



“Who Is to Blame” and “What Is to Be Done”?

Out of Crisis, Self-Scrutiny and Visions of a Future beyond Putinism

By Leon Aron

To most outside observers, Russia’s current predicament looks like yet another economic crisis, albeit one of a decidedly severe variety. Yet, this is far from the whole story. As seen by some of Russia’s leading independent liberal experts and commentators, Russia is facing a systemic crisis, and the only way out of it lies in dismantling the defining political, economic, and social features of Putinism.

It has been a hard landing from the economic stratosphere. After eight years of uninterrupted GDP growth and income increases, Russia—by virtually every key economic parameter—is in deeper trouble than not only the leading industrial democracies, to which it has been so proud to compare itself, but also most of the developing countries. In the first quarter of this year, its GDP shrank, year-on-year, by 9 percent, and industrial production fell in April by 17 percent compared to the same month in 2008. Unemployment is at least 8 percent and could rise to between 10 and 15 percent—8–11 million people—by the end of this year.¹ The ruble has lost half of its value against the dollar, and inflation is likely to reach at least 13 percent this year.²

These numbers, as grim as they are, do not tell the whole story of the crisis Russia is facing. The rest of the narrative, still largely invisible from the outside, emerges as independent experts and commentators from the liberal intellectual elite ponder what happened, why, and what to do about it. These queries are increasingly cast in the solemn and fateful mode of the “cursed questions” of Russian history and literature: “*Kto vinovat?*” Who is to blame? And “*Chto Delat?*” What is to be done?

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First posed by the nineteenth-century revolutionary writers Alexandr Herzen and Nikolai Chernyshevsky (and famously reprised by Lenin), these questions have emerged for over a century-and-a-half at every severe political and economic crisis, accompanying Russia’s search for more equitable relations between man and state and for a more dignified, more moral, and more honorable life. Significantly, these questions are asked today not just by a few perennial dissidents, marginalized by the Kremlin, but also by the members of the intelligentsia, who until very recently were wary of criticizing the Kremlin in such weighty terms.

The Unfulfilled Promises of Putinism

Looking around Russia now, many critics see only the ruins of unfulfilled promises and wasted

Key points in this *Outlook*:

- Acceptance of Vladimir Putin’s regime is likely to flag as Russia’s economic performance sours.
- Critics see only one way out of the crisis: dismantling Putinism.
- A new social contract between Russians and their government may be required to effect economic change.

wealth. They point to such legacies of Vladimir Putin's era as the level of pilfering from the state, unprecedented in modern Russian history; the grandiose "national projects" that have absorbed billions with no significant improvements in the neglected and crumbling infrastructure (affordable housing, roads, hospitals, and schools); the catastrophic mortality rate and impending human capital crisis; the "state corporations," wasteful and uncompetitive despite billions in state subsidies; the \$12 billion-plus boondoggle of the 2014 Winter Olympics to be held in a subtropical city, Sochi (a project already mired in spectacular corruption); and the state bureaucracy that has nearly doubled in size in the past eight years.³

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Blamed for Russia's present predicament is the missed opportunity of using the uniquely favorable world economic conditions to lay the foundation for a modern and transparent state and a modern, diversified, entrepreneur-driven economy. "In all the years of the fantastic, unearned money, which gushed from the oil pipe as if from a broken bathroom spigot, we did not move a finger to diversify our economy," writes Nikolai Svanidze, a professor at the Moscow University for the Humanities and a member of the Public Chamber, the Kremlin's top advisory body. Simply put, Russia has not learned to make anything that others would buy in the global market. Svanidze continues: "As in the tenth century, we still cannot offer the world anything that is not gifted to us by Mother Nature: no electronics, no clothes, no food, or cars, or medications, not even children's toys." Instead of emerging as a world economic power, he concludes, Russia appears to be headed toward becoming "a cheap Chinese gas station."⁴

Far more than the plunging oil prices (these are seen as a mere catalyst), the deeper causes of the crisis are found in systemic, "institutional" deficiencies. In an article tartly entitled "The Abolition of a Grand Fantasy," a prominent liberal website, *Gazeta.ru*, lays the blame squarely at the

door of Putin's "authoritarian modernization" and its results: "Putinomics" and "sovereign democracy."⁵ (The latter, as Moscow wits like to point out, is to a real democracy what an electric chair is to a chair.) The Putin state—which used to be hailed as a stern but fair and competent manager of the economy, politics, and society scarred by the alleged "chaos" of the revolutionary 1990s—is now said to be the main problem.

