

Sochi 2014

THE POLITICAL ECONOMY OF RUSSIA'S MEGA-PROJECTS

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Billions of people around the world watch the Olympics and even more viewers tune in to the World Cup soccer championship. These events not only draw large audiences, but many people are willing to interrupt their daily schedule to watch them.

Such games are always a mix of commerce and politics. Traditionally, big cities in Western countries with developed democracies and advanced market economies hosted such events in an effort to boost their international profile on the global tourist market, hopefully influencing more visitors to vacation nearby while spending money in local hotels and restaurants. Of course, national leaders recognized the political possibilities of the Olympic Games early on. Hitler used the 1936 Berlin Olympics to promote Nazism while Japan welcomed the world to Tokyo in 1964 to announce its return to the international community after World War Two. The Soviets recognized the propaganda possibilities when they joined the Olympic movement in 1952, and they hoped to showcase socialist successes in Moscow in 1980, although the invasion of Afghanistan and the subsequent U.S. boycott crimped their plans.

Vladimir Putin, an avid sportsman, needed little convincing that bringing the Olympics back to Russia was a good idea. Most likely the idea for hosting the Olympics, and the enormous construction projects associated with them, developed with the input of oligarch Vladimir Potanin and Krasnodar Krai governor Aleksandr Tkachev, but Putin has since made the Sochi mega-event a personal priority. The games serve three primary functions for his regime: building Russia's international image, defining the priorities of regional development, and maintaining regime support among important elite groups and the masses.

International Image Building

The International Olympic Committee's decision to award the 2014 games to Russia at the 2007 meeting in Guatemala marked a moment of success for Putin personally and for Russia as a country. After the humiliation of the collapse of the Soviet Union and the

economic decline of the 1990s, Russia sought to use the Olympics as a way to proclaim that it had emerged from a decade of chaotic change with the strength and vitality to host the world's premier athletes at a planned state-of-the-art winter resort.

Flush with oil money and the confidence flowing from having imposed his stamp on Russian politics, Putin sought to use the Olympics as a way of showing that Russia could compete effectively in the global capitalist system. Unlike the earlier Berlin or Moscow games, these Olympics did not espouse a particular ideology. Rather they sought to show that Russia could manage its affairs no worse than the West and stood in the same rank with emerging countries like China, South Africa, and Brazil, who had also recently hosted or won bids to organize similar global events.

Regional Development

Mega-projects in Russia serve as a de facto regional development program in the absence of more coherent priority-setting or policy-making processes. Building on a Soviet-era legacy of projects, such as Magnitogorsk, "virgin lands," and the Baikal-Amur railway, Russia today has developed a string of mega-events that spin off mega-projects that benefit select sites. The result has directed tremendous resources to a small group of cities, including Vladivostok (\$20 billion in projects to host the 2012 APEC conference), Kazan (nearly \$7 billion to host the July 2013 Universiade), Sochi (\$50 billion for the Olympics so far), and the 11 cities slated to host the 2018 World Cup.

Focusing scarce development resources on these specific cities de facto resolves a long-running debate over Russia's regional development policy. The government has offered various plans that would either work to bring all regions up to a minimal level of development or focus resources on "locomotive" regions that already show promising results in the hopes that their success will raise the level of nearby poorer regions. Pursuing mega-projects effectively settles the debate in favor of the relatively successful cities by devoting high priority and extensive resources to their development.

Mega-projects provide a vehicle well suited for Russia's centralized and vertically organized policy-making process. The basic decision to pursue mega-events and mega-projects is made at the top. The projects are then funded through extensive access to state resources. Of course, lower-level policymakers, urban planning experts, implementing contractors, and civil society groups have some impact on how the projects are implemented and what their impact is on the ground. But, ultimately, the key decisions and resource allocations are made in the Kremlin and there is little public participation in the process.

