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The Russian pattern of modernization: between transformation and status quo

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Summary

With the election of the new president Russia has entered a new political cycle. This time, however, with the previous president Vladimir Putin remaining on the political scene in the role of the prime minister the balance between the continuity and change in Russia remains unclear.

On the one hand, part of the political establishment feels the need to resolve the problems that have been put on the back burner during the previous presidency, understanding that the traditional paradigm of Russia's survival is not sustainable; and on the other, the fear that any change may lead to an unpredictable chain of events still dominates the elite. Meanwhile, there are factors beyond the control of the elite that could trigger new developments. It is too early to make a final assessment of the trajectory of the new rule and how ready the new leadership will be to modernize Russia. Still the timing is ripe to start the discussion on the future Russian dilemmas.

The following questions seem to be inevitable: What is the nature of the Russian political system, and is it a driver of modernization or an obstacle? What are the causes behind Russia's economic success and how sustainable is it? What is the state of Russian "human capital"? What is the model of the foreign policy and does it help Russian modernization or hinder it? What are the moods within Russian society and how perceptive is it to liberal ideas?

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With the election of the new president Dmitry Medvedev Russia has entered a new political cycle which in Russia is always associated with new leadership. This time, however, with the previous president Vladimir Putin remaining on the political scene in the role of prime minister the balance between continuity and change in Russia remains unclear. On the one hand, part of the political establishment feels the need to resolve the problems that were put on the back burner during the previous presidency, understanding that the traditional paradigm of Russia's survival is not sustainable; on the other, the fear that any change may rock the boat and start an unpredictable chain of events still dominates the mood within the elite. Meanwhile, there are factors beyond the control of the elite that could trigger new developments. It is too early to make a final assessment of the trajectory of the new rule and how ready the new leadership will be to modernize Russia. Still, the timing is ripe to raise some questions and start discussing possible future dilemmas and the country's readiness to deal with them. In this context the following questions seem to be inevitable: What is the nature of the Russian political system, and is it a driver of modernization or an obstacle? What are the causes behind Russia's economic success and how sustainable is it? What is the state of "human capital" in Russia? What is the model of foreign policy and does it help modernization or hinder it? What are the moods within Russian society at large, is it ready for a new round of reforms and how perceptive is it to liberal ideas? Finally, what are plausible scenarios in store for the Medvedev-Putin Russia?

1. *Will the Diarchy Work?*

The key factor that determines the trajectory of Russia - towards modernization or the status quo - is the nature of its political system and the way the country is ruled. Putin's presidency consolidated the Russian post-communist system formed by his predecessor Boris Yeltsin, which today presents a rather unusual civilizational phenomenon. The Russian political class was forced to abandon some major principles upon which the power in Russia had been based for centuries: for the first time in Russian history, the regime sought legitimacy through elections and not by ideology, military might or hereditary succession; and, a free market was introduced, which weakened the state's control of society. However, the Russian elite has preserved two traditional elements of the *Russian matrix*: *personalized power* and the *principle of indivisibility*. Power remains monolithic and focused in the presidency, which is raised above society and is unaccountable to the electorate. As the ascension to the Kremlin of the two Russian presidents, Vladimir Putin and Dmitry Medvedev, has demonstrated, the Russian president is still anointed by his predecessor and then elected through uncompetitive elections that legitimize the succession. If the key principle of a liberal democracy is *a certainty of the rules and an uncertainty of the outcome*, the Russian pattern of rule is the opposite: *an uncertainty of the rules and a guaranteed outcome*. State interests retain primacy over the interests of the individual and society, which is the main prerequisite for reproducing of personalized power. The principle of *indivisibility* is reflected in the fusion of business and politics, which undermines the logic of the market making the authorities the main regulators of economic developments.

The Russian matrix has been updated to allow personalized power to perpetuate itself and at the same time look quite civilized. The political regime that has emerged in Russia at the end of Putin's presidency confirms that democracy is the only widely accepted form of rule nowadays and therefore post-totalitarian regimes feel pressure to adopt or at least mimic democratic principles. This is precisely why the Russian elite proclaims its democratic credentials while in fact, with consummate skill, adapting democracy to its own purposes. *Imitation democracy*, a term used to describe the retention of the formal institutions of democracy in order to conceal authoritarian, oligarchic and bureaucratic tendencies at the same time, has become the form of political regime that has been consolidated in Russia during Putin's rule. Russia is an imitation democracy by design, and reflects the deliberate use by the Kremlin of democratic and liberal institutions in order to conceal authoritarian power arrangements. Indeed, we are dealing with a system that proves how deceitful appearances can be. Pseudo-democracy, by discrediting democratic principles, can make a real democratic transformation more difficult.

Under Putin's leadership the democratic principles have been transformed into their opposites: elections shorn of competition have become a means for reinstating personal power, only now in the form of a hyperpresidency; a multiparty system that guarantees monopoly of power for a single Kremlin party (United Russia) makes political pluralism a thing of fiction; a parliament and legal system turned into an appendage of the executive branch that discredits both the legislature and the judiciary. Economic liberalism in the absence of democracy and a republican ideal engenders plutocracy. The Kremlin's attempt to pick and choose among principles of social organization confirms Guillermo O'Donnell's hypothesis that a highly organized society can function effectively only when it is able to combine democracy (the rule of the majority), liberalism (guarantees of human rights and freedoms), and a republican tradition (the ideal of social service)¹. Liberal democracy becomes a parody of itself if particular principles are at random pulled from what must be an integral system².

The concentration of power in one man's hands inevitably brings about a situation where it is physically impossible for him to cope. The leader starts to devolve his powers to the bureaucracy and then gradually becomes dependent upon it. Augmenting the role of a bureaucracy by making it a substitute for institutions inevitably leads to its aspiring to power and obliges the leader to be constantly thinking of ways to avoid becoming its pawn. Putin has managed to retain control, if not without difficulty, by making ever-greater concessions to the bureaucracy in return for its loyalty. However, for the new President Dmitry Medvedev, who still has to form his own political basis, it will be difficult to escape becoming hostage to Kremlin bureaucracy. Its suffocating embraces are the main threat for the new leader.

The end of Putin's presidency demonstrated a stalemate: the ruling bureaucratic corporation was still afraid of the leader and obeyed him, but the leader was

¹ G. O'DONNELL, *Horizontal Accountability in New Democracies*, in «Journal of Democracy», 9, July 1998, 3, p. 115.

² The debate continues among Russia watchers as to whether the imitation democracy in Russia has been inevitable. My view is that the Russian political elite missed several opportunities in the 90s to build independent institutions and that Russian society has never been a formidable obstacle on the path of moving toward a really competitive system.

increasingly dependent on them and could not replace the support on which he depended without the risk of falling. The leader was tied to his team not only through his past, and through common corporate interests, but most importantly by their shared mistakes. It is this bond that made Putin most vulnerable. Shielding itself behind the leader, the bureaucracy acted independently but in his name, and thus discredited and undermined him. Putin continued to distance himself successfully from his apparatchiks in the eyes of the public, who acquitted the president and condemned the bureaucracy. Yet this split in public opinion over the regime, differentiating the leader from the state, cannot continue indefinitely, and Medvedev could find himself in a more precarious situation. True, it may happen that Putin in the role of prime minister will now be the one to blame.

The moment of truth for these personalized regimes is the self-reproduction process. The December (2007) parliamentary and March (2008) presidential elections in Russia demonstrated that the Kremlin has acquired an amazing skill for orchestrating the transfer of power, or rather its imitation, that is needed to secure the continuity of the political course³. The formula of the political tandem or duo of new President Dmitry Medvedev and new Prime Minister Putin has to achieve two goals – to preserve the semblance of democratic legitimacy of the rotation of power and at the same time guarantee the status quo. Having succeeded in the seemingly smooth transfer of power within the ruling team, the Kremlin now stands before a formidable challenge: to determine *how* the new formula of power will work, and what the new rules of the game will be. Even the Medvedev-Putin duo are at a loss to answer these challenges. Immediately after Medvedev's election it was Putin who laid out a new strategy for Russia through 2020(!), leaving Medvedev "to compliment" it in a way that would prove that he – Putin – is not leaving the scene and will be leading their tango, expecting his successor to follow his lead. Putin has also demonstrated that he plans to remain the architect of foreign and security policy, which means the possibility – not inevitability – of a serious rearrangement of the division of labor between the president and the prime minister⁴. In turn President Medvedev has constantly reiterated that the center of power will be the presidency, which could be a sign that each has different views on how the new model of power will work⁵. In any case, no one can predict whether Dmitri Medvedev will agree with his former boss's attempts to preserve the key role and there are a lot of speculations as to how Medvedev will shape his presidency. So far Medvedev has been following the script trying not to demonstrate excessive ambitions, because he is in a situation where he is totally at the mercy of his boss or political elder brother. Members of the old Kremlin entourage close to Putin are trying to persuade the world that Medvedev will not move beyond the role assigned to him as figurehead.

Moreover, one has to keep in mind that Russia is developing according to the *law of unintended consequences*, or simply that the outcomes that result may not always

³ During the March 2008 presidential elections Dmitry Medvedev got the support of 49 percent of registered voters (37 percent of the Russian population) which in practice could mean less than 40 percent of the electorate if we take into account the administrative resources and manipulations used before and during the elections.

⁴ "Putin's actions could be viewed as a proof of his desire to remain not only influential but dominant after he formally transfers power to Medvedev on May 7th", wrote B. ANDERSON, in «The Independent», April 7, 2008.

