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**The American and Russian
Economies in Moments of Crisis:
A Geopolitical Study in Parallel**

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Abstract

This Policy Brief compares the American and Russian economies during a period of global economic and financial crisis and attempts to assess their respective strengths and weaknesses. It also assesses the ways in which the two powers have reacted to common challenges. In doing so, it tries to suggest another way of comparing the two economies namely, by focusing on a certain convergence in the way these two different systems are handling the same crisis.

Keywords

American economy, authoritarianism, democracy, energy giants, financial crisis, geography, geopolitics, liberalisation, nationalisation, state interventionism, recession, rival powers, Russian economy, Russian oligarchs, wealth in natural sources.

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The American and Russian Economies in Moments of Crisis: A Geopolitical Study in Parallel¹

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1. The aims of the lecture/essay

This essay will compare the American and Russian economies during a period of world crisis, attempt to assess their respective strengths and weaknesses and glance at the ways in which each reacted to common challenges. The task needs a book not and an essay if it is to be done with any semblance of profundity; and it was it also aggravated by the challenge of the speech on which it is based being addressed to a mixed audience of specialists as well as educated generalists. The reader will soon notice that communicating with the latter was the speaker's main aim; and to battle against time (or rather lack of it) and, in the case of the written version space as well, he chose to focus on four main areas which he believes will set his topic in the correct setting and assist in the presentation of the themes he finds unusual if not original.

The first is thus indicated in the subtitle, namely the need to compare the two economies in their current geopolitical setting which, ultimately means, that we are not talking just about economic theories and statistics but about power – power of four kinds: political, military, ideological and, of course, economic, assisting and expressing the first three kinds.

Second, both the speaker but just as importantly the audience (and now the reader) must never forget that in geopolitics there are no constants

¹ This is an enlarged version of a lecture given in Athens on 2 November 2009 at the International Centre for Black Sea Studies (ICBSS) at the kind invitation of its Director Dr. Dimitrios Triantaphyllou to whom grateful thanks are extended for his kind hospitality. In view of the origins of the paper and in order to maintain a certain flow in the reading of the text, footnote references have been omitted.

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except, as Bismarck once wisely observed, geography. The rivalry among the big powers – and I believe the constant references to a shrinking world and a global cooperation erroneously ignore the reality that we are living through a new phase of enhanced rivalries, world and regional – which mutate almost daily making their accurate description almost impossible. In this context, I believe the constant allusion by the West that the world of spheres of influence is something of the past is pure and unconvincing hypocrisy, especially given the role the United States of America (USA) has pursued since the collapse of the Soviet power to strip it as much as possible of its influence in its vital periphery. This battle, as we shall note, is linked to economic rivalry and, conversely, economics have played a part in the waging of this fierce competition as I prefer to call the current undeclared modern wars (especially over energy resources and transportation).

Third, the above already alludes to a further difficulty of studies such as these, namely the need of combining information and ideas which derive from different areas of human knowledge such as history, geography, economic geography, sociology and, of course, economics. The researcher as much as the speaker is thus confronted with a Herculean task of being relatively informed made worse by the next factor.

Fourth, such information and knowledge as he can gather is sounder the more it is based not just on the reading of books and articles or the collection of statistical data, but also founded on some knowledge of the principle actors who make history. For anyone can write history but few can really make it. The same cautious evaluation of the writers who produce this ever-growing literature is needed in order to ascertain to what extent their views are influenced by national, racial, political, or economic factors. In short, this writer questions the apparent impartiality of the so-called “independent” think tanks which exist in all countries, not least in the USA and Russia.

With the above in mind the emphasis will thus be placed on: (a) the geopolitical dimension of the current economic crisis and the way it has affected the two countries here examined in parallel; (b) the speaker’s belief that the current position in Russia, difficult to discern in the best of times, has been made even more difficult but the misdescription, often he suspects deliberate, of its current economic difficulties; (c) the tendency of western analysts to transpose to the Russian ways of handling the crises a “western” kind of thinking which is inappropriate to that country’s thinking patterns and traditions; and, finally, and despite the previous point, to note (d) some emerging similarities in the manner the crises are handled.

The essay will end with some wider observations suggesting related topics deserving further reflection.

2. The impact of geography

Politics and economics depend on geography. On this score America has been blessed by fate more than Russia. Thus:

- The USA has three of the best natural harbours – San Francisco Bay, Chesapeake Bay and New York Bay – as well as good seaways protected by barrier islands off the shores of Texas. Russia, by contrast, has no deep water/warm water ocean ports to promote international trade apart from Murmansk and Vladivostok. Both, however, are too far from its core to be commercially useful.
- America has a superbly interconnected system of navigable rivers, such as the Mississippi which is linked to the Missouri, Ohio and Tennessee rivers forming the largest network of navigable rivers in the world. By contrast, Russia's many, long rivers – such as the Lena, the Ob, the Pechora – all drain into the Arctic Ocean and do not interconnect. The Volga is an exception; but it drains into the land-locked and sparsely populated Caspian Sea, while also suffering from its delta freezing during the harsh winter months.
- The road systems in the USA are far better than those of Russia whose first intercontinental road was not even completed until the 21st century and which, for most of its stretch, is a two lane road. The Russian rail system is slightly better (certainly older) than the road system, though here one must note the difficulties caused by the wider gauge rail tracks used in Russia which means that the international movement of goods is hampered by the need of reloading at the borders. (This peculiarity, introduced by Stalin for defensive purposes, has, in recent years, been reduced in significance by the construction of carriages with adaptable gauge.)
- Though Russia (including Siberia) is in terms of square mileage larger than the USA, the latter has much more usable land for agriculture, habitation, and development. Combined with a more hostile climate these factors seriously diminish Russia's ability to grow crops for exports though – in theory – there is more than enough to feed itself.

For our present economic purposes the above mean that Russia faces enhanced: (a) costs to build and maintain a modern transport system; (b) difficulties (and costs) to create flourishing internal markets and reach

major external markets; (c) transshipment costs for goods travelling by train across borders; and (d) difficulty in moving troops for internal or external security purposes, resulting in a strategic need to maintain large forces stationed in different parts of the country.

3. Historical upheavals; autocracy versus democracy

Here, as well, America can claim some concrete advantages which could probably best be summarised in one phrase: evolution has prevailed over revolution (violent or otherwise). This means that the deep disruptions which accompany the latter, experienced in Russia at least twice during the 20th century, have been avoided by American society which got its main crisis – its Civil War – out of the way in the middle of the 19th century.

The above, however, do not mean that the USA has not experienced during the 20th century deep upheavals of an economic and national security kind. To these one must add the wider (i.e. medical, invalidity, unemployment) costs of America's recent military adventurism which, according to the Nobel laureate Stiglitz, run into trillions.

Second, politically, the Russian regime, compared with the American, has been more autocratic and, from an economic point of view, centralising and prone to subjecting economic decisions to excessive and at times centralised planning and regulation. History and geography partly explain this feature, though natural temperament aided it. Neither, however, makes this an environment that easily attracts foreign capital, a serious problem as we shall note of modern Russia which the present authorities are trying to address.

In my view, westerners still believe this to be so. Russians would, probably, deny it, at least in public. The truth, I suspect, is if not in the middle, certainly more nuanced. I opt for this subtler approach for the following reasons.

First, in my view, civil liberties are still less well protected in Russia. Yet one must approach this thorny problem from a historical perspective and accept some of the reasons which gave birth to this phenomenon.

