

Russia: the Splendid Drift to Periphery

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Fifteen years seem to be a sufficient time for summing up the main results of the reforms that started after the dissolution of the Soviet Union. These reforms were seemingly aimed at a transition towards an efficient market economy and political democracy. Today, when the Russian economy grows annually by 6-7 per cent, it is worth to examine the character of this growth as well as the main trends of the country's development.

The Internal Premises of the Choice for Neoliberalism

The results of neoliberal transformation in Russia were initially rooted in the process of its genesis, which had both an external and an internal aspect.

At first, the neoliberal choice of Russia was conditioned, to a large degree, by the Russian tradition of copying the West. In the given case, Russia picked up an idea of ›the market renaissance‹ that had been spreading widely in the West since the late 1970s as reaction to the crisis of the fordist-keynesian model which at the time had begun to loose its previous effectiveness.

Secondly, the decline of the socialist-statist system resulted in disappointment with ›real existing socialism‹ and excited people, whether on the top or bottom of society, to search for an alternative social-economic order. The system of ›free market‹ and private property looked as the only possible way to resolve many problems the country faced to an ever-extending degree. Thus neoliberal reforms were supported by large masses of voters. People agreed to tolerate ›temporary inconveniences‹ for the sake of a ›bright future‹.

The main social actor of market transformations in Russia (and other republics of the former USSR as well) was a part of the ruling *nomenklatura* interested in elevating the level and quality of its private consumption. This powerful stratum had peculiar allies, in particular, people engaged in activities in the shadow economy. They did not make up a class or stratum of a rising bourgeoisie (in the Marxian and Weberian sense) but they were linked to the *nomenklatura* mainly through corruption. This social group pushed for the legalisation of its accumulated assets, and dreamt of being released from any restraints.

At last, there was a large stratum of ordinary people who refused all forms of state control and wanted to gain some independence from the omni-potent economic bureaucracy.

In this conglomerate of ›pro-market‹ social forces, the leading role of the *nomenklatura* (as a direct effect of its privileged status in the Soviet system) pre-determined the specific character of privatisation of the state-owned enterprises. Namely, privatisation of material assets had been accompanied by privatisation of *power* and functions of the state that were dispersed among various groups of ›appropriators‹.¹ Thereby, the old unity of power and property was modified but did not disappear at

all. Thus, it was not occasional that in Russia, in the second half of the 1990s, about 70 per cent of new political and business elite at the federal level (82 per cent at the regional level) was recruited from the former party and state *nomenklatura*. (*Kryshatnovskaya O. 1996: 118-120*). This was the record (shared only with the other CIS countries) among all East European nations where the share of ›new people‹ in ruling elites reached 60-80 per cent after the start of market reforms.

Since the administrative power has become one of (and often the most important!) ›the economic resources‹, the system born out of ›real existing socialism‹ disintegration is afflicted by all-encompassing corruption which, having a huge variety of facets, has been its substantial element. As experts of Indem Foundation assert, the total volume of corruption had increased 10 times during the four years 2001 – 2005, and reached 316 billion US dollars by mid-2005. (*Ostrovsky A. 2005*). Hence, it is not surprising to see many high rank state officials, including governors of some regions and ministers, among the Russian *nouveaux-riches*.²

