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**“PETROSTATE:  
PUTIN, POWER AND THE NEW RUSSIA”**

**SPEAKER**

**MARSHALL I. GOLDMAN,**  
PROFESSOR OF ECONOMICS EMERITUS,  
WELLESLEY COLLEGE;  
SENIOR SCHOLAR,  
DAVIS CENTER FOR RUSSIAN STUDIES,  
HARVARD UNIVERSITY

**MODERATED BY**

**CLIFFORD GADDY,**  
SENIOR FELLOW,  
BROOKINGS INSTITUTION

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MARTINS ZVANERS: (In progress) – the event over to our moderator, Clifford Gaddy, who is a senior fellow at the Brookings Institution, has long been studying Russia’s virtual economy and himself will be publishing a book shortly, a follow-up to his groundbreaking work on this issue, later this year.

Cliff, thank you for coming in today.

CLIFFORD GADDY: Thank you very much, Martins. I want to also welcome all of you here with me in the room in D.C., those of you in Prague, and I certainly want to thank RFE/RL for the opportunity to be here together with Marshall Goldman. This is really a unique opportunity to hear Marshall present this new book. It’s especially gratifying for me as someone who has relied on Marshall’s expertise for not just years but decades, like many of you. And one thing that you all have – and I won’t just repeat the basic facts of Marshall’s affiliations with Harvard and Wellesley and the fact that he’s such a renowned and prolific writer and speaker about Russia – one thing that’s not mentioned in the little bio that you have is his books. They’re more than I can enumerate, but it has been a phenomenon that throughout Marshall’s career of studying first the Soviet Union – Russia in transition and Russia as it emerges in a new phase today – we could always count on, after a few years’ interval, a new book by Marshall that became a classic.

And as we’re turning now – and I’m going to let Marshall have ample opportunity to present the thesis of the book. I think that’s going to be important for us to have an opportunity to have Marshall present the logic, the arguments in the book as a whole and take maybe 20, 25 or more minutes to do that before we begin our discussion and questions. Just to remind that you that back in – we think it’s 1982, and I asked Marshall himself about this – he published a book, already then, about the Soviet oil industry and oil sector called “Half Full or Half Empty?,” or it was “Half Empty or Half Full?” I can’t remember.

MARSHALL GOLDMAN: Inside it was half full/half empty; outside it was half full.

MR. GADDY: Oh, really?

MR. GOLDMAN: It was the other way around.

MR. GADDY: Okay, very interesting. And that’s important to realize, that Marshall is someone who is not coming belatedly to this issue that is so clear for everyone now – the importance of Russia’s oil and gas – but that he’s been following this for, well, it would be a quarter of a century or so, Marshall.

MR. GOLDMAN: More than that.

MR. GADDY: So without further ado, let me turn first to Marshall to go through what he wants to present about the book and then we’ll open up for questions, again, both from you here in D.C. and from our colleagues in Prague. So, Marshall, please.

MR. GOLDMAN: Thanks very much, Clifford. I’m going to do something that I detest when other people do it, but I had an agent to do this book and she said, it’s not a textbook; you can’t assign it to your students and expect them to read it and give them a test afterwards, so

you've got to make it a little jazzy. And some of this, I presume, Clifford, will bring back memories. It's also a way for me to fantasize, so I'll think: This is the first page, the author is James Bond, which is – you know, I told the agent, by the way, if I do things like this they'll take away my license as an economist. But anyway. (Reads from his book.)

“At first I was puzzled: Where were they taking us for such a big, sleek, glass Moscow high-rise? Gazprom's elevator in its headquarters building in Moscow was tiny – five people could barely squeeze in – and its hall corridor is narrow. This was, after all, the world's largest producer of natural gas, not to mention Russia's largest company. Following a short walk we were ushered into a dark and silent room where nothing seemed to be happening. Strange. It was only when all the members of our group – this was the Valdai Hills discussion group – had made their way up on the elevators that the room suddenly came alive. Then for a time I felt as if I'd wandered into a NASA space center, or was it a James Bond movie set? All that was missing was that out-of-body voice intoning, ‘Welcome, Mr. Goldman; we were expecting you’” – if you remember that.