Thus, from the earliest times, the lack of natural frontiers led this country to seek to create buffer zones around the core so as to protect its survival. This meant two things:

- (a) the need to “incorporate” (rather than absorb) in its wider structures – Empire, Soviet Union, Russian Federation – different nations found in its periphery;
- (b) to keep them subdued, the centre had to maintain (i) a greater “surveillance” system to prevent their break-away tendencies (ii) a larger than usual conventional armed forces able and willing to intervene when trouble arose at the fringes.

Second, though America avoided the centrifugal tendencies mentioned above, in sociological terms the 1930s and the most recent economic crisis of 2008 had and will have, deep socio-economic consequences and disruptive effects. So, one has to be cautious when asserting that America has avoided socio-economic upheavals, even though one must distinguish them from those experienced by Russia (or the former Soviet Union).

Third, this anthropological and sociological transformation of America will continue as the increase of Hispanic, Asian, and black populations affect the country in multiple ways. This is a complex and multi-faceted problem that America already has at its doorstep and is mentioned simply to counter the gloomy if not entirely documented predictions about the slow “death” of Russia because of an ageing population which is becoming less Russian (or pure?) with the passage of time.

The above must serve as a warning not to rush and make unfavourable comparisons at the expense of Russia. For the current financial crisis in America – national debt of US\$13.6 trillion or, about 73% of Gross Domestic Product (GDP); Federal budget deficit of US\$1.84 trillion, up from US\$455 billion in 2008 – must constantly restrain us from describing Russia’s parallel crisis as indicating a “meltdown”. For, as we shall note below, though the financial crisis in the latter country is at least as serious as that in the USA and probably more deep, the Russians have indigenous ways of minimising the adversity of their financial downturn on their political power which have been inadequately studied in the West. Strangely, therefore, in this context their authoritarian and regulatory environment may be as much of a help as it is, in public relations terms, a hindrance.

Moreover, America’s financial problems extend beyond all kinds of deficits (corporate debt, mortgage debt), to – normally – very low saving rates, and a not inconsiderable uncertainty as to whether future social security entitlements can be met, not to mention the ever-expanding costs of its self-inflicted overseas wars.

The unemployment rate is also getting worse, indeed worrying if one notes the divergence between white and non-white unemployment. It may also be a harbinger of more political battles ahead, disturbing if the president is forced to go back to Congress and seek a new stimulus plan, this time not so much to stabilise income as to move the economy forward.

Finally, as for the Russian “buffer zone” syndrome, though hitherto absent from the USA, there are some signs that it may be appearing in a local variation. I am referring to the growing “problem” of Mexico.

For this state of great contrasts, lying at America’s soft under-belly, is fast developing into a boiling cauldron causing growing economic, drug-trafficking, arms trafficking, gang murders, and immigration problems, most of which are barely known let alone understood by Europeans.

This Mexican “challenge”, currently affecting mostly California and Texas, will lead not only to the “legalisation of many illegal immigrants” currently in the USA, with all the social, religious and voting consequences that this will entail but, also, to the possibility of the USA being forced to maintain a sizeable military and National Guard presence on the American-Mexican boarder. This last consequence would entail additional economic costs on what, we have already noted, is an over strained Federal budget. (At present, 21.7% of all Federal expenditures go to the military.)

To conclude, Russian authoritarianism versus American libertarianism are not concepts easy to fathom or use as demarcations points though, at first glance, they give the USA a “moral” if not “politico-economic” advantage. Moreover, the current American human rights image remains tarnished by a series of legal measures and “practices” adopted after September 11th.

The protection of human rights in different countries is an emotive issue. More importantly, comparisons can only begin to be attempted once we factor into our assessment local customs and habits and avoid the assumption that they are or can be homogenised in accordance with our own conceptions of what is fair, humane and just. Here, however, I am only anxious to stress that one must not accept without detailed knowledge the widely shared belief that the USA is a country where law and order and human values are – and have been – perfected and respected to the point which common mythology would like us to believe.

4. Natural resources as a predicate of the future

The economic health of a country is usually measured by reference to its annual output of goods, its trade balance, the size of its national debt, its

saving habits, and non-economic factors such as the underlying educational and information technology infrastructure which will influence future developments. Among the future predicates that matter is also the country's wealth in natural resources.

At the time of writing this essay the wide-spread belief is that America is technically out of recession whereas Russia is still deep in it. If the definition of recession – three consecutive quarters with negative growth is accepted as the basic and only criterion – this is technically correct.

Yet one may – must? – question the reality of an increase of GDP when it occurs in an environment where unemployment is still growing, wages are decreasing, prices are deflating, and the causes of the recession – financial bust, oversupply of housing, over-indebted households through past easy credit – have not yet been fully understood and certainly not yet cured.

With this early celebratory tone adopted/induced by some – not all – one must contrast the reverse attitude adopted towards Russia by both sections of the western press as well as prominent western leaders. Vice President Biden's (fairly recent) interview, published in *The Wall Street Journal* on 25 July thus stated that the Russians “have a shrinking population...they have a withering economy, they have a banking sector and structure that is not likely to be able to withstand the next 15 years, [and] they're in a situation where the world is changing before them and they are clinging to something in the past that is not sustainable.”

In my view a deeper analysis of the long term prospects of Russia is best gleaned from the comparison of its natural resources with those of the USA. If a preliminary conclusion is to be allowed, I would argue that what follows suggests many reasons why Russia and Europe and, probably, the USA need each other and should thus attempt to minimise mutual provocative statements of the kind initiated during the Bush/Cheney era and now (systematically) continued by the current Vice President.

Thus, with the above in mind we note that both countries – America and Russia – are rich in ores and metals, Russia having the edge on uranium and “strategic minerals” (which the USA has to acquire mainly from South Africa and stockpile in large quantities).

As for uranium oxides, necessary for nuclear materials, seventeen countries produce them. In 2008, United States reserves amounted to a 2.5% of the total estimated amount. Russia's, by contrast, was 8% to which, for practical purposes, one should add Kazakhstan's 10.5%. America's shortfall, could, in a crisis, be made up by accessing Canada's 27.9% of world reserves.

Russia (followed by Canada and Indonesia) is also the largest producer of nickel metal hydride (NiMH). This is, currently, the standard material for high-powered rechargeable batteries for hybrid cars (though eventually it will be replaced by Lithium which is mainly found in South America).

In natural gas reserves Russia's deposits are the largest in the world – estimated 45% of world reserves – compared with America's depleting reserves amounting to about 3.4% of world reserves. When the Yamal peninsular gas reserves (an estimated 100 trillion cubic metres) are brought into stream – a costly and technologically difficult operation for the Russians to undertake on their own – the country's predominance in this field will be even stronger. Such a development would also shield the country from the “unreliability” of Central Asian partners – such as Turkmenistan and Kazakhstan – which, at present, have committed most of their output to her.

On the other hand, the American figure will, eventually, have to be updated if the new technology allowing gas to be extracted from rock underlying shale, approximately 6,000 feet below the surface of the earth (and in certain parts of the sea bed of the Mexican Gulf), becomes cheaper in the future. Such exploitation, when made economically possible, would enhance America's independence from gas (or oil) imports and, if used to propel vehicles, also substantially reduce gas emissions into the atmosphere. But none of this is on the immediate horizon.

