



# **RUSSIAN ELITES ARE WORRIED**

## **THE UNPREDICTABILITY OF PUTINISM**

Marie Mendras

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On the cover: "Dominant Curve" by Wassily Kandinsky (1936)

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TRANSATLANTIC ACADEMY PAPER SERIES

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## EXECUTIVE SUMMARY

**R**ussian elites are worried. The economic recession, Western sanctions, and semi-isolation are endangering the personal and professional interests of most of the upper middle classes, scientific and cultural elites, top-ranking administrators, and small and medium entrepreneurs. The new confrontational course in relations with Western countries undermines the Putin leadership's "contract" with elites and the middle class: enrich yourselves and leave the rest to us. The good years are over. Even a rise in oil prices will not ensure return to steady growth and higher salaries anytime soon.

Do new uncertainties have an impact on elites' submission to the regime? Most of them remain loyal so far, but nonetheless do not trust Putin's confrontational strategy. They have much to lose from more domestic agitation and estrangement from Western economies. Temporary exile is another response; the number of the elites settled in Western countries and in Ukraine should preoccupy the regime. Political protest and economic resistance may gain momentum inside Russia.

The hyper-nationalist propaganda creates fear, xenophobia, and populist retrenchment in a large section of the public, but this hysteria may be short-lived. People's emotions are volatile and Russia is a

diverse and uneven country, struggling with social inequalities nationwide and insecurity in the North Caucasus. High ratings for Putin in opinion polls are abundantly publicized to veil rising anxiety in upper echelons of society.

Elites beyond Putin's inner circle are excluded from the decision-making. They cannot express their opinions publicly about armed engagement in Ukraine and Syria, nor are they consulted about political legislation or economic choices. Power rests in the inner circle and the *siloviki*.

In struggling against the new odds, the Russian leadership is using three major instruments: foreign policy adventurism and nationalist propaganda; economic emergency plans that prioritize investment and spending in the immediately lucrative sectors of hydrocarbons, the arms industry, and agro-business; and semi-autarchy, served by repression, corruption, and intense media and Internet control.

Foreign policy as a distraction from domestic stagnation is a dangerous tactic; so is domestic retrenchment that alienates the most dynamic, innovative, and productive elements of elites and society. Western governments will continue to negotiate with the current leadership, but should also engage with alternative elites.

# 1 INTRODUCTION

Russia's elites and upper middle class are worried. Economic prospects look dim, exchanges with foreign partners are at a historical low, and the Kremlin leadership's course is unclear and unpredictable. The combination of recession and semi-isolation since the Ukraine conflict of 2014 jeopardizes the interests of many in the upper middle class, the scientific and cultural elite, and the middle administration, as well as small and medium entrepreneurs. These upper echelons of society, beyond the Kremlin and ruling circles, are particularly concerned, as they find themselves put off balance by decisions from above that they cannot influence.

This paper addresses the question of the adjustment capacity of professional and cultural elites. It adopts a broad economic and sociological definition of elites, but leaves aside the Kremlin inner circle, the top oligarchs, and the *siloviki*, i.e. those in the "force structures" — the army, police, Interior Ministry, intelligence services, and judiciary. A foreign scholar has virtually no access to the "ruling elites" and must rely on secondary sources, rumors, and deduction to guess their attitudes. This paper, therefore, focuses on the upper middle class and elites that do *not* belong to the ruling oligarchic system or "power organs."

Further away from the center of President Vladimir Putin's constellation, a few million Russians enjoy better living standards, higher education, and greater responsibilities in the economy and public life than the rest of society. They live in major cities, speak English, travel abroad (when permitted to leave the homeland),<sup>1</sup> and often trust foreign institutions more than Russia's for their savings, their health, and their children's education. They are affected, in their professional and private life, by the leadership's policies and attitudes. Among them,

<sup>1</sup> Since 2014, the Russian authorities have adopted a number of measures that restrict free travel and access to foreign capitals; restrictions particularly apply to functionaries.

a significant number are used to relating to the "ruling system" in different ways: a lawyer defends a big magnate, a doctor works in an elite clinic, a town mayor engages with higher administrative echelons, a media director or journalist talks with the powers-that-be, a rector depends on state money to run his university, a high-profile scientist works in a state research institute. In 2016, all interactions are more complex and distrustful than before. The contours of this upper layer of the middle class are blurred and changing, depending on economic ups and downs and on proximity to or estrangement from decision-making. Undoubtedly, those few million individuals' willingness, or incapacity, to remain loyal to the Putin regime holds considerable significance for the short and medium term development of Russia.<sup>2</sup>

In the early 2000s, Putin successfully struck a tacit deal with Russian society: "live better, vote for me, and stay quiet," and an open deal with the business class and intelligentsia: "enrich yourselves, enrich the state, but keep away from politics." Mikhail Khodorkovsky's arrest in October 2003, and the dismantling of his oil company, Yukos, set the rule. Today, the leadership-elites contract may prove more difficult to hold than the leadership-society agreement. It has come under strain with economic recession, and hard choices must be made between immediate interests and longer-term calculations.