⁵ See D. MEDVEDEV's speeches and interviews, www.Medvedev-da.ru and www.medvedev2008.ru.

correspond to the goals set by the authorities. By building his role of national leader, taking the driver's seat and stubbornly trying to keep it, Putin will undermine not only Medvedev's role, but the presidency as well, which is the only working political institution in Russia. This is a paradoxical example of how a leader can dismantle his major legacy – a presidential hyperpower, which Putin has been strengthening for eight years. The Russian elite and society are already baffled as to how the diarchy will affect the decision-making process. Even if Medvedev continues to be Putin's loyal subordinate without ambitions of his own, the logic of personalized power embodied in the Russian constitution and tradition will force his team to crave for more power. Society will look at the Kremlin, that is the presidency, as the center of power. In this situation Russia will find it hard to escape a tug of war between the two towers of the executive branch or even witness its paralysis⁶. We have to wait until the end of 2008 to see how the new model of rule will work and how the tandem will cope with the verticality of power – a strange and bizarre combination.

This, however, is not the biggest uncertainty Russia is facing. Putin in his final address to the nation did something totally unusual – he acknowledged that he had failed to build a successful economy and that the continuation of his course could leave Russia “lagging behind the world's big economic powers and could push us out from among the world leaders”⁷. This was a shock for Putin's supporters in Russia and abroad, who with great zeal had been trying to argue that Putin had created the Russian Success Story. Why did Putin make this masochistic admission of failure at the end of his rule? He could have sung an optimistic mantra until the end, and persuaded Russia that there is no need to change anything; this could have been justification for him to remain at the helm of power. Putin instead decided to set up a platform for his new role of Modernizer which, by the way, is his form of admission for his failure as a reformer during his eight years in power. Now he aspires to have a new mission. No one in modern political history has ever tried to be the Stabilizer, and then afterwards begin to reform his own legacy. Putin now faces a risky dilemma: will Russia believe that he can be trusted with a new job of prime minister, after failing with the previous job? And why will Putin be more effective as prime minister than he was as president? Moreover, how can the hyper-centralized system ensure fulfillment of the new goals that Putin and Medvedev are offering the country – competitiveness and “investment in human capital”?

The jury is out on the new Russian leadership. Medvedev's style and body language are soft and liberal, and he has been trying to appeal to the liberal part of the Russian constituency by speaking on a freedom that is “better than non freedom”. Besides this, he creates the impression of an intelligent, knowledgeable and efficient bureaucrat who definitely knows the mechanisms of the Russian system and can operate them effectively. As for the direction he may take, he himself tries to be evasive, arguing that ideology for him is not that important and that he will pursue a pragmatic course⁸. But he will soon discover that in the situation where Russia is stuck in the midst of

⁶ The emergence of the diarchy has brought a lot of comment in Russian and Western media. Kremlin analysts try to be upbeat about the new rule in Russia. Most of the analysts remain skeptical about its effectiveness.

⁷ V. PUTIN, www.Kremlin.ru, February 8, 2008.

⁸ D. MEDVEDEV, www.Medvedev2008.ru, April, 2008.

transformation, pragmatism can only mean stagnation and loss of the trajectory. Medvedev's persistent emphasis on freedom and rule of law is encouraging for liberals. However, Putin also made freedom his agenda at the beginning of his second term, only to crack down on it later. Yet, each time Russia has had to change bosses in the Kremlin hope for a new "Thaw" springs up. This time, not only has the Russian liberal ghetto started to raise its head, but society, which was thought to prefer the status quo, has also become restless. More people today are not content with the "continuation of Putin's policy" – 44 percent expect "better" lives under the new president than they had under Putin and 37 percent are expecting "socially oriented" reforms. Even government technocrats, led by Anatoly Chubais, went public condemning Putin's foreign policy.

Does this mean that the time is ripe for political change in Russia, and that Medvedev, as some optimists believe, could be its initiator? So far he is moving around cautiously, declaring his priorities to be "economic stability, economic freedoms, promoting social programs, and ensuring that Russia sustains its position in the world"⁹. He does not mention the need to restructure the traditional state and he does not admit the need for pluralism and competitiveness – so far. Indeed, it is worth remembering that the most successful reforms in post-war Europe were introduced by representatives of the old team, as the post-Franco Spanish transformation and Ukrainian "orange revolution" demonstrate. But there are three conditions that can make reforms from the top successful: pressure from below, the emergence of a liberal alternative and the understanding by the old elites that the old order is not sustainable and in fact destructive for their own interests. None of these conditions are present in today's Russia. Some believe that the split of the executive power and fragmentation of the political class may create a small porthole of opportunity. In fact, Robert Dahl also believed that the optimal way to a stable polyarchy would be through the rise of political competition among the elite, which would allow the culture of democracy to take root *first* among the political class and ruling team, and then diffuse to a larger population, which would gradually be incorporated into electoral politics¹⁰. One may hope that in Russia, sooner or later, the imitation of political pluralism may be replaced by the real thing, and that having learned to compete with one another, the ruling clans would allow political competitiveness to spread within society at large. However, today the clans in their squabbles disguising "elite pluralism" are discrediting the idea of competitiveness and forcing at least part of society to look eagerly forward to a harsher version of authoritarianism to bring order.

If Dmitri Medvedev suddenly decides that he does not like being humiliated by his role of "technical president" and would like to have real leadership, only liberalization of the political system may help him to become a full-fledged president. Will he risk getting rid of his mentor and the old Kremlin gang? Medvedev himself is unlikely to have an answer to this question yet. The answer will be «No» if a strong outside impetus for change fails to emerge. Ironically, it is Putin himself who is digging a grave under

⁹ Interview with D. MEDVEDEV, in «Financial Times», March 24, 2008.

¹⁰ R. DAHL, *Polyarchy: Participation and Opposition*, New Haven 1971, pp. 33-5. T. Graham, a former top Bush advisor for Russia, said: «Were it (the diarchy-L.S) to succeed, it would make a watershed in Russian political tradition, and it would pave a way for a more open, pluralistic system, one that could eventually produce a more transparent and less restrictive, but not destabilizing, competition for power». in «The Moscow Times», April 7, 2008.

Russian personalized power simply by splitting it. Anyway, there is something stirring under the surface in Russia, and no one knows whether this bubble will burst, and if so, when.

Meanwhile, the new tandem will have to deal with Putin's legacy, which includes the following components: a bureaucratic capitalism, with the state assuming an expanded role; a bureaucratic-authoritarian political regime; a social infrastructure that depends on the state to survive; and a foreign policy that balances partnership and confrontation with the West. So far the Russian post-communist system has failed to guarantee political freedoms and rights of the individual, or competitiveness. But let us play the role of devil's advocate and acknowledge that under Putin's bureaucratic-authoritarian rule Russia has in fact achieved amazing economic growth and stability, returning to the world scene as a powerful actor, and that many world leaders would envy Putin's sky-rocketing popularity rating of 83 percent at the end of his presidency. Will this system based on traditional top-down governance, expanded role of the state and limited freedoms allow the Medvedev-Putin duo to pursue the path of innovation and modernization that they have set out for Russia? In order to answer these questions, let us ponder the nature of Russia's economic success story, the country's social challenges and its latest foreign policy assertiveness.

2. *The Russian Economic Miracle*

Russia continues to be one of the most successful emerging markets. This could be used as an argument in favour of the assertion that capitalism can be a driving force that at some point will bring modernization and democracy¹¹. Indeed, the Russian economy during the last eight years has performed astoundingly well¹². Under Putin, Russia's gross domestic product rose from \$200 billion in 1999 to \$1,3 trillion in 2007. Gold and currency reserves rose from \$12,7 billion in 1999 to \$500 billion in 2007. The reserves of the Stabilization Fund reached \$170 billion. The Russian economy is now the twelfth largest in the world. Although economic growth has been slowing down (from 10 percent in 2000 to 7,8 percent in 2007), it is nonetheless growing at a fast rate. The economy is not only booming in the extractive sectors, but also in construction, trade, and the service and banking sectors. Russian business has shown that it is able to organize large-scale production and compete successfully against international corporations. Russia repaid its debt to the Paris Club ahead of schedule and government external debt today is below 5 percent of GDP. Foreign direct investments stood at \$121 billion in 2007, up 120 percent compared with 2006.

However, there are factors that could undermine the sustainability of the Russian economic miracle. The main cause of the economy's success is high oil prices, as well as protection from foreign competition. A collapse of the oil price could throw the Russian economy into recession¹³. Many predict an inevitable devaluation of the rouble, which may take the form of a crisis. Wages and incomes in Russia have been

¹¹ D. TRENIN, *Getting Russia Right*, Carnegie Endowment for International Peace, Washington 2007.

¹² The economic data from the 'Kommersant', 'Vedomosti', 2008, www.liberal.ru, 2008.

¹³ The sixfold decrease in the oil price in 1986 led to the collapse of the USSR, and the twofold fall in 1998 caused a financial crisis that almost finished off the barely breathing Russian economy.

growing more quickly than productivity and, as a result, consumption as a share of the GDP has increased at the expense of investment. (Gross investment amounts to no more than 20 percent of GDP). The government cannot lower inflation which, by the end of 2007 reached 10 percent and in April 2008 exceeded 3 percent. The banking system is not fulfilling its role as a mediator: financial flows in the raw materials sector are not being transmitted to other sectors. The government has no idea what to do about the negative impact of the flood of petrodollars – namely, the strengthening of the rouble, which stimulates imports and hurts Russian industry. The corporate debt of Russian companies has risen from \$30 billion in 1998 to \$500 billion in 2008. Russia's foreign trade accounts for 45 percent of GDP (in China this indicator is closer to 70 percent), which is a warning that Russian goods are uncompetitive. Russian investors prefer to invest abroad, a trend which is now called "export of capital". Russian import in 2007 grew by 37 percent and export only by 6-7 percent. These are signs that bureaucratic capitalism has serious faults.

