Supplementary Reading

The Kremlin repents, maybe

Can Vladimir Putin and Russia put the Yukos affair behind them?

“WE WANTED to make things better," a Russian prime minister under Boris Yeltsin once remarked, "but they turned out like always." Many in the West now feel similarly about Vladimir Putin. What at first seemed in Russia's president to be commitments to democracy and internationalism have turned out not to be. Another early hope for Mr. Putin's presidency—that market reforms and business-friendly policy would engender sustainable growth—has been battered by the dismemberment of Yukos, once Russia's leading oil company. But there may be signs that in its relations with business, at least, the Kremlin will yet revive some of the early optimism.

Some Moscow businessmen see Mr. Putin as an irredeemable homo sovieticus; witness his appointment of Mikhail Fradkov, the economically doltish prime minister. The president may have dabbled with economic reform in his first term, runs the argument, but he abandoned it when rocketing oil prices offered an easier path to growth.

Mr. Putin, they say, has an old KGB man's attitude to big business: that it is inevitably dirty, potentially seditious and must be subordinated. According to this view, the key rivalry within the government is between competing clans of silo-viki (roughly, power people). Alexei Kudrin and German Gref, liberal ministers of finance and economy respectively, seem to have been marginalised.

Another (albeit smaller) camp says that, while he may not be a democrat, Mr. Putin has paid enough attention to China's recent history to realise what is the best way to revive Russia's greatness. This analysis dwells on the impressive macroeconomic stability under Mr. Putin, and regards the last two Yukos-dominated years as a blip. And there is, indeed, some evidence to suggest that economic liberals may be making a comeback.

At the end of last month, Mr. Putin met Russia's top businessmen (also known as oligarchs). It was at such a meeting five years ago that, legend has it, Mr. Putin told them they could keep what they got in the privatisations of the 1990s, if they paid their taxes and kept out of politics. He has now proposed to cut the legal period in which privatisations can be reviewed from ten years to three. This, say the optimists, confirms that nobody else will suffer the fate of Mikhail Khodorkovsky, the former Yukos chief who violated the no-politics rule, was arrested in 2003 and will spend ten more years in prison if the prosecutors in his climaxing trial get their way.

Mr. Putin has also talked repeatedly about the need to encourage small businesses, which comprise a comparatively low share of the Russian economy. He has even suggested that anyone who successfully negotiates the bureaucratic maze to register a business deserves a medal.

Two fears that deepened the post-Yukos gloom among foreign investors seem to have subsided. One was that the proposed merger between Gazprom, Russia's state-run gas monopoly, and Rosneft, a state-owned oil company that has dubiously acquired Yukos's main subsidiary, might be derailed. The merger, which will give the state a majority stake in Gazprom, is supposed to lead to the lifting of restrictions on foreign ownership of Gazprom shares. The two firms have been bickering ludicrously over the deal's terms. But Mr. Gref said this week that the merger would definitely happen this year.

The other worry was that foreign companies would be prevented from acquiring important oil and gas exploration licences by new rules restricting the bidding to majority-Russian firms. That looked to some like proof of a creeping insularity in economic policy, to match Mr. Putin's prickly foreign policy. But it turns out that the licence restrictions will be much lighter than was feared.

However, these Kremlinological signals are ambiguous—and there are three important reasons to doubt the optimistic interpretation. The first is timing. Even with high oil prices, growth slipped slightly to 7.1% in 2004, and fell again in the early months of this year, even as inflation has crept up. To help meet an ambitious pledge to double Russia's GDP in ten years, Mr. Putin may be ready to make a short-term tactical switch. Moreover, events in Ukraine have illustrated the consequences of alienating influential elites; Mr. Putin does not want oligarchic cash stirring up trouble in Russia.

The second reason is that, especially when it comes to tax, even if Mr. Putin wants to go easier on business, the minions may have other ideas. Taking their cue from the crippling levies against Yukos, the tax authorities have launched many less publicised probes. In a report out this week, the World Bank calculated that more than three times more back-tax was collected in 2004 than in 2003.

The third reason is that Mr. Putin has made encouraging noises before, vowing, for instance, that there would be no renationalisation on his watch. This, as Andrei Illarionov, the president's outspoken economic adviser, says, has resulted in "a lack of coherence between words and deeds". There is still a feeling among businessmen, says Mr. Illarionov, "that the rules of the game could be changed any time: today it could be the tax administration; tomorrow it could be the prosecutor's office." One downbeat tycoon, who attended the meeting with Mr. Putin, says the government can always find a way to seize assets if it wants to, and that neither the president nor the country yet regards private property or the law as sacred.