As an exporter of natural gas Russia retains the leading position in the world – currently providing an estimated 25% of total consumption of the European Union (EU) member states. Fluctuation in gas prices, however, means that export revenue from gas currently contributes about 5% to Russia's GDP. An increase in the price of oil would, of course, affect this figure upwards in 2010 and thereafter. An upward change in the current price of oil would thus affect beneficially Russia's finances and there are some signs that this may already be happening and thus reduce the anticipated drop of growth of the GDP for the year 2009. Such an increase could be even higher if the simmering Iran crisis was to develop in a way that affected the straits of Hormuz and the free flow of oil and gas though it.

Even in oil, as an exporter, Russia lies ahead of the USA. Thus, in terms of reserves, with an estimated 13% of world reserves, Russia occupies the 8th position to America's 12th (i.e. 60 billion barrels to 21 billion per annum) though in terms of annual production Russia, with 9.9 billion barrels annually, until recently came second – a mere 0.3 billion behind the world's largest producer, Saudi Arabia. The most recent (October 2009)

figures however showed that, as a result of Saudi Arabia's acceptance of an OPEC decision to reduce production so as to help maintain oil prices stable, Russia has finally overtaken even this country to become the number one exporter in the world.

To oil and gas we must also add coal since Russia also has the second largest coal reserves in the world with an estimated 23% of the total.

Metal production is another strong point of the Russian industry; and plans – periodically considered – to merge into one new giant metal company – on the model of Gazprom – such metal related concerns as RUSAL (aluminium), Norilsk (nickel), Metalloinvest and Evraz (steel) and the chemical company Uralkali could give Russia a powerful world presence in this area of industry as well.

Gas, metal, and timber thus account for more than 80% of Russia's exports abroad compared to America's more diversified exports which include industrial supplies (29.8%); production machinery (29.5%); non-auto consumer goods (12.4%); motor vehicles and parts (9.3%); food, feed and beverages (8.3%); aircraft and parts (6.6%); other (4.1%).

Russia (like the USA) also has a long tradition in education, science, and industry as well as the higher number of education graduates in Europe so it seems well equipped to expand and exploit this wealth in natural resources. Russia's interlinking of education and industry has, however, been less effective than America's "elite" universities which, thanks to an incredible degree of assistance from the private sector, have made American "know-how" in industrial techniques (e.g. deep water or arctic drilling) second to none. Here then, in the technical "know-how" and industrial cooperation with educational institutions, the Russians seem to lag behind the West, most particularly the United States.

5. More facts and figures

The above facts are not only portents of the future but also explain the rapid improvement which the Russian economy experienced after the collapse of the Soviet empire and, especially, the 1998 ruble default which plunged Russia into a crisis which was twice as intense as the stock exchange collapse of the 1930s in America. Thus, by the time the 1998 financial crisis struck Russia, its GDP was half of what it was in the 1990s.

Since Mr. Putin's arrival to power in 1999/2000 rising oil prices, increased foreign investment, higher domestic consumption, combined with political reforms and the (relative) "cleaning up" of the "old oligarch" regime (about

which more in the next sub-section), greatly bolstered the Russian standard of living, the country's international power and standing, and internal self-confidence. Thus, on the eve of the 2008 banking crisis, the country had had its ninth straight year of growth averaging 7% annually, the best record among the G8 countries.

By this time Russia's GDP was US\$2.076 trillion, the 6th largest in the world – compared with the USA's estimated as US\$13.8 trillion (in 2009) which was the first – with the Russian GDP growing at 8.1% from the previous year, a percentage substantially larger than that of the USA's 2-3%. Contrary to wide-held beliefs, growth was primarily driven by non-traded services and goods for the domestic market, as opposed to oil or mineral extraction and exports.

The average salary in Russia was in the region of US\$650 per month in early 2008. This seems (and is) low compared with the advanced economies of the West, but this figure must be set in its historical context. It is thus up from US\$80 in 2000!

Still, in 2007, approximately 14% of Russians lived below the national poverty line. Most recently, the World Bank predicted that by the end of 2009 the figure would be closer to 17.4%. In human terms, this is close to 25 million Russians, though, again, this (horrendous) figure is significantly down from 40% in 1998. In percentage (but not absolute figure) terms, it should also be noted, that it is not that different from that of the USA.

Comparisons, in this and other respects, with the USA must always be attempted with caution since the annual per capita income of the two countries has an approximate ratio of 4:1 in favour of the USA. Nevertheless, this has to be qualified by taking into account purchasing power, general standards of living, size of national debt and the (free) availability of services in socialist systems which in many western (at any rate Anglo-Saxon) world must be paid for. Such assessments, of course, give no clues as to quality of service offered. No comparison is here attempted in terms of "quality", though at the "bottom" (i.e. poorer) end of the scale the quality of services rendered (medical or otherwise) seem to be very poor in both countries.

Finally, in 2007 unemployment in Russia stood at 6%, down from about 12.4% in 1999, whereas in May 2008 the USA unemployment figure was 5.3%. In America this has now (August 2009) risen to 9.7% and is expected to exceed 10% by the end of this year. For black people the rate is even higher, currently standing just over 14%, whereas in some parts of the country seriously affected by the collapse of local industries (e.g. the automobile industry in Detroit) the levels almost touch 40%. At present,

there is considerably uncertainty as to when in 2010 – if at all – these figures will begin to drop even though, as already stated, the USA is now technically out of recession.

The position in Russia seems (or is presented) as being in a bleaker situation. Thus, the most recent estimates of the World Bank are that Russia will retain negative growth for at least two more years and is unlikely to recover its pre-crisis level before 2012. To some, compared with the USA and Europe, this suggests a deeper crisis and a slower level of recovery though, as stated, recent increases in the price of oil seem to have affected downwards the estimated level of negative growth.

To what extent all of the above is correct depends on a variety of factors influencing, openly or secretly, the way these predictions are formulated. Just as importantly however it is important to assess how accurate are the predictions when made as comparisons with the situation in the West.

For instance, the most recent figures from the State of California suggest that some of the gloomier forecasts about Russia may contain an element of political bias in so far as they fail to mention the economic woes of the West. Equally, the recent euphoria – genuine or artificial – about the recovery of the economy in the USA must be evaluated very carefully and a number of questions must be asked including the vital one namely, how much of this growth is sustainable and if and when the multiple subsidies given to the economy stop.

The true comparison with Russia cannot thus be properly measured until one gets a clearer picture of the situation in America and here, as well, the picture that emerges is contradictory. Thus, while the technical criteria for declaring a recession may have ceased to be satisfied, the situation in the American banking sector remains – purposefully (?) – opaque. Three points, among others, seem to deserve special notice.

First, one must note the extensive and, it seems, thus far successful lobbying exercise mounted by the banks not to proceed with various rumoured regulatory changes in the areas of derivatives and hedge funds even though the wider view remains that both played a part in the banking crisis of last year. Discussions with American bankers and businessmen thus left the present writer with the impression that many of them now feel that a precedent has now been set to “save” them if or when the next economic crisis occurs.

Second, though bank profits have gone up – both among American and major European banks – lending still remains at low levels. Instead, many of the larger American banks are returning to the State money lent to

them during the crisis. This is partly in order to create “favourable impressions” about the state of their liquidity and partly to remove as soon as possible the strings – such as they were – attached to such bailouts.

Finally, by common consent American (and major European) banks still have an imprecisely calculated amount of toxic debts and that is an additional reason for setting money aside (even it means declaring lower profits) to cover themselves against future difficulties. In America these unpaid debts come from commercial real estate, housing loans and unpaid credit card debts.

