

Economic Boom? Russia After Sochi

The Story the Western Media Missed

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Global Research, February 25, 2014

[Counterpunch](#)

Region: [Russia and FSU](#)

Theme: [Global Economy](#)

The Sochi Olympics were the great success Russia hoped for. The opening ceremonies proved a radiant display drawing on Russia's most compelling cultural assets. This artful look back to Russia's past greatness proved both a reminder and challenge to its own people to reprise their historical greatness going forward. Meanwhile, its closing ceremonies reprised these themes, reminding the viewer of Russia's continued vibrancy in the arts.

From an economic vantage point, national hosts for Olympic games always use them as an occasion for enormous infrastructure spending for economic development. One of us (Hudson) was the economist for Montreal brokerage houses back in 1976 when every French Canadian family seemed to become millionaires on the games' cost overruns. The usual argument by governments is to hire a Keynesian economist who will say, "Spend tens of \$billions and the multiplier will generate hundreds of \$billions in national income. Taxes at 20% will recover all the expense, so in an economy with under-employment, whatever you spend on the Olympics will be free." This is the kind of argument that World Bank economists use to justify infrastructure investment by underdeveloped countries, and what any Olympic host city argues to minimize the vast cost overruns that *always* occur. Construction contracts are about as honest as figure skating judging.


At least this argument is better than trickle-down economics. For Russia, the Sochi Olympics did for that city's infrastructure what the Olympics did for Los Angeles, Salt Lake City and other sites. But for Russia, it was the first real Keynesian-type investment in infrastructure to start rebuilding the nation physically - in an economy where construction has not been the strong suit that it has in Western economies.

If there were any time for those hostile to Russia to provoke an intemperate move, this was it. The games were supposed to show a positive Russian face to the world, helping heal the old Cold War tensions. So, from Mr. Putin's vantage point, the worst thing that could happen would be a distraction to remind the world of old Soviet-era repression. So of course, this was precisely what the Western press played up. To read the *New York Times* or *Washington Post*, the real sporting event was whether the police would descend on Pussy Riot's sideshow.

Russia did itself no favors by sending Cossacks to deal with what would otherwise have been a nearly invisible Pussy Riot protest performance. If Putin's aim was to promote a view of Russia as a modern developing country, that of the demonstrators was to identify his government as modern-day Stalinists.

In advance of the games American audiences were regaled with 'Orange Alert' tales of impending doom from terrorist attacks on the demonstrations staged by the regime's

opponents. But the Russian government dealt deftly to provide security for the games while seeing the Western anti-public relations ploy and did not overreact. The games were indeed about athletics, not minority rights, separatism and anti-authoritarian democracy. There was nothing like the violence seen in New York City when the city's police descended on the peaceful Occupy Wall Street demonstration after 1:30 AM and started smashing the equipment of the demonstrators (especially their guitars and musical instruments), trashing their library and driving them out, with liberal use of pepper spray on the defenseless.

Russia's poorly conceived Cossack intervention aside, it refrained from doing anything on the scale of what Mayor Bloomberg did to Occupy Wall Street. This contrast was not drawn by the Western media. The last thing that they would promote was the idea of Russia new role as peacebroker on the international stage. So there was no mention of how Russian pressure on Bashar al-Assad in Syria prevented an escalation of conflict there that could have rippled through the Middle East, providing fertile terrain for the expansion of the Al-Qaeda franchise  in the U.S.-backed alliance. Putin's act in saving the US from a disastrous intervention might have helped the 'reset' on US-Russian cooperation and security relations.

Leading up to the Sochi Olympics were reports from US media of failed infrastructure on the ground. Hotel rooms were not quite ready. The water was yellow (as usually is the case in newly built and plumbed buildings). The real story, of course, was precisely the vast infrastructure investment in building. This was a new path for Russia, where construction had languished ever since 1917 as the economy pushed industrialization more than residential or commercial building.

Yet here was a regional city that had been living under near-Third World conditions before the Olympic reconstruction began. Sochi even lacked potable water – a condition still found in many parts of Russia since the collapse of the USSR. The economic success of Sochi has been to turn it into a modern city in the making, with infrastructure that will contribute to its long-term potential to become a tourist destination.

