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The Global Economy
A concise history

Routledge
Taylor & Francis Group

G. Giappichelli Editore

First published 2019
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

and by G. Giappichelli Editore
Via Po 21, Torino – Italia

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data
A catalogue record for this book has been requested

ISBN: 978-0-367-26508-3 (hbk-Routledge)
ISBN: 978-88-921-1734-1 (hbk-Giappichelli)
ISBN: 978-0-429-29355-9 (hbk-Routledge)
ISBN: 978-0-367-26507-6 (pbk-Routledge)

Typeset in Simoncini Garamond
by G. Giappichelli Editore, Turin, Italy

The manuscript has been subjected to the double blind peer review process prior to publication.

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Chapter 19
THE END OF A GREAT DREAM

19.1. A crisis with deep roots

Although the first half of the 1970s was a period of severe crisis for all the world's economies, mainly due to soaring petrol prices, the USSR appeared unaffected by the shockwave hitting the rest of the world. GDP fell by 6% between 1973 and 1975 in the USA, while unemployment doubled to 9%. The situation was even worse in Western Europe, which depended more heavily on petrol imports from the Middle East; hundreds of thousands lost their jobs in the great industrial regions of Great Britain, the Ruhr and Italy's northwest. For the first time, since the Second World War and the subsequent years of record growth, Japan experienced a contraction in the wealth it produced.[1]

In 1978, two American economists had produced data showing that the USSR's economy did not present the same regular and repeated cyclical fluctuations as the Western economies. This meant that its influence on the world economy and its capacity to create economic turbulence was practically zero. However, this apparent stability concealed some extremely serious and widespread criticalities. The GDP growth rates of the 1950s, not to mention those of the first Five-Year Plans, were just a distant memory. The reforms of the 1960s and 1970s bore fruit slowly. Economic development rates had dropped from a level of 6% in the decade after the Second World War to 3.8% in 1971-1975, and had fallen to extremely low levels (0.8 and 1.4%) by 1979-1980. Agriculture was in the same state as the economy in general. The growth of per capita consumption had fallen from an average of 5% in the 1960s to just over 2% towards the end of the following decade. Nevertheless, these figures cannot describe the relatively low quality of most goods, or the long queues to buy even basic consumer

[1] S. Kotkin, *Armageddon Collapse 1970-2000*, Oxford, 2001, pp. 10-13.

goods, nor do they depict the dramatic worsening of the physical and mental problems of many Soviet citizens: alcoholism, abortion, infant mortality and – for men – a reduction in life expectancy.

Although the "visible hand" of Stalinist planners had transformed what had once been an extremely poor country into one of the world's major industrial economies over a couple of decades, it did not have the same scope or power to impose the economic reforms introduced after Stalin's death. Without abandonng the fundamental principles of the centralized economic model, Krushchev began to open towards private consumption, allowing a glimpse of a kind of "socialist consumerism". This then spread in different ways and to different degrees among the other Eastern bloc countries during the second late 1960s. However, while the planned economy had been able to generate "extensive development", it was less capable of shifting towards "intensive development" via interventions to improve the quality of both fixed and human capital. The GDP growth rate of 6% in the 1960s was no longer comparable to the rates of the 1930s or 1950s, so that total productivity increased by just 1.4%.

Once the fundamental problems of Russian economic backwardness immediately after the October Revolution had been solved, centralized planning became much more complex. As time passed, the level of bureaucratization in the Soviet economy rose considerably. At the start of the 1980s, the Soviet industrial system was based on forty sectors or groups of industries, each coordinated by a ministry. Before the 1973 reform, these ministries interacted directly with the hundreds – and sometimes thousands – of companies under their direct control.

In addition, while the fall-out from military technologies nearly always benefitted adjacent civilian sectors in the Western countries, increased military spending in the USSR actually had a negative effect on the rest of its economic system. The USSR concentrated so many technical and human resources on its defence sector that it deprived all the other sectors, making them much less dynamic.

