What better way to interpret the energy-driven resurgence of Russia than through an economic lens? And what better guide could we have than the illustrious Marshall Goldman, a professor of economics and Senior Scholar at the Davis Center for Russian Studies at Harvard University and one of this country’s most eminent observers of Russia for more than four decades?

And yet . . .

And yet, Dr. Goldman’s Petrostate exemplifies both the glories and limitations of a scholarly approach that explains events in terms of a single indicator – in this case, an economic interpretation of Russia’s swift resurrection from the ashes of financial ruin in 1998 to energy superpower in 2010, what he calls “The Russian Miracle.”

This second, paperback edition of Petrostate: Putin, Power, and the New Russia is simultaneously scholarly and breezy, precise and (dare I say it) loose. It reviews, analyzes, and explains Russia’s role as energy-supplier to the world, reaching back into the 19th century and tracing a path to today’s creation of world-class “national champion” energy companies under partial state control. Along the way, Dr. Goldman uncovers interesting patterns of petroleum discovery, development, and exploitation that have persisted to the present day. His detective work weaves offbeat facts into a fascinating tapestry, even exploring contentions that it was CIA Chief William Casey’s indirect manipulation of oil prices in the 1980s that helped to bring down the Soviet Union. As a beneficiary of extensive access to Russian business and government leaders, Dr. Goldman peppers the reader with anecdotes cast in his crystalline prose and delights with keen observations.

But from my perspective, the single major point that stands out in this work is the reasonably even-handed way he treats former President and current Prime Minister Vladimir Putin and the oligarch-billionaire-convict Mikhail Khodorkovsky. I have contended for years that Mr. Putin has received incredibly ham-handed treatment in the American press and, in some cases, in the scholarly literature (Ridgley, 2009a). It is as if Mr. Putin’s pedigree in the KGB decades ago is a license to savage him with no obligation to calm, reason, and even the most basic notions of fairness.

As much as others fail miserably, Prof. Goldman succeeds magnificently. He offers much to explode the stereotypical Putin, casting him as a strong leader acting in ways we might expect a leader to act in the situation presented him in the course of the past decade – the context of rampant inflation, out-of-control organized crime, crumbling infrastructure, population decline, declining population life expectancy, declining foreign investment and capital flight.

At the same time, Dr. Goldman constantly questions then-President Putin’s actions, which is a good thing. But the questions sometimes reflect the mistake that many in the West make: the fundamental
attribution error. That is, explaining most actions as a result of a flawed and ill-motivated man, rather than a man presented with a set of complex issues, who is doing the best he can to cope with these issues in a context alien to the American experience.

Dr. Goldman is better than most in reining in kneejerk anti-Putinism. But even he cannot resist adding a bit of fuel to the anti-Putin hysteria. On occasion, he resorts to the familiar clichéd hyperbole: “President Vladimir Putin, with his control of Gazprom as well as another state-owned petroleum company, Rosneft, had become a real-life Dr. No — an archetypal James Bond villain, complete with a yacht and retinue.” This is the type of rhetoric we have come to expect in the popular press and book trade as necessary to the selling of pulp. Putin made it fashionable to hate and fear Russia again.

But even fresher is his treatment of disgraced billionaire businessman Mikhail Khodorkovsky, who has received a free pass for many years in the western popular press. Bottom line on Khodorkovsky is that he is a crook, and an accomplished crook at that. But to the Western press and his highly placed friends, Khodorkovsky represented the modern incarnation of the best of our own robber barons. Khodorkovsky even made the comparison himself, likening himself to “three generations of Rockefellers” in one man. But the truth is much uglier, and it is not unsurprising that Khodorkovsky is serving time in a Siberian prison, stripped of his ill-gotten oil company Yukos.

Dr. Goldman is at his best when translating the complex notion of incentives to demonstrate how the Soviets constructed an incentive system that appeared designed to produce products that no one wanted (Dewatripont and Maskin, 1995). That incentive system continues to operate in some cases. “Generally, the Soviet manager was not concerned about whether his product was sought after in the marketplace . . . . In the Soviet system, innovation was disruptive and therefore to be avoided.”

Dr. Goldman also displays great acumen as he uncovers and explicates the chaos and mismanagement that led to the August 1998 financial crisis and default. “As of mid-August 1998, because it could not find enough lenders willing to buy new or reissued government securities, combined with the fact that it had run out of dollars and convertible foreign currencies and could not pay its bills, the Russian government, in effect, had become bankrupt.” This was the legacy of former president Boris Yeltsin, the West’s man in the Kremlin: “With its banks closed, its credit worthless, and its main export product earning only 60 percent of what it had two years earlier, Russia saw many of its businesses close or come to the verge of closing, and the prospects for the Russian economy were bleak.”