The key problem with the Russian economy is the role of the state – there has been a clear increase in direct state intervention in the economy since 2003 when the state nationalized one of the most effective oil companies, Yukos. This event became a watershed in the development of bureaucratic capitalism in Russia. This sort of crude intervention has been most frequent in the oil and gas sectors. In other sectors state expansion has increased uncertainty and damaged the business environment. The state is the economic regulator, but does not respect the supremacy of law and operates on the basis of slippery, unofficial rules that even the state does not observe consistently. The expansion of a state that rejects the rule of law makes corruption inevitable and drives business into grey markets. In effect, bureaucratic corporation has privatized the state, leaving no room for observing property rights or any economic laws. No amount of economic reform can stimulate business activity while the state is the servant of bureaucratic corporation and refuses to operate in a competitive environment. The World Bank placed Russia 106th out of 178 countries, 10 places lower than in 2007, for ease of doing business. Transparency International said Russia had slipped from 126th to 143rd out of 180 countries in its annual Corruption Perception Index, tied with Indonesia, Gambia and Togo. In analyzing the Russian economic performance, The Financial Times observer Martin Wolf admits: «Putin is a failure, not a success». Wolf reminds us that the economies of 11 of the 15 former republics of the Soviet Union have expanded far more than Russia's¹⁴.

The bureaucratic component of Russian capitalism is not the whole story. Russia's economic model is slowly evolving into that of a petro-state. The Russian oil and gas sector's share of the GDP in 2007 was 44,5 percent, and commodities accounted for 63,3 percent of exports. True, oil, gas and metals have not been driving Russian growth directly, that is, the rise in value added, in real terms in these sectors has not been a major component of the increase in real GDP. In fact, output of gas has been almost stagnant (during 2002-2007 this output increased 1 percent); oil production in 2007 increased 2 percent¹⁵. What has been driving growth is the rise in revenues from

¹⁴ M. WOLF, *A Dangerous Failure*, in «The Moscow Times», February 14, 2008.

¹⁵ The growth rate of processing industry in Russia in 2007 grew 19 percent; the retail sector by-15 percent.

these industries, chiefly derived from sales to Europe at rapidly rising prices¹⁶. Aside from these signs, a petro-state has certain characteristics: an alliance between the bureaucracy and business; the appearance of a rentier class which lives on dividends from the sale of natural resources; systemic corruption; the domination of large monopolies controlled by the bureaucracy; an economy susceptible to external shocks; the risk of “Dutch disease”, whereby a large increase in revenues from natural resources de-industrializes a nation’s economy; state intervention in the economy; and a gulf between rich and poor. The petro-state has an interest not in modernization but in preserving the natural-resource economy. All of these characteristics are increasingly typical of Russia.

As the state is busily re-establishing itself in the economy, nobody is thinking about reform. This confirms that a regime characterized by personalized power is incapable of creating a dynamic post-industrial economy; its primary concern is to safeguard its own interests. Anything threatening those interests must be restricted – competition, property rights, open courts, transparency in decision-making, business ethics, and freedom of the press. High oil prices lull everyone into complacency. Bureaucratic capitalism in Russia can produce economic growth but this growth does not mean economic development: the share of high technology in the Russian exports amounts to a mere 0,3 percent. According to the Russian government, share of the business organizations that use new technology in Russia account for 9,7 percent of all economic agents (in Italy the proportion is 36,3 percent, in Germany- 60,9 percent)¹⁷. Moreover, economic growth driven by consumption, oil prices and foreign borrowing is hardly sustainable. One could expect that for some time, perhaps 5 to 7 years, Russia could still demonstrate further economic growth if the Kremlin maintains prudent macroeconomic policy and keeps up with consumer demands; if oil prices continue to be high and the inflow of foreign finance and technology goes on. However, malign factors are sure to play a more important role, among them being a decline in labour force, lack of competitiveness, the emergence of huge mega-corporations linked to the state, and insufficient new investments. As government economists admit there are three systemic bottlenecks that soon will prevent further economic growth and expansion of the Russian economy: growing deficit of electric power; dilapidated road infrastructure; limited labour force and deficit of educated specialists¹⁸. The most negative element in this picture is the statism and fusion of power and business that will not allow Russia to enter the next stage of post-industrial modernization.

3. *Social Challenges: How the State Exercises Social Darwinism*

The economic “success story” in Russia has failed to revive the country’s social structure. True, under Putin, most Russians have better lives. The government now pays salaries and pensions regularly. Per capita income is on the rise, with the national average reaching \$550 per month in 2007, compared with \$80 in 2000. The number of people living below the poverty line fell from 37 percent in 1999 to 15 percent at the

¹⁶ P. HANSON, *The Russian economic puzzle: going forward, backwards or sideways?*, 83, in «International Affaires», 5, September 2007, p. 873-874.

¹⁷ The New Times, April 12, 2008.

¹⁸ Kommersant, April 7, 2008.

beginning of 2008 (according to independent sources, the number of people below the poverty line account for 30 percent). Unemployment fell from 7 million to 4.3 million people. However, these marginal improvements in the social landscape have not changed the dismal overall picture.

Russia's population continues to decline in number and grow older. The population has fallen from 149 million in 1991 to 142.8 million in 2007. Life expectancy in Russia is extremely low, lagging behind developed countries by 15-19 years for men and 7-12 years for women. The mortality rate of people of working age is exceptionally high. Throughout the world, the main cause of death is cardiovascular disease, followed by cancer, with extraneous causes of death (murders, accidents, poisoning, traffic accidents and the like) placed anywhere from fifth to ninth. In Russia, however, these extraneous causes are the second major cause of death. The quality of its workforce is declining as well. In short, Russia's human resources are in poor shape, and there is a danger that these processes will become irreversible. If current trends continue and immigration does not compensate, the population of Russia in 2025 will be 123 million (with pessimists putting the figure at 77 million). This raises doubts about Russia's ability to control, let alone administer, its territory east of the Urals in fifty years' time.

Russia's poor human resource situation is tied to the alarming state of its health services. Only one in three Russians considers himself to be in good health, while 40 percent are frequently ill, and 30 percent suffer from chronic illness. According to official figures, 60 percent of Russian children are suffering from a chronic illness, foretelling an even less healthy population in the future. Diseases that had been eradicated in the USSR are spreading once again, among them tuberculosis and the plague. Russia is on the brink of an AIDS pandemic: in 1999 only several thousand were HIV-positive, but in 2006 the figure had grown to somewhere between 800,000 and 1.1 million. These unfortunate statistics and other factors have led the World Health Organization to rate Russia 127th among its 192 member states in terms of the general health of its population.

A particular cause for concern is the growing income gap, which is now at a ratio of 15:1. The differential between the most prosperous and the least favoured regions has increased to 281:1 (in 2000 it was 64:1). There are 100,000 official millionaires in Russian and according to *Forbes* magazine, 74 Russians members joined the billionaire club whose net worth is approximately \$200 billion.

The structure of Russian society is hardly a recipe for stability. Between 1 and 2 percent of the population constitute incredibly rich people; 15-20 percent are considered middle class, those who can save money and contribute money to their children's education; 60-65 percent dwell in the "twilight zone" between the middle class and the poor; 15-20 percent are fighting for survival; and finally, 5-7 percent have fallen to the social "bottom". Such a "pyramid" social structure is inherently prone to turmoil.

One of the most painful social issues in Russia is the situation of its pensioners. Currently in Russia there are 38 million pensioners in a population of 142 million. That means that pensioners constitute about 27 percent of the total population. Over the next ten years this ratio could reach 1:1. Guaranteeing civilized levels of life for the elderly is becoming a challenge for the country. Today Russian pensions constitute

only one-quarter of an individual's former salary, whereas in Europe pensions constitute 60 to 70 percent of salary (during time of employment), which means that pensioners in Russia are one of the poorest social groups¹⁹.

In the United Nations Human Development Report, Russia is placed 62nd out of 177 states. It is hardly surprising that the Russian population continues to suffer from a sense of uncertainty and constant disillusionment, despite some improvement in morale during Putin's rule. According to a VTSIOM survey in 2007, only 39 percent of respondents showed a positive attitude toward the situation in education versus 53 percent negative; in the area of medical care, the percentages were 29 and 67, respectively; regarding housing, 15 and 78 percent, respectively.

In the minds of the Russian political class, social welfare obligations are a burden that it tries to avoid or ignore. The Kremlin so far has failed to apply the billions of oil dollars that fell upon them from out of the sky to easing the lot of the poorest part of population. To be sure, from 2004 to 2006, the total expenditure on social welfare increased by 31 percent, and in the 2007 budget expenditure on education rose by 60 percent and on health by 30 percent. Yet these amounts are still insufficient to repair the collapsed social infrastructure, and there is a suspicion that the money, allocated in the run-up to elections, will be spent on ineffective programs. In any event, the authorities are far more concerned about defense and national security. In the 2006-2007 budget, the expenditure for security was 27 percent higher than the total expenditure on education, health, science, social welfare, culture, sports, new housing and ecology. Taken together, these made up a meager 18.5 percent of the total budget expenditures. In 2008 expenditures on education amounts to 1 percent of GDP, on medical care to 0.7 percent of GDP (in 2010 those expenditures have to amount to 0.7 and 0.6 percent accordingly).