The Olympics thus served as a catalyst to bring money and development to the Caucasus. This is, after all, the best tonic against the Islamic fundamentalist movements that thrive most in poverty. The Sochi success thus is a first step in a constructive and peaceful mode of dealing with terrorism, in contrast to the devastation that has been wrought in post-revolution Libya, Iraq, Afghanistan and Syria.

Sochi represents the kind of development that should take place across all of Russia. It is much better than building up sovereign wealth funds to play in stock markets. Russia's money and resources – above all its labor – is best employed at home, and construction has been lacking for too long. It typically accounts for 10 percent of GDP in advanced countries. (In hothouse Ireland it rose to 25% of GDP by 2007.) Where better to spend credit and money than on infrastructure to transform Russia's economy and living standards?

What has collapsed in the past two decades is not only much of Russia's infrastructure, but its prospective middle class. Nothing would go further toward rebuilding prosperity than a national program to transform the country's infrastructure. Sochi has shown the way forward. That is the real story that the Western media have sidestepped.

The usual corruption charges were leveled against the Sochi Olympics, as in every such games within memory. That is what happens with big construction projects everywhere. Yet there was no reminiscing about similar events over the pasts three or four decades, or for

the role in such infrastructure investment in catalyzing an economic takeoff. If Russia becomes a leading actor in the struggle for clean government in the realm of big construction, it will be nearly among the first nation to do this, and let's hope it can be.

The other major criticism of Russia as the games approached led to many Americans not attend: Russia's recent discriminatory laws against the LGBT community. These laws are mostly designed to pacify socially conservative elements in Russia (as right-wing as American Christian churches – well, maybe not *quite* as intolerant, but you get the picture). But the reality is that these laws are not being enforced in any serious way. While we hardly support these measures, the best way to deal with this issue will be real economic development of the type presented by Sochi. Development leads to tolerance.

The most serious human rights challenge in Russia is that from ethnic vigilante groups. They are the gangs taking real action against their targets as they once did in the US. In this instance the Russian government has moved aggressively to thwart this dangerous trend.

What would Dick Cheney have done if Russian NGOs sponsored separatist movements in Texas, California or New England? How would US police have reacted against armed revolutionaries seizing the armory and throwing Molotov cocktails and bombs at public buildings, killing police, painting swastikas on Jewish houses and claiming vigilante justice? If this is Obama's "reset" with Russia, he is resetting the Cold War by setting the neocons loose in the former Soviet economies. If there is one thing that the CIA has shown its competence in, it is in setting one ethnic group against the others – Sunni vs Shiite, Kurd against Arab, Persian against them all. When other countries seek to defend a multi-ethnic secular state, the US foreign office in all cases has backed the fundamentalists for the past half-century. Let's hope Obama moves away from these hardline elements in his State Department and more toward the type of cooperation with Russia that prevented a US invasion of Sryia.

Sochi shows that Russia can pull off world-class projects on the global stage. The games proved how Russia can transform its economy through infrastructure investment in a way that can build up a middle class while countering religious and racist fundamentalist discontent.

The US has a curious double standard when it comes to Russian leaders. The Western press applauded Boris Yeltsin for unleashing tanks on Russia's elected parliament in 1993, and Wall Street applauded when he turned over the country's wealth to oligarchs. Contrast this with the treatment of Putin. Although not an ideal democrat in the 'Western' mold, he has shown himself a potentially valuable partner for the US in foreign affairs and he hasn't unleashed tanks on parliament.

Would not the world be a much better place with a developed and thriving Russia, building up a middle class through a construction boom? Wouldn't Russia better develop if blocked the escape of its national wealth to offshore banks located in the West? What terrifies the West is that Russia may in fact do as the Americans have historically done in building up protected industry and agriculture and introducing a rule of law aiming at nationwide development rather than a client kleptocracy. That is the real nightmare of the US press, judging from its Olympic coverage: that Russia may succeed and provide an alternative to the renewal of Cold War-like belligerence now being encouraged by the American "resets" from Ukraine to Sochi.

Michael Hudson's book summarizing his economic theories, "[The Bubble and Beyond](#)," is available on Amazon. His latest book is [Finance Capitalism and Its Discontents](#). He is a contributor to [Hopeless: Barack Obama and the Politics of Illusion](#), published by AK Press. He can be reached via his website, mh@michael-hudson.com

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