“In front of me, covering the whole 100-foot wall of the room, was a map with a spider web-like maze of natural gas pipelines reaching from East Siberia West to the Atlantic Ocean, and from the Arctic Ocean south to the Caspian and Black Seas. Manipulating this display were Gazprom dispatches, three men controlling the flow of Gazprom's gas to East and West European consumers of this Russian natural gas monopoly. No wonder there was tight security. There was also a sense of self-assurance. As measured by the value of its corporate stock, by the summer of 2006 Gazprom, the state-dominated joint stock corporation” – and until 1992 was actually the Soviet ministry of the gas industry – “had become the world's third-largest corporation in terms of its capitalized value.” Today it's actually number two. Only private shareholder-owned Exxon Mobile and then General Electric were larger, but General Electric no longer is larger. Gazprom is the second largest, and Putin has aspirations to make it number one.

“With a flick of the switch, those dispatchers sitting in this Moscow room could freeze, and indeed have frozen, entire countries. At the very least they can send their citizens off in a panic in search of sweaters, scarves, and blankets.” I mean, you know, you may remember that very scene, and there, by the way – the only time I ever wrote a book with a picture in it, of that room. I found a copy of it in Time magazine. But what is significant about this is that Gazprom has really helped Russia turn around. In the early '90s – and some of you I hope can share – there are diagrams that I – charts that I passed out. In the early '90s – the dark line represents GDP – GDP is falling at rates of almost 16 percent and it continues to fall, even though not as much, but GDP is shrinking each year, a slight uptick in 1997 and then of course the financial collapse in 1998 (sic). Cumulatively the GDP falls by about 40 percent. That's worse than what we suffered in the Great Depression of the 1930s.

So, effectively, on August 17<sup>th</sup>, 1998, not quite 10 years from now, Russia was effectively bankrupt. There was nothing in the treasury. The government had defaulted on its debt. The banks' main asset was government debt with the debt worth nothing. The banks collapsed. There was a bank holiday. People lost their savings. The ruble fell in value. It was worthless. And everything just simply disintegrated. Now, if you look you'll see that beginning in 1999, things turned around. Today Russia has in its treasury about \$500 billion. Again, remember, in 1998 it was basically zero. And what is significant for the Russian people is that in August 1998, Putin is appointed prime minister. So you can understand, you know, given what

is happening here with the increase in GDP, that Putin is given credit for it. So that is why he gets popularity ratings of 70, 80 percent.

Now, the only problem with that is, is Putin the reason for this change? Would Russia be any different today if Putin had not been selected as the prime minister? And I think what's important to understand is that Putin was appointed in August, but if you go back and you look on a month-by-month basis, the turnaround begins in March. So it may be Primakov, who was then the prime minister, that deserves credit, but he doesn't deserve credit either.

What I've also done is put on this diagram the lighter line, which shows the change in oil production. And this is an unusual phenomena in economics or social science generally. Without fail, when oil production drops, GDP drops. Without fail, when oil production goes up, GDP goes up. So the question is, can you say that Putin is the one who caused the change in oil production and is that the reason all this took place? And the answer of course is no. Oil production drops here largely for two reasons. One is that the price has fallen to \$10 to \$12 a barrel and it's very difficult in Russia, given the extreme climate conditions and the difficult geography they have to work with, to produce oil when the price is so low. So you discourage investment. The change takes place as oil prices begin to rise, beginning again in 1999, and as oil prices rise, then it's worthwhile to invest. You do better to put your money in developing oil than to send it off stripping assets, as they were doing in the early '90s because – sending it to Zurich or London or New York.

The other part of the explanation for this is that you were then in the process in the early '90s of having privatization, and the new owners – some of the oilfields fell into hands of owners who had never had any experience in the oilfield, and even Mikhail Khodorkovsky of Yukos describes how he goes out into one of the oilfields and asks the local governor if he could arrange for him to go visit one of the oilfields because he's never been in an oilfield before. So you have people taking over oil companies who have very little experience in that area and are happy to strip the assets as a way of carrying on this way. So as oil prices go up from \$10 a barrel to \$120, \$130 a barrel, you can understand why this transformation is going to take place. I tell my wife, if I had been lucky enough to be appointed as the prime minister and then the president of Russia at that time, even I would have been able to bring about this transformation because the oil prices were simply doing all of this. So it makes a difference.

So what is Putin's contribution? Well, this is probably the subject of a good deal of discussion and dispute, but Putin, when he was working as the deputy governor of St. Petersburg, decided he would write a dissertation – and here we owe a lot of thanks to Cliff, who got a hold of that dissertation and looked at it – and the dissertation of course, it turns out, is about something called national champions. Putin sits back and does what you can call an academic exercise, which is one way of – it has no relevance for anything; it's just going to be held in academic circles. But anyway, he addresses the question, what can Russia do to regain its status as a world superpower? And he argues that what Russia has to do, because it is not a strong country in terms of manufacturing, is take its resources, where it has a comparative advantage – large quantities of energy deposits, large quantities of raw materials, metals in particular – and to take those and use them in such a way that they can advance the state's interest, in a sense almost renationalize – and if you don't renationalize, at least take some key corporations and use them in a way that will encourage or threaten other private owners to act, again, on behalf of the state's interest.