The reforms introduced by Premier Kosygin in the 1960s had very little effect on changing this mechanism, but merely increased the level of decentralization; their impact was limited given that the fixed price system continued. Talk of company profits had little real meaning if prices remained "artificial". On the other hand, managers had few opportunities to improve company performance to any substantial extent when both supply and prices were subject to centralized control. In conclusion, despite a slight initial improvement, the reforms of the 1960s had no real effect on the overall situation of the Soviet economy, but merely increased the level of centralized control.

The problems of agriculture and the limited impact of reforms meant that GDP growth was much slower in the 1970s. Although per capita consumption had increased during the two decades after the war, growth rates now began to slow. Moreover, aside from the purely statistical aspects of the situation, widespread dissatisfaction with mass consumer products became increasingly evident.[2]

Another crisis factor was the petrol question. Between the end of the 1950s and the early 1960s, the USSR had initially derived political benefit from selling its petrol abroad and thus creating divisions in the West. Subsequently, helped by rising prices after the crisis in 1973-74, petrol export became the only means for the government to obtain the dollars to buy the technology it needed in order to reduce the *gap* with the West. Some of the profits derived from OPEC's price policy would finance sales of petrol to the Comecon countries at fixed prices. However, towards the end of the 1970s and early the 1980s petrol production no longer grew as it once had, and attempts to locate new petrol fields, especially in Eastern Siberia, were slow to fulfil expectations, partly due to the use of poor technologies. The solution was to find alternative sources of energy, especially natural gas, so that GDP could grow without an increase in petrol production. In the early 1980s, the West was already aware that the USSR possessed all the potential to become the world's leading producer of natural gas. Here again, the technological constraints could only be overcome by exporting petrol or other materials to the West.[3]

The situation even more fragile from a structural point of view. Falling birth rates in the early 1980s were due not only to the economic crisis, but also to the extremely high abortion rate (estimated as an average of approximately ten per woman of childbearing age). This meant that while Russia's population had traditionally had the highest fertility levels in Europe, it was now unable to reproduce itself for the first time in history, so that each year, more Russians died than were born.[4]

Thus, the crisis leading to the dissolution of the USSR was deeply rooted in the central planning system. However, it also had political causes, es-

[2] J. Adam, *Economic Reforms in the Soviet Union and Eastern Europe since the 1960s*, Hong Kong, 1989; R.N. Cooper, *Economic Aspects of the Cold War, 1962-1975*, in M. Leffler, O.A. Westad (eds.), *The Cambridge History of the Cold War*, Vol. 2, Cambridge, UK, 2010.

[3] T. Gustafson, *Crisis and Plenty. The Politics of Soviet Energy under Brezhnev and Gorbachev*, Princeton, 1989.

[4] F. Lutz, S. Scherbov, *Survey of Fertility Trends in the Republics of Soviet Union: 1959-1990*, in W. Lutz-S. Scherbov-A. Volkov (eds.), *Demographic Trends and Patterns in the Soviet Union Before 1991*, London, 1994, pp. 19-40.

pecially the enormous discrepancy between the programmes established by Communist Party leaders and the human and material resources used to implement them.

The political component of the crisis concerned only the Communist Party *establishment*. Initially designed as a flexible tool that would allow the leadership to move a reluctant population towards a utopian vision of society (Communism), the Party had become a self-referential structure for a privileged class, and its highest levels (the *nomenklatura*) had become a parasitic social caste.