Besides the economic interests of these strata, the main goal of which consisted in the complete abolition of state control over economic activity, there were also social-cultural factors that drove the market transformations in Russia and corresponded to the Russian archetypes of mass consciousness. Both ›the economised part‹ of the *nomenklatura* and the large strata of ordinary people treated neoliberalism as a conception justifying ›a free expression of will‹, and, in particular, as an *omni-permissiveness* without restrictions. Such an attitude had nothing in common with the genuine liberal idea of freedom, which presupposed equal rights of all individuals to private property and activity. In this connection, it is worth to quote Adam Smith whose words illustrate the wide gap between the Russian version of ›practical liberalism‹ and the genuine liberal worldview: ›Every man, *as long as he does not violate the laws of justice* (my italics – V.K.), is left perfectly free to pursue his own interest his own way, and to bring his industry and capital into competition with those of any other man, or order of men.‹ (*Smith A. 1976: 687*). On the contrary, the Russian version of liberalism of the 1990s presupposed a violation of ›the laws of justice‹ and rejected any equality of the individuals‹ rights. In essence, it proclaimed ›the laws of the jungles‹ with *homo oeconomicus* being interpreted as an egoistic person capable of destroying the entire world if this destruction were to be advantageous for him or her. Such socially destructive egoism has become a widespread phenomenon in the Russian society. For instance, according to sociological polls, 58.2 per cent of young people are inclined to sacrifice ›the life of other people‹ for the sake of prompt personal enrichment. (*Nezavisimaya Gazeta 2005: 2*).

Thus, in fact, a triumph of neoliberalism in Russia meant a restoration of archaic attitudes as well as social-economic relationships, which were only superficially concealed by the imported veil of ideology. At the same time, ›savage privatisation‹ (= appropriation) of the state-owned assets, combined with liberalisation of external trade and finances, enabled the ruling groups to get access to ›goods of the civilised world‹ in exchange for petroleum, gas and other raw materials. Thereby, the ruling elite in Russia and other republics of the USSR, the newly independent states since 1991, accomplished to create the economic mechanism that pushed their countries towards the periphery of the world-system, dooming ›the flotsam and jetsam‹ of the former superpower to ›lumpen-development‹, speaking with the words of Andre Gunder Frank.

Neoliberalism in Operation: from Catastrophe to Growth without Development

The proclaimed ›market reforms‹ had to start with ›the macroeconomic stabilisation‹ which was interpreted as financial stabilisation. The real costs of the latter were excessively high. Indeed, hard monetary policy enabled to constrain inflation. Nevertheless, since 1991 the annual rate of inflation in Russia was never below 10 per cent (except for 2006). At the same time, the relative financial stabilisation in the 1990s led to de-industrialisation and a catastrophic decrease of GDP by almost 50 per cent.

The economic growth in Russia resumed only after the financial crisis of 1998³ because of spontaneous import substitution when the national currency underwent devaluation by 70-75 per cent and imports became disadvantageous under conditions of low demand. From 1999 to 2005, according to the official data, the GDP of Russia has increased by 48 per cent.

However, the Russian economy has not yet reached the level of the GDP in 1990. (As the top officials promise, this ›frontier‹ has to be reached in 2008 or 2009.) Only in the sectors of petroleum extraction, the gas industry, ferrous metallurgy, and alimentary industry has the volume of production been close to the ›pre-reform‹ indicators (see Table 1).

Table 1: The ratio of output in main industrial branches of Russia to the level of 1990 (1990 = 100%)

	1992	1995	1998	2000	2001	2002	2003	2004
Industry as a whole	75.4	49.7	46.2	57.4	58.7	61.0	65.3	69.3
Electricity energy power	95.3	79.9	75.2	76.0	78.4	77.9	78.7	78.9
Petroleum industry	84.6	68.7	67.4	71.3	77.4	84.4	93.9	102.0
Gas industry	98.0	87.1	85.2	89.1	90.7	93.5	98.4	101.2
Ferrous metallurgy	78.0	59.2	53.9	71.2	71.2	73.3	79.8	83.8
Chemical/ petrochemical industry	73.3	47.5	42.8	59.4	62.4	63.1	66.0	69.9
Machinery building/ metals processing	76.5	40.3	37.1	50.7	54.3	55.4	60.5	66.7
Light industry	63.7	18.5	12.6	18.3	19.2	18.6	18.1	16.7
Alimentary industry	76.4	53.1	49.6	61.2	65.9	70.5	74.1	77.1

Counted on: RSY 2000: 302; RSY 2003: 341; RSY 2005: 377.