And so he creates these national champions. And what Clifford and others have found, of course, is that Putin, in writing this exercise, actually borrows it – being polite – from two professors at Pittsburgh University, plagiarizes – probably a less polite way of putting it – and they find that maybe 10 to 12 or 15 pages are taken literally word for word. But what is significant, if you go to the next page here, what you find is that when Putin is finally elected as president on his own terms in March 2000, he immediately begins to reshape these institutions. It's no longer an academic exercise now. He's in a position to implement his blueprint and he begins immediately to reclaim some of these properties, beginning with Gazprom.

Now, Viktor Chernomyrdin, who had been actually the minister of the gas industry, then was the one who privatized the ministry of the gas industry and the Gazprom, then goes into the government as the prime minister, ultimately is removed as prime minister, and as a consolation prize is put in as chairman of Gazprom. And if you go down to the fourth name, Rem Vyakhirev, who was Chernomyrdin's deputy, follows in his wake and then ends up in charge of Gazprom. The two of them begin to strip assets and the assets taken from Gazprom and sent off to a variety of places – one of which is a firm called Itera or Itera. (Uses two different pronunciations.) And, oddly enough, Itera headquarters are located in Jacksonville, Florida – not exactly that close to Moscow.

Why Jacksonville, Florida? Well, why not? It's warmer. It's outside Moscow's grip. And what happens is we don't know who exactly the owners of Itera are, but as best we can tell, it's the children particularly of Chernomyrdin and Vyakhirev and some of the other executives of Gazprom, as well as their wives and their mistresses – a really nice, friendly, homey combination. And this begins to take shape, so Gazprom, by the time Vyakhirev is removed and Putin puts in two of his protégés from St. Petersburg in the governor's office, Gazprom now is really a national champion and it behaves exactly as Putin had prescribed.

Now, there's another side story about Vyakhirev. He, in the process of stripping assets, upsets some of the shareholders of Gazprom, one of whom was a man by the name of Boris Federov, who had been the minister of public finance. He then went out and created a private bank and was upset as a shareholder that the dividends from Gazprom were not being sent off to the shareholders, instead were being used for the private welfare of the insiders. And so he launched a campaign to throw Vyakhirev out of the head of Gazprom. Vyakhirev took unkindly to that. You know, here's kind of a subplot and a subplot and a subplot. And suddenly Federov, the critic who was launching this proxy fight to get rid of Vyakhirev, found himself under attack in almost every Russian newspaper – every Moscow newspaper – a simultaneous attack. He got a visit from the local mafia saying, you know, if you're smart, you're going to stop bothering, stop harassing Vyakhirev. Federov stuck to his guns and the next day he discovered his dog had been poisoned. It was like the scene out of "The Godfather" – the movie "The Godfather," where this was all taking place.

It was only when Putin comes along that Vyakhirev is removed, as you see in March – I mean in May 2001, not quite a year – I'm sorry, a little bit more than a year after Putin has taken over as president. And then, all of a sudden, just as the campaign against Federov had begun, it stops, and Federov then goes to these different newspapers and said, what explained this simultaneous attack on me? And they said, well, look, if you want us to attack one of your enemies, let us know; here's the price list. Federov gave me the price list. If any of you have

any enemies you want to attack in Moscow, let me know and I can tell you how much it will cost this way.

On top of that of course there was also the problem with Itera, and like any good energy corporation in the United States, what do you do? You need a lobbyist. And so Itera hires a lobbyist. Who was the lobbyist? Well, they hire a young woman, pay her half a million dollars as a retainer, and only by coincidence it turns out that she's the daughter of a U.S. congressman. If you're going to have a lobbyist, that's what you've got to do. And then this congressman takes a deep interest in Itera. His name is Curt Weldon. He arranges for Itera to have a reception here in the Library of Congress. He goes to Jacksonville to help them dedicate their new offices. He arranges for the Export-Import Bank – our Export-Import Bank to give them an \$800,000 grant to help them develop gas drilling – natural gas drilling in Russia, which is not normally the purview of what the Export Bank does.

Well, anyway, this has all been publicized by the U.S. Department of Justice. You remember the Department of Justice has been criticized for embarrassing different congressman. The only problem here is that Weldon was a Republican, not a Democrat. Somebody got their signals mixed. But that's how important Gazprom now – and its offshoot – have become.