6. A state economy using private talent: the rise and taming of the Russian oligarchs

Throughout their history Americans distrusted government, regulation, and control. The Russians, by contrast, intellectuals apart, bowed to authority. Instead of objecting to being guided by it they sought it.

Economically, the consequences of such state centralisation and regulation have not been proved successful and Russia has suffered as a result.

This is not something limited to the past since even today we indisputably encounter state monopolies and, within the context of state interventionism, internal clashes with both political and economic consequences. These are power struggles, not necessarily disagreements, over economic policy. We see this fairly clearly in the relations between the energy giants of Gazprom and Rosneft, and even between Gazprom and other industries [such as RAO UES (Russian Joint Stock Company - Unified Energy System of Russia)], the latter dispute concerning the kind of energy sources (gas, oil or coal) to be used for electricity production. Considerations concerning environmental issues or cost often give way to political arguments.

In Russia such conflicts, which in the West would be resolved largely through market mechanisms, are thus left to senior political actors to solve, something which does not promote economic efficiency or facilitate overall coordination in the enormous energy industry. Indeed, the clashes can be even more acute when the state wishes to impose on its energy giants the obligation to sell, for example gas or oil, at prices lower than what the market suggests because, for instance, it wishes to use this “discounted price” as a political tool in its struggle to re-impose the Federation’s political authority among the newly independent states such as Georgia or the Ukraine.

Ultimately this state of affairs which, most commentators would accept, does not favour Russia, must, again, be sought in history and the enormous size of this almost ungovernable country aided by its traditional preference to entrust its fate in the hands of (invariably) strong leaders.

Thus, for instance, the survival of serfdom in Russia longer than in any other European country indicated a wide acceptance (or at least tolerance) of the status quo, especially in the countryside. In the 19th century, “revolt” was mainly an urban, intellectual movement; though early in the 20th repressed freedom really came to the boil with a “big bang”. Again, however, one wonders whether it would have taken such a violent form had it not been for the costly and disastrous First World War. Yet, besides this egalitarian burst, Russia soon succumbed to two very strong personalities, Lenin and Stalin.

Just over sixty years later another revolution took place. Though non violent, it was no less significant. Gorbachev’s *glasnost* and *perestroika* were, to start with, forced upon the Russians after their political and military system went bankrupt. But Gorbachev’s successor – Boris Yeltsin – proved to be a weak man who quickly lost authority as well as power. In his time, power thus shifted to members of his family, old KGB, party, and government executives (apparatchiks), and a new group of amateur businessmen.

Exploiting the uncertainties of the law and of the political environment, rather than necessarily committing fraud and other related crimes, this latter group proceeded to buy at knockdown prices huge parts of the Russian state assets. Greed meant fast gain. It also meant that assets were not preserved or enriched but rapidly milked dry. The seeds of decay for this first generation of private businessmen were sown; and the ruble crisis of 1998 made it clear that what these people had acquired had become much less valuable than they thought.

At that moment a new group, known as the “St Petersburg Team” (*komanda*), appeared on the scene. Most were genuine, canny, ruthless entrepreneurs, as greedy as their predecessors, but much more professional. They also ushered in to the central government one of their own: Vladimir Putin. By 1999 what looked like a peaceful change of guard was to prove a turning point in Russia’s political and economic life and one which the USA has failed to see coming. But the essence remained the same: one organised group displaced another and took control of the country.

Naturally, the “takeover” had economic consequences. Putin allowed this new group, henceforth known as the second generation oligarchs, to take

over the wealth of the early buccaneers. These consequences, it must be said, were on the whole beneficial to Russia. For many among this new elite were better versed in business and realised the need to reorganise, specialise, renew investment and plant, and access foreign capital to do this. Each also focused on specific industries rather than amassing wealth indiscriminately. They learnt to husband their resources (subject to the remaining in-built inefficiencies of the system alluded to above) and, above all, accepted to obey the only two rules that Putin had laid down: first, stay out of politics and, second, pay your taxes.

Since Putin also made it clear that there would be no more “family silver” sold off to the private sector, the oligarchs realised that their wealth would, from now on, depend upon their successful management and not the pilfering of state wealth. Mikhail Khodorkovsky, the old head of the oil giant Yukos, was one of the few who went beyond the limits set down by the new President. He is still in Siberia, “expelled”, it seems, rather than “judged” by western European standards!

More important was the trend this new move began. For it brought under state control the assets of Yukos. Broken up, the once huge company ended up under the control of a number of oligarchs whose loyalty, however, was not to the company, but the Kremlin. It gave them wealth; they, in turn, put their managerial and other expertise at the service of the state. They formed an interesting Russian variant to the old “siloviki” (men of power) – a term which first appeared during the Boris Yeltsin years – and the “oligarchs” or private individuals of great wealth. Henceforth this group would thus be referred to as the “silovarchs”.

With time and the assistance of these men, Mr. Putin’s stretch extended to other industries: metals, mining, diamonds, defence, banking, car, shipping, telecommunications, where growth was sought through enforced mergers but also with the help of lavish European lending at the time of easy credit. There was, in short, a clear shift towards borrowing from western banks, not necessarily looking for appropriate investors/partners.

An estimated half a trillion US dollars poured into Russia in this way during this period. The good days would come to an end during the summer of 2008, partly of course because of the world crisis but partly also because much of the borrowed funds were ineptly utilised by internal administrators, especially those who were drawn from the old KGB environment and lacked in entrepreneurial experience.

In 2008 the American mistake in Georgia was exploited to the full. Such time as Putin and his chief advisers had to think about the credit crunch and ensuing collapse of banks was used to formulate a policy of seizing

bank assets of defaulting Russian banks or squeezing Russian oligarchs who saw the value of their assets fall dramatically.

For instance, Oleg Deripaska, who acquired additional (and unwanted) fame by cavorting with English politicians, saw his personal fortune reduced from US\$34 billion to US\$3 or 4 billion. The same, of course was happening in America to Bill Gates and others like him; but there was a difference.

The survival of Mr. Gates' reduced assets, however, did not depend on the US government but Mr. Deripaska's did; for the Kremlin shrewdly used its powers to save those of the oligarchs who were loyal to it, able, and had a financial potential. To them it gave credit and other assistance; to others, such as Alexander Abramov, whose huge metal group Evraz lost 90% of its share value in 2008 but refused to submit to the Kremlin, no help was given. On the contrary, they were singled out for criticism and, in the end, allowed to "go under".

The above observation is crucial for it shows how the Kremlin's political system allowed it to benefit the State from the crisis which hit its rich individuals. Indeed, the Kremlin went further and through international treaties – for instance with Cyprus (concluded), Ireland, Luxembourg and the Bahamas (being negotiated) – intensified its efforts to discover the wealth of its rich, tax them, and subdue them accordingly. Henceforth, if the rich "played the game" they remained (relatively) rich at the expense of becoming Mr. Putin's men. If they fail to oblige, their future was grim. The result: a novel form of state intervention (if not, in practice, nationalisation), profiting from but not entirely killing off private entrepreneurship.

Some would say no surprise here except that a not dissimilar trend appeared in the West where important banks were all but in name nationalised while other forms were sought to allow the private sector to continue under a highly (or relatively) regulated market system. The differences here between the American and European regulatory systems must be noted and thus warn us against extending necessarily to Europe what we are saying about the USA.

