development of a self-sustaining constitutional order. Russian elites have a long tradition of not subordinate themselves itself to the constitution and constitutionalism still has a long way to go. The Constitution of the Soviet Union is described as a brilliant one by many, it just had the minor problem that the ruling elite did not follow it. This challenge is not just a Russian one, but it is connected to the problem of Russian political thought, where duties have always come before rights – e.g. the problem of citizenship, and that the society comes before the individual. Human rights have never been the priority of the ruling class, and this is reflected in the constitution, which represent first and foremost the rights of those in power, not the ordinary men and women. (Sakwa, 2008, p. 890)

The drive to remake the state under Putin led to a narrowing of the basis of his regime and a reduction in political pluralism as a whole. The autonomy of regional bosses and oligarchs was naturally reduced, while political parties were either incorporated into the new system or marginalized. Putin`s system was based on what one might call an ideology of administrative rationality, and as a true bureaucrat dreaded the possible result of unrestricted politics. This view was also built upon the experiences of the fall of the Soviet Union and the chaotic Yeltzin era. This approach

was clearly able to manage conflict, it remains to see if it will resolve underlying problems like separatism and asymmetric federalism. Although the liberals were eclipsed in the December 1999 elections, and suffered a crushing defeat in December 2003 and again in December 2007 as the voters associated them with the wild 1990s, they still remained in government with considerable influence over the purse and staffing the main economic posts. Even Putin's economic policy was following the main principles of neo-liberal economics and he was happy to work with individual liberals. Liberalism as a movement on the other hand had been seriously injured and attracted little support due to their role under the Yeltzin era. While perhaps not directly to blame for the chaos, the association will be there for quite some time. (Sakwa, 2008, p. 891-892)

Much of Putin's elite support came from those seeking the privileges of power and the wealth that follows power in Russia. But looking closer at Putin's politics, there is little doubt that he aimed for economic modernization and national integration, with politics as the means rather than the end. This would fit well into the primary goal of resurrecting Russia as a great power in both the eyes of the Russians and the World. It is the belief in rationality and order that gave rise to managed democracy and the lack of autonomy for political actors. (Sakwa, 2008, p. 892)

The Communist regime parodied and discredited things political, such as political parties, ideologies, institutions, and the notion of a 'public good' as such. The label of 'falsity' firmly stuck to the public sphere, and politics was a priori considered a 'dirty business', with the values of goodness and truth sought only in the private domain.

Ghia Nodia, 2002, p. 435, cited in Sakwa, 2008, p. 892)

Putin has through his reign tried to restore order and to make it compatible with a liberal economic system. This is not a new challenge, and has been a problem since at least the 18th century. In Sakwa's opinion, Putin's leadership represented an attempt

to transcend the contradiction between democracy and order. He does identify several fragile order-creating processes at the same time intersecting each other: legal order, public order and state (constitutional) order. All these three are susceptible to subverting de-ordering processes, and he lists examples of this as use of decrees, the extensive use of para-constitutional agencies and bodies outside public scrutiny, and the independence of the regime from subordination to the constitutional order. (Sakwa, 2008, p. 893) Putin in his mind is a builder of systems, who ironically do not trust neither his creations nor the society that he rules, hence the constant turn to solutions on the fringes of the constitution. (Sakwa, 2008, p. 897)

4.6 - Is the oil wealth too much ballast for Russian democracy?

When using democracy scores from the Freedom House report “Nations in Transit”, they operate with a steady decline of Russia’s democracy scores. Freedom House is of course a stated ideological organization, so their research and scores are not the most neutral, but they are however good indicators and useful for identifying trends and developments in a country’s democratic development.

As noted, Freedom House operates with a remarkable steady decline in their scores, with just a few years diverging from this development. First in their report from 2003, Russia’s democracy score actually improves, with a positive trend in everything except the variables electoral process and civil society, which has a slightly more negative score than the previous year. The other year that stands out is their report from 2005, which is the year with the most dramatic development in scores. Here the overall democracy score change with 0.36 from 5.25 to 5.61.

During most years of Putin’s first two terms, which are the timeframe of this analysis, the democracy score has a steady decline with an annual change in the area 0.10-0.15. The year with the second largest drop in scores is the report from 2004, with a decline of 0.29 in the democracy score. This gives a total drop of 0.65 during the

years of 2004-2005. Note that while Freedom House strictly speaking uses a score range from 1 – 7, where 1 is best and 7 is the worst score, I will refer to negative developments as negative and decreasing scores. Also note that the reports consider the previous year, so the report for 2004 concerns developments in 2003, and the report for 2005 similarly concerns developments in 2004.