<sup>2</sup> The study of Russian elites is not an easy task, given the rapidly increasing opaqueness and repression of any dissident voice. But it is a key issue, as tensions mount inside the inner circle and among economic and administrative elites. People talk more freely when abroad, or under condition of anonymity at home. Many Russian intellectuals, scientists, economists, journalists, entrepreneurs, former politicians, and opposition leaders spend time in Western countries, or settle there, at least for a time. They try to grasp our perceptions of the situation, and wonder what their future will be in the case of a prolonged Putin rule, or in the event of an early succession. Several of them (about 30 people) shared their analysis with the author in conversations held in Washington, New York, Paris, and Moscow in the first half of 2016.

*The combination of recession and semi-isolation since the Ukraine conflict of 2014 jeopardizes the interests of many in the upper middle class, the scientific and cultural elite, and the middle administration, as well as small and medium entrepreneurs.*

Non-ruling elites face three options: exit, voice, or loyalty.<sup>3</sup> Exile is depriving Russian cities of their best minds and most dynamic elements. Open protest is risky, but passive resistance to the system may be growing. As for loyalty, it is a matter of adjustment to the new demands and constraints imposed by the leadership in a context of uncertainty and weak economic returns.

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<sup>3</sup> A.O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, Mass.: Harvard University Press, 1970). In his 1970 study of responses to decline, Hirschman proposed a model for analyzing elites' choices of strategy when faced with new odds and danger: exit, voice, or loyalty. It is precisely these three options that Russian elites are faced with, and this is often the way they formulate their possible choices.

# 2 ECONOMIC TURMOIL, POLITICAL RETRENCHMENT

## Recession

In 2014, Putin put his country at risk. He challenged Ukrainian and European security, while Russia faced economic hardship and social disarray at home. It is important to recall that the Russian economy started to slow down as early as 2009, and entered a phase of recession in 2013, before the fall of Ukrainian President Viktor Yanukovich and the conflict with Kyiv.<sup>4</sup> Similarly, the authorities engaged in harsh repression of political protest and opposition leaders immediately after Putin's return to the presidential office in May 2012,<sup>5</sup> at a time of difficult relations with Western powers over Syria, and of emerging tensions with European states over the Eastern Partnership of the European Union (the six states between Russia and the EU — Ukraine, Belarus, Moldova, Georgia, Armenia, and Azerbaijan).<sup>6</sup>

In 2016, the country is still struggling with a perfect storm: low oil and gas prices; shrinking GDP and reserves; a critical lack of investments, declining returns, and an oversized state sector; and a weak currency and limited import substitution.<sup>7</sup> Russian and non-Russian economists alike agree on the

magnitude of the crisis, and the improbability of a significant restart any time soon. As Birgit Hansl, the World Bank's lead economist for the Russian Federation, explains, "policy uncertainty is the biggest obstacle to investment and consumer decisions." She emphasizes the fiscal problem: "Policy space for fiscal adjustment narrowed as fiscal buffers declined, requiring a strategic restructuring of expenditures and less reliance on oil revenues."<sup>8</sup> Chris Miller has shown how Russia lost much of its energy and economic leverage in recent years.<sup>9</sup> Mikhail Dmitriev, deputy minister for economic development and trade in the early 2000s, sees possible ways out of the crisis, as Russia has important reserves and resources, but agrees that the political situation, with a stifled non-pluralist system, is the major stumbling block. Andrei Kolesnikov at Carnegie Moscow Center argues along the same lines and concludes that the regime has no strategy.<sup>10</sup>

## Protectionist Temptation

The more protectionist government policies are, the less competitive Russian production and markets

*In 2016, the country is still struggling with a perfect storm: low oil and gas prices; shrinking GDP and reserves; a critical lack of investments, declining returns, and an oversized state sector; and a weak currency and limited import substitution.*

<sup>4</sup> S. Guriev, "Political Origins and Implications of the Economic Crisis in Russia," in L. Aron, ed., *Putin's Russia: How It Rose, How It Is Maintained, and How It Might End* (Washington: American Enterprise Institute, May 2015).

<sup>5</sup> On the eve of Vladimir Putin's inauguration, May 6, 2012, a peaceful opposition demonstration was brutally disbanded and dozens participants were arrested and prosecuted; several defendants have been condemned to long prison sentences.

<sup>6</sup> On the Eastern Partnership and EU-Russia relations, see N. Babayan, "The In-Betweeners: The Eastern Partnership Countries and the Russia-West Conflict," Transatlantic Academy, April 2016, <http://www.transatlanticacademy.org/publications/betweeners-eastern-partnership-countries-and-russia-west-conflict>.

<sup>7</sup> A. Ovsyanikova, "Moscow's authoritarian future," Open Democracy Russia, March 9, 