As can be seen, the changes that occurred in sectoral structure of the Russian economy show the sharp reduction of the national industrial potential. Moreover, the economic growth that resumed after the crisis did not presuppose an increase of investments in fixed capital. Indeed, it was possible to use the productive capacities, including powerful equipment, a big part of which was factually abandoned and, if it was not plundered or destroyed, had not been used at all. Today, the rate of investment in GDP remains very low – 18-19 per cent of GDP, and there are not visible signs of it rising in the near future.

Moreover, in the last two-three years, the growth of manufacturing industries decelerated – from 10.3 in 2003 to 5.7 per cent in 2005 (RSY 2006: 368). Therefore,

the structure of output experienced further de-industrialisation but without apparent post-industrial shifts. Only in mid-2007, this trend has spontaneously begun to change into a positive direction: the output of the manufacturing industries has increased by a faster pace than that of the extracting branches.

Because of massive petrodollars inflows, the Russian government formed the so-called Stabilisation Fund (its amount has reached 127,5 billion dollars by the 1st of August 2007) (*Ministry of Finance 2007*). Nevertheless, the big companies like »Gas-prom« continue to borrow money at the world markets, seemingly for investments, although nobody can exactly say how these loans have been used. Respectively, whereas the public external debt of Russia shrank, the total debt has increased from 161.4 billion dollars in 2001 to 258.4 billion by the beginning of 2006, which was equal to 32.4 per cent of the Russian GDP. (Counted on: (*RSY 2006: 305, 618, 772*)). Thereby, the structural degradation of the national economy goes hand in hand with an increasing dependency on external forces, as it has been described in the literature about underdeveloped economies.

The recent situation of growth without development is expressed in the structure of Russia's exports. Due to steady increase of oil and other raw materials prices since 1999, the exports of petroleum and petroleum products from Russia have grown from 36.2 billion dollars in 2000 to 117.2 billion in 2005. The ratio of the total exports of petroleum, petroleum products, gas and ferrous metals to GDP has increased from 50.3 to 61.0% over the same period. (Counted on: (*RSY 2006: 724, 732*)). These data endorse that the external trade of Russia increasingly resembles that of backward, peripheral countries.

The peripheralisation of Russia is aggravated by the lack of state industrial policies. Several efforts of the government aimed at technological and structural modernisation of some industrial branches and enterprises (in construction of railway locomotives and wagons, for example, or creating some technoparks) have not been accompanied by corresponding dynamism in other branches. In addition, they do not stimulate the general modernisation of the economy. Positive changes that have occurred in banking and telecommunications over the last 10-15 years do not affect the other branches of industry or services and are concentrated mostly in Moscow, St.-Petersburg and a few other big cities. Evidently, such truncated modernisation does not allow to resolve the social problems.

Poverty and Socio-economic Disparities

Since 1991, Russia as well as the other CIS countries⁴, formerly republics of the USSR, experienced a skyrocketing increase of poverty. Because of »the shock therapy« during the first months of reforms after the dissolution of the Soviet Union, the share of the Russian population below the poverty line augmented dramatically and reached 33.5 per cent (50 million people) in 1992. (In addition, a special ordinance of the government reduced the line of poverty down by 50% in comparison with that in the late Soviet period.) After the shock therapy of 1992, poverty gradually decreased to 20.8 per cent in 1997 but the crisis of 1998 pushed it up again to 28.3 per cent. In 2002, the total number of poor people was about 35 million, or 25.0 per cent of the population. Then, due to high petroleum prices, it continued diminishing and dropped to 25.5 million people, or 17.8 per cent of the population, in 2004. (*RSY 1998: 207; 2003: 169;*

2005:205). It would be possible to treat this dynamics as definite social accomplishment; nonetheless, the yields of economic growth in Russia have been distributed in an extremely unequal manner. By the official data, the distance between the income of the top and the bottom deciles has increased from 13.5 :1 in 1995 to 15 :1 in 2004; the Gini coefficient, respectively, has augmented from 0.387 to 0.407 over the same period. (RSY 2005: 203).