Well, okay, so what is Putin's role? Putin brings these things back. He then goes after the oil companies. As you can see here, he goes after Berezovsky with Sibneft. He then goes after Khodorkovsky with Yukos, and they are brought back in now as these national champions. And if you look at Russia's economic situation, the oil has brought in enormous quantities of money. I say the treasury is full now. The Russian government has approximately \$500 billion in the treasury – very different from being absent before. Gazprom itself has benefited. It is the world's second-largest corporation, as I mentioned, and Putin has aspirations for it to be the largest, and it may very well turn that way.

So in many ways Russia is back. The GDP is growing – as you see on that diagram – 7 to 8 percent a year. Compounded over 10 years that means the GDP has basically doubled. And much of it has redounded to the public – not all of it, but much of it has. Clifford and I have been present with meetings with Putin, and one of the last meetings he was asked, what's your greatest contribution, and he said, when I came into office, one-third, 33 percent of the Russian public was below the poverty line; now it's down to 14, 15 percent. And that is a major contribution and, again, that helps to explain why the Russian public is so favorable to him.

So, really, Russia is back. I've just finished writing an article called "Russia is Back," and it's reflected in a variety of ways. I'll just quote two instances of that. In one case there was a press conference last February in which Putin was asked about George Bush. The two of them had this remarkable relationship. If you watched their body language, I've never seen anything like it between two leaders this way. In all four meetings that we've had with Putin, each time he refers unsolicited to George Bush in the most complimentary way. And George Bush – we've had a private meeting with George Bush and he says also complimentary things about Putin – a little more cynical and critical, but certainly complimentary.

So anyway, at this February press conference Putin is asked about George Bush: What do you think about George Bush? And Putin says something that for me just brought back all kinds of echoes: "George Bush is a man I can do business with." And of course, where had I

heard that before? Well, it was Margaret Thatcher saying that I can do business with Mikhail Gorbachev, just before he became the general secretary. In other words, what she was saying, in a very patronizing way, I can do business with that peasant from Stavropol. And now Putin is saying, yes, I can do business with that cowboy from Crawford.

And I'll end then with this other transcript from a press conference. This was in June last year, and in it the correspondent from Der Siegel asks Putin, "Mr. President" – this is as it's translated into English – "former Federal Chancellor Gerhard Schroeder called you a 'pure Democrat.' Do you consider yourself such?" And Putin's response in the transcript says he laughs. "Am I a pure Democrat? Of course I am. Absolutely. And do you know what the problem is, though? It's not even a problem but it's a real tragedy. The problem is that I'm all alone, the only one of my kind in the whole wide world." And now, again, we see this self-confidence and, oh, the world is going to be stood on its head. "Just look at what's happening in North America." All true, but here – "It's simply awful: torture, homeless people, Guantanamo, people detained without trial and investigation. Just look at what's happening in Europe: harsh treatment of demonstrators, rubber bullets and tear gas used first in one capital then in another, demonstrators killed in the streets." You know, all true, but, you know, look in the mirror and see what – then he ends this: "There is no one to talk to since Mahatma Gandhi died." (Laughter.)

Well, you know, Russia is back and it's because of this petrostate. And I should say, by the way, my wife was against me calling it a petrostate. She said, "Some people are going to think it's prostate," but it's not prostate; it's petrostate. (Laughter.)

MR. GADDY: Thank you very much, Marshall. That was excellent. I mean, it certainly outlined the thesis that's developed in detail in the book. And so now I want to turn to our – let me first turn to our colleagues in Prague for questions and comments and then I'm just going to invite everyone to chime in. Please introduce yourself, if you don't mind. Make it clear because we have these two audiences connected by this telelink.

Yes, sir?

Q: Can I just talk?

MR. GADDY: I think – yeah, we hear you.

Q: Yeah, my question to Marshall is about –

MR GADDY: Could you please introduce yourself?

Q: Yeah, my name is Harry Tamrazian. I'm from the non-petrostate. I'm Armenian, the head of the Armenian Service. My question is about Medvedev. What do you think about Medvedev? Do you think he will be different in his style as a president, different in substance as a president from Putin? What do you expect? What is your –

MR. GOLDMAN: Well, it's an interesting question, and I must confess I've not had a chance to meet him. I've read some of the things he's said. Of course, there is another table in this, which I guess you people in Prague don't have, which shows – it lists the – it's called

“Siloviki in Business,” and of course Medvedev is listed here as the chairman of the board of Gazprom. His day job of course was as the head of the Kremlin administration and then recently then he was first deputy prime minister. And he’s kind of been a protégé of Putin, coming along with him from St. Petersburg, 12 years younger than Putin, and it’s clearly like a father-and-son relationship. And some of the thing that Medvedev has said are quite promising from somebody who believes in democracy and a restraint on some of these controls by the police.