When looking at the development of the oil price, we find at first glance as expected from the Ross` hypothesis a striking correlation between Russia`s democratic development and a skyrocketing of the oil price in the period of President Putin`s first two terms (2000-2008), with the price of a barrel crude oil being \$38 at the start of his presidency, and reaching as high as \$145 per barrel in the summer of 2008. Between these figures is also a remarkable steady increase in the crude oil price throughout the period, matching the development of scoring from Freedom House. The second highest rise in oil prices is even in the period between late 2003 until mid-2006, which seems to correlate with the biggest decrease in democracy score from Freedom House. On the other hand, considering the extreme volatility of the oil price, paired with the fact that the money takes some time to accumulate, and then to disperse to and flow through the rest of the economy, the use of a time lag of one year from an increase in oil prices to influence the democratic development seems prudent and reasonable. Supporting this argument is also the fact that it takes some time to formulate policy, getting it approved in parliament, and then to be put into practice. So a stark increase in the price of oil one year, should not significantly influence the democratization process of Russia before the following year.

Taking this into account, we should expect that a large increase in oil prices in 2002 and 2003 should be causally connected to the substantial decrease in democracy score for Russia in 2003 and 2004. Looking at the development in oil prices, however, seems to bust such a causality between oil rents and transition to democracy. In January 2002, the oil price was down to \$26 per barrel, while recovering to \$38 by the end of the year. In January 2003, the price of crude oil was \$43 per barrel. But the

price actually drops steadily until the summer of 2003, before recovering to \$41,5 in December 2003. These prices would hardly by themselves give the regime the financial opportunities to strengthen its grip on society and reduce freedoms. In 2004 the oil price starts its impressive climb from early summer. From \$44 in January 2004, during a rapid but steady growth, it increases with almost 50% during the year, peaking at \$66 per barrel in October. While the oil price almost continuous climbing until the financial crisis of 2008, it seems to be without causing the same impact on Russia`s democracy scores. Still declining throughout the entire period, as mentioned earlier, it is at a much lower rate than the years of 2003-2004.

To see if there is any causal links between the steep decline in democracy score and the increasing prices of oil, we have to take a closer look at Freedom House`s arguments for lowering the scores and trying to see if it fits the hypothesis of oil impeding democratization.

For 2003, Freedom House downgrades Russian electoral process from 4.75 to 5.50, after the State Duma election of that year was deemed unfair. The main reasons for this are manipulation of the media and systematic weakening of the opportunities for opposition parties. Additionally they list the public`s increasing apathy toward the political system as an additional reason.

It is unclear how much these manipulations changed the outcome of the vote because the electorate was already inclined to support President Putin and his allies without coercion.

Regarding civil society, the score is downgraded from 4.25 to 4.50 due to the state`s increasing discouraging of groups seeking to change government policy, especially regarding Chechnya and the environment. It is also due to the declining possibilities for independent funding of civil society, and mentions the regime`s struggle against

the oligarch Khodorkovsky as one of the causes. And again on this point, the apathy of the public is mentioned as an additional reason.

For the point of independent media, the rating is downgraded .25 from 5.50 to 5.75 due to the state`s increasing control over the major television networks, harassment and intimidation of journalists, especially investigative journalists (in general harsh times for independent newspapers), and legislation designed to assert some censorship over what can be reported.

The rating for governance is downgraded from 5.00 to 5.25 due to the country`s increasingly centralized and inflexible system of governance, the deteriorating situation in Chechnya, and the adoption of local government reforms that ultimately weaken municipalities by depriving them of secure independent financing through former tax revenues.

As for the score of Russia`s constitutional, legislative and judicial frameworks it is downgraded from 4.50 to 4.75 due to the arrest of Khodorkovsky and its negative implications for the rule of law in Russia, especially concerning property rights.

As for the score of corruption, the score remains unchanged at 5.75—still one of the most corrupt countries in the world. While there have been some efforts against corruption, they have been selective, arbitrary and often as a tool against rivals of the regime as with Khodorkovsky and the Yukos-affair.

For 2004, the score on electoral process in Russia is further downgraded from 5.50 to 6.00 due to several violations in the presidential elections, the weakening position of opposition parties, and a new law on referendums that makes grassroots initiatives virtually impossible.

Russia`s rating for civil society declines from 4.50 to 4.75 due to increased state attempts to control this sector of society and the growing climate of fear, as well as the continued development of extremist groups and the number of extremist attacks.

Russia's rating for independent media drops from 5.75 to 6.00 due to the Kremlin's extension of management of television broadcast, while journalists face an increased threat of expensive libel cases and many reporters work in unsafe conditions.

Russia's rating for local democratic governance is set at 5.75 because in 2004 the Putin Kremlin abolished gubernatorial elections. The reduced role for regional level public oversight exercised through the ballot box and basic principles of federalism were additional factors. Russia's rating for national democratic governance is set at 5.75. Putin has no plan to address the separatist conflict in Chechnya beyond continued violence and no comprehensive policy for handling the challenges of terrorism. A further concentration of political and economic power offers little hope for providing realistic solutions.