Maintaining Regime Stability

The third function of Russia's mega-projects is ensuring support for the ruling regime. The Olympics provide the regime with benefits on both mass and elite levels. At the mass level, the Olympic project serves as a replacement for ideology in an era when the Russian state has not been able to define what the Russian idea consists of. Proponents of "Olympism" claim that it promotes world peace by bringing young people together for regular sporting competitions. With teams organized by country, in practice the

games promote a strong degree of nationalism, as countries compete with each other to win as many medals as possible.

This combination of a peaceful higher purpose and nationalist promotion serves Putin's key domestic political interest of ensuring that he and his allies will remain in power as long as possible. Organizing mega-events gives the population something to be proud of; thereby, the regime hopes, it imbues a form of performance legitimacy on the current leadership. Putin and his colleagues can claim that they are building Russia's future in an effective manner by organizing mega-events and the new urban infrastructure and prosperity that they will bring to Russian cities.

The purpose of the games in this sense is to demobilize Russian citizens. The Olympics provide soaring narratives for state television, which disseminates information to the vast majority of the Russian population and often sets the tone for the broader debate on the internet as well. By demonstrating the progress that Russia and its key cities are making under Putin's leadership, Russia's official media works to deprive activists of a cause for organizing against the regime.

In addition to facilitating mass quiescence, the games also provide a useful way of distributing rents to powerful elite groups whose support Putin needs to remain in power. These factions include, most importantly, the oligarchs and the *siloviki*. The games provide a reason to set aside large sums of money from the state budget that can be appropriated by these groups. One of the central mechanisms for distributing these funds is Olympstroy, the special state corporation set up to organize and oversee preparations for the games. According to Russian law, state corporations are special entities that control and distribute public funds but are not subject to the same accountability or oversight as regular government agencies or private corporations. Russian researchers have demonstrated that Olympstroy pays up to three times as much as Western counterparts to build similar structures. This extra money is presumably going to insider rents. Using mega-project funds in this manner supports Russia's neo-patrimonial system of networks, which, in turn, provide a basis for maintaining the current leadership in power.

Small Circle of Winners

The implications of Russia's growing appetite for mega-projects for its development prospects are bleak. The first consequence is that there is only a small circle of elites that benefit directly from the projects. This group is, first of all, Putin and his immediate circle of oligarchs and *siloviki*, who depend on his continued rule to maintain their power and wealth. These groups control and benefit from massive state spending, much of which is redirected from the ostensible purpose of the projects into their personal accounts.

The second circle of winners is the leading cities who secure direct support from the immense infrastructure investments related to Russia's participation in such projects. Residents in cities like Sochi, Kazan, and Vladivostok receive federal funding for directed projects at a time when other development projects, such as a plan for the overall development of the Far East or the North Caucasus, go unfunded. Tying state

funding to high-profile mega-events means that the leading cities will receive preferential access to federal investment funds.

Questionable Overall Benefits

While small groups and a handful of cities benefit from increased spending, the implications for society at large are less sanguine. There is little evidence that investing in mega-projects produces long-term positive developments for cities. In fact, research on past Olympics and World Cup events has shown plenty of evidence to the contrary. Host countries and cities can be saddled with numerous white elephant stadiums and other structures that serve no purpose once the games are over. While Sochi hopes for a tourist boom after the Olympic closing ceremonies, it is not clear that the city will be able to compete with other destinations that can provide better service and amenities at lower prices. Some of the infrastructure investments will undoubtedly benefit residents, ranging from an upgraded airport to new roads, sewers, and electricity generating power plants. However, it is by no means clear that the rushed decision making and development of these specific facilities was the best way to use the money spent. Alternative development models might have provided more sustainable infrastructure better designed to meet residents' needs rather than the specific requirements of a sports event. While such questions afflict all Olympic games regardless of where they are held, mega-events can prove particularly costly in a semi-peripheral country like Russia where development and investment needs are immense.

Overall, the Sochi Olympics, already dubbed the most expensive in history, seem much better designed to suit the short-term needs of Russia's rulers than the long-term aspirations of its population. In this sense, they provide a useful case study of Russia's overall political economy.