However, applying the criteria for poverty elaborated by CEPAL/ECLAC for Latin American and the Caribbean countries that defines poor families as being those who spend a half or more of their expenditures for alimentation to the Russian situation, we can see a genuinely shocking picture. The data on households' expenditures in Russia (see table 2) demonstrate that about a half of the total population survives beneath or near the poverty line. Even the households pertaining to the fifth, sixth, and seventh deciles exist, in literal sense, from hand to mouth.

Table 2: The share of expenditures for food purchases (without alcoholic beverages) in the total current expenditures of the Russian households, 1997 – 2005 (by deciles)

Deciles	1997			2000			2003			2005		
	A	B	C	A	B	C	A	B	C	A	B	C
I (the lowest)	68.8	15.6	53.2	65.4	14.4	51.0	63.1	13.4	49.7	58.2	10.4	47.8
II	66.1	15.1	51.0	63.5	13.5	50.0	60.7	12.6	48.1	56.3	9.9	46.4
III	64.5	14.9	49.6	61.9	13.0	48.9	59.2	11.7	47.5	54.2	9.1	45.1
IV	62.9	14.6	48.3	60.6	12.1	48.5	57.2	10.9	46.3	51.4	8.6	42.8
V	60.8	13.6	47.2	57.9	10.9	47.0	54.8	10.0	44.8	48.5	8.0	40.5
VI	57.9	12.2	45.7	55.0	9.9	45.1	49.5	8.6	40.9	44.9	6.9	38.0
VII	52.6	11.0	41.6	50.1	8.6	41.5	46.0	7.5	38.5	40.1	5.8	34.3
VIII	49.3	10.1	39.2	46.8	7.2	39.6	41.6	6.3	35.3	37.6	4.9	32.7
IX	47.6	10.2	37.4	43.4	6.5	36.9	39.6	5.8	33.8	33.4	4.1	29.3
X	39.3	12.4	26.9	35.5	5.4	30.1	33.3	4.8	28.5	28.3	3.3	25.0

Explanation. Column A comprises data on expenditures for food as percentage of the total current expenditures for final consumption. Data in column B signify supply of food in kind (yields of the kitchen-gardens, gifts from the countryside relatives, etc.) as a percentage of the total current expenditures for final consumption, and column C – expenditures for food purchases as a percentage of the total current expenditures in monetary form, i. e. $C = A - B$.

Sources: RSY 1998: 235; 2001: 190; 2004: 211; 2006: 204).

The main (but not exclusive, of course!) cause of poverty in Russia is low wages. Most people get wages and salaries that are very close to or even beneath the poverty line. For instance, almost 50 per cent of the total population have incomes per capita within 1.0-2.0 lines of poverty. Even the average monthly wage in Russia exceeds the minimal subsistence level only 2.8 times (data for 2004 – 2005) – in contrast to Latin American countries where it was 4.8 times higher than the subsistence level in 2002 – 2004 (from 2.7-3.0 in urban areas of Honduras to 4.0 times in urban areas of

Argentina, to 5.7-6.5 times in Chile and 7.0 times in urban areas of Panama. (*CEPAL 2001*: 84; *CEPAL 2006*: 363-364; *RSY 2005*: 190, 203; *2006*: 177, 189).

Poverty does not only consist in deprivation of material goods. Today, it has a much broader dimension, encompassing inaccessibility of people to education and medical services, poor environment, social vulnerability, voicelessness and powerlessness in attempts to solve everyday problems, and other forms of exclusion from social life. (*Castells M. 1998*: 128-165, 344-345; *World Bank 2001*: 15-21). According to such a definition of poverty, many people in Russia have to be categorised as poor, even despite a satisfactory level of material well-being, because of their being socially defenceless in front of the arbitrariness of the police and the state bureaucracy. In addition, they suffer from various forms of social exclusion, such as isolation from cultural values (for example, no money is left to visit St. Petersburg museums and theatres), an inability to maintain social contacts, including those with relatives living in other cities, a feeling of uncertainty, the impossibility to find a good job, a lack of any opportunity to provide summer vacation for children. (*Tikhonova N. 2003b*: 115-124). At the same time, it is necessary to take into account that most people in Russia have homes or apartments of their own, although the latter, as a rule, are of poor quality. Otherwise the reality would be much worse. In total, in the first half of the recent decade 40 per cent of the total population in Russia suffered from various forms of social exclusion. (*Tikhonova N. 2003a*: 146, 148-154).