However, a nuanced observation of both American and Russian systems suggests that both give the impression that they believe that the winning formula may lie somewhere in the middle. It is thus possible to argue that the time of the old doctrinaires of both sides has gone, no doubt largely as a result of the crises that hit communism in the late 1980s and American capitalism in 2008. This was not quite the "end of history" that Francis Fukuyama had famously described; to me it looks more like a watering

down of two rival systems which in complex ways were moving towards some kind of new synthesis.

7. Ability to cope with new challenges

Since the 1990s, the world has been changing rapidly, but everywhere states failed – especially during the early phases of the crisis – to react coherently rather than spasmodically to these challenges. This “stagnation of thought” prevented many from seeing the coming of the economic crisis and also from reacting to it quickly. But it was even more noticeable in the areas of geopolitical strategy and diplomacy of the major players. The reasons are many and can be found in both countries here compared.

In essence, the main obstacle lay in the difficulty of altering existing patterns of human thought. For few of us can break loose from existing molds, at any rate not until the pressure from the new circumstances reaches a breaking point. Indeed, the attachment to established thinking can, at times, be so deep that often such shifts in thinking patterns may require a generational change. In any event, I believe there are adequate signs to suggest that the great gurus of thirty years ago – in both East and West – have currently been taken off their pedestals.

The world scene, economically and geopolitically, has changed and here then are some areas where the two major countries discussed in this essay (and the rest of us as well) will have to prove their ability for new or lateral thinking. The areas I have chosen to focus on below were picked so as to substantiate the point made earlier namely, the close link between the state of the economy and a country’s ability to maintain or even increase its geopolitical power.

a. The ability to suffer financial crises but not to lose power

Russia, much more than America, is experiencing these days a serious slow-down in incoming foreign investment. In the case of the first country, the drop seems to be from an estimated US\$28 billion per annum in 2007 to US\$2 or US\$3 billion now.

During recent times, Russia has also seen a drop in its two major stock exchanges, The Russian Trading System (RTX) and the Moscow Interbank Currency Exchange (MICEX), a withdrawal of money from banks by depositors who remember the 1998 collapse, a series of de facto devaluations of the ruble, and a drop in foreign reserves from an estimated

US\$750 billion last summer (2008) to something in the region of US\$400 billion.

The above represent a serious “minus” in the Russian ledger, all that is except the last figure. For, notwithstanding the drop from US\$700 billion to US\$400 billion, the Russian figure still compares well with America’s near US\$76 billion in foreign reserves even if it remains dwarfed by the reputed (almost) US\$2.3 (?) trillion of China. However, the significance of this figure does not stop there. For it does not reveal the fact that it does not include the (considerable) foreign reserves of independent major players such as Gazprom. This last point shows that Russian strategic industries remain shielded from the crisis that has devalued the ruble.

Both of the above statements thus suggest a healthier picture than widely given when the emphasis is simply placed on the reduction of foreign reserves. Moreover, given what will be said below about the Russian ability to throw quickly at crises valuable reserves or to solve geopolitical issues in this manner, these practices go a long way towards explaining why Russia’s financial woes, even if they are as deep as is commonly asserted, have not dented the State’s ability to project its power in geopolitical terms. The effect it has had on the average Russian is another matter.

The ways Russia is able to continue playing this game are many. Among them we note, *first*, the traditional willingness to let the ruble fall rather than persistently and vainly try to prop it up by using her reserves. This can be done partly because the time honoured belief that, in moments of grave crisis, the preservation of the state interest comes first, but also (if not mainly) because Russia has for nearly a decade now been keeping the state finances and those of its key industries – such as gas and metals – separate from the rest of the economy, its reserves being, as already indicated, in dollars, euros and other foreign currency. Neither of these options was available to the West.

Second, and more importantly, the discriminating way of using its foreign currency reserves also enables the Kremlin to decide quickly and strategically who will be allowed to “go under” and who will survive (in exchange for some other advantage; see below sub-section b.) as well as to use strategically these reserves for geopolitical aims (see below, sub-section c.).

Before leaving this sub-heading I must explain why I italicised the three words, *quickly*, *strategically* and *geopolitical*. The reason is to draw, once again, a parallel but also make a contrasting point with the USA. The first

two words are very relevant for economic crises such as the one experienced by the entire world these days. They require urgent action of the kind which the western democracies were, initially and by virtue of their political systems, unable to take. Russia's more centralised and regulatory regime was, by contrast, able to act quicker in setting its priorities.

The difference between the two countries, however, is weakened as we follow the development of the latest economic crises; and there we note that America's ability to act quickly when strategic economic concerns were at stake was similar to the Russian. The slow-moving democratic processes, so obviously visible when the banking crisis broke out in the summer of 2008, eventually had to give way to what one might describe as (almost) Russian ways of taking decisions in an authoritarian (or quasi authoritarian) manner.

Thus, if the reaction towards the collapse of Lehman Brothers was – and remains – debatable, *The Wall Street Journal* of 30 March 2009 was able to report that “The Obama administration used the threat of withholding more bailout money to *force out* [sic] General Motors Corp. Chief Executive Rick Wagoner and administer harsh medicine to Chrysler LLC, *marking this one of the most dramatic government interventions in private industry since the economic crisis began.*”

Likewise, *The Business Times* of 17 July of this year wrote that “Mr. Paulson acknowledged that he told Mr. Lewis, the CEO (Chief Executive Officer) of the Bank of America, *that he and the bank's board could lose their jobs if the company backed away from the merger with Merrill Lynch.*” (Emphasis added.) But by far the most spectacular bloody coup was the overnight removal by the government of Rick Wagoner, as CEO of General Motors.

These indicatively selected illustrations – and browsing through the papers of the time one can find many more – show that the Wall Street mentality can be as brutal and as interventionist as the much criticised “authoritarianism” of Mr. Putin when it comes to saving nationally strategic resources. We shall return to this insufficiently noticed “convergence” of methods of these two rival powers/economies if for no other reason in order to put into a better perspective the repeated attempts of American-influenced authors to criticise at every conceivable opportunity Russia and its authoritarian ways.

When, however, we move to the geopolitical front the Russian ability to commit financial resources to advance its geopolitical aims remains, in my view, much faster than that of the USA to respond to such challenges. It

has thus given Mr. Putin considerable leverage in his efforts to restore the position of his country at the top of the world scene.

The drawback to such ability to move rapidly on the political front is that such decisions may be in conflict with the purely financial interests of the companies/monopolies which are asked to make the “sacrifice” – for example Gazprom being “forced” to sell gas at below market price values. In itself, this is not a fatal problem; but, inevitably, it can deprive the making of the overall foreign policy of structure and, above all, consistency.

All of the above points must be studied carefully in the effort to understand how the rival mega-powers have coped – or tried to exploit – the economic crisis to their advantage. Unfortunately, the excessive emphasis placed by the American tendency to stress the communication aspects of its policies – foreign and economic – means that the geopolitical aspects of economic crises have received inadequate attention.

Third, in moments of deep crisis Russia uses labour to make up for shortages in capital. For labour has been cheap, willing to work even unpaid (as past political and economic crises have shown), reluctant to demonstrate (as it increasingly is, especially in Europe) and paralyse even further the state. The authoritarian system contributes to this docility as does the press – by no means as militant as its western counterparts – as well as other organisations (for example the Church) which have been harnessed by the state to its own overriding purposes.

These may be morally dubious survival mechanisms but, again, they are not available to the West. Understandably, they are frowned upon by our liberal-minded establishment. Yet, here one is, not criticising or condoning them, merely stating that without knowing them we cannot, applying western thinking, understand how Russia weathers financial crises which would destroy western states.