The authorities are so busy "redistributing" wealth and keeping themselves in office that they have no time to think about changing the social psychology of the population, encouraging those who are able to resolve their own welfare problems, and providing for the welfare of those who are unable to do so. Determined to keep society politically passive and dependent on the state, the regime reinforces consumerist instincts and encourages the belief that only the state can help society. When sociologists from the Levada Center conducted a poll, asking, «What is the best way to fight poverty», the most popular reply, chosen by 60 percent of those surveyed, was a demand for an increase in salaries and social welfare payments. Another 14.5 percent thought business should take responsibility for the social welfare of the population; 11.4 percent contended that income should be taken from the rich and shared. Only 8.2 percent of Russians expressed a readiness to take responsibility for their own welfare²⁰. Accordingly, not without the influence of official policies, old attitudes remain that were once typical in the Soviet period. At the same time, although the authorities deliberately encourage society to feel dependent on the state, it neither can nor wishes to maintain the level of social security that the Soviet state provided. It makes no attempt to reinforce the social infrastructure by spending its petrodollars, or to create the

¹⁹ Interview with Y. YASIN, *Rossiyskaya Gazeta*, March 28, 2007.

²⁰ www.Levada-center.ru, *Obshchestvo* (Society), last accessed on May 23, 2007.

economic conditions that would ensure a rise in the population's standard of living and create incentives for people to help themselves.

In the run-up to the March presidential election, the Kremlin had put forward the idea of "national projects" to resolve problems in health, education, the building of private housing, and agriculture that are to be implemented by President Dmitry Medvedev. Alas, the national projects have not changed people's perception of developments in social areas. Levada Center polls in 2007 demonstrated skepticism regarding their implementation and their contribution to the well-being of the people. Sixty percent of respondents said that the national projects will not have a positive impact on their lives; 26 percent believed that they will (14 percent had no opinion). In the same survey, fifty-one percent said that the money will be spent "ineffectively"; 27 percent thought that the money would be stolen. Only 13 percent said that the money would be effectively spent (9 percent had no opinion)²¹.

In 2007 the government undertook one more initiative. It decided to use oil money to create the Foundation for Future Generations, following the example of Norway. By 2009 the budget of the foundation must reach \$24.4 billion, or \$173 a person, compared to the Norwegian state foundation Global, which controls about \$290 billion, or \$62,000 for each Norwegian. The money that the Russian government puts aside for future generations is hardly enough to guarantee adequate living standards. Moreover, the looming crisis of the Russian pension fund has to be dealt with. Its deficit is expected to grow from \$4.3 billion in 2005 to \$24.3 billion in 2012, which will mean serious problems for the survival of the aging population.

In creating the impression that it is addressing problems, the Kremlin encourages the involvement of business in social welfare, trying to hand over its responsibility for resolving such matters as promoting education, helping the needy, and developing a sports and physical culture. An oddly circular situation arises. The population vests its hopes in the state, which has no intention of satisfying them. At the same time the state itself continues to support the idea of the patrimonialism and paternalism. The state continues to buy society's support with handouts and targeted injections of petrodollars, but this populist approach can't be effective in the long-term and will sooner or later provoke discontent. One cannot escape the impression that the authorities are intentionally trying to preserve people's dependence on the traditional state and their support of the status quo, thus undermining any attempts to look for independent (from the state) ways of survival and success.

Only a wholesale reorientation of the political system towards the common good, competitiveness and change can help to transform Russian social infrastructure and prevent further degradation of Russia's "human capital". If the current system continues to serve only the interests of a parasitic rentier class, while simultaneously nurturing a culture of dependency among the population, the resulting social degradation of society may be irreversible and this would bury any chances for a real modern breakthrough leaving the country to stagnate.

²¹ *Ibidem*.

4. *Russia's Foreign Policy: Riding Two Horses in Opposite Directions*

At the end of Putin's second term Russia has shocked the world, and especially the West, with its hardball game in the international arena that has brought the country's relations with the West to new lows. So what exactly is the Kremlin's foreign policy, what drives it, and does it help or prevent the modernization of Russia?

Some of the motivation behind Russia's assertiveness is apparent: high oil prices and the world's addiction to hydrocarbons have prompted the elite to exploit these fortunate (for Russia) circumstances; the stabilization of Russia's internal situation; the West's uncertainty about how to build a new world order; the US setbacks in Iraq and the EU deliberations on its future; growing global hostility to American hegemonism; and the crisis of the "color revolutions" that alarmed the Russian elite in 2005. All of these factors have helped to increase the Russian elite's self-confidence. In some cases, the West has given the Kremlin the motivation or pretext for its hard ball policy (for example, the US decision to deploy the elements of the missile defence system in Poland and the Czech Republic). However, the key factor behind new Russia's self-assurance is structural and deals with the Kremlin's attempts to justify centralization of power by returning to great-power aspirations and seeking an enemy in order to mobilize society. The Russian political class views the return to a great power role as an essential prerequisite for the revival of the Russian state. In fact, the Russian elite have decided to overcome the humiliation of the collapse and fragmentation of the Soviet Union, not by choosing the same path as Germany and Japan after their defeat in WWII, but by returning to autocracy and trying to solve its problems by opposing the West. Ironically, today relations between China and the West are much more friendly and constructive than relations between Russia and the West. Thus, one can draw a conclusion that values are crucial for understanding the rupture with the West, especially the rupture between the United States and Russia, but it doesn't explain everything. The mentality of the current Russian ruling team and its zero sum approach to politics is one of the serious drivers behind the Russian assertiveness.

Putin has reversed the policy of Russia's "apertura" – the opening up towards Western civilization pursued by Gorbachev and Yeltsin. He has done so both in terms of viewing the West as an enemy and in terms of using foreign policy as a tool for his domestic agenda. Putin's demonstration of ruling with an iron fist on the international stage through 2007 could hardly conceal his intention to create a tough image during the transfer of power, so as to keep the situation under control. The regime's domestic needs lurk behind all of Russia's actions on the world stage, whether they take the form of grumbling about American hegemonism and deployment of ABM elements in Poland and the Czech Republic, their pandering to Iran, refusing to accept Kosovo independence or bullying Ukraine, Estonia and Georgia. Thus, Moscow's opposition to US hegemonism derives less from the vector of its foreign policy (which should be pushing Russia to work with the United States against common challenges like international terrorism or China) and more from the need to have a mighty opponent whose existence justifies the return to the centralized state.

The West, by failing to find a response to the emerging Russian challenge, bears at least partial responsibility for this state of affairs. As Robert Legvold wrote, «The problem is that neither the US leadership nor for that matter European leaders have

ever seriously wrestled with the underlying conceptual challenge: that is, how to integrate Russia with the West when it cannot be integrated into the West, that is, into the institutions that are at the core of Europe (the EU) and the Euro-Atlantic alliance (NATO)»²². Only while the window was open for Russia's political reform in the autumn of 1991 was there a chance of including Russia in Western institutions, even if only as an associate member of NATO and the EU. Neither side saw this opportunity. Both Russian and Western elites were caught off guard by the collapse of the USSR and failed to see the historic choice they could have made. The first round of NATO enlargements was a sign that the West had made the integration of Eastern and Central Europe its goal, even at the expense of its relationship with Russia. This meant that Western political elites had reconciled themselves with the idea that Russia could not be embraced. The failure of Russia's reforms did not alarm the West particularly; many had already written Russia off as either a potential adversary or as a spoiler. The resurgence of a self-possessed Russia seeking to restore great power status, however, has taken the West by surprise.

Vladimir Putin began his first term by experimenting with a multi-vector policy – effectively a policy of opportunistic vacillation in response to day-to-day requirements. Recognizing that the usual “hard power” instruments were no longer effective, Russia began concentrating on commercialization of foreign policy. A new phase in Putin's foreign policy began in 2005-2006, when the Russian elite, shocked by the Orange Revolution in Ukraine, demonstrated its readiness to dictate the rules of the game in the former Soviet space. In 2006 Minister of Foreign Affairs Sergei Lavrov began to speak of a role for Russia as a mediator in world crises. «Russia...cannot take anybody's side in a civilizational conflict on a global scale 175, he said. «Russia is prepared to be a bridge»²³. For the first time in 15 years the Kremlin expressed unwillingness to integrate with Western civilization. In late 2006 Sergei Lavrov put forward two new ideas: the first was to call for a “geopolitical triangle” of Russia, the EU and the United States. This triangle would “manage world developments”. The second proposed a transition to “network diplomacy”²⁴. The Kremlin's very terminology – “mediator”, “bridge”, “network diplomacy”, “geopolitical triangle” and finally “energy superpower” – characterize the new goals of the Russian elite. It would guarantee for itself a role as a superpower and the freedom to move in a variety of different directions. On the one hand, Russia wishes to find a way to interact with the West and

²² R. LEGVOLD, *U.S.-Russia-Europe: Cooperative Efforts*, Aspen Institute, Thirty-third Conference, August 12–18, 2006, Congressional Program, pp. 10-11.