19.2. Gorbachev's impossible dream

According to Richard Pipes, when Mikhail Gorbachev was elected head of the Communist Party in 1985, the USSR presented what Lenin would have defined as "revolutionary conditions"; in other words, there was a stalemate between the country's dominant elites and the general population. The former were no longer able to govern and the latter were no longer willing to be governed as they had been in the past. Nonetheless, according to Lenin, there are also subjective conditions required for a revolution to break out: the population's ability and will to take action. Without these conditions, a revolutionary situation may slowly lose force even at a time of serious crisis.[5]

The political and generational changes that brought Mikhail Gorbachev to the leadership of the Politburo represented an attempt to revive the socialist dream in a profoundly changed society. Despite all its weaknesses, the USSR was a country where the urban population was now double the rural population. It had mass holiday accommodation for over 30 million people; 93% of families owned a television set, 90% a fridge and 60% a washing machine; 3% of the population was enrolled in university, and Western tv series were as popular as they were in other countries like France, Britain and Germany. On the other hand, less than 10% of the population owned a telephone, and citizens were obliged to inform the police if they wanted to own a typewriter. In spite of everything, Gorbachev was seen as the only real and eagerly awaited heir of Krushchev's reformism, and was totally convinced that it was still possible to revive a form of "socialism with a human face".[6]

In November 1987, on the 70th anniversary of the October Revolution, Gorbachev reiterated his conviction that the Soviet system would remain

[5] R. Pipes, *Can the Soviet Union Reform?*, in *Foreign Affairs*, Fall, 1984.

[6] S. Kotkin, *Armageddon Averted*, cit., pp. 39-43.

solid and projected towards the future by adhering to the measures approved after his nomination as General Secretary of the Party.[7] This meant eliminating "habitual formulas and schemes" and reducing "the gap between word and deed". His intended reforms would achieve the transition from a centralized command system to a democratic system in the space of two to three years. The new system would be based principally on economic methods and on an "optimal combination of centralism and self-management", which required "a more businesslike and more democratic attitude", together with improved organization and greater discipline. Gorbachev's reforms were symbolized by the word *perestroika* (restructuring), which would give a new impulse to the development of socialism.

Many in the USSR, especially Gorbachev's enemies, believed that the system could not be reformed; the Soviet Union was not Hungary, and what had been achieved there would be impossible in a large country with a large economy. Gorbachev needed to give greater responsibility to those capable of following him. This is also why he concentrated power in several "super ministries" for the manufacturing and agri-food sectors, and introduced a reform to strengthen the powers of the USSR president, elected by the 2,500 members of the Congress of People's Deputies (750 designated by the Party and unions, 1500 elected by universal suffrage).

However, the Party Secretary rapidly ran out of political capital. His promises of reforms and improved living standards were shattered by low growth rates, falling private consumption (according to a 1988 report, only 23 of the 211 official food products were available in food shops) and even inflation (20% in 1990), which was officially impossible in a planned economy.

He was also plagued by a series of disasters, a personal version of "Murphy's Law"[8] ("Gorbachev's Law"), involving the Chernobyl nuclear disaster, earthquakes in Central Asia and Armenia, and a series of bad harvests due to extremely cold winters and hot summers. Lastly came a fall in the price of petrol, which had provided the USSR with 60% of the currency it used for imports, especially of technology. However, what most weakened Gorbachev was the victory of nationalist independence movements in the Baltic States (Estonia, Latvia and Lithuania), and he was overwhelmed by the events of summer and autumn 1991. In August, a self-proclaimed State Committee on the State of Emergency deposed the president and attempted to take power. The popular reaction across the country was im-

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[7] M.S. Gorbachev, *Document. The 70th Anniversary Address*, in *Foreign Affairs*, Winter 1987/88 issue.

[8] *Soviet Union, Murphy's Law in Moscow*, in *Time*, 9.10.1989.

mediate, especially in Moscow where crowds flocked to support the President of the Russian Parliament, Boris Yeltsin, and the mayors of Moscow and Leningrad. Yeltsin suspended Party activities and dismantled the KGB. Soon afterwards, the presidents of Russia, the Ukraine and Belarus decreed the dissolution of the Soviet Union. In the following months, eight more former Soviet republics joined them to form the Commonwealth of Independent States. In December, Gorbachev resigned from the presidency of a state that no longer existed.[9]

19.3. The difficult return to the market economy

Yeltsin faced some extremely difficult challenges, including four that were absolute priorities. One concerned the need to construct a democratic state based on free elections and the adoption of a new constitution. Another was the creation of a market, which required fiscal and monetary stabilization to prevent rising prices from causing inflation. A third priority to tackle was an enormous programme of privatization. In addition, the country required a new legal system, and this would inevitably take longer to implement, since it involved introducing laws, creating courts, and training thousands of lawyers.