Of course, this self-sacrificing attitude cannot be expected to last forever. Mr. Putin is conscious of the need to blame the greed of the rich for the starvation of the poor and, even, to threaten much more frequently than Mr. Medvedev, nationalisation. Recently, he thus gathered many prominent businessmen in Pikalyovo, a small town southeast of St. Petersburg, which was severely hit by unemployment, and gave them a public dressing down, ending with the threat of wider nationalisations. A subdued Mr. Deripaska was shown listening to the lecture with his head stooped down. The event was well publicised; and it also worked. For soon after the funds were found to re-open the local industry and save the industry-dependent city that had grown around it. (The problem is that

there are hundreds of Pikalyovo's in Russia and not all can be saved in this way!)

b. Drying out of foreign credit, un-repaid loans, and letting banks go bankrupt

Since we have alluded to the drying out of foreign credit, we can here, first, return to the “extent” of the Russian crisis and then, second, look at ways of handling the growing banking crises.

In looking at this problem we must first recall how Russia has chosen to keep its depleted reserves in foreign currency and use them strategically and not indiscriminately, even if this leaves local people to cope with worthless money.

Thus, various plans were under consideration this last summer which would aim to refinance Russian banks by means of special bonds which – unlike similar plans in the West – would give the Russian State Board seats and veto powers.

According to Standard & Poor's calculations this rescue plan would cost something in the order of US\$40 billion and would, probably, be extend only to banks with assets worth at least €1.4 billion. In real terms this means about 50 of Russia's 1,100 banks and financial institutions would be saved.

Not infrequently, both rating agencies and American publications mention these figures in dark terms, but they are not that “apocalyptic” if seen in a global context and, as I stressed at the outset, over a period of time.

Thus, to give but one instance, the Brussels-based KBC bank, with a balance sheet of just US\$425 billion, has, since October 2008, apparently sought from the Belgian government relief of the order of US\$41.5 billion – an astounding amount that exceeds the bail out of Royal Bank of Scotland.

This incident, by no means the only one in Europe, suggests not only that the method of diagnosing creditworthiness in the western world was (and remains?) insufficiently “aggressive”; it also puts the alleged Russian shortfalls in a different perspective. Indeed, Standard & Poor's, the very same company which assessed the Russian picture, has predicted that bad loan write-offs for the fifty top European banks will double next year. The European Central Bank has even set a figure for 2009 through 2010 estimating it at US\$283 billion compared with US\$150 billion in charge offs and provisions in the past two years.

In short, though the economic crisis in Russia is very serious and has not spared any major country (China and India apart, both of which are *expected*² to have growth rates this year of the order of +7%) from its devastating impact, the general reader must also take into account the possible motives of all who make comparative predictions about the health of the economies of countries competing on the geopolitical scene. In short, if part of the Russian (or Chinese) literature is opaque or even misleading, a good proportion of the western literature is suspect. Reflection and constant cross referencing is thus needed to follow the evolving scene.

Second, the reader must realise that much, if not the bulk of the wealth of Russian investment banks, is not Russian money but European money, raised during the years of easy credit. Letting some of these banks go bust could thus be an alternative (harsh) option open to the Russians, since the losers would be the Europeans, already hard hit by their own problems. At present, however, it looks as if the Russians will opt for a combination of measures including both of the ones mentioned above.

c. Ease in sudden injections of financial support

The bleakness of the economic situation in both Russia and America is indisputable and, to me, reports can always be found to show that the one is greater than the other. Yet in one area, the Russian system has shown a greater ability to throw money at problems quicker than the western democratic process could ever envisage.

During 2009 we thus saw Russia “surprise” the Americans by out-bidding them in the battle to close the Manas base in Kyrgyzstan. To be sure, the Russian success was reversed by the “greed” of those Central Asia countries to play one great power against the other. Yet one must also not exclude Russian acquiescence to this change, especially given their own even more recent declaration to allow American military supplies to be flown over their own air space to re-supply Afghanistan. This was, indeed, decided at the July 2009 summit which in this sense was successful even though it left most of the major issues (for example Iran and American/European meddling with the states in the periphery of Russia) unresolved.

² I have italicised the word not only because accurate figures are scarce to come by when China is involved, but also because there is adequate information to suggest that the consumption of electricity during the same period is significantly lower than +7% and many experts have argued that there is a close correlation between electricity consumption and GDP growth.

The same happened in the Russian attempt to offer the Azeris a higher than market price to obtain exclusive access to their gas. This was reported by various American Strategic Reviews but the reality, however, is more complex since Azeri gas now belongs to a consortium which includes Gazprom.

Even more recently, Russia was presented with a request to aid Serbia to the tune of US\$1 billion (though the political price that would be demanded was not specified). The loan was very recently granted, prompting an immediate gesture from the EU! By the way, this Serbian offer followed a similar declaration to help Iceland out of its current economic crisis. These are interesting – to say the least – gestures coming from a country whose economy was in dire straits!

These and other examples thus show how Russia has used its economic tools to enhance its world image and power even during moments of crises. My own guess is that similar techniques will be applied to Ukraine and the Baltic States while the EU (Germany apart) retains its anti-Russian hostility. In the meantime, the conclusion is once again reinforced that the study of Russian finances cannot be disassociated from its current foreign policy and vice versa.

d. The financial consequences of an ordinary versus sophisticated military machinery

The reasons why Russia needs to maintain large conventional forces have been explained. Though this does not mean that Russia has not interest in competing with the USA on the higher technological area of armaments, it does, strangely, give Russia the edge in its current geopolitical battles with the USA. For the USA is currently stretched at its limit with Iraq and Afghanistan/Pakistan and cannot impede Russian moves in, say, Georgia short of threatening an all out confrontation.

Since modern conflicts have shifted in techniques and location from the patterns that dominated strategic thinking in the immediate post-Cold War period, recent thinking has led both Americans and Russians to re-orient their budgets away from the high expenditures of super technology favoured in the 1980s and 1990s to the creation of smaller forces able to conduct local wars. As part of this thinking the Russians are thus planning to reduce their armed forces from 1.5 million to 1 million and their officer corps from a staggering 360,000 to 150,000! The Russians hope this move will ease pressures on the budget; thus far, however, in America the change of administration has not managed to bring its overseas wars under control with the result that though the military budget will henceforth be

spent on different items its overall size has increased since the previous years and this despite the fact that the country is going through one of its worst economic crises since the Great Depression!

e. Maltreating foreign investors and its effects

The (possible) voluntary failure to pay international debts mentioned above could be countered by the argument that such a decision would not help attract future investors to Russia. Though this has not happened in any great scale, it forms part of the wider issue of “maltreating” foreign investors. In its essentials this is not a new problem since in recent times – certainly from the Yeltsin days onwards – many “expropriated” shareholders of Russian gas companies already feel sour to the way they were dealt with by successive Russian administrations as they moved slowly but systematically towards controlling the ownership and transportation of its energy resources.

It would thus be idle to deny that there remains here a serious image problem for Russia; and when coupled with another one – the growing complaints about an environment of administrative inefficiency and, even, corruption – the combined effect may be a serious disincentive for future foreign investors at a time when foreign credit is badly needed.

An example of this kind of dissatisfaction that (fairly) recently made the headlines came from IKEA, an international company which operates both as a furniture retailer and as a developer of shopping centres. Since the Swedish company operates (almost) worldwide one would have expected it to be accustomed to the difficulties of functioning in different financial environments. Its decision, therefore, to retreat from its original intentions to open up new outlets in Russia because of the prevailing climate of inefficiency and corruption must be taken as a sign that administrative corruption in Russia needs to be addressed urgently.