From Economics to Politics: The Failure of "State Capitalism"

This crossover from economics to politics should not come as a surprise. Putin has never made a distinction between economic and political recentralization. Both were part of the "Putin plan" and unfolded simultaneously, switching into high gear in the fall of 2003, when Mikhail Khodorkovsky, an oil tycoon and the principal shareholder of the oil firm Yukos, Russia's most modern and most profitable corporation, was arrested on October 26, the old calendar's anniversary of the Bolshevik Revolution. Now the shoe is on the other foot: the crisis is perceived as a failure of the supercentralized state. It was this state that has fashioned a "boundlessly corrupt" economy "without competition, laws, and public oversight," writes Nikolai Zlobin, a columnist for *Vedomosti*, the most respectable independent Russian business daily.⁶

Putin's "state capitalism"⁷ has fused power and property in ways unprecedented in Russian history.⁸ As Dmitri Trenin of the Carnegie Moscow Center put it, for the first time, those who rule Russia also own Russia. State-owned or state-controlled monopolies have sprung up in virtually all of the most profitable industries. As in the Soviet Union, courts are being subverted by "instructions" phoned from above (the so-called "telephone justice"), and property rights have been degraded to the point of being merely "ephemeral."⁹

A stark example of what these trends have wrought is the \$780 billion short-term corporate debt, incurred by some of Russia's top corporations, \$220 billion (or about 20 percent of the country's GDP) of which falls due this year. Most of this amount was borrowed abroad and, to add insult to injury, has been used to buy assets outside of Russia. The reason: even (perhaps, *especially*) top tycoons feel defenseless against bureaucratic harassment, shakedowns, or even outright robbery in the form of corporate raiding (*reyderstvo*)¹⁰—that is, the seizure of profitable firms by competitors or greedy crooks assisted by sufficiently "propitiated" tax police and judges.

Putin's "authoritarian modernization" was in large measure inspired and justified by China's spectacular growth. But the Russian version of this strategy now has been revealed to be a surface imitation, yet another Potemkin village. Simply put, there has been precious little "modernization" and plenty of authoritarianism. As one of the most perceptive, and brilliantly sarcastic, Russian commentators, Yulia Latynina, explains, in China the state in essence tells entrepreneurs: go ahead, get rich, and if there is a bureaucrat who bothers you, we will wring his neck. In Russia, the state says to the bureaucrat: go ahead, get rich, and if there is an entrepreneur that balks at the arrangement, we will bash his head in. In China, Latynina continues, the state helps business. In Russia, only businesses that can hide their assets from the state flourish. The Chinese authorities are intent on enriching the country and think in terms of millennia; their Russian counterparts want to enrich themselves and think solely in terms of money.¹¹

A Systemic Crisis

In a classic case of what the late Harvard political theorist Samuel Huntington called "performance legitimacy," the regime that Putin engineered enjoyed widespread acceptance so long as incomes grew by leaps and bounds. When economic performance begins to flag, the legitimacy is likely to suffer soon as well. The situation in the country could no longer be defined as a purely economic crisis, Zlobin writes. Instead, he sees "a bona fide political crisis, caused by the failure of the entire model of governance, the absence of political and economic competition, the monopolization of power. It is a breakdown of Vladimir Putin's centralized state."¹² In a recent survey by Russia's most trustworthy independent polling firm, the Levada Center, the share of those who believe that the country is on the right track dropped from 59 percent to 41 percent between May 2008 and March 2009, while the respondents who saw Russia to be moving in the "wrong direction" constituted 39 percent of the sample (up from 27 percent).¹³

As a result, across a wide swath of the Russian elite, including many in or close to the government, there is a growing consensus that it will be impossible to navigate the way out of the crisis within the current political system. As Lilia Shevtsova, a veteran observer of Soviet and Russian domestic politics in the past twenty years, puts it, "Preserving the existing regime means preserving the structural sources of economic crisis."¹⁴

Crackdown or Liberalization?

This is no longer an academic observation. The regime's survival may come to a head as early as the summer of 2010, when the state's hard-currency reserves, which until now have kept the largest banks and firms afloat and softened the blow of the ruble devaluation at the cost of \$200 billion, are widely expected to run out.¹⁵ Attempting then to prevent a political and economic breakdown, the regime will face a stark choice. The Kremlin may decide to abandon the current, softer, retro-Soviet authoritarianism, which generally favored bribing and intimidating over jailing and killing, and replace it with a full-bore, hard dictatorship.¹⁶ Or it could bolster legitimacy by initiating expansion of its political base through a dialogue with the opposition, liberalization of politics, and a gradual separation of state from economy. The first route will almost certainly be traveled without President Dmitri Medvedev, with Putin retaking the presidency. The other scenario has no room for Putin.