Mass poverty has become the main factor of the demographic catastrophe, which has hit Russia. Despite migration of Russians and other Russian-speaking people from the former republics of the Soviet Union to the Russian Federation, the total population decreases by almost 700-800 thousand people a year. Another important factor that negatively affects the demographic situation in Russia concerns social-psychological attitudes of people to their life and prospects. Many Russians are pessimistic about their future, so they do not risk having children.

Mass poverty has inevitably afflicted the quality of human resources. As the authors of one of the UN Human Development in Russia reports noted, »the state of human development in Russia... must be rated as unfavourable.« (*UNDP 2003*: 22). In the mid-90s, the Human Development Index (HDI) of the country was beneath the level of 1980 (!). There were only few countries in the world that demonstrated such adverse dynamics of human development (in particular, Romania, both Republics of Congo, Côte d'Ivoire, Kenya, Lesotho, South Africa, Swaziland, Zambia, and Zimbabwe. (*UNDP 2001*: 10; *UNDP 2002*: 154-156; *UNDP 2004*: 144-146)). Besides, Russia has left the group of countries with a high level of human development (≥ 0.8) and has not yet returned to this group, an improvement of this indicator in the last years notwithstanding. In 2004, the country occupied the 65th position in the world HDI-ranking, between Libya and Macedonia. (*UNDP 2006*: 284)

A particularly deplorable situation has been observed in the sphere of education where public expenditures in the course of »reforms« were 2.0-2.5 times lower than in the late Soviet period. In 2002, the average amount was 420-430 US dollars (at the current exchange ratio) per student at all levels of education – from primary schools to universities. This amount was equal to 85-90 US dollars per capita of the total population in 2002 – a little more than the similar indicators in Honduras and other least developed Latin American countries. In 2005, the public expenditures for education have grown to 1,100-1,150 dollars per student. These expenditures have

reached 190-200 dollars per capita of the total population, which was approximately corresponding to the average level in Latin America as a whole. (Counted on: (RSY 2003: 30, 197-199, 209, 550; 2006: 227, 232, 235, 247, 616, 772-773; CEPAL 2006: 132).) Only by 2007 should they have become comparable with those in Argentina or Uruguay. The loudly announced national project »Education« is really aimed at selective support for a small number of schools and teachers as well as privileged universities, which are prodigally funded whereas almost nothing has been done in this sphere at the level of ordinary schools. In fact, this project has elitist character; it strengthens the social-economic *segregation* (not only differentiation!) that already exists in Russia.

The general decrease of the Human Development Index in Russia is indistinguishable from the widening interregional disparities. This can be demonstrated by analysing such indicators as the gross regional product (GRP) per capita or the regional HDI and calculating the coefficient of statistical variation of GRP per capita as well as the ratio between the richest and poorest regions (table 3).

Table 3: The indicators of interregional disparities in Russia upon the base of GRP p/c (gross regional product per capita), 1990–2005 (n = 79 regions)

Indicators	On GRP p/c at the current prices in roubles				On GRP p/c in USD on PPP		
	1995	2000	2002	2004	2000	2002	2004
The richest region, roubles ^{a)}	34,336 ^{c)}	190,882 ^{c)}	294,551 ^{c)}	575,411 ^{c)}	25,178	38,411 ^{c)}	44,775 ^{c)}
The poorest region, roubles ^{a)}	1,878 ^{d)}	8,578 ^{d)}	8,015 ^{e)}	12,583 ^{e)}	1,795 ^{f)}	1,031 ^{e)}	1,360 ^{e)}
The ratio of the richest to poorest region, by GRP p/c, times	18.3	22.3	36.7	45.7	14.0	37.3	32.9
The coefficient of statistical variation, % ^{b)}	48.5	62.7	65.9	72.7	50.4	57.8	55.1
The number of regions where GRP p/c is higher than the average GRP p/c in Russia	24	17	17	17	14	14	15

