The Moscow Times.com

Tuesday, July 26, 2005. Issue 3216. Page 10.

Change: The Ideal Scenario

By Konstantin Sonin

Until last week, it seemed that various state agencies were to blame for all of Alfa Group's problems: either the tax men were slapping Alfa with a bill for another billion in back taxes, or the prosecutors were hinting at a possible investigation, or "well-wishers" were planting compromising material about the company (though this could well have been someone's personal initiative). But then suddenly Alfa Bank's chief strategist, Chris Weafer, came out with some remarkable statements in a July 8 report on the investment climate in Russia, such as the following: "The ideal scenario for investors is some mechanism that sees President [Vladimir] Putin remain in office (after all, one of the characteristics of previously successful emerging economies is the longevity in office of a strong leader) ... ."

This from one of Russia's leading investment analysts? Economists and political scientists know perfectly well that a clear-cut correlation has been observed in the 20th century between a country's rapid, stable economic growth and its frequent change of leadership. Bruce Bueno de Mesquita, a leading academic political scientist as well as a successful political consultant, has written an entire book on the subject.

Although this correlation does not mean that economic growth necessarily depends on the regular change of leaders, it highlights a number of well-documented trends. For example, in many countries whose leader has clearly remained in power for too long, per capita GDP has stagnated, often for decades. On the other hand, nondemocratic countries such as Mexico, Brazil and China that have performed well economically also have a mechanism in place to ensure that new leaders periodically replace the old. In South Korea and Chile, the rate of economic growth increased after these countries introduced similar mechanisms.

Perhaps the most relevant examples where Russia is concerned are the Philippines under Ferdinand Marcos, Indonesia under President Suharto and Rafael Trujillo's Dominican Republic. All three countries enjoyed rapid economic growth during the dictators' first eight to 10 years on the job before lapsing into lengthy economic stagnation after their leaders decided to stick around for the long haul.

In his statement, Weafer deftly equates political stability with the continued leadership of Putin. But since when do normal elections lead to political instability? The recent events in Ukraine, Georgia and Kyrgyzstan demonstrate how instability can result from the attempt to manipulate election results. And no matter how a third term for Putin were arranged, the result would be a major constitutional crisis. It's hard to see how this could produce stability. Moreover, comparisons with the experience of other countries in no way guarantee the success of such a scenario in Russia.

It is not my intention to accuse Weafer of incompetence. We're dealing with a very Russian conflict of interests. During the Internet boom, Wall Street analysts sympathized with "friendly" companies. Our analysts are compelled to sympathize with "friendly" politicians. Whom should we blame for this? Probably Marcos and Trujillo, along with Mobutu Sese Seko in Zaire, the Duvaliers in Haiti, Kim Jong-il in North Korea and Haile Selassie in Ethiopia, for holding on to power so long, running their countries into the ground and ruining the statistics. Then again, they're probably not terribly happy about that, either.

Konstantin Sonin, professor at the New Economic School/CEFIR, wrote this column for Vedomosti

.