



Contact: Anders Åslund, (202) 328-9000

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## MARKET ECONOMY AND DEMOCRATIZATION LIKELY TO PREVAIL IN RUSSIA'S FUTURE

Washington—Russia's Capitalist Revolution has produced an unusual combination of a reasonably free market economy and increasingly authoritarian politics reminiscent of the tsarist period. Peterson Institute Senior Fellow Anders Åslund, who predicted the fall of the Soviet Union in 1989, concludes that this situation is not likely to hold. Russia is too wealthy, educated, pluralist, and open to be so authoritarian. Either the market economy or the authoritarian rule will have to give in the not-too-distant future and the market economic system appears much stronger than the authoritarianism, which is still relatively mild.

Åslund's new book, *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed*, explores for the first time Russia's economic and political transformation from 1985, when Mikhail Gorbachev launched his reforms, until the present and looks at where Russia might head in the future. The short-term concern is that a small group of KGB officers from St. Petersburg has seized control of the state and its corporations. They let inefficient giant state enterprises purchase successful private companies, and often these renationalizations are not voluntary. However worrisome these developments are, the results are likely to be so harmful even in the short term that the Russian leadership, which is focused on maintaining macroeconomic stability and a high growth rate of 7 percent a year, will be deterred and will correct the damage it is causing. But such a development would be impeded if the oil price stays at \$100 a barrel and reduces the need for economic reform.

Åslund's book argues that Russia's current economic success is the result of a critical mass of economic reforms undertaken in the 1990s: deregulation, privatization,

and eventually financial stabilization. From a historical perspective, it is impressive that Russia built a dynamic market economy in only seven years. The Russian financial crash of 1998 delivered the catharsis Russia unfortunately needed to adopt responsible fiscal policies. President Vladimir Putin is not the generator of Russia's current economic success but its beneficiary and custodian. He has also greatly benefited from high international oil prices.

At the same time that a market economy has taken hold in the country, democracy failed in Russia because of the absence of any clear idea of how to build it. Åslund argues that the brief window of opportunity when democracy could have been built was missed. Boris Yeltsin should have dissolved the old, unrepresentative parliament within half a year after the aborted August 1991 coup, which delivered Russia's democratic breakthrough. He should have held an early founding election to stabilize Russia's democracy and disbanded the KGB. Instead, a major conflict evolved between president and parliament, and since the parliament did not really represent anything, it had no reason to compromise. Two years too late, Yeltsin dissolved the parliament, but it was recalcitrant and Yeltsin's administration inept, which caused serious bloodshed. The bloodletting stained Russia's nascent democracy.

Despite this failure, Åslund still argues for a democratic future for Russia. The country is just too rich, too economically pluralist, too educated, and too open to continue to be so authoritarian. In the slightly more distant future, a new wave of democratization is likely.

*Russia's Capitalist Revolution:  
Why Market Reform Succeeded and Democracy Failed*  
by Anders Åslund  
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## About the Author

**Anders Åslund** is known for making bold predictions, which initially arouse controversy but become widely accepted a few years later. He foresaw the collapse of the Soviet system in his book *Gorbachev's Struggle for Economic Reform* (1989). In *How Russia Became a Market Economy* (1995) he argues that Russia's market economic foundation was already established, although most observers declared the market economic experiment a failure.

Dr. Åslund is a leading specialist on postcommunist economic transformation with more than 30 years of experience in the field. He has been a senior fellow at the Peterson Institute for International Economics since 2006. Before that he was the director of the Russian and Eurasian Program at the Carnegie Endowment for International Peace.

The author of eight books including *How Capitalism Was Built* (2007), he has also worked as an economic advisor to the Russian government, to the Ukrainian government, and to the President of the Kyrgyz Republic. He was born in Sweden and served as a Swedish diplomat. He earned his PhD from Oxford University.

## About the Peterson Institute

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