

Chapter 8

Twilight of the Putin Era?

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In November 2015 *Forbes* magazine named Russian President Vladimir Putin the world's most powerful person for the third consecutive year. He finished ahead of German Chancellor Merkel, U.S. President Obama, Pope Francis, and China's leader Xi Jinping. "Putin continues to prove he's one of the few men in the world powerful enough to do what he wants," the magazine's editors wrote.¹ Putin's high rating was based largely on his ability to flout Western and global dictates and get away with it. Indeed, the Russian leader has never seemed more confident nor his grip on power more secure. In the past two years he has outmaneuvered the West in Syria and the eastern Ukrainian regions of Crimea and the Donbas. A faltering economy and Western sanctions have failed to blunt Putin's ambitions.

Political Decay

Putin's powerful image, however, is belied by many signs that the system he rules is in crisis. Russia faces mounting internal difficulties, including a weakening economy, pervasive corruption, a political culture that stifles enterprise and civil society, and a deteriorating social welfare system. The combination of these forces endangers both security in Europe and stability in Russia. Russia's apparent rise poses a twofold challenge: to the West, in terms of managing the increasing threats Russia poses to the international order; and to Putin himself, as he seeks to define the country's identity and consolidate his rule.²

Putin's popular support—currently almost 90 percent—provides the main source of legitimacy for the regime. He has a far higher approval

¹ David M. Walt, "The World's Most Powerful People 2015," *Forbes*, November 4, 2015, <http://www.forbes.com/sites/davidewalt/2015/11/04/the-worlds-most-powerful-people-2015/>

² See Keir Giles, Philip Hanson, Roderic Lyne, James Nixey, James Sherr and Andrew Wood, *The Russia Challenge*, Chatham House Report, June 2015, https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150605RussianChallengeGilesHanson-LyneNixeySherrWood.pdf

rating than any other leader or institution. The Kremlin makes sure there are no serious challenges to Putin's leadership. Putin's popularity was originally based on an increased standard of living, but since his return to the presidency in 2012 he has grounded his popular support more on political mobilization, especially against imagined external threats—from NATO, the United States, “fascist rule in Kiev” and terrorism. Whereas Boris Yeltsin's regime is associated in the popular mind with the country's traumatic loss of superpower status, Putin is linked to the recovery of that status. The mobilization potential by the regime of the Russian population however, has been declining since the outburst of support for the annexation of Crimea and invasion of eastern Ukraine. Since Putin's rating is also boosted by Kremlin censorship and propaganda, the depth and volatility of Putin's actual support is unclear, though there is little doubt most Russians support him.

In such a highly personalized system most political institutions are ineffective. The judiciary lacks independence and is subordinate to the Kremlin. Only one member of the legislature, Dmitry Gudkov, is independent. Other legislators act as though they were appointed, not elected, no matter what their formal party affiliation. Regional officials also serve at the pleasure of the center.

The lack of political institutions means that Putin makes all important decisions personally. However, he reportedly leaves some decisions to other members of his inner circle, depending on the issue, because he does not have the time, energy or interest to do everything. Such an arrangement puts a premium on informal elite politics, where the struggle among fluid alliances of Putin cronies, corrupt businessmen, bureaucrats and members of the security structures—brokered by the President—are often less over policy issues than the allocation of resources. Although the system is massively corrupt and opaque, the central role of a few key players at the top means that decisions can be taken and implemented quickly. The Kremlin's move into Ukraine in 2014 and Syria in 2015, for example, surprised the West. It also means wrong decisions can be corrected rapidly. But Putin's habit of staying out of leadership conflicts and delaying decisions means that various factions sometimes work at cross purposes and are not fully under the control of Putin or the Presidential Administration.³

³ Gleb Pavlovskiy, “The taking of decisions in the system,” <http://www.novayagazeta.ru/politics/69125.html?print=1>. Donald Jensen, “Russia's elites battle over a shrinking economic pie,” <http://imrussia.org/en/analysis/politics/2454-russia%E2%80%99s-elites-battle-over->

Some of Putin's former allies who have fallen from grace during his 15 years in power say that Putin's position as Russian leader is less secure than it seems. According to one former member of the inner circle, "Putin is a hostage of his entourage." Russia's experience with Ukraine in the past two years suggests he sometimes receives inaccurate or self-serving intelligence. The war in Ukraine and the economic downturn, moreover, have exacerbated elite tensions. "He no longer has confidence in his closest circle," according to this source, "and if I were in his place I would not trust them either. What they say to his face and what they say when he is not there are completely different."⁴ For now, however, those dissatisfied with Putin's leadership are disorganized and too intimidated to speak out. There is also no alternative waiting in the wings. Whether Putin eventually departs voluntarily depends on his assessment of his own personal safety and finding a successor he trusts who can act as an effective arbiter in Russia's never-ending clan battles.