One of the things Medvedev has said is, we should separate people working in the government from people who are working in the private sector, enriching themselves in a sense. Somebody refers to the group on this particular table as “siloligarchs” – you know, kind of a successor to the class of oligarchs. So I think we’ll just have to wait and see. I think it would be unreasonable to expect Medvedev to be too independent initially. He’s too beholden to Putin. But I would suspect that gradually, in four years’ time at least, he will become more outspoken: That old coot, you know, he’s a drag on what I want to do. He’s out of it. He’s out of touch. And I think he’ll begin to challenge Putin more.

One hint of that already is that if you’ve noticed, Medvedev announced that he was creating a new commission on corruption, which he would be the head of, which is a very subtle way of saying, look, corruption got worse on Putin’s watch; that’s not what was supposed to happen from somebody from the KGB. And that’s a way of kind of diminishing Putin’s stature, at least as I see it. So there’s bound to be friction, just as there is bound to be friction between fathers and sons after a while, but I think it’s going to take a while and we’ll just have to watch for signs like that and see just where and how long Medvedev follows Putin and where he begins to differentiate.

MR. GADDY: Thank you very much. Let me take a question or comment from our guests here in Washington: Nikolai Zlobin, who also, by the way –

MR. GOLDMAN: Was at these meetings.

MR. GADDY: – was in these meetings with Mr. Putin.

Q: Well, if you remember when we went to this room at Gazprom, somebody asked, where is a button to turn off Ukraine, and they showed us. (Laughter.) Remember, that was during the crisis with Ukraine. And when we were leaving the room somebody said, that’s a regime-change room; that’s the main political office in Russia.

MR. GOLDMAN: Yes.

Q: So when you were writing the book on petrostate, I agree it’s a petro-economy; what about the state? Did Putin redesign the state in the way it became a service for petro-economy internally and externally? Is it really a petrostate or it’s a modern Russian state based on petro-economy? Thank you.

MR. GOLDMAN: Well, it certainly is a petrostate based on an economy. You know, it’s a monoculture. Andrei Heifer has written a book called “A Normal Country,” and there was an article in Foreign Affairs about that. Well, if you define Saudi Arabia as being a normal country, then Russia is in much the same way. Two-thirds of Russia’s export revenue come



from the export of energy – again, very heavily dominated. But one of the interesting things is that Putin acts as if he is the man from Gazprom as well as the man from Russia.

He goes beyond what you would find normal leaders doing. I mean, more and more today the president of a country, the prime minister of a country is happy to generate orders for their businesses within the country, and Putin certainly does that. So I don't want to say that he's unique and nobody else does it this way, but a few months ago, maybe a year or two ago, he helped dedicate LUKOIL – which is now located in the United States – a LUKOIL gas station in Manhattan. Again, you wouldn't expect the president to do something like that, so he wanted to speak out on behalf – and he has acted – almost everything he does is in the energy field is supportive of the Russian energy sector.

And it's also very interesting to watch his diplomacy. When Vice President Cheney went to Kazakhstan to try to convince people in Kazakhstan to support the building of a pipeline bypassing Gazprom, going through the Caspian, Azerbaijan, Georgia, Turkey and then out to Europe, as soon as Cheney left Putin flies in and says, you don't want to do anything like that; support what we're doing. And he does the same thing in Eastern Europe, Central Europe. Whenever anybody tries to build an alternative pipeline, he does everything he can to discourage it to make sure that Russia, Gazprom continue to have that monopoly, continue to have that dominance.

I should say, by the way, if you look at the last page – this is the thing that really got me to do the book – that you can see how dependent Europe is on Russia. Germany gets over – now it's actually 42 percent of its natural gas imports from Russia. And you'll go down through that list and you can see really that this is the way Russia is regaining its status as a superpower to be contended with, and this is something that Putin does. This is in the interest of the state. It's also in the interest of the economy. So, yes, just as you described, that's what's happening.

MR. GADDY: Thank you, Marshall. Let me take one more question here from the audience in D.C. and then I'll come back to Prague. Yes sir, with the hand up there – black suit. Would you introduce yourself, please?