²³ Pro-Kremlin analyst V. Frolov says: «A consensus has formed in Russia to the effect that Russia can't be integrated into Western structures. And there is no opening for us to be integrated into the East. This means that Russia is destined to remain an independent center of power, whether it wants it or not. It will have to rely on its own code of civilization, doing its best to establish equally distant or equally close relations with other centers of power». V. FROLOV, *Cho Dlya Nas Zapad Poslie Mjunchena?*, (*What is the West to Us after Munich?*) in «Izvestia», February 28, 2007.

²⁴ S. Lavrov emphasized that what the times called for were «not cumbersome unions with fixed obligations, but temporary, variable-geometry alliances based on present interests and in pursuit of specific goals» and the «network diplomacy was to provide for “flexible bilateral relations” between states», in «Izvestia», December 31, 2006. S. Lavrov on foreign policy doctrine see: S. LAVROV, *Russia's Foreign Policy: New Stage*, in «Expert», December 17-23, 2007, pp. 72-74.

the rest of the world on its own terms. On the other, Moscow would like to enjoy a privileged place in a US-European-Russian triumvirate, even as it remains foot-loose.

Relations between Russia and the West have begun to assume the forms of both “partner” and “opponent”, with collaboration in some areas and mutual containment (or an attempt at it) in others. This foreign-policy hybrid is a reflection of the incompatibility of the principles underlying domestic policy. Autocracy plus elections presents an arithmetic logic as dubious as trying to marching in step with the West while following a path all its own. Given such a contradictory model of behaviour, the question so many analysts have wracked their brains over – *which side should Russia choose?* – proves to be without substance. There is no “side” for a state that has firmly decided not to choose sides. In the aftermath of September 11, 2001, the Kremlin unambiguously sided with the United States, suggesting that in existential crises Russia is likely to side with the West. In times of peace, however the country will vacillate for as long as the current system persists in Russia. The real questions are: How long can Russia continue with this combination of realism, economic pragmatism, aspiration to join the club of Western democracies, and desire to regain great power status? And how will it eventually resolve the conflict between such diverse constituents? The West has a hard time formulating a consistent policy toward such a country and sometimes it is forced to follow Russia’s zigzags²⁵.

The Kremlin’s urge to be both friend and foe to the West leads to absurdity. On the one hand, Russia cooperates with Europe in the Council of Europe and Parliamentary Assembly and with NATO in the NATO-Russia Council. It develops “road maps” for rapprochement with Europe. On the other hand, Moscow regards Ukraine’s motion towards Europe as a hostile act. Russia had the presidency of the G8 in 2006 and participated in the EU-Russia and NATO-Russia summits, but it continues to accuse the West of undermining its territorial integrity. Moscow views the United States as a partner in the anti-terrorist coalition, but demands that its “partner” leave Central Asia, which is rapidly becoming a centre for the spread of terrorism. Putin seeks to attract Western investment in Russia, but his efforts are accompanied by a barrage of anti-Western propaganda and attempts to force Western investors to sell their assets to the Russian state.

Putin’s February 10th, 2007, Munich speech was perceived as the start of a new Cold war between Russia and the United States. Since then, he has not missed a chance to blast America. In his May 9th, 2007 Victory Day speech Putin said, «The number of threats is not decreasing. They are only transforming and changing their guise. As during the Third Reich era, these new threats show the same extent of contempt for human life and the same claims to world exclusiveness and diktat»²⁶. Few observers

²⁵ Some Russian and Western pundits suggest that the West should stop preaching values to Russia and choose “a more realistic and less hazardous policy based on interests”. See: D. TRENIN, *Russia and the West: That Sinking Feeling*, in «The World Today», July 1, 2007; “We should greatly reduce the frequency and the volume of our public pronouncements on this subject (on values- L.S.)”, wrote R. BLACKWILL, *The Three Rs, Rivalry, Russia, ‘Ran*, in the «National Interest», January-February, 2008, p. 72. Others on the contrary believe that the West should discuss values with Russian leadership more actively. Z. BRZEZINSKI in his article *Putin and Beyond* wrote: “External conditions need to be deliberately shaped so that future Kremlin leaders conclude that democracy and becoming part of the West are in Russia’s interest as well as their own”, in «The Washington Quarterly», Spring, 2008, p,115.

²⁶ V. PUTIN, May 9, 2007.

had any doubts which state Putin had in mind. By all appearances, the US-Russia relationship had returned to the pre-Gorbachev period. Controversies over the Kosovo, Ukraine and Georgia NATO membership, deployment of the missile defence elements in Poland and Czech Republic, Moscow's freezing of the CFE (Conventional Forces in Europe Treaty), dispute over Iran – have all seriously clouded the relationship between Moscow and the West.

Does this mean that the Russian elite are prepared to confront the West? The overwhelming majority of the Russian elite have no desire to return to isolation, let alone troubled relations with the West. How does membership of the G8, and all the energy Putin devoted to making the St Petersburg summit in July 2006 a success, square with Russia's distancing itself from the West? The hardliners who control Rosneft went to great lengths to organize the initial public offering and attract Western managers. That is all very well, the sceptics say, but how do you explain why Moscow throws a stick in the West's wheel spokes whenever it gets a chance? Russia obstructs the West in the post-Soviet territories; sells arms to pariah regimes; hinders the implementation of sanctions against Iran and sells weapons to Libya and Syria; receives Hamas and Chavez in Moscow; and plays up to China.

Doubtless, Russia's behaviour does not fit into any tidy scheme. The ruling elite is indeed eager to become integrated into the West at a personal level. At the same time it publicly rejects the West and makes it an enemy in order to rally Russian society. This schizophrenic mindset is nothing new. Back in the late 1940s, Sir Isaiah Berlin commented on the dual-track policy of the Russian ruling class: «Russia is ready to take part in international relations, but she prefers other countries to abstain from taking an interest in her affairs; that is to say, to insulate herself from the rest of the world without remaining isolated from it»²⁷.

Russia retreats every time a conflict occurs between its interests and those of the West, beginning with Bosnia and ending with Ukraine. It retreats because it lacks an ideology that might justify confrontation with the West; because of the risk-averse, hybrid nature of the regime; and because it lacks the resources to support a conflict with the West. True, there are some among the elite who see conflict with the developed democracies as a factor they can use in the struggle for power. At present, these hardliners would probably not go so far as to see Russia isolated from the outside world like an enormous Cuba – although how they might behave in the future, especially during a crisis, is anyone's guess.

At any rate, at the end of Putin's presidency it became clear that the hopes for partnership between Russia and the West on the basis of common interests have not produced the expected rapprochement so far. Indeed, both sides increasingly understand their common interests to be in conflict. This suggests that, for the time being, Russia and the West can hardly behave as consistent partners, a fact both sides acknowledge. Medvedev is starting his presidency when the relationship between Russia and the West most certainly includes elements of partnership, cooperation, disagreement and even deterrence. This mix will be difficult to manage.

²⁷ I. BERLIN, *The Soviet Mind: Russian Culture under Communism*, Henry Hardy (ed.), Washington 2005, p. 90.

Being the direct reflection of the Russian domestic hybrid system, the Russian “partner-opponent” model of relations with the West means that this model can’t radically change unless the system is reformed. For Moscow, this model could be rather effective in reaching short-term goals and adapting to the changing environment, but it lacks substance and rejects strategic commitments. This is a foreign policy model for a country that is not ready to choose its final path. In the longer run the “partner-opponent” formula could become an insurmountable barrier for Russia’s real partnership with the West – a partnership without which Russia’s liberal transformation is impossible.

How will Russian foreign policy further evolve under the Medvedev-Putin tandem? Putin openly reiterated that Medvedev will continue his foreign policy course. Irrespective of Medvedev’s views one could feel that by the end of Putin’s presidency, the Russian elite had started to understand that Putin’s tough line with the West creates problems for their interests, most importantly for the interests of Russian business abroad. Furthermore, after the successful transfer of power and after the Western leaders expressed their support for the new Russian president, one could conclude that the Kremlin team does not need to continue its macho politics. Moreover, Moscow can’t ignore that it has suffered a humiliating defeat trying to push forward its position on Kosovo, ABM and MAP for Ukraine and Georgia. The Bucharest NATO summit and Bush-Putin summit in Sochi at the beginning of April, 2008 became a sign that the Kremlin has started to look for a milder foreign policy course and that the West has been making an effort to help the Kremlin with the task of saving face. Could this mean a radical shift of the Russian foreign policy vector? Medvedev will hardly eradicate the Russian political elite’s mistrust of the West and any serious warming of the relations with the West could be viewed by the Russian political class as the reflection of weakness and even treachery. Still, the Medvedev-Putin duo may be forced to seek a more flexible foreign policy line which does not mean that the Kremlin will never again revert back to the searching for an enemy should it need a new mobilization or will feel weak. Until the state and the system are reformed, the foreign policy Moscow is pursuing will have the same agenda - to preserve the status quo in Russia and guarantee a super power role or at least the imitation of this role on the international scene. This agenda does not create a favourable international environment for Russia’s modernization which demands constructive partnership with the Western community. But the foreign policy course is the reflection of the domestic priorities which could be revised if the Russian elite finally understands that the status quo cannot guarantee stability or their ruling position. This understanding might come sooner than we imagine.