Yeltsin announced his economic reforms in October 1991. The greatest and most rapid transformation of a centralized economy into a market economy took just three years. The Russian government chose a very similar policy to the *shock therapy* of Polish Deputy Prime Minister and Finance Minister Leszek Balcerowicz, adopted by Warsaw's first non-communist government after free elections in June 1989. In Poland, timely policy decisions made it possible to halt hyperinflation rapidly and put many goods back in shops, while absenteeism in factories was reduced by 50% at the same time. On the other hand, many state-owned companies were forced to close, and unemployment climbed from the official figure of 0.3% in January 1990 to 6.5% by the end of the same year. In the next two years, GDP fell by 9.78% and 7.02%. In Russia, the Gaidar government (an ineffective combination of economists with the reforming zeal of "Young Turks", "mediocre politicians from Yeltsin's home town" and "competent ex-ministers of the USSR")[10] attempted to emulate the Polish

[9] F. Halliday, *A singular Collapse. The Soviet Union, Market Pressure and Inter-State Competition*, in *Contention*, 1-2, 1992, pp. 121-141; A. Dallin, *Causes of the Collapse of the USSR*, in *Post-Soviet Affairs*, 8/2, 1992, pp 279-302; A. Åslund, *Revisiting the End of the Soviet Union*, in *Problems of Post-Communism*, 2011, pp. 46-55.

[10] S. Kotkin, *Armageddon Averted*, cit., p. 118.

success, but the Yeltsin himself admitted later that the country was in a situation where "theory was powerless". The state deficit was estimated at 20% of GDP in 1991 and continued rising. The country's gold reserves had effectively vanished. Industrial output was plummeting. Official statistics registered a 6% fall in GDP at the start of 1991 and 17% by the end of the year, while inflation was estimated at 250% a month, i.e. an annual rate of almost 3,000%. Prices of some commodities, such as bread and milk, were protected from this shock therapy in order to protect the weakest elements of the population; other pressure groups linked to industry obtained a delay in the liberalization of the energy industry and fuel prices.[11]

The monetary and financial situation was even worse. The Soviet central bank was replaced by central banks in each of the fifteen former Soviet republics. However, while the Russian central bank was authorized to print money, the other fourteen could issue credit in roubles, and the big companies did the same, issuing credit to each other to obtain the supplies they needed. Inflation had appeared to be under control at 7-8% in July 1992, but soared again to 25% per month in autumn. The pensions of millions of citizens became worthless, and the salaries of those with higher level qualifications suddenly lost much of their purchasing power.

It was only in July 1993 that Russia obtained the suspension of credit emission in roubles by the other former Soviet republics. This was the sign that shock therapy had ended, as had Gaidar's leadership. His replacement was Viktor Chernomyrdin, who succeeded in bringing inflation under control where his predecessor had failed; it now fell from 2,250% in 1992 to 840% in 1993, 223% in 1994, 131% in 1995, and was 11% in 1997.

The privatization policy was launched at the beginning of 1992, when about 150 million Russians received a *voucher* with the nominal value of 10,000 roubles ($25, soon devalued to just $2) to participate in the IPOs for all types of privatization. The vouchers could be sold and often ended up in the hands of extremely powerful Russians (foreign investors were excluded from this stage of the process), which paved the way for new centres of power, without any benefit to the State. For example, car manufacturer Avtovaz (which managed the Togliattigrad car factory built with FIAT) was privatized for just $45 million. FIAT had previously made an offer of $2 billion dollars for the company, but was excluded because – it was said – the government did not want foreign ownership of Russian property. In this case, as with the collettive farms, the workers had precedence, and were

[11] Z. Medvedev, *Post-Soviet Russia. A Journey Through the Yeltsin Era*, New York, 2000.

authorized to buy 51% of shares. The State continued to hold substantial shares in many companies, ready to cede them to selected investors, all of whom were Russian.