Q: Sure. Nicholas Pilugin. Now Russia is riding the wave of high oil prices, and obviously they've got plenty to pump out of the ground, but the industry there has been criticized, at least a few years back, that they were not reinvesting sufficient resources in the industry. Have you seen any change in that philosophy or lack thereof, and do you have any estimation how long they can continue without really addressing this issue?

MR. GOLDMAN: Yeah, it's an important question. And the Russians are not, you know, ignorant of this problem – oblivious to this problem. A couple of things. First of all, now that they've built up this cash horde – there actually was a discussion that we had I guess a year ago, 2006 September, where some of the Russians began to accept the idea that maybe we shouldn't be trying to increase our production each year. With oil prices being as high, with a demand for oil being inelastic, it may be if we cut back production, total revenue might actually increase. And we don't have to do it all now; there's enough coming out of it for this.

But also now there is an awareness – indeed for the first quarter of this year oil production dropped. And this set off a very interesting discussion. One of the senior executives

of LUKOIL said, well, it's not a surprise because there is almost a confiscatory tax regime, and if you are worried about this oil production dropping and you want to generate more investment, what you've got to do is change the tax regime. So the tax regime is such that when oil exceeds \$27 a barrel, an 80-percent tax kicks in, which is really confiscatory.

So even now – after that statement Putin went ahead and has authorized – the Duma passed a law to this effect as well – saying that if you develop, out in East Siberia, new fields where there is no infrastructure, there will be a tax holiday in effect as a way of encouraging this new development to get the investment out there. So they're aware of this. The problem is, on the side, is that when Western companies come along and try to get involved and they begin to become successful – or even if they're not successful – the Russians, particularly Putin, get very upset by this and then basically seize assets and force the Western companies to give up what they've done. This has happened to Shell where they've been pushed out of their dominant position in Sakhalin; it's happening to Total; it's happening to BP. BP executives, one executive was arrested; their offices have been raided twice.

So, you know, the whole issue of what is the role of foreign investment is a tricky one, and it would help, I think, the Russians if they were more open to this. They could still maintain their control. But it's one that raises all kinds of concerns, alarms that the westerners are taking over our national heritage, and this is something they resent bitterly.

MR. GADDY: Thank you. Let me turn now to colleagues in Prague. Yes, sir. You have no idea who I'm pointing to.

MR. GOLDMAN: Viktor?

MR. GADDY: Yes.

Q: I'm Viktor Yasmann and I wrote a little bit about President Putin. My question to Marshall Goldman is you said that Russia is back, and so the question is what comes next? How will Russia use its new strength and new economic might? We know that there is a kind of economical energetic – (unintelligible). I also would like to ask you how you evaluate the so-called Putin plan or what they call the 20-20.

MR. GOLDMAN: Say that again.

MR. GADDY: Twenty-twenty.

MR. GOLDMAN: Twenty-twenty.

Q: It's what they call 20-20. You know about it. So what is your opinion, how you evaluate this plan, how realistic it is?

MR. GOLDMAN: Well, first of all, if I were Medvedev and the prime minister is talking about 20-20, that would make me a little nervous about who's in charge here. So that's, again, a sign of friction, but I have to give Putin credit for understanding that he really has a goal of making sure that Russia not only is back but it continues to develop in ways that are not going to

be easily dismissed. So I have to give him lots of credit for this kind of thing. And I forgot the first part of the question.

MR. GADDY: How will Russia use this new economic power?

MR. GOLDMAN: Oh, yes, sorry about that. Well, already, you know, they're talking now about increasing military expenditures, and I think Russia is back in terms of its economic situation. And in fact, not only is it back, I think it's been places it's never been before. I don't think Russia has ever been as well off financially, even in the czarist era. But militarily of course it's not in good shape, and you know that better than I. So one way to do that, of course, is to start building up military potential. Another is to start, of course, going back to developing technology in this way, and I think Putin's goals are to do both, and I think that's what we're going to see. And Medvedev I don't think would do anything differently this way.

What for me is unique about the present situation is that, unlike the Soviet era where it was very top-heavy – you know, you took your resources, you put them in the military, and you didn't give much back to the civilian sector – now the Russian population is, I think, relatively better off than it has ever been in terms of general wealth. Again, there's concentration. Moscow, as you know, now has more billionaires than New York City. I don't know if that's good or bad but, again, it does suggest that wealth is going for consumption in ways, at least to a pretty broad group, although there is still, as I say, 14 to 15 percent who are not benefiting, and the elderly too.

So what's it being used for? Well, it's being used for consumption, but also I think we're going to see more and more of it going for military purposes and also for Russia being more outspoken in terms of its role in international politics and also as a challenge to the United States.

MR. GADDY: Yes?