"Putinomics" Reaches a Dead End

The Russian economy has moved into crisis. If and when it returns to growth, this will be sluggish at best. At the time of this writing, the European Bank for Reconstruction and Development predicts the overall economy will shrink by 4.5 percent in 2015. The decline is fueled by capital flight, slow economic growth due to the war in eastern Ukraine, and low global oil prices. Steadying the ruble at about 50 to the dollar also has drained the country's currency reserves.⁵

Middle- and lower-middle class Russians have been especially hard hit by this downturn. Poverty grew to more than 15 percent—about 23 million people—in the first quarter of 2015, the first substantial increase in the poverty rate since the economic crisis of 1998-1999, which helped usher in the end of the Yeltsin administration. 2014 also saw an average drop in real income of 10 percent, and an increase in mortgage defaults to go along with rising food and energy prices. Inflation, more-

a-shrinking-economic-pie. Donald Jensen, "A coup against Putin," <http://imrussia.org/en/analysis/politics/2166-a-coup-against-putin>.

⁴ Guy Faulconbridge and Stephen Grey, "Czar Putin: as secure as he seems?" Reuters, October 8, 2015, <http://www.reuters.com/article/2015/10/08/us-russia-putin-insight-idUSKCN0S216R20151008>.

⁵ Donald Jensen, "Putinomics' Reaches a Dead End?" Center for Transatlantic Relations, 2015, http://transatlanticrelations.org/sites/default/files/2015_09_Putinomics_Jensen.pdf.

over, is rising and expected to be more than 15 percent in 2015. For the first time in a decade the government recently announced it will be unable to raise pensions and other social benefits to fully match inflation. A central question facing the Russian regime, therefore, is whether, when the so-called “patriotic mobilization” over Ukraine and Syria wears off, Russians may begin to blame Putin or the regime for their deteriorating standard of living.⁶

Three more fundamental factors are dragging down the Russian economy. First, structural problems limit growth in the near- to medium-term: the decline in the working age population and restrictions the Putinist system places on competition, investment, and innovation. Government projections predict that the work force will decline from 84 to 80 million between 2015 and 2020. The number of young entrants into the workforce will be only partly offset by immigration. The weak rule of law and poorly protected property rights inhibits competition, investment, and innovation. Business people without connections to the authorities are vulnerable to attacks by law enforcement agencies, often backed by corrupt courts. Corrupt state officials interfere with what otherwise would be routine market activities.

Second are contextual challenges posed by the international system: the end of quantitative easing in the United States, which pulls investment away from emerging markets; the rise of shale oil and gas production in the U.S. and Canada, which puts downward pressure on global hydrocarbon prices; the weaknesses in the eurozone economies, which take a large proportion of Russian exports, the slowing of the Chinese economy, and the fall in the oil price.

Finally, there are geopolitical impediments: the war in Ukraine; Western economic sanctions; Russian counter-sanctions; Moscow's drive for import substitution; and the turn at home from liberal economic policies toward greater reliance on the law enforcement and security organs. Western economic sanctions, albeit partial, gradually implemented, and with unclear objectives, nevertheless have helped squeeze Russia's liquidity and hard currency reserves. Although the Russian economy is more sensitive to changes in the oil price than other energy producers, experts differ about whether the sanctions or the

⁶ Mike Wheatley, “Poverty Rate in Russia Jumps to 16%,” *Russia Insider*, June 12, 2015, <http://russia-insider.com/en/business/poverty-rate-russia-jumps-16/ri7961>.

drop in the oil price have had the greater role effect on Russia's economic slowdown.⁷

Despite these problems, the likelihood of a financial meltdown is low, barring another sudden and sustained decline in world oil prices. Although the large volume of scheduled external debt repayments has led to speculation that Russia's finances could experience a financial crisis comparable to the shock of August 1998, these vulnerabilities are less worrisome than they appear, since a large share of Russia's external debt is owed not to Western banks but to Russian parent companies or holding companies registered abroad.⁸

Such debt is easily rescheduled, moreover, which means the country is less likely to suffer a currency crisis. Nevertheless, other indicators showing the impediments to modernization are more worrisome and unlikely to be reversed by the government's continued significant investment in the military-industrial complex: the lack of competitiveness in the educational and technology sectors—Russia has less than two percent of global technology innovation, a problem made worse by the Kremlin's campaign of self-isolation; and the decline of foreign investment—a key source of technology and expertise. If these trends continue, the “effectiveness of Russia's aggregate investment will decline, productivity growth will slow, Russia's international competitiveness will slump further, and ultimately living standards will fall.”⁹

As the economy has slowed over the past year, the viability of the regime again has become a key question. With prosperity threatened, the regime may be in danger of losing its legitimacy and effectiveness. To preserve domestic stability, Putin largely has chosen policies that preserve jobs at the expense of real wages, even as inflation has grown. But in dealing with the financial troubles the government policy-making process has had trouble functioning effectively.