Although around 80% of companies were privatized during this period, the true and most important privatization season was in 1995 and 1998 and involved 29 big groups. The government's financial and fiscal problems had led it to seek loans from the new private banks, known as *loans for shares*, i.e. credit guaranteed by government shares in the petrol industry and other sectors. The shares could be sold by auction if the government did not repay its debt, which is what actually happened. The problem was that the same creditor banks were authorized to manage the auctions. These included Oneximbank, which benefitted the most from this operation, and whose president – Vladimir Potanin – had created the scheme. The outcome was inevitable: the State received much less than the real value of the companies put up for sale, while certain people managed to build up enormous personal fortunes. When Mikhail Khodorkovsky bought 78% of Yukos shares, worth around $5 billion, he paid just $310 million; Sibneft, another giant in the same sector was worth $3 billion, but was bought by Boris Berezovsky and Roman Abramovich for just $100 million.[12]

The Russian government did not make enough effort to contrast this perverse mechanism, which contributed to the formation of a new oligarchy of powerful businessmen. Their origins were essentially of three kinds. One group consisted of high-level former Party officials, and another of managers of big companies with solid personal connections to political power, the former KGB and the industrial establishment. In addition, there were figures connected with the criminal activities that had sprung up in large and small towns and cities immediately after the end of the USSR, involving both the first private businesses and larger scale international trafficking of drugs, arms and people. In *Russia's Capitalist Revolution*, Åslund recalls a conversation in 1999 with a Russian oligarch, who said: "There are three kinds of business men in Russia. One group is murderers. Anther group steals from the private individuals. And then you have honest business men like us who only steal from the state".[13] All the elements existed for what one researcher has called – with a play on words – the "piratization" of the Russian economy. Like true "pirates", these individuals

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[12] A. Åslund, *How Russia Became a Market Economy*, Washington, 1995; M. Boycko, A. Shleifer, R. Vishny, *Privatizing Russia*, Cambridge, 1995.

[13] A. Åslund, *Russia's Capitalist Revolution. Why Market Reform Succeeded and Democracy Failed*, Washington, 200, p. 160.

became extremely wealthy. According to the 2004 ranking by US magazine *Forbes*, 36 of the world's billionaires were Russian.[14]

The economy had been privatized, but had the country become a democracy? According to Kotkin, Russia had become a democracy without liberalism; in 2008 Åslund explicitly highlighted the failure of the transition to democracy, while other authors speak of "capitalism without capitalists" or "market Bolshevism" without democracy or, yet again of the 1990s in Russia as a *lost decade*, an expression used to define Japan's economic stagnation during the same decade.[15]

In a country that saw a return to forms of barter (increasing from 5 to 50% of sales in industry from 1992 to 1998), the new Russia formed its society and economy around these enormous personal fortunes, and on a "real" power that was able to influence official power. From a strictly economic point of view, Russia essentially re-formed around the energy industry. Gas and petrol accounted for 25% of GDP in the mid-1990s, when the Russian economy began to grow rapidly before it was halted by a short but violent crisis in 1997-1998 caused by a speculative attack on the rouble. The central bank lost a large share of its foreign currency reserves, while the prices of petrol and gas fell. The situation was aggravated by the crisis in Asia and by the fears of those who had invested in the government bonds of emerging and transitional economies. Things worsened in summer 1998 with the collapse of the Moscow Stock Exchange; the government was forced to devalue the rouble and declare debt default, and the Russian economy lost 4.9% of its GDP in one year.[16]

19.4. Towards a new State capitalism

Although economic recovery coincided with the passage of power from Yeltsin to Putin, it would be a mistake to say that the new president was responsible for economic growth. Initially, Putin benefitted from the country's new economic development rather than driving it. Between 1999 and 2001, the economy grew an average of 8-10%; it then settled to levels that were more modest – but still high (5-8%) – before the 2007-2008 crisis.