5. *How Stable Is Russia?*

The above mentioned facts allow us to conclude that the old-new Russian system can not guarantee effective development for Russia. But could this system help to at least maintain stability? Post- Putin’s Russia seems to be quite stable and there are a few drivers that support it. The oil price is crucial to Russian stability in helping to raise the living standards of society. Economic revival continues, which contributes to a positive outlook among the population. People have not yet fully recovered from their weariness

after the Yeltsin era upheavals and have no desire to take to the streets and demand policy change, even when they are dissatisfied. They are disillusioned with the opposition, are in no hurry to support the left or the right, and are waiting for new faces to appear. Remnants of the old opposition formed during the Yeltsin times have lost their combativeness but continue to occupy the niches of protest, hindering the emergence of an opposition more dynamic and more dangerous in nature for the Kremlin. The Kremlin is also adept at stealing the opposition's more appealing slogans.

Particularly noteworthy is the loss of the intelligentsia's old spirit of dissent and dissatisfaction, which was quite strong among it in Soviet times. The regime is in fact not too repressive, allowing its opponents to survive, if only after driving them into a ghetto and restricting their access to the public. The oppositionists socialize with each other through clubs, the coterie of the few remaining small opposition parties, and finally the Internet, and the fact that there are such safety valves creates the impression of a degree of freedom. The Kremlin and its spin-doctors have clogged the political arena with clones: parties, mushrooming youth movements, a Public Chamber, a State Council. These fronts create the illusion of an active political life and reduce opportunities for the formation of vibrant social and political movements.

Of course, the institution of leadership is immensely important. When everything is uncertain, when people are afraid that any change may worsen their living standards, society sees the leader as the guarantee of order and certainty. People do see the corruption of the regime but place the leader above officialdom and exempt him from criticism. Initially Vladimir Putin was supported because people hoped he would revive Russia, later he became a president of hopelessness supported because the populace could find no alternative. In short, Russia's current stability is based on the longing for status quo on the part of both- the elite and major part of the population, though their motivations for wanting that status quo are different. The elite that successfully consolidated during Putin's years want to preserve its power and control over property. Society, remembering the chaos of the Yeltsin years, fear any change and tries to adapt to the stagnant reality. But the status quo is not the only consolidating idea in Russia today. In March 2008 significant part of Russian society has supported Dmitry Medvedev for two conflicting reasons: some people see him as the guarantee of continuity and others hope that he will bring some positive changes. To what extent this last longing could become stronger, remains to be seen.

In any case, this appearance of apathy and indifference in Russia may be deceptive. Slowly but surely systemic factors are emerging that may gradually undermine this docility. I see three such long-term factors, engendered not by adventitious circumstance but by the way society is organized. The first is the fundamentally illogical nature of a democratically-legitimated personified power. The regime's determination to retain power obliges it to control the election, which weakens the legitimacy, and a regime that is losing legitimacy inevitably becomes fragile. The second factor is the regime's determination to retain the status quo while simultaneously redistributing resources. This pits one member of the elite against another and destabilizes the political situation. So far Dmitry Medvedev is keen to prevent the massive redistribution of resources which happens in Russia every time power changes hands. But one can be sure that his new team will have some ambitions for asset redistribution to start again, especially considering that institute of private property has been undermined by

the previous rule. The third factor is the inevitable appearance of discontent where power is excessively centralized in the society that has become accustomed to some degree of freedom. If popular discontent cannot be expressed in parliament or the mass media then it will sooner or later spill out onto the streets. In addition to these factors, others could appear: a conflict between the centralization of power and the greater independence the provinces need for their survival; between the regime's attempts to manage business and the needs of the market; between state expansion and its attempts to control society and the population's aspirations to run its own affairs; between growing Russia's integration into the globalized world and the Kremlin's attempts to close off society from external influences.

There is also danger from situational factors which today work in favor of stability, but could tomorrow work against it. For example, the Russian authorities have virtually no contingency plan for the possibility of a fall in the price of oil. Another tool of the regime for ensuring stability is popular movements created by the Kremlin. Who is to say that such youth movements as "Nashi" ("Our Side"), "Locals" or "Young Guard" will not go the same way as the nationalistic Rodina ("Motherland") Party, which also was set up by the Kremlin but then became a loose cannon.

It is an unrewarding task to speculate how stable a closed social system which works in its own interests is. Let us imagine an unexpected combination of untoward events: a reform of the outdated and still subsidized residential accommodation authority; an increase in fuel bills; transport snarl-ups in major cities; a rise in the rate of inflation; unrest among students who are to be drafted into the army; a technical failure like the 2005 power cuts in Moscow; a succession of ethnic riots; and finally, resumed terrorist attacks. This might stir up the most stoical and inert of societies. At the same time, social tension in the absence of powerful liberal democratic forces can play into the hands of populist nationalism. If a lurch to the right were to happen, we would have to agree with those occupants of the Kremlin who mutter darkly that today's regime is the acme of civilization by comparison with what might replace it. The whole problem, of course, is that the Kremlin authorities have provided the basis for a populist national tide, and the longer the present system continues, the stronger this tide could become.

6. *What Are Key Obstacles to Russian Modernization?*

Russia in its history has had two successful modernizations – both performed by harsh authoritarian rulers – Peter the Great and Stalin. In fact, both modernizations followed the same pattern – new technological structure imposed through the tools of militarist rule. The attempt to modernize and westernize Russia using liberal-democratic paradigm in the early 1990s failed. However, Russia did not fully return to the classic matrix either – a combination of pure authoritarian power, the drive to become a civilizational pillar, missionary ideology and pretensions of uniqueness. Power in Russia remains personalized, but it is no longer rooted in the public mind as something inevitable, sacred and God-given. The Soviet model of a state governed by imitation law has been revived, only now without the communist ideology or the former repressive bureaucratic apparatus. In trying to imitate the rule of law, pluralism, and freedom while simultaneously clinging to autocracy and informal rules of the game,

Russia has gotten itself stuck, frozen between civilizations. Mimicry replaces reality, so it's difficult to distinguish between the two when examining developments in Russia. At home, there is an emphasis on the desire to dress up authoritarianism as democracy. Abroad, Russia lays claim to a partnership with the West while simultaneously opposing it and trying to undermine it. On the one hand, Russia rightly regards itself and its culture as part of Europe and European culture. But on the other hand, Russia's politics, model of rule and the nature of state remain alien to Europe and the West as a whole. This attempt to combine the incompatible is disguised behind the mask of "pragmatism". This points to the inability of both the ruling class and Russian society to move forward and leave the past behind, though they certainly have no wish to remain in it forever. Thus, under Yeltsin and Putin Russia failed to make its final civilizational choice.

What is the crucial obstacle that stands between Russia and liberal transformation? Is it the tradition of the primacy of the state? This is certainly not an insurmountable obstacle. After all, quite a few societies have been built on this principle, and some successfully abandoned it at the end of the twentieth century. In the Russian case, primacy of the state has always been linked with not only its superpower status but also the existence of real or imagined threats, both internal and external. This entailed a constant search for enemies and the cultivation of a siege mentality, which required in turn the militarization of everyday life and consciousness – that is, the very foundations of society were subordinated to militarist goals. In short, Russia developed a unique model for the survival and continuation of power: permanent military rhetoric was maintained even in peacetime (always a temporary condition in Russia)²⁸. This militarist model was intended to legitimize the super-centralized state in the eyes of the people. Its militarism and suspicions of the outside world distinguish Russia from other similar countries that consolidated state power before successfully transforming themselves.

Medvedev's presidency will be crucial in determining the future course of Russia's development. Like his predecessor Putin had demonstrated, perhaps unwittingly, both the possibilities and the limits of using militarist thinking and super power rhetoric to preserve the traditional state. The Kremlin resorted to the old tactic of going in search of "enemies" at home and abroad in order to justify the continuity of this course of foreign policy. Among the enemies singled out by the Kremlin were the West, bordering neighbours, nongovernmental organizations, liberals and oligarchs. This tactic has worked quite well, but at some point, the "witch" hunt could undermine the stability and security of Russia and its elite, leading to a battle between clans. This model also hampers the dialogue between the Russian elite and the West, as well as the elite's ability to use the West to ensure its own survival and to pursue its business interests. The new leader and the Kremlin entourage definitely recognize the limits of the militarist paradigm. My guess is that Medvedev will try not to cross the line, beyond which enemy hunts would lead not only to internecine battles within the political class, but also to Russia's marginalization. At least part of the Russian ruling class understands the dangers of going further down Putin's hardball course. The question

²⁸ As the Russian political scientist I. Kliamkin explained, «Russia has always developed by annihilating the boundary between war and peace, and its system simply could not and still can't exist in a peaceful environment». I. KLYAMKIN, *Protiv Techenija* (Against the tide), in «Kontinent», 131, 2007, p. 165.

is: will Medvedev have the courage and time to form a new course, and does he understand that getting rid of militarism and enemy hunts will mean significant structural changes in the political regime and the state?

The failure of the liberal democratic project in Russia is grain for the gristmill of those who see Russian development as cyclical in nature – that is, from liberalization to restoration and back again – as well as those who view it in the context of continuity theory – the constant replication of a traditional paradigm. Both these theories reflect a fatalistic view of Russia as doomed to choose between autocracy and failure. The failure of the last liberal project is superficial evidence of that view, but matters are always more complicated. Russian history is neither a mechanistic cycle between reform and counter-reform, nor is it cyclical, even though it often appears to be. In reality, each successive reform moves the country a little farther forward, driving society toward greater openness. The successive restorations never take Russia all the way back to its starting point; they always leave a little more freedom than existed to begin with. Just so with the Putin restoration, which resurrects neither the Soviet Union nor the traditional Russian “service state”: It is a backsliding that nevertheless leaves society alone. The regime appears to be telling the population, «Do as you please; just don’t try to meddle with politics». Leaving society alone, giving it the right to seek its own salvation (but not the right to interfere in politics or claim ultimate control over property) represents an advance in terms of social autonomy, compared with the communist period, when the regime’s control over society was absolute. However, even Putin understands that with his restoration he went too far and today he wants to push the pendulum in the opposite direction. Regretfully, such an attempt could only undermine Medvedev’s chances to start reforms, owing to his tandem with the very politician associated with the current status quo.