The economy's problems also will make it more difficult for the Kremlin to carry out its ambitious plans for military modernization.

⁷ Keir Giles, et. al, op. cit.; Kirill Rogov, “Can Putinomics Survive?” European Council on Foreign Relations, June 5, 2015, http://www.ecfr.eu/publications/summary/can_putinomics_survive3049.

⁸ Anders Aslund, “The Russian Economy is Heading toward Disaster,” Peterson Institute for International Economics, December 8, 2014, <http://blogs.piie.com/realtime/?p=4644>.

⁹ Richard Connolly, “Russia's Finances are not as Vulnerable as They Appear,” Chatham House, <http://www.chathamhouse.org/expert/comment/17826>.

The Russian government's published 2014 military budget is about 2.49 trillion rubles (approximately \$69.3 billion), the third largest in the world behind the United States and China.¹⁰ The official budget was set to rise to 3.03 trillion rubles (approximately \$83.7 billion) in 2015, and 3.36 trillion rubles (approximately \$93.9 billion) in 2016. Unofficial estimates place the total amount of military spending for the Russian Federation higher. However, a collapse in the value of the ruble has greatly reduced the dollar value of the Russian budget to around \$50 billion as of February 2015, despite a 33 percent increase in the ruble-value of the budget.¹¹ As a result, the budget will be cut in 2016, with the navy the most likely victim.¹² The Russian military failed to meet its plans in 2015 for re-equipping its armed forces with modernized weapons because of Western sanctions over Ukraine and the decline of domestic industries, according to deputy defense minister Yuri Borisov. Although these economic problems are unlikely to affect current levels of military activity in Ukraine and Syria, they are likely key factors weighing against the expansion of operations in either theater.¹³

Increasing Hostility toward the West

Russia's growing economic problems have undermined the social contract that sustained the regime during the first decade of Putin's rule—the authorities would ensure a rising standard of living in exchange for the population staying out of politics. In its place the Kremlin has tried to forge a new social contract that would legitimize the regime by reawakening popular imperial ambitions, including illegally annexing Crimea, invading Ukraine and militarily intervening in Syria. As the initial popularity each of these moves ebbs, the Kremlin is likely to consider new adventures.

Moreover, Putin's Russia sees the global order as rigged against it. Western efforts at democracy promotion, especially its assistance for

¹⁰ Stockholm International Peace Research Institute, "The 15 countries with the highest military expenditure in 2014" (table), retrieved 13 April 2015.

¹¹ Vladimir Isachenkov, "Putin Spending Big On Military Modernization Despite Russia's Economic Woes," *Huffington Post*, February 4, 2015, http://www.huffingtonpost.com/2015/02/04/russia-military-modernization_n_6612418.html.

¹² Kathrin Hille, "Russia's Finances Hit by Slowdown," *Financial Times*, October 15, 2014.

¹³ Anna Dolgov, "Russian Military Struggling to Modernize," *Moscow Times*, June 17, 2015, <http://www.themoscowtimes.com/article/525782.html>.

Ukraine, are seen as aimed at undermining his regime. Russian ambitions and intentions have been developing for over a decade but the West found it easier to disregard them and indulge in the illusion that the country was progressing toward a liberal-democratic model with which the West felt comfortable. The war in Ukraine is, in part, the result of the West's misreading of Russia.¹⁴ The Kremlin does not want to isolate Russia, it wants to take part in international relations, even as it wants to stop other countries from interfering in its internal affairs.¹⁵

Since the West views the former Soviet states as fully sovereign countries, Putin's determination to reestablish Russian influence in those countries is at the heart of the Russian challenge to Europe and his efforts to preserve his regime. There is little possibility for compromise with the West on the future of the post-Soviet space. In its drive for global equality with the United States, Moscow creates additional challenges through a wide range of hostile measures against its neighbors, none of which are compatible with European notions of cooperative international relations. It has interfered in the European Union, tried to monopolize energy markets, bribe European elites, finance left and right wing populist parties, and conducted aggressive media campaigns through RT and Sputnik.¹⁶

After Putin?

A weaker Russia makes it more likely that Putin will challenge the West in order to maintain his popularity and will become more willing to blame invented external enemies for the country's problems. It cannot be excluded therefore that Moscow in the coming months will increase pressure against the Baltic Republics, Moldova, Kazakhstan and the South Caucasus, even as it keeps pressure on Ukraine. However, it is an open question whether the patriotic mobilization the regime has relied on to boost Putin's popularity and the system's legitimacy can continue to divert public attention from the country's problems. The regime is already taking measures to prepare for any new outbreak of unrest that might be generated by the next round of parliamentary elections sched-

¹⁴(<http://www.chathamhouse.org/publication/russian-challenge>) (http://www.ecfr.eu/publications/summary/can_putinomics_survive3049).