Putin's achievement was that he managed to redefine the balance of

[14] M.I. Goldman, *The Piratization of Russia. Russian Reform Goes Awry*, London, 2003.

[15] S. Kotkin, *Armageddon Averted*, cit., pp. 142-170; P. Reddaway, D. Glin, *Tragedy of Russia's Reforms. Market Bolshevism Against Democracy*, Washington, 2000; A. Åslund, *Russia's Capitalist Revolution*, cit.

[16] A. Åslund, *How Russia Became a Market Economy*, cit.

power between the State and oligarchs, introducing a new fiscal system to reduce the problem of corruption. In addition, the popular support he enjoyed during his first mandate helped Putin to adopt a different attitude to the oligarchs and impose laws that they had never accepted in the past. In February 2000, just two months after becoming President, Putin made it clear that the oligarchs would be treated no differently from any other small or large businessman. This was a sign that the Russian *tycoons* would no longer be able to flout government regulations or enjoy the privilege of direct access to the Kremlin. Putin promised not to interfere in the oligarchs' business, but in return they were required to keep their distance from politics and not challenge or criticize the president. Putin's political power was shifting towards authoritarianism, which was no novelty in Russia, while the oligarchs developed the relational capital essential for them to achieve "institutionalization of the informal" and obtain political protection, in a Muscovite *quid pro quo* between politics and the economy.[17]

Whoever disagreed with these rules spent a short time in prison (Gusinsky) or went into exile (Berezovsky). The most striking example is Khodorkovsky, whose spectacular rise to economic and financial power was followed by an equally dramatic fall. He was reputed to control a hundred Duma deputies, and attacked Putin over the misdeeds of a state-owned petrol company. Khodorkovsky's Yukos went bankrupt in 2003, and he was sentenced to nine years in prison for tax fraud. In 2010, with less than two years of his prison term left to serve, he was charged and found guilty of embezzlement and money laundering. Khodorkovsky should have stayed in prison until 2017, but received a pardon from Putin in 2013 and was allowed to leave the country.[18]

During much of the first decade of the 21st century, internal demand was strong. Despite relying greatly on exports of raw materials for the energy industry, it continued after 2004 despite the fall in petrol prices. Inflation fell from 18.6% in 2001 to 10-11% in 2007-2008, while official unemployment figures fell by 9% to 6-7%; the proportion of the population living in poverty halved between 2001 and 2007, decreasing from 27.5% to 13.4%.

The industrial sector has experienced important changes. It is not always easy to invert the tendency of machinery and tools towards obsolescence, except in the sectors with strategic importance in the new national and international economic situation (energy and energy products). Above

[17] S. Guriev, A. Rachinsy, *The Role of Oligarchs in Russian Capitalism*, in *Journal of Economic Perspectives*, 19, 1, 2005, pp. 131-150.

[18] R. Sakwa, *Putin and the Oligarch. The Khodorkovsky-Yukos Affair*, London, 2014.

all, light manufacturing suffers most from what economists call the "Dutch disease": international competition makes it impossible to maintain positions when the rouble appreciates and competitiveness is reduced. It was better to downscale the production system and return to importing light industrial goods from Asia, especially from China.[19]

Given all these tendencies, the State's presence in the economy is increasingly powerful and pervasive, seen as new "state capitalism". This is particularly evident in the energy sector. Gazprom (the world's biggest energy company), Rosoboronexport and Rosnet are the leaders in the energy sector, which accounts for the largest share of GDP and attracts vast amounts of money from abroad, but they also own other enormous industrial groups (Rosoboronexport controls Avtovaz, Russia's leading car manufacturer), and have extremely important interests in television and the press. Gazprom, for example, owns two of Russia's major dailies, *Komsomolskaya Pravda* and *Izvestia*, and the NTV television network.