a) thousands roubles in 1995–1997

b) counted as the ratio of statistical dispersion σ to the average weighted GRP p/c in the Russian Federation

c) Tyumen region

d) Daghestan

e) Ingushetia

f) Tyva Republic

Sources and counted on: RSY 2005: 334-335 (data for 1995–2002); 2006: 320-322 (data for 2004); UNDP 2003 (table 6.5), 2005 (table 8.1) UNDP 2007: 114-117 (table 9.1)

In 2000, there were only three regions in Russia, Tyumen region, the City of Moscow, and Republic of Tatarstan, where the HDI exceeded 0.8 and, thereby, corresponded to a high level of human development. In 2001, Tatarstan has left this group, and in

2002 – 2003, Russia has had only two regions with high human development: the City of Moscow (0.846 in 2002) and Tyumen (0.866 in 2002). In 2004, the number of such regions has increased to 4: these were the City of Moscow (0.873), Tyumen (0.867), St.-Petersburg (0.817), and Tatarstan (0.812) with 15 per cent of the total population of Russia. (68 per cent of all Russians had a HDI below 0.8 in 2004 (*UNDP 2003*: 14, 80-81; *UNDP 2005*: 168-169; *UNDP 2007*: 113-114).

It is worth noting that interregional disparities in Russia could be much wider if the state would not redistributed incomes among the regions through budget transfers. However, re-distributive efforts of the state are evidently insufficient for balanced regional development because they have not been aligned to the country's strategic tasks. Obviously, the social and interregional disparities led to the rise of social tensions, because the country has been subdivided into different ›sub-countries‹ tied to each other rather by an administrative network than by real social-economic and cultural unity. If the Russian political-bureaucratic machine were to become ineffective as a consequence of its incompetence and corruption, the process of territorial disintegration might rapidly start in Russia.

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Certainly, Russia is still capable of avoiding social clashes and political disintegration. However, since civil society is weak, major decisions and real processes in the country depend on the political class. Unfortunately, the latter is not interested in elaborating an adequate strategy for the country.

The main problem Russia has faced over the last decades is the lack of a social agent for development. This can be explained by referring to the genesis of the currently existing system. Since the latter emerged as a result of the decline of the Soviet industrial system, it is possible to assert that the Russian system of power, in its essence, is ›a mustiness arisen from a gas and/or petroleum pipeline‹. (*Ivzhenko T. 2003*: 5). As it is known, mustiness has often been fruitless but also sometimes eats itself. A crash of the current regime in Russia is only a question of time because the internal tensions will soon or later break through to the surface. Then the final victory of the forces of ›autochthoneity‹ will look as an inevitable outcome of the country's drift towards the world periphery. We cannot project what will be effects of this ›victory‹ for Europe and developing Asia. However, it is already clear that the triumph of an autochthonous model in Russia will motivate various anti-western and anti-developmental political-ideological currents in the former Third World to be on the offensive again.

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Notes

- 1 Privatisation of the state and its functions has become a widespread phenomenon in the periphery of the world system in the era of globalisation. (*Hibou B. 2004*: 1-46, esp. 3-4).
- 2 For instance, some governors, ministers, members of parliament and other VIPs paid € 20.000-26.000 (respectively, € 40.000-52.000 for themselves and their wives) for a trip on the luxury ship »Westerdam« to Athens where the Summer Olympic Games were held in 2004. At the same time, they declared that their annual incomes in the preceding year did not exceed € 10.000-12.000. (*Latukhina K. e. a., 2004*: 1, 7).
- 3 A consideration of this crisis lies beyond the framework of this paper.
- 4 CIS – Commonwealth of Independent States