How Did Russia Rebuild Itself? Sorry, But You're Wrong.

By Stephen Kotkin


Which large country's global integration over the past two decades has radically transformed the world economy and geopolitics? Which large country is a defensive dictatorship that persecutes any sign of opposition? If you answered "China" to the first question, and "Russia" to the second, you would be in lock step with the prevalent view in America. Of course, if you answered "Russia" to the first question, and "China" to the second, you would also be right. Both countries are authoritarian, and both have globalized, with far-reaching consequences. But the story of China and globalization is well told in scores of books, and has reshaped the teaching of the history of China. The story of Russia and globalization has largely escaped the attention of analysts and historians. This is a challenge I attempted to meet, at least partially, in an updated edition of Armageddon Averted: the Soviet Collapse, 1970-2000 (Oxford), which contains a new chapter covering Russia during the years 2000-2008. That's the period when the prolonged collapse finally ended, and Russia enjoyed a spectacular revival.

Placing contemporary Russia in global context would seem a no-brainer given that the dissolution of the USSR in 1991 is routinely put in international context. That context, however, is often Ronald Reagan centric. Too many analysts credit President Reagan with having helped bring down the evil empire (a phrase he used on rare occasion) by building up America's military and bankrupting the Soviets (who were forced to respond in kind). This overlooks the circumstance that Soviet military spending had shot up to astronomical levels in the 1970s, before Reagan, and that in the 1980s the Soviets concluded that Reagan's missile defenses would never work. Anyway, all the attention wrongly paid to Star Wars and the like obscures the contribution that Reagan actually made – namely, he possessed the vital political credibility as a longstanding man of the right, as well as the vision, to respond seriously to arms control overtures by Mikhail Gorbachev, thereby giving the Soviets the room to destroy their own system unintentionally. In other words, invoking "Reagan" cannot explain why Soviet reform in the late 1980s took the form of a chimerical quest for "socialism with a human face" – which proved devastating to the Soviet system, just as it had in Czechoslovakia during the Prague Spring of 1968.

Whatever the misconceptions about Reagan's role, understanding the Soviet
downfall without reference to the wider world is impossible. From its inception, the Soviet Union had claimed to be an experiment in socialism, a superior alternative to capitalism, and in the interwar period, during Stalin’s violent crusade to build socialism, capitalism had seemed synonymous with world colonialism, Great Depression unemployment, and goose-stepping militarism. Against that background, the idea of a non-capitalist world—with the same modern machines but, supposedly, with social justice—held wide appeal. In the Second World War, however, fascism was defeated, and after the war the capitalist dictatorships embraced democracy. Instead of a repeat Great Depression (anticipate by Stalin and others), postwar capitalism experienced an unprecedented boom, which made being middle class a mass phenomenon. Capitalism also decolonized. Further, all leading capitalist countries embraced the “welfare state” (a term coined during the Second World War). In the event, affordable Levittown homes, ubiquitous department stores overflowing with inexpensive consumer goods, expanded health and retirement benefits, and democratic institutions were weapons altogether different from Nazi tanks. This was the competition that induced Gorbachev’s fatal reform effort.

What about post-Soviet Russia? It inherited everything that had caused the Soviet collapse, as well as the collapse itself. In the 1990s what continued to pass for “reform” was actually further breakdown, as the global economy subjected Communist legacies to a brutal re-evaluation in market terms, and suffering Soviet-era personnel and new officials continued to steal everything in sight. By 1998, Russia essentially capitulated, defaulting on its debts and drastically devaluing the ruble; even the international cheerleaders for “reform” admitted it was over. Thereafter, though, another surprise awaited: Russia’s colossal turnabout resulted from newfound fiscal restraint and some government reforms, especially in tax policy, but also from a relentless, China-driven rise in overall global demand that, with the cheaper ruble, helped call back from the dead Russia’s vast unused capacity inherited from the Soviet era.

Ignore the chorus chanting that Russia’s decade-long growth of 7 percent per annum after 1998 was fueled by hydrocarbons alone. Russia’s boom began well before the price of oil skyrocketed. And in 2008, when the price of oil touched $147 a barrel, oil and gas made up 60 percent of the Russian government’s budget revenues and 60 percent of the country’s exports, but just 20 percent of Russian GDP. Rather, the key has been globalization and Asia’s rise. To be sure, the bulk of Russia’s foreign trade is with the European Union, but in a globalized world everything is connected. Much of what the Soviet Union made or extracted, which tanked in the 1990s, began to go up in price and value not just because of European prosperity but because of the insatiable Chinese giant. Russian industrial plant finally started to be refurbished and restructured. And around that belated shift, something completely new formed – a huge Russian services sector, spurred by ravenous domestic demand. In most American accounts of Russia, which obsess over Vladimir Putin and flamboyant Russian oligarchs, one has to look very hard for any mention of Russian society.

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Notwithstanding its authoritarian political system, which is nasty though far more fractious than it appears to be to outsiders, the new Russia is as open to the rest of the world as it has ever been. (Russia boasts the world’s second largest inflow of immigrants, after the United States.) Obviously, the summer of global boom has further spotlighted Russia’s myriad weaknesses, from bloated corporate-sector debt to a substandard judiciary and suffocating official corruption (Russia’s number one industry). Still, the precipitous drop in the price of crude is exactly what Russia needed. The fall to around $45 a barrel as of early 2009 – admittedly, nothing like the $10 per barrel of 1986 that bedeviled Gorbachev’s perestroika – could finally compel Russia’s ruling elites to enact the many additional structural reforms they have long promised but failed to deliver. That’s the thing about globalization: either a country can compete globally, particularly in human capital and innovation, or it is destined to be left behind.