The Russian economy and consumption levels improved regularly thanks to petrol, but at a certain point the drive from energy products was no longer sufficient. In 2007, the price of petrol was $72 a barrel and the economy grew by 8.5%; in 2012 the price was $111 dollars, but growth was only 3.4%, although the government had raised salaries and pensions and increasing its military spending, in a way that was not unlike the Soviet approach.

The crisis that began in 2007-2008 had few negative effects in Russia, except in 2009. Between 2010 and 2013, when the price of crude oil remained high, net capital exports amounted to $232 billion, which was twenty times more than in 2004-2008. At the beginning of 2014, the rouble began to fall alongside falling petrol prices, which meant that the amount of money imported remained the same. Imports became more expensive and inflation began to rise. Devaluation of the rouble also effected foreign debt, having less of an impact on sovereign debt (which stood at $57 billion in 2013) than on the debt of state-owned and private companies, which was ten times higher.[20]

In January 2012, Putin launched a new privatization programme to revive the economy. However, he did not abandon the State's role in designing the project to transform the structure of the productive system, concentrating more on high-tech sectors and creating economic conditions to encourage foreign investments. Putin re-launched the programme halfway

[19] N. Oomes, K. Kalcheva, *Diagnosing Dutch Disease: Does Russia Have the Symptoms?*, in *Imf Working Paper*, April 2007.

[20] *The Russian Economy. The End of the Line*, in *The Economist*, 20.11.2014.

through the year, just after he was re-elected president for the third time, but in June 2013 Prime Minister Medvedev reduced it to about half of the financial objectives for 2014-2016.

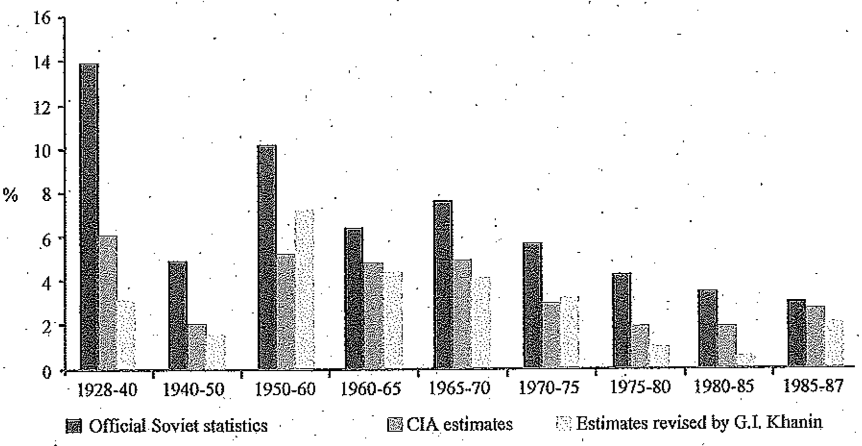
This meant that the situation was already difficult when the US and EU imposed sanctions on Russia for its support of pro-Russian rebels in the eastern Ukraine, although the sanctions did not have all the desired effects. Despite the relentless fall in the price of petrol, the Russian economy reacted in a way that all observers found surprising to a certain extent. Between June 2014 and June 2015, the economy contracted by 4.6% (the rouble fell by 37% against the dollar), which was the most dramatic contraction since the 2008-2009 crisis; real incomes dropped for the first time in the fifteen years since Putin first became president. Nevertheless, the economic system also presented positive elements, according to a classical textbook model of economics. The substitution of imported goods with Russian products allowed 78% of the companies quoted on the Moscow Stock Exchange (MICEX) to earn more than their foreign competitors during the first half of 2015 (for example, Rosneft earnings increased by 17%, whereas those of competitors increased by just 1%). On the other hand, the sanctions imposed on the oligarchs closest to Putin seem to have been much more effective, since Western companies prefer not to have their names associated with figures belonging to the Russian president's inner circle.[21]