In December of 1999, Yeltsin turned over to Putin not a grand experiment in democratization, but rather a broken socio-politico-economic machine. Repair it Putin did, quickly and decisively. Surely President Putin was the beneficiary of rising energy prices, as Dr. Goldman hammers home to us, and these rising prices brought a windfall of income; but Putin demonstrated remarkably bold and wise management of that windfall. The Putin administration resisted tremendous domestic pressure to divert that income to ephemeral social spending, and economic stalwarts such as Putin’s Minister of Finance and St. Petersburg associate Alexei Kudrin insisted on responsible long-term action to bring solvency and respect to the Russian government as well as an improved credit rating. They did so by accelerating Russia’s debt payment schedule. “As of September 2006, its foreign sovereign debt amounted to about $73 billion, less than half of the $150 billion it owed in the aftermath of the August 1998 financial collapse. Much of this debt was prepaid in advance of when it was due.”

Dr. Goldman spends many pages on the machinations within the Russian business environment, and successfully unravels much of the byzantine intrigue that contributes to what he has called The Russian Disease. This Russian Disease is what happens “when a country like Russia suddenly decides to privatize its valuable energy assets.” The result is that “the law of the jungle will almost inevitably take over and lawlessness and chaos will ensue.” And thus a conundrum is presented: how can a country like Russia expect to elect to the presidency a sensitive democrat (say, such as Vaclav
But Putin’s behavior is easily explicable and does not reside outside the spectrum of what one would expect from the leader of a resource-rich emerging market. “In all fairness, the way the Russian government reacts when foreign investors attempt to buy their energy resources is not that atypical of how most countries react in a similar situation.” This is, of course, true. Even so, Dr. Goldman seems to perpetuate the canard that in the West, particularly in the United States, oil is a chiefly commercial interest and that nationalistic political considerations do not affect private company dealings as they do in Russia and in many other energy-rich countries. But oil and energy are just as sensitive in the West as they are in Russia, and a prime example is the attempted Chinese purchase of Unocal Oil Company in 2005 – a signal event that Dr. Goldman does not mention.

The Communist Chinese launched a bid in summer of 2005 to purchase Unocal, the United States’ eighth largest oil company, for $18.5 billion, and many members of the U.S. Congress reacted against this business deal. *The Economist* reported that more than 40 congressmen signed a letter “calling on the Bush administration to consider blocking this unfair deal which would endanger America’s fabled ‘energy security.’” *(The Economist, 2005)* Although outbidding its chief American rival, the Chinese firm CNOOC withdrew its offer because of congressional pressure. The American reaction, of course, is much akin to the Russian government’s reaction to creeping foreign ownership of its own natural resources, yet Russia has been excoriated by the press for “closing off” its strategic industries from foreign ownership. This instructive event, which completely undercuts the contention that the Western democracies are somehow exempt from playing energy politics with respect to who owns its oil companies, is strangely absent from Dr. Goldman’s work.

Additionally, Dr. Goldman could have explored some of the more fascinating issues he surfaces. On several occasions, he leaves us hanging instead of pursuing a potentially fascinating line of inquiry: “But as both BP and ConocoPhillips have subsequently discovered, partnerships with a Russian petroleum company are not always warm and cuddly. Because of almost unbridgeable cultural differences, not to mention the premeditated attacks on one another, as often as not the partners came to feel that their union was more like a shotgun wedding than a marriage made in heaven.” *Unbridgeable cultural differences? What cultural differences?* This could have provided fodder for many pages of fruitful discussion and analysis, especially as a culture-based analytical framework can be as illuminating as an economic framework *(Ridgley, 2009b).*

Not without flaws, *Petrostate* at times slides into the chatty and wry, which mars the book’s scholarly stature and may irritate the reader with its pedestrian quality. In several places, Dr. Goldman telegraphs a keen insight into Russia’s byzantine intrigues with a hearty “surprise, surprise.” I do not quibble with the book’s charts and tables, which are revealing and supportive of Dr. Goldman’s points, but the sometimes breezy banter needlessly undermines its credibility. Several serious lapses of proofing rest on the shoulders of editorial staff: “slight of hand” *sic*, “eminent” instead of “imminent,” incorrect identification of the year that the 13 percent flat tax was instituted *sic* and other confidence-leeching errors. A major plus is the glossary of personalities at the end of the book that populates and humanizes what could have been a dull treatise on impersonal economic forces.

I sense the enjoyment that Prof. Goldman had in preparing this volume, and perhaps he has earned the privilege as one of this country’s foremost experts on the Soviet/Russian historical arc. This is not such a bad thing in that the book is an easy read, but not an insignificant read. In the end, *Petrostate* contributes greatly to our store of knowledge about Russia’s development since the fall of communism. Professor Goldman places today’s machinations in the grand context of Russian energy history, which stretches back to the 19th century. He shows how economic considerations can and do often trump political ideology and rhetoric where petrodollars are at stake. He places the locus of
many Russian ills in the realm of institutions and their weakness, their lack of development, their erratic behavior, or their inappropriateness for the Russian context – banks, courts, the Russian Stock Market (RTS), and holdover communist routines and repertoires that have led to the wholesale squandering of millions of cubic meters of natural gas. This analysis is an application of institutional theory (Mudambi and Navarra, 2002). It complements the work of others who have applied the “grabbing hand” model of institutional dysfunction to the Russian case (Frye and Shleifer, 1997).

And, if only for his even-handed treatment of Putin and Khodorkovsky, the book is a solid and welcome addition to the literature of recent Russian history and our understanding of it.

References