This, clearly, is not the kind of publicity that the Russians want. Up to now, however, there was no immediate response from the Russian side since, it could be argued, the minds of high-ranking officials seemed fixed on geopolitical issues such as energy supplies, Afghanistan, Iran and the problems on the periphery of the Russian Federation (for example Ukraine and Georgia). Additionally, some may be thinking that, in the long run, such concerns must not be exaggerated. For, when times get good again the investors will return, and memories of harsh treatment or past injustices will recede.

This second line of reasoning may have been buttressed by some recent signs of investment “re-evaluation” towards Russia. Thus, as recently as mid July 2009, PepsiCo announced a US\$1billion investment over three years to build the largest bottling plant in the world. Since Pepsi has been present in Russia since 1959, it has clearly found a way to by-pass the problems which frustrated IKEA.

Unconfirmed sources also suggested in the course of the summer that Boeing had agreed in principle to purchase for its new wide body Dreamliner jets US\$900 million worth of titanium parts from the Russian titanium smelter company VSMPO- AVISMA.

Finally, to give but one more example, Lukoil agreed a new as yet not fully valued venture which would ship oil from its Arctic depots to a new refinery which the American ConocoPhillips would build on the USA’s Eastern Coast.

If these few illustrations prove anything it is three points.

First, the Russian economy is hit but not dead and (slowly) reviving. Readers, it has been repeated, must thus treat biased reports appearing in the western press with caution.

Second, institutional memories for past “mistreatment” of foreign investors in Russia invariably get forgotten as good profit opportunities tempt corporations to look at the future and not allow themselves to be numbed by the past.

Third, the above signs of returned confidence in the idea to invest in Russia may not be sufficiently strong and may thus need to be strengthened further by new strategic by Russian moves to liberalise the economy. Indeed, there are unconfirmed yet widely anticipated moves for this to happen and since they are very important and relevant for much of what has been said in this essay they deserve a sub-section of their own.

8. Economic benefits of liberalisation versus possible destabilising risks

Understanding how Washington works is highly problematic; understanding how Moscow thinks is almost as impossible as getting a true picture of the Chinese economy and a reliable forecast about its future. What follows is information gleaned from various sources, reasonably accurate, and accompanied by personal speculation prompted by that of others. Overall the reader must consider what follows with both caution

and imagination. Time, alone, will tell how much of what is said here proves correct.

Notwithstanding the caveats mentioned above there have, for some time now, been persistent rumours that high ranking civil servants – mainly lawyers and economists – are pressing for economic liberalisation to re-attract foreign credit and rectify, eventually, some of Russia’s recent errors that have pushed foreign investors away. The plans seem to have the general support of Russian Finance Minister Alexei Kudrin and the CEO of Russia’s largest state-owned bank, SBERBANK, and allegedly adopt a three-pronged attack on the current system of financial management of the Russian economy.

First, there is an expressed desire to remove from many state-owned industries those CEOs who come from the intelligence world [KGB or its successor the FSB (Federal Security Bureau)] but who have no entrepreneurial know-how or experience. Companies which could come under this category include Rosneft (oil and gas), Russian Railways, Aeroflot, Rosatom (nuclear energy company) and the lucrative state-owned arms exporter Rosoboronexport which netted last year something in the order of US\$7 billion (and an alleged further US\$27 billion in new orders). The claim against them is that, broadly speaking, they mismanaged their departments during the period of easy credit. Accusations of mismanagement usually include allegations of illegal spending of funds, excessive bonuses and expenditure on acquisitions which were politically rather than economically motivated and investigated by the (dreaded) Prosecutor General’s office.

Second, there is the much-needed requirement for a stable legal background that would protect foreign investors, would curtail the audit, tax and prosecutorial agencies, which in the past were used to destroy entities and enterprises with which the Kremlin was in dispute, and, generally, prevent forced nationalisations which deprived many foreign concerns of their investment in Russia.

Finally, and most ambitiously, there is talk of abolishing the strict “cap laws” of two years ago which prohibited foreigners from investing in strategic industries or limiting their involvement to fixed limits, usually 40% of a particular concern. An even more imaginative idea which forms part of this proposal would be to allow foreigners to acquire even more than 50% of a national industry or corporation (even of strategic concern) provided that payment took certain forms, for instance, in the case of large investments a percentage of the purchase price took the form of giving Russia equal value assets in downstream industries in the West.

Clearly, we detect in this idea an externalisation of an old and key Russian wish to acquire access to the USA and European markets. For those who like this author believe – hope – for a European future, we find here the ingredients of a closer cooperation between Eastern and Western Europe. I say this because such moves could bring more into relief the idea that both parts of Europe need one another. Is such a dream so unrealisable? For the time being, it seems so.

This hesitant if not pessimistic prognosis is based on two arguments.

The first is the belief that for the above-mentioned Russian ambitions to be achieved, for many recent nationalisations to be reversed, for a number of key industries to be returned to the private sector, and for foreign capital to return in significant quantities to Russia, much ingenuity will be required to enact such a complex scheme. But if this occurred, it would be a serious step towards bringing Eastern and Western Europe closer on a multitude of other points beyond facilitating foreign investment and would thus be a positive move towards reducing tensions of many decades if not centuries.

The second argument that argues against premature expectations is linked to another question, namely to what extent such major innovations could disturb internal balances within the Kremlin. To evaluate this risk – a task fraught with difficulties – one must (a) try to understand the internal structure of divided but balanced allocation of power devised by Mr. Putin to allow him to rule Russia from whatever nominal position he occupies; and (b) to evaluate the plausibility of the predictions made about these issues by other western observers and determine whether these are based on logical (even if erroneous) analysis or political bias or ideological prejudice.

With regard to (a), above, one notes a Byzantine division of powers, especially between the current and, apparently, vying for influence and power Deputy Prime Ministers Mr. Igor Sechin and Mr. Vladislav Surkov. Thus, the first supervises Rosneft (one of the two major oil and gas companies), the Ministry of Interior and the Ministry of Defence, while the second oversees the activities of the Ministry of Finance, the Ministry of Economic and Natural Resources, the (feared) Prosecutor's Office, SBERBANK and last but not least Gazprom. The divided loyalties duties are further reinforced that the agencies entrusted with the task of espionage and intelligence are also differently aligned, with Mr. Sechin having close links with the FSB (the successor of the KGB) while Mr. Surkov being linked with the Military Intelligence Directorate.

The central idea behind such a bizarre – if seen at least from the outside – distribution/division of responsibilities must surely lie, in Montesquieu terms, the notion that “le pouvoir arrête le pouvoir” and, more importantly, to give Mr. Putin the opportunity to be the final arbiter whenever conflicts between the rival groups arise.

From the little said it will be clear that the proposed reforms will touch upon this delicate distribution of power (mainly affecting Mr. Sechin’s “empire”) but, more generally, will also have a bearing on the conflicting philosophies of the two groups. For the Sechin group appears to be more “conservative”, oriented towards the harnessing of commodity prices, and eager to encourage the rapid development of military technology while the second group, dominated by lawyers and economists (and not former security agents) seems determined to bring to an end the rule of the new oligarchs (associated with the industries mentioned above) and encourage – rightly one might suggest – closer economic cooperation with the West. It is these personal and, arguably philosophical (I deliberately refrain from using the word ideological) differences that have led foreign, especially, American commentators to speculate on the possible political risks that such economic reforms might bring in their wake.