Many things have changed since the end of the Soviet Union. In 1992, the year after the USSR ceased to exist, the ratio between Russia's GDP and the USA was 1:14; by 2014 the gap had narrowed to 1:9.3, and was actually 1:4.9 at purchasing power parity.[22] These numbers are useful, but do not paint the full picture. As seen, modernization of the Russian economy is not yet complete, nor is privatization. In addition, so many doubts surround the quality of Russia's democratic system that the term often used to describe its political and economic system is "authoritarian capitalism"; this is a concept Russia has in common with China, but also with other countries like Singapore, although their histories and development paths are quite different from Russia's.

[21] *Russia's Economy. Phase Two: Russia's Economic Problems Move From the Acute to the Chronic*, in *The Economist*, 21.1.2016.

[22] *http://www.tradingeconomics.com.*

Figure 19.1. USSR GNI growth (1928-1987)



Source: M. Harrison, *Soviet Economic Growth since 1928. The Alternative Statistics of G.I. Khanin*, in *Europe-Asian Studies*, 1993, 45, 1.

Figure 19.2. Russian GDP (at purchasing power parity, $ billion 2013, 1989-2016)

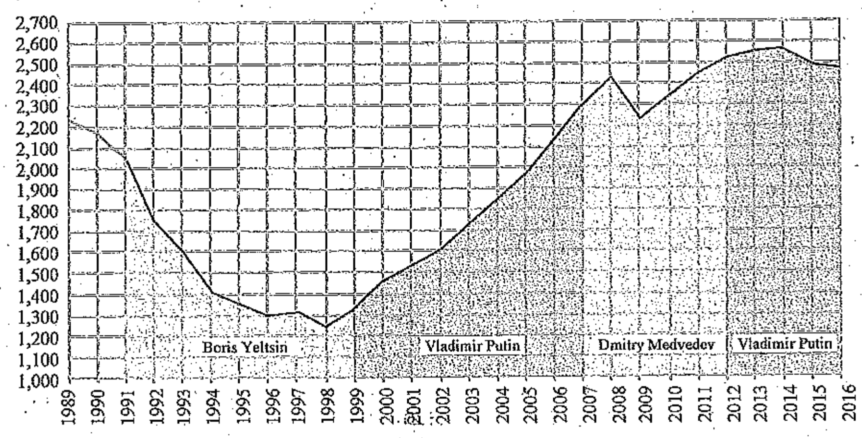
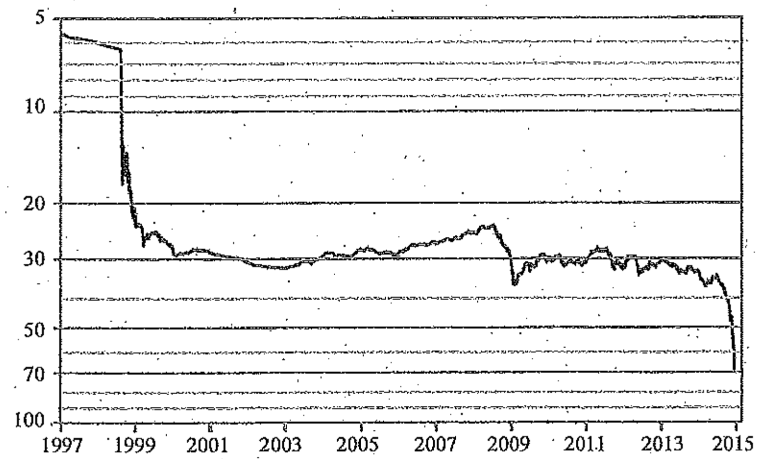


Figure 19.3. Russian rouble (rouble/dollar exchange rate, semilogarithmic scale, 1997-2015)



Source: Bloomberg.

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