Russia is gradually coming out of its shell and opening up to the world in an irreversible way, proving that it is not doomed to a single destiny. Today, even Russian traditionalists don’t want to live in a hermetically sealed country like North Korea. True, after each Russian thawing, there is a reversion to personalized power and state lawlessness, but with each repetition of the pattern, the regime loses some of its earlier power and is forced to limit its repressive instincts.

The time is approaching when the authoritarian regime will no longer be able to provide what society requires of it: stability and a standard of living approaching not Soviet but Western levels. We may find that Medvedev’s rule is one of the last gasps in the life of personalized power, whose return during Putin’s time was possible only because of high oil prices and the pain and chaos of Yeltsin’s reforms. Indeed, these two factors may have artificially prolonged the life of a system on the way to extinction. If the regime suddenly takes a sharper turn towards more harsh authoritarianism (which also can’t be excluded), it may even paradoxically accelerate the process of its demise: soft imitation democracy might help to sustain the life of the personalized power.

True, Russia will have to overcome myths and fallacies formed and cultivated by both Russians and Westerners for various reasons, often due not to the intention to keep Russia in the doldrums of history, but due to misunderstanding of its developments and its nature. Let us mention a few of the most popular myths and stereotypes on Russia that have a real impact both on Russian political life and on the West’s policy toward

Russia. «Russia has to develop capitalism first, acquire its middle class and then it will move toward democracy»²⁹. The supporters of this myth can't explain why Russia, despite its economic growth and capitalism, instead of moving toward democracy is moving back. They are at a loss as to why the Russian middle classes not only do not demand freedom, but are actually happy with this aggressive statism. Yet another stereotype: «The West has to stop preaching democracy to Russia. Constructive relations between Russia and the West have to be built on the basis of interests, not values»³⁰. The supporters of this idea can't explain why, despite their common interests, (Western leaders are not known to have reminded Putin about democratic principles) relations between Russia and the West have become so sour.

The attitude of the Western political establishment towards Russia and its trajectory is a permanent source of frustration and disappointment for liberal-minded Russians. Former German chancellor Gerhard Schroeder becoming the official of Gazprom; Italian prime minister Silvio Berlusconi offering to play the role of Putin's advocate; George W. Bush saying that democracy «is not in the Russian DNA»; Nicolas Sarkozy reiterating that the Russian parliamentary elections, with their rigged results, were: "fair and honest" – all of these can hardly persuade Russians that the West cares about Russia's democratic trajectory. In any case, it is unlikely that any successful Russian transformation will take place if the Russian population suspects the West and developed liberal democracies, as well as their leaders, of double standards and cynicism.

7. *Are Russians Ready for Liberal Modernization?*

If liberal trends were cut short in the early twentieth century because society was not yet ready for freedom, the defeat of Russia's liberal project in the early twenty-first century can be explained by the elite's ill-preparedness for freedom and political competition. We should not overstate the maturity of ordinary Russians or their ability to live in a state governed by law. The Russian people are still politically inactive and seem incapable of petitioning the regime to address their interests. The Russian public has no experience with forming civil associations, and no experience of life in a country in which state power is divided between executive, legislative, and judicial branches. Russians are, however, increasingly ready to move toward European cultural and legal standards, and they already consider themselves European. The world has become globalized, and Russia is now a reasonably developed country with a population reasonably well educated and informed about the rest of the world. Therefore it does not have to repeat all the stages that the Western nations accomplished on the path to liberal democracy. However, one further problem remains: how to enable the people to recognize the link between economic aspirations and freedom.

In Russia there are far more people who want to live in freedom than one might suppose. It is true that when Russians are asked about their priorities, they reply that

²⁹ In reality "people whose level of income reached a relatively high level (the so called middle class) turned out to be indifferent or even hostile to democracy", wrote sociologist V. SHLAPENTOKH, in «Johnson's Russia List», February 26, 2008.

³⁰ See note 25.

the most important issues are security, stability, and their standard of living. In 2007 seventy-five percent regarded these as most important, while only 13 percent mentioned democracy. However, only 12 percent of these respondents agreed that the interests of the state are more important than those of the individual. Fifteen percent considered that the rights of individuals can be sacrificed to those of the state; 44 percent believed that people should fight for their rights; and 21 percent said that the interests of the individual are more important than those of the state³¹. This was a breakthrough in the thinking of a people who for centuries have been brought up to revere the state and their leader.

Yet, we have to acknowledge a growing disappointment with the ideas of freedom and democracy in people's thinking in recent years which is the result of several factors: Kremlin propaganda that tries to persuade society that the current imitation democracy coupled with the traditional is the only form for Russia's survival; better living standards; Russia's assertiveness abroad that compensates for society's complexities and misfortunes. People tend to concentrate on their own family problems, trying to adapt to the current situation by downgrading their ambitions. In March 2008, 63 percent of respondents said that Russia is moving on "the right path" and only 27 percent thought that it is moving on "the wrong path" (with 22 percent having difficulty with answering). About 61 percent of respondents said that they had adapted to the situation, 20 percent were going to adapt and only 18 percent said that they would never adapt. Fifty percent of the population were optimistic about their future with 45 percent retaining their pessimism. Overall this is a picture of a quite stable society. True, one can see a growing split in the Russian mentality, with people living in the same country during the same period of time, having opposite perceptions of the reality. Thus, people support the idea of a "special path" for Russia while desiring to see it move closer to the West. They dislike the state but also want it to help them; they demand the expulsion of its "non-native" population from Russia, but want other states (like Ukraine) to become part of Russia. They want order and freedom, democracy and strong leadership, but can't find their proper balance.

Politics, and its major elements and tools (such as political parties, parliament, the judiciary, the media and opposition) have been intentionally and completely discredited. In the eyes of the population this leaves the presidency as the only viable political institution, which explains the support of the leader. In 2007, 64 percent of Russian respondents said that they trusted the president; 42 percent trusted the church; 31, the army; 27, the media; 24, security services; 19, the government, 17, judiciary, 16, prosecutors, 13, parliament, and 7, political parties. This is a devastating verdict of society concerning current Russian politics and a reflection of its deep dissatisfaction with existing political institutions. This does not mean that the same people do not want these institutions to be active and effective – around 60 percent of respondents said that they believe that the opposition has the right to express its views. People are skeptical about the ruling class – 60 percent are convinced that they are people who are concerned only with their own interests. They believe that the authorities should be under the control of society – this is the view of 66 percent of respondents (only 27 percent think that people do not need to control power if it functions normally). Russians

³¹ www.levada-center, last accessed on November 16, 2007.

understand the nature of the latest transfer of power to Medvedev – only 13 percent said that voters brought Medvedev to power, 80 percent said that he was brought to the Kremlin by the authorities (7 percent had no view). Only 21 percent of respondents believed that as a result of Medvedev's presidency the winners would be the people, 62 percent said the winners would be authorities and 17 percent had no view³².

One might note an increased social disenchantment with politics among Russians, a fear of any change, and a longing for the status quo and stability. At the same time, in this bleak picture the polls tell of the popular mood, one can see glimpses of hope. Amid a statist and nationalist outburst, according to the pro-Kremlin VTsIOM survey center, 47 percent of respondents said that Russia should not fight for superpower status (34 percent said it should). Asked what will guarantee the well-being of Russia, only 29 percent mentioned presidential "verticality," that is, top-down governance; however, 43 percent chose the "strengthening of civil rights" (12 percent chose neither one, and 18 percent held no view). According to another survey 66 percent of Russians want power to be under the control of society³³. That again signifies a paradox: people approve of the activities of personalized power in Russia, but disapprove of the reality this power has created.

The regime is deliberately trying to keep the public mind in this schizophrenic state, obstructing the formation of a civil culture and legal mentality. If the demand for a "special path" and rule with an "iron hand" strengthens in Russia, it will not be because of the inability of Russians to live in a democratic and free society, but because they have been deliberately disoriented and trapped by fears, phobias and insecurity intentionally provoked by the ruling elite. They have blindly followed the corrupt and immoral political establishment that has offered them a false semblance of a solution.

For now, however, Russia's main problem is that the potential instigators of a new democratization are disunited. What needs to happen for them to gain sufficient strength to come together and oppose the existing rot? A grassroots protest? Economic collapse? A technological disaster? Given that the forces of liberal democracy are weak, a great deal depends on how the pragmatists within the ruling elite behave, whether they recognize that retaining a lawless state is not only ruinous for the country but also provides them with no safeguards for their own future. Who specifically is likely to be among the prime movers of a new transformation: representatives of business, the pragmatists within the federal authorities, a new generation of liberals, regional elites, the media community, or the younger generation of educated people? This remains unclear. It seems likely that a spearhead battalion will be formed from members of all these groups, and so far there is no way to predict who exactly will become its driving force³⁴.

There are signs that a new environment is gradually forming within Russian society and that conditions are ripening for a renewed impulse toward systemic change. The simple

³² www.levada-center.ru, last accessed on April 12, 2008.

³³ www.Levada-center.ru, last accessed in April, 2007 and May 2007; *Niezavisimaya Gazeta*, February 20, 2007; www.Vtsiom.ru, last accessed on January 17, 2007.