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The temptation of a reactionary stabilization is made stronger by the fact that many key elements of such a regime have been introduced in the past eight years and are by now well entrenched: media censorship, said to be enforced by FSB (the KGB's successor) colonels in residence at every major television channel;¹⁷ a rubber-stamp parliament; corrupt and pliant courts; and a deep fear instilled in wealthy Russians by the travesty of the Khodorkovsky "trial" (now in its second edition) and the harshness of his sentence. According to Yuri Ryzhov, a member of the very prestigious Soviet Academy of Sciences, the Putin Kremlin borrowed wholesale from the Soviet propaganda themes and implemented them successfully: the country is in a hostile encirclement, every foreigner is an enemy and a spy, and internal "enemies" (opposition) are traitors.¹⁸ All in all, as prominent opposition essayist Leonid Radzikhovskiy points out, the key

elements of the 1970s Soviet sensibility have been revived: the bunker mentality; anti-American hysteria; crude nationalist bragging; utter cynicism as a moral norm; fear; propaganda lies; the oil rent; and the power of a narrow, self-selecting *nomenklatura*.¹⁹

By contrast, preconditions for a sustainable liberalization might be harder to forge. This would be a very ambitious, complicated, and—with the traumatic memories of the Soviet Union’s collapse following Gorbachev’s perestroika very much alive—daring and risky effort. The first step will be dismantling the most odious features of Putinism. According to Mikhail Kasyanov, a former prime minister turned opposition leader, before the government resigns and the parliament dissolves itself in preparation for free and fair elections, they should pass laws that will remove all the constraints on citizens’ political activities and nullify all the amendments to the electoral laws adopted since 2004, including the abolition of the elections of regional governors. Television censorship must be ended and notoriously tainted judges fired.²⁰

Jettisoning the commodity-based economy and “detaching” government officials from business are other musts.²¹ The crisis has given Russia a chance to “shed the chains of the dependency” on oil prices.²² In fact, argues the government’s leading liberal, First Deputy Prime Minister Igor Shuvalov, “The longer we have low commodity prices, the sooner we will have a new model of our economy. . . . It is better if we have two, three, five years as a difficult period.”²³ Modernization should include de-monopolization; a real and effective crack-down on corruption; and the reconstruction of infrastructure: roads, ports, and railways. Most of all, a new Russian economy must be refashioned on a basis of innovation and a steady growth of productivity.²⁴

A New Social Contract?

Clearly, far more than purely economic reforms would be needed to start such an economy. Nothing less than a new “social contract” may be necessary.²⁵ Until now, the philosophy of Putinism was simple: who needs tax-paying citizens so long as one has expensive oil? Of the different taxes listed by the Federal Tax Service for 2008, all manner of corporate taxes (a lion’s share of them from gas and oil firms) plus taxes on “the use of natural resources” (again, mostly oil) accounted for 62 percent of the consolidated budget of the Russian Federation, while individual income taxes contributed only 19 percent.²⁶ (The tax revenue structure in the United States is almost

exactly the reverse: 13 percent of the 2008 total gross taxes collected came from corporations and 52 percent from individuals.²⁷) No taxation without representation? Putinism’s answer: no—or very little—individual taxation *and* no representation.

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Yet, if oil prices remain low, the Russian state will have to look for another tax base: an economy in which most revenue comes not from a few oil, gas, and metals firms but from millions of enterprising and hard-working citizens motivated to help the “modernization project,”²⁸ as one Russian economist put it. In return, however, these new subjects of the “urban” economy will have to feel like viable political actors, the shapers of their country’s present and future.²⁹ Hence, Russian thinkers argue, a new “social contract” must be established, similar to the one that emerged from the classical confrontation of “king” (state power) and “town” (bourgeoisie): the former had to grant the latter a very substantial degree of self-rule in exchange for taxes and a far greater say in how these taxes were spent, a process that eventually resulted in the modern democratic state.³⁰

In the course of Medvedev’s unprecedented and long interview with the leading opposition newspaper, *Novaya gazeta*, on April 15, editor Dmitry Muratov said to Medvedev: By the terms of the old social contract, the state provided Russians with a certain level of “satiety and comfort” in exchange for their “loyalty.” But now the old prosperity is gone, and, with it, the contract of the fat years. Since neither the state nor society can cope with the crisis on their own, they would need to create a new basis for their cooperation. What kind of new contract should they negotiate?

In his signature eloquent and well-informed obfuscation, Medvedev evaded the question. Instead, he talked at length about Rousseau, the constitution, and the

rights and liberties of “man and citizen.”³¹ Yet, even the most impressive erudition cannot substitute for making hard choices in perilous times. Quite apart from the Kremlinological murkiness of it—who will be in charge a year from now, Putin or Medvedev?—the “literature of the crisis” powerfully suggests that *someone* in the Kremlin will have to decide pretty soon which fork of the road Russia will take. The status quo looks increasingly untenable. If change is not initiated from above, it may have to come from below.

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Notes

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27. Internal Revenue Service, U.S. Department of the Treasury, “SOI Tax Stats—Internal Revenue Collections and Refunds, by Type of Tax—IRS Data Book Table 1,” available at www.irs.gov/taxstats/article/0,,id=171960,00.html (accessed May 1, 2009). In both the Russian and U.S. cases, health and pension insurance taxes have been left out, including the Russian “unified social tax” and the U.S. employment taxes on the one hand, and gift and estate taxes (in the United States) and excise taxes (in both countries) on the other. The revenue from the latter is relatively small in both countries, while the monies collected from the former, although

counted toward the total, are not supposed to be added to the federal budgets but are to be used for pension, medical, and disability insurance only. In fact, the Russians designate them as “state extra-budget funds.”

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