Regarding Russia's rating for judicial framework and independence, it is downgraded from 4.75 to 5.25 due to manipulation and politicized by the state in key cases such as the Yukos-trial, and the researcher Sutyagin who was prosecuted as a spy.

For corruption, the score remains unchanged at 5.75 due to the lack of political will to address the problem resolutely.

5. Conclusion

Summing up, there is little evidence of the connection between skyrocketing oil rents flowing into the Russian state purse and the worsened conditions for democracy in Russia. There is no doubt that Russia's and the Putin-administration's new confidence was in part based on energy rents, but the relationship between petrodollars and political change is far from clear. Looking closer at the political realities of Russia during the first 15 years outside the Soviet Union, it is difficult to trace the exact origins of the path Putin's regime has taken during his first two terms. Inheriting a boatload of problems both from the Russian Empire and the Soviet Union, President Yeltsin took many shortcuts and made many compromises that would be defining for the future of the Russian Federation.

The Russian people's experience of the wild 1990s with the seriously compromised shock therapy and extreme corruption in political life was a though welcome to Western style democracy. Taking into consideration that people went to sleep in one of the two superpowers of the World, and waking up the next day defeated and watching their country gradually submerge into chaos and crisis, it is no wonder that the failed transition to democracy and market economy experienced a recoil effect. Vladimir Putin took over a once great power with a broken back, and started his project of rebuilding Russia back to a force to be reckoned with on the World stage. The path chosen naturally enough for a former intelligence officer was through recentralizing the state and reestablishing order with a firm hand. Like his predecessor, he was forced to compromise with the harsh realities and the heritage of the past – which of course is also a part of his mindset and world view.

So it is a far too simple explanation that the massive oil rents are one of the main reasons for Russia's authoritarian backlash. It is of course an important part of the picture, but the picture also contains the Stalinist networks of trust making any kinds of reforms which are bad for those in power extremely difficult to put into practice; the dysfunctional economy where the institutions necessary for market economy to function properly never got in place and where a handful of people in every sense of the word robbed the Russian people of most of its values – spending most of them abroad and investing little in areas like production which could help the economy grow, which drained the state for capital to a level where the state could not afford to meet its obligations; the very negative culture of trying every trick to avoid taxes and extreme levels of corruption just to mention some. It is in these realities that the tax level were cut down to a low, flat rate – which in practice resulted in more people and corporations actually paying their taxes and thereby increasing the state's tax revenue.

Separating oil and its effect on the politics of Russia is at best a challenging and vast task, and it is clear that while much research on the matter has been done, there is

still much left. But analyzing the decrease in democracy score from Freedom House together with the development of the oil price, there is difficult to find a direct connection. The large increase in oil prices in 2002 and 2003 does not seem to be causally connected to the substantial decrease in democracy score for Russia in 2003 and 2004, which are the years with the highest drop. The price increase, while steep, did not achieve the extreme levels of later years, and the arguments from Freedom House for lowering the scores does not seem to linked to the regime having vast amounts of capital available at their disposal, with the reservation that a more in-depth study can prove otherwise.

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Appendix 1: Crude Oil Price History Chart



Source: Macrotrends LLC - <http://www.macrotrends.net/1369/crude-oil-price-history-chart>

Appendix 2: Freedom House Nations in Transit Ratings and Averaged Scores 2009

Nations in Transit Ratings and Averaged Scores										
	1999-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Electoral Process	4.00	4.25	4.50	4.75	5.50	6.00	6.25	6.50	6.75	6.75
Civil Society	3.75	4.00	4.00	4.25	4.50	4.75	5.00	5.25	5.50	5.75
Independent Media	4.75	5.25	5.50	5.50	5.75	6.00	6.00	6.25	6.25	6.25
Governance*	4.50	5.00	5.25	5.00	5.25	n/a	n/a	n/a	n/a	n/a
National Democratic Governance	n/a	n/a	n/a	n/a	n/a	5.75	6.00	6.00	6.25	6.50
Local Democratic Governance	n/a	n/a	n/a	n/a	n/a	5.75	5.75	5.75	5.75	5.75
Judicial Framework and Independence	4.25	4.50	4.75	4.50	4.75	5.25	5.25	5.25	5.25	5.50
Corruption	6.25	6.25	6.00	5.75	5.75	5.75	6.00	6.00	6.00	6.25
Democracy Score	4.58	4.88	5.00	4.96	5.25	5.61	5.75	5.86	5.96	6.11

Source: Freedom House Nation`s in Transit 2009:

<https://freedomhouse.org/report/nations-transit/2009/russia>