Q: Eric Hontz with the Center for International Private Enterprise. I was wondering – Anders Aslund, another economist that studies this area, has stated that Putin's policies have actually hindered Russia's economic growth. To what extent do you agree or disagree with this analysis?

MR. GOLDMAN: Well, Anders has been a good friend. We differ more and more, I think, as the years go on. From my point of view – as I say, if I'd been the prime minister, president with oil prices going up that much, it would be pretty hard to sabotage it, frustrate it, and he hasn't and it's grown, but I don't see how you can look at Russia today and say in any way that it hasn't benefited from this, and Putin has just let it go, let it rip; let's take advantage of that. But by creating these national champions – and doing other things too, and I don't – I mean, it's not just the national champions things. In the book I try to talk about the fact that he brought in these advisors from St. Petersburg, these technocrats – Kudrin and Illarionov to some extent – and introduced a flat tax. I'm opposed to a flat tax in this country, but in Russia, where nobody was paying taxes at that point, a flat tax is better than nothing. He's also done other – set up the stabilization fund, coping Norway. They didn't squander all that revenue that was coming in, which could have caused inflation. Now they're beginning to spend a little more than probably is warranted. But I'm not sure how I would have done anything – I don't know what Anders would have done differently if he were there.

But you have to say, Russia is certainly much better. The public is benefiting much more. The country has these natural resources and is using them to enhance its international standing. So, I don't know, maybe he's got a – I can tell you this: I think Russia is doing some things that make me think that it's handling its success better than we've handled some of our problems in the past, the United States. That doesn't say very much, but still – I'm critical of Putin – if he were talking about democratic rights and freedom of the press and things of this sort, I join the criticism of Putin, but in terms of the economy, I'm hard-pressed – well, there's one other thing: the corruption. That's bad. Also small business; it's only about 10-15 percent of the GDP, and there they need support and they're not getting it. But in terms of using these resources, I think he's done reasonably well.

MR. GADDY: Let's see, I have a question there on the third row.

Q: Preston Lindler with the International Republican Institute. As kind of a follow-up to your question, I believe Mr. Aslund's assertions came on the heels of Boris Nemtsov publishing his white paper a couple months ago, which was – those of you who heard of it know it was suppressed in Russia. And Nemtsov's – based on this; this goes back also to that report of Putin's personal wealth being somewhere in the order of, I think, 45 or 50 billion (sic) dollars, based on supposed holdings in various Swiss bank accounts and et cetera. So based on that – and you mentioned corruption as bad as well – how much do you think that is taking away from the economy? If Putin himself is valued at 50 million – and some have said that's conservative – and then you have the list of siloviki that are around him. How much has stayed in that top 1 percent?

MR. GOLDMAN: Let me just back up a little bit. I saw those reports, particularly issued by a former Kremlin insider, Belkovsky, and so I added two paragraphs as the book was being set in type. My wife says, don't put it in. But I said, this may be disinformation that Putin may be worth 30 to 50 or 60 million dollars, having been a beneficiary of some of these oil things. She said, don't put it – I put it in anyway. But I sent it then to my editor and I said, look at this carefully, would you? And he said, you don't want to put that in the book unless you – do you have documentary evidence? And I don't, so he says, you don't want to put that in the book and then have it – say, well this is just gossip and garbage. So it's not in there.

Whether or not that's actually happening I think we have to wait and see. I would be surprised if it were not happening, but I don't have documentary proof. We'll have to see to what extent will Putin show signs of wealth? Right now you don't need it because he lives as well off as he can at the state's expense. One of the ways I think we're going to judge who's in charge is to see if Putin moves out of his presidential homes that we've visited outside Moscow and in Sochi, and if Medvedev moves in there. But there's no doubt that everybody around Putin has done very well, and that's why on that list that you have there, there are these new people who have benefited who came in with Putin and were put in positions controlling these companies – some state, some private – as the original oligarchs were pushed out.

That's a fascinating dynamic, and that leads to the next question for Medvedev: It's going to be hard to get rid of these people because they came in – when the original oligarchs were there, all they had was money. The second echelon of oligarchs – they siloligarchs – if you will, not only have money but they also have KGB and government insider connections, and it's

going to be much more difficult for Medvedev to get rid of them and bring in his own supporters, so he may have a base that's quarreling amongst themselves that will not be easily contained.

MR. GADDY: Let me turn again to Prague. Is there anybody there that has an urgent question? I know there are people here in D.C. that are eager to ask, but let me give you a chance there in Prague.