This brings us to point (b), above. The different interpretations that these little known (in their details) moves have received reconfirm, in my view, the extent to which the possible bias, personal ideology, or philosophy of the commentator may affect (destroy we might even say) the accuracy of his interpretations of factual developments.

Thus, American commentators and politicians, forever hopeful that a division might occur between Mr. Putin and Mr. Medvedev, see in this policy debate the beginnings of a slow switch of power towards the latter. My own hunch, for what it is worth, is that such crises between competing power centres have been a permanent feature of Kremlin power politics – come to think if they are found in Washington as well – and nine times out of ten they tend to be resolved by means of compromises.

For the time being, therefore, I foresee no decline in Mr. Putin’s power or authority; and, as a firm believer in the need of a renewed balance of power between East and West, I do not see with either unhappiness or undue concern the Prime Minister’s continued dominance. But then my views are as much influenced by my own overall aims, ideology and hopes so they may prove as wrong as I believe are the American hopes for an early (political) demise of Mr. Putin.

9. Trends and debatable ideas

Writing about the American and Russian economies could have focused on purely financial indicators and technical policies thus placing this essay beyond the reach of most readers and firmly on the lap of economists. The approach adopted here chose, instead, to appeal to the average educated political observer and reveal in a multi-faceted way the differences but also emerging (latent) similarities between these two superpowers in the way they have addressed the recent common economic challenges. For the reasons already stated what follows is a list of points which may deserve further thought.

First, one must restate that pronouncements by westerners on the state and the Russian economy must be read with great caution. This is due partly (a) to the lack of accurate information; (b) to political bias; but (c) most importantly, on our own overall inability to appreciate Russian responses to new challenges. *Transposing our own thought processes on the Russian economy courts serious misunderstandings and misjudgements even though it is true to assert that Russian ideas towards private property, profit and the like have, in recent times, shifted towards the West. This is a lesson I learnt as Professor of Comparative Law for over forty years and I believe it also applies to comparative politics.*

Second, the frequent rejoicing at Russia's current economic woes may, likewise, be short-sighted by failing to draw parallels with the extensive woes, scandals, and mismanagement experienced by the western economies, especially the American and the English.

Third, the role of the Russian media can also too quickly be condemned as dishonest, controlled, and, even corrupt. This is strongly arguable. But a proper comparison with western media would require a very detailed examination of *how pressure is exerted on and through the western media* before we rush to take (undeserved) pride at the integrity and impartiality of our press.

Fourth, seen in as objective a way as is possible, Russia has had its share of economic woes. Yet in analysing it we must not forget Russia's starting point, namely the unprecedented economic and social dislocation that followed the collapse of the Soviet Union. Thus, if seen against a longer time frame, the Putin years have shown a marked change/improvement even if this may have come with a worrying libertarian cost.

Fifth, for the West the "libertarian" issue is truly vexing since no one seems to have given it serious and realistic thought. For the West's wish to impose on other states its understanding of civil liberties – unless, of

course, these countries wish to join “clubs” they have set up and which are based on their understanding of human decency – seems to me utopian and hypocritical.

We only have to see how America deals with this issue in the Middle East to realise how hypocritical is its practice to criticise any foreign policy based on human rights. And it is sufficient to glance at the situation in China, North Korea, Iran, or even Russia, to see how utopian is the belief that we can affect human rights in an unwilling and un-cooperative country. It is different, of course, if we are considering allowing such outsiders to join one of our “clubs” like the EU.

Sixth, the ways the Russian and American economies are responding to a shared crisis has led to a de facto creation of mixed ways of reaction. I call them “mixed” because neither country in its handling of the crisis follows entirely its archetypal philosophy. For state monopoly versus unchecked market have both failed, albeit at slightly different times and different ways. This phenomenon of de facto “convergence” of economic systems, though each shaped by local circumstances and pressures, has not yet been noticed nor discussed; but the few examples given above suggest that this could be a fertile ground for deeper research and understanding.

Finally, the re-appearance of Russia as a major player on the economic and geopolitical scene is indisputable and may well grow further as energy prices (which have been very volatile in the past years or more) return to steadier higher levels. This must be kept constantly in mind since the Americans underestimated Russia in the 1990s and they and Europe may be doing it again now.

The best proof that the Americans are committing the same error again comes from Vice President Biden’s frequent speeches which increasingly seem to have adopted Vice President Cheney’s frame of mind. Thus his statement to *The Wall Street Journal*, cited earlier, deserves to be broken up into its component thoughts and examined with the view of deciding how much of what he says about Russia does not also apply to the USA.

For instance, when he makes predictions about the Russian banking system fifteen years down the line, I wish I could have been present as a journalist at the time of his utterances and asked him how he can foresee so far down the future when next to no American foresaw the collapse of the American banking system even a few months before it occurred? I leave aside the question whether such statements are truly helpful to America’s interest at a time when it needs so badly the assistance of Russia both in Afghanistan and Iran.

Yet, at the end of the day, Biden or no Biden, the major question for all the so-called major geopolitical players is what form the “tiger economies of the East” will take, notably that of China and India. Predicting the development of these Asian countries is fascinating but beyond the aims of this essay; but the indications are that their expected growth, now firmly “de-coupled” from that of the old economies of the West, may present a challenge to all of them, including the USA.

Yet, let us end by noting in conclusion that Russia is already trying to enter that playing field as well through its sponsorship of the BRIC (Brazil, Russia, India and China) cooperation process. How well this can work is too early to predict given the distances that separate these countries and the structural differences that exist between their economies and their forms of government. But one thing is certain: the Russians are, again, being more adventurous than the Americans who remain mired in their self-inflicted wars.

10. Postscript

In this essay in parallel I have tried to innovate (to the extent that anyone can really say something “new” these days) by adopting a multi-faceted approach to a complex and specialised topic: the economic crisis of our times as experienced by two of the world’s major political players.

I also tried to suggest yet another way of comparing the two economies namely, by focusing on a certain convergence in the way these two, apparently so different systems, are handling the same crisis.

Finally, I chose to emphasise the greater rapidity which the otherwise more authoritarian Russian system of government seems to offer to its government to react to contemporary political conflicts.

Libertarians, with whom I sympathise on a large number of issues, may find this too high a price to pay for the loss or restrictions of individual freedoms. On this own, this statement fails to take into account the loss of individual freedoms which has occurred in the USA during the last eight to ten years. But even if these two systems are in no way comparable on this issue of individual rights and freedoms, the point of making is asserting a distinct advantage that Russia has in the geopolitical game and not expressing a value judgment as to its attitude towards individual freedoms. That belongs to another lecture.

So, to conclude, in defence of my unusual or unorthodox approach to my subject, I invoke the statement of a genius of Jewish-Germanic stock who really changed the way we understand our world. He said:

Great spirits have always found violent opposition from mediocrities. The latter cannot understand it when a man does not submit to hereditary prejudices but honestly and courageously uses his intelligence.

My readers can guess the name of the great man who had the courage to utter this statement. The moral is that we must not be afraid to think laterally even if we run the risk of making mistakes. Einstein's work, for it to him that I am referring, proved that he could do what he said and pushed aside (and into oblivion) the mediocrities who failed (or refused) to understand him.

Will we be able to emulate such an example, even at modest levels, or will we remain enslaved by dated geopolitical thinking? Those who are truly creative among us will lead; the rest, as always, will follow.

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