¹⁵Lilia Shevtsova, "The End of an Epoch," *The American Interest*, October 16, 2015, <http://www.the-american-interest.com/2015/10/16/the-end-of-an-epoch>.

¹⁶Giles, et. al, op. cit; Rogov, op. cit.

uled for later in 2016. It appears willing to use repression at home to maintain power.

There is a contradiction, moreover, between holding on to power and reforming the system. At the end of 2015 the Russian press reported that Aleksey Kudrin, former Finance Minister and Putin advisor, would return to the Kremlin Administration to oversee radical reforms, including raising the pension age, cutting the budget—including social spending—and decreasing the state's role in the economy and privatization. If Kudrin returned to an official post, it would also be a sign that Putin is easing tensions with the West, since Kudrin has argued that Western sanctions have seriously damaged the Russian economy and Russia cannot develop without Western capital.

Kudrin has long symbolized the hope that the current system might reform itself, rather than collapse through a radical break with the past. Since he resigned as finance minister in 2011 speculation about his return has been frequent—and always wrong. But despite Kudrin's reputation for prudent fiscal management, he was also an architect of Putinism, whose policies fostered the development of crony capitalism during the early Putin era. Truly reforming the Russian economy would require gutting the current political system, and possibly regime change. Putin is thus highly unlikely to attempt deep reforms of the type advocated by Kudrin, no matter how much he likes and respects his long-time advisor.¹⁷

Nevertheless, Putin's political dexterity, the regime's remaining financial and media resources, as well as its willingness to use repression mean that the regime is unlikely to collapse anytime soon. Putin's current six-year presidential term ends in 2018 and he already has indicated he will stand for another. Putin has strong popular support for now, he has strengthened the role of the security services and the oligarchs are largely under control.

But the question of what comes next after Vladimir Putin haunts the Russian political system. Since the president's power is based in part on the lack of alternatives, should a real number two emerge it would "be the start of a game [Putin] fears," according to commentator Gleb Pavlovsky, "because he cannot control it."¹⁸ Any sign of that Putin might depart is

¹⁷<http://www.rferl.org/content/so-you-want-to-be-a-mafia-accountant-kudrin-putin-russia/27457808.html>.

¹⁸"Russia's Sergei Shoigu. Master of emergencies," *The Economist*, November 7, 2015, <http://www.economist.com/news/europe/21677992-trusty-defence-minister-only-person-serve-every-government-fall>.

likely to bring great uncertainty or even instability, because the system of personalized power means there is no real mechanism for choosing the next leader or for continuing business as usual in the interim.

In addition to the lack of an alternative and the willingness to resort to repression, Russia's future trajectory will be determined by several factors that suggest muddling through and continuity with the present regime: Russia's cultural, historical and political traditions, which make autocracy the rule rather than the exception; the disorientation of both masses and political elites, who oppose Western-style democratic pluralism; and memories of the 1991 collapse, which contribute to the popular fear of the unknown and new upheavals. The regime also has significant, though diminished, administrative resources to buy loyalty. These forces likely will provide the leadership with significant room for maneuver over the short to medium term, despite deteriorating conditions.¹⁹

But several factors pose the possibility of an abrupt discontinuity. They include: the end of the old social contract that guaranteed popular welfare and security and the inadequacy of "patriotic mobilization" as a replacement; the emergence of social groups who no longer wish to sacrifice their standard of living for the sake of militarization or great power status; the further deepening of the economic crisis which could generate a wave of discontent; and the regime's corruption and cynicism, which some Russians can no longer bear.²⁰ Two additional variables may become especially decisive for the fate of the current regime. The first are the interests of Russia's corrupt elite, which have become economically integrated into Western society through bank accounts and real estate holdings and opposes Russia's international isolation. The second is the willingness of the so-called *siloviki*, who pull the system in the opposite direction, to support the regime. Their loyalty to Putin cannot be assumed and is not automatic.

It is unclear, moreover, the extent to which regime change would accelerate the system's decline, or whether it would give it a new lease on life, however, short-lived that lease may be.²¹ As the noted analyst Lilia Shevtsova has pointed out, Russia is trapped, since its system of personalized power undermines its own foundations. On the one hand, the regime cannot survive as a peaceful "normal state" and has had to turn to military-political mobilization. On the other hand, it is not

¹⁹ Shevtsova, op. cit.

²⁰ Ibid.

²¹ Ibid.

strong enough for a real fight with the West. All signs indicate, however, that the hard men in charge of the Kremlin have no intention of leaving the stage as meekly as did Mikhail Gorbachev. The price Russia and the outside world will pay for the end of Putin's system, Shevtsova correctly concludes, thus may be much higher than they paid for the USSR's demise.²²

²²Ibid.