Q: Thank you. My name is Irina Lagunina and I work for the Russian Service, and I wanted to turn back a little bit to your introduction, Mr. Goldman. You said that Putin was trying to either renationalize corporations or force them to act in the national interest, but here after those eight years I'm kind of looking at the corporations and the state in Russia and I wonder to what extent they acted in a national interest because – okay, people do get salary compared to 10 years ago when they didn't get salary. But, you know, when Russia is getting \$1 billion per day for its natural resources, it would be strange not to pay salaries, frankly. But otherwise, the economy is pretty ugly. The infrastructure is not developed. The lengths of roads in Russia now shrink compared to what it was in the Soviet Union – in the Soviet Russia. So to what extent it is national interest?

MR. GOLDMAN: Yeah, good question.

Q: And I have a very short question to Mr. Gaddy. You are going to publish your book pretty soon as well. Do you agree with Marshall Goldman? (Laughter.)

MR. GOLDMAN: You want to break up a friendship. Well, let me respond to your question. One measure of what is happening is in the year 2000 when Putin comes into office, about 20 percent of the petroleum being produced is being produced by state companies. It's been reduced that way. Now it's back up close to 50 or more than 50 percent, so just in terms of the state's role that is. Now, is that being used to the benefit of the state or individuals? Putin has been criticized. The Russian government has been criticized for not putting enough money into infrastructure, letting it deteriorate. And, you know, that's, for economists, a very difficult issue to resolve because you're damned if you do; you're damned if you don't.

What I mean by that is that there was concern that if all this money coming into the treasury was being spent right away, then you would have inflation and you would really damage – destroy the baby in the process. So economists have said, well, really what you should do is copy Norway; put it in a stabilization fund. And Russia has been applauded for that, but that means that the money that goes in the stabilization fund is put in by U.S. government securities, not building roads. So you don't want to get caught too much in that situation, but that's where it is.

But I think while the infrastructure is in bad shape – and we've driven from Moscow really to St. Petersburg on the road system, and you don't want to do that. Even with the police escort we had, you don't want to do that: two lanes, three lanes, sometimes four lanes. It is a problem. But if you look at life in the cities – traffic, appliances, construction – you have to say that even – we travel a lot – my wife and I travel a lot outside the major cities, and you can see life being much better.

So the government – the military has suffered. Well, is that good or bad for Russia? I think what Putin is trying to say, he wants to address that and is going to spend more on that in the future, but for the time being I have to give Putin more credit than I would normally have expected I would at this point.

Q: May I ask another question, please? Excuse me.

MR. GADDY: Well, we're running out of time, and since we promised we would – I mean, when we say we will end at 10:00, I think we're going to do that, so I am going to –

MR. ZVANERS: But there was the question also to you, Cliff?

MR. GADDY: Yeah, my book. No, I don't agree with everything that Marshall has said, so there will be a lot of differences, I guess, in my story – (laughter) – and Barry Ickes' story, my co-author, with what Marshall has written, but we're going to profit a great deal by Marshall's insights and Marshall's interpretations, some of which I know already and which is very interesting to see here. So I can only ask you to wait until we publish our book, and hopefully Martins will invite us here to give a book presentation her as well. Today is Marshall's day and I think we've had a wonderful opportunity to be introduced to the book. I can only, as an author myself, say go out and buy the book so you can read the whole thing because this can in no way do justice to the whole story, but I hope it's provoked enough interest in following this that you're going to follow-up on it.

Martins, do you want to do one more question? I know there are a lot of people here in the audience. Yes, sir, in the blue shirt with the –

Q: Mitchell Polman. Just one quick question. I've been reading news accounts about how the high price of oil and gasoline is impacting the Russian consumer. I was just wondering if you could comment on that.

MR. GOLDMAN: Well, of course they have not raised their prices to the world level as yet, but it is a bit higher. Another problem is that maybe it's not high enough and as a consequence they're beginning to increase consumption, which means that there will be less available for export. But look at everybody around the world is affected and there is more and more pressure to raise it to world levels, so this has to have an impact, but I don't think the impact as yet is as widespread as what we're finding in other countries, which are oil importers as opposed to having the oil there. If you've got the oil there it's politically very difficult to raise the price right away to world levels, and if you do then you're probably courting political dissent and criticism. But so far I've not noticed that much. I think we're certainly more conscious in the United States than they are there of what's happening.

MR. GADDY: Well, good. Thank you. We are going to end here because our time has run out and I know everybody has their own schedules they must attend to. I do as well. I want to thank all of you for being here. I especially want to thank Marshall.

MR. GOLDMAN: I want to thank you too.

(END)