³⁴ In April 2008 the opposition – both liberal and left wing – made a new attempt to consolidate declaring their new goal-creation of the opposition National Assembly that could work as the platform for political debate.

fact that society has urbanized has forced a break with archaic political stereotypes. Business succeeds in surviving and creating fairly efficient conditions for production. Its dynamism has come up against the constraints of a corrupted state not subject to the rule of law. The population would like to live the way Europeans do.

Finally, the younger generation is able to escape from the pressures of the state into its own world of Internet associations and to develop its own subculture. Millions of young people participate in blog sites and post their diaries on the Internet³⁵. This phenomenon is growing exponentially and is producing a social group that the regime cannot control. Today these young people are not interested in democracy, but they may start taking an interest if their personal freedom is threatened. They may then demand freedom for society in general. For the potential initiators of a social breakthrough to make their appearance, to become aware of the need to organize themselves, and to see that what is needed is not merely a change of political personalities but a reform of the regime as a whole, Russia needs a radical change in public opinion. There has to be the recognition that society's problems can be addressed only by adopting new standards. This is how the Ukrainians in 2004 came to fundamentally reform their government. As the events there showed, people then begin to adapt and get used to new values and principles, a process that might provoke disappointments. But those are disappointments of a different kind.

8. *Scenarios for the Medvedev-Putin Russia*

What will be the short term and what the longer-term options for Russia under its new format of rule? Will Russia move forward along the liberal democratic path and modernize itself, will it stagnate, or will it face some sort of crisis? For the first time in its history, Russia is enjoying an extraordinarily favourable domestic and international atmosphere for transformation: It has no serious international threats or enemies; it has domestic stability; both its leaders – Dmitry Medvedev and Vladimir Putin – enjoy popular support; the West is ready to assist it in a new round of reforms; its oil money could cushion the shock of the new reforms for society's most vulnerable members; and finally, Russian society does not reject liberal democratic values and would even actively support the new transformation, if it is persuaded that it will benefit from it.

Only one question remains: is the Russian elite ready for a new round of modernization? This is an important question, as a new round will be a really tough challenge, because in order to succeed, the ruling class has to restructure the traditional state. While the new rule is still in the process of settling down, one could feel total disarray among the political class and business. There are those who understand that the centralized power and extensive model of economic developments have exhausted their possibilities. The dissent is heard even among official economic circles close to the government. Medvedev himself indirectly supports these concerns by the very fact of talking about the need to fight corruption and judicial nihilism and by offering his agenda of innovations³⁶. At the same time the majority within the elite and

³⁵ In 2007, 2 million Russians subscribed to *LiveJournal*, created by Brad Fitzpatrick, and Soup, a Russian Internet company, is expected to have 4.1 million Russian subscribers by 2008.

³⁶ D. MEDVEDEV, Interview Financial Time, *ibidem*.

society at large are silent and are watching the events trying to guess who will be the next ruler and what trajectory he will choose. The winners of the Putin years are those most vocal in defending the status quo – the huge mega corporations, the petro state, the fusion of power and property. Meanwhile, Russia continues to move along the route known from Soviet times – spending the oil windfall on imports, just as the Soviet Union did during the Brezhnev stagnation. The status quo supporters, having consolidated around Putin, force Russian society to drift downstream with no thought of the troubled waters ahead. When the elite fail to consolidate on the reformist basis, and there is no strong pressure from the opposition, stagnation becomes the key vector. Moreover, the mutually incompatible trends within the system and within society itself, combined with historical weariness after the failed revolutions, make it difficult to generate the energy to change things. The elite have not forgotten the Gorbachev period, which it touts as proof that weakening control would lead to collapse. Society has not forgotten Yeltsin's years of chaos.

One can hardly expect a liberal democratic modernist upsurge in an atmosphere of stagnation. Change can only be provoked by a crisis, or the imminent threat of one. It may seem to some liberals that a crisis would be preferable to hopeless rot and decay. There is no guarantee, however, that a crisis in Russia would usher in a golden age of freedom, pluralism and reform. A crisis may be dealt with by a mere change of rhetoric, by minor policy changes or personal reshuffles in the Kremlin, while the old system continues unchanged, as happened in 1991, 1993, 1998, and 2000. It may be that, before Russia can have another opportunity to turn to liberal democracy; it will have to free itself from the temptation to try to resolve its problems with a nationalistic totalitarian regime. A lot depends on when the next crisis occurs, and what conditions prevail in Russia at the time.

It remains unclear what effect the hybrid nature of the regime will have on Russia's future development. Democratization of similar regimes in Serbia, Georgia, and Ukraine have shown that hybrids, because they afford a degree of freedom, can raise aspirations to genuine democracy in part of the population. So far, however, Russia autocracy, under the guise of "managed democracy", has brought only frustration for genuine democracy and the desire for order, not change.

For Russia to achieve a breakthrough, the Law of Failure governing its system must be discerned. According to this law, when a liberal opposition group is not ready to take power, society may have to pursue a dead-end road to its conclusion before it can look for another way out of the predicament. The leader has to spectacularly fail in order to demonstrate that the path was wrong. Gorbachev's failure to reform the Soviet Union showed that it could not be reformed. Yeltsin's failure to create a functioning capitalism with the aid of technocrats and oligarchs demonstrated its unsuitability. Putin's failure to modernize the country from the top could force society to look for another pattern of modernization. Alas, so far, in the people's eyes and in the eyes of the West, Vladimir Putin is not a failure, which means that true modernization may be a long way off. Besides, Putin's presence on the political scene symbolizing continuity will hardly help Medvedev and the elite to think about the new round of reforms – this usually demands that successors bury the past. Thus, the very model of the new Russian rule – the tandem – becomes one of the systemic obstacles on the path to Russia's transformation. There are several other factors: continuing economic growth; renewed

social optimism among part of society; increased super power ambitions of both the political class and the ordinary citizenry; fragmentation of the opposition.

Russians have yet to conceptualize the problems that will arise as their country again embarks on its journey toward the kind of open society Karl Popper dreamed about. The Russian public has yet to decide how much freedom and pluralism it can handle, given the nationalistic neuroses of some groups. How can a lawless state be restructured without plunging Russia back into chaos? This is the eternal quandary and stumbling-block of Russian reformers.

In the immediate future of 5-10 years, there seem to be *three* ways for Russia to go: continued stagnation; a systemic crisis; or a breakthrough to liberal democracy. The most plausible option is the continuation of political stagnation, despite economic growth. Some optimists believe that the Medvedev-Putin status quo scenario will push Russia toward liberal reforms. I do not see how a regime intent on continuity and the traditional state that cracks down on competitiveness can lead to reform. It is more likely that, if it continues, in the longer perspective it will end either with crisis and an authoritarian response or with gradual decay. Both carry the threat of state or national collapse. What matters most for Russian society and the elite is that they find the means to bring about the liberal transformation of Russia before it relapses into the old ways, and becomes irreversible, and before the most dynamic part of the society loses its drive and ambitions. Each year that Russia remains stagnant reduces the probability of a liberal democratic breakthrough. The opportunity is still there, but for how much longer will the window remain open – ten, seven, five years? In this context the Medvedev political cycle may appear to be crucial because it can either lay out the agenda for a new dynamism or squash any hope for revival.

If Russia should try once more to realize its liberal project, it will face new challenges³⁷. Russia is unlikely to be able to transform its enormous territory without the cooperation and assistance of the developed democracies – especially in developing Siberia and the Far East, as well as modernizing the North Caucasus. Russia will need to abandon its stubborn desire for self-sufficiency and its pathological sensitivity over sovereignty, especially as it becomes increasingly dependent on consumers of Russian natural resources. Inviting foreigners to resolve managerial and economic tasks is nothing new for Russia, but for the developed democracies to be willing to take part in the new Russian Project, they will have to be persuaded that the goal is a law-governed state. Moreover, Western cooperation is unlikely to be unconditionally acceptable to Russia. The West will also need to bear in mind just how difficult it may prove to complete joint initiatives on the territory of Eurasia, and how painful it will be for Russia (more specifically, for its elite) to find a way to maintain national identity while integrating itself into the Western world. If Western politicians indulge in displays of petty egoism, or fail to recognize the magnitude of the challenge, they may give Russia an additional push in the direction of a restoration.

The West should not expect the new liberal Russia to prove an easy, agreeable partner or to manifest much gratitude. Shared values do not necessarily lead to shared national interests or unanimity on how the world should be ordered and governed. This has

³⁷ On innovation and its chances in today's Russia see discussion: *The State and innovation: how are they compatible in modern Russia?*, www.liberal.ru, April 3, 2008.

been amply demonstrated by the ructions between Europe and the United States during the two terms of the Bush Administration. (France's perpetually idiosyncratic take on the world is further proof of this.). It is not impossible – indeed it is probable – that the post-post-Soviet Russia will have tensions with its Western partners. But there is no doubt that Russia will stand with the West in trying times, if only because Russian society is facing many of the same threats as the West – primarily, Islamic extremism, nuclear proliferation, and China's transformation into a superpower.

For the time being, Russia continues to drift and we don't know when the new window of opportunity for structural reform will emerge or what its trigger will be. In any case even according to the forecast of government economists the next moment of truth may come in 2010-2011, when the resources of the extensive petro economy may be exhausted. The Russian political class will be forced to seek an exit solution. The question remains: will Russian society continue to wait patiently until the elite wakes up and understands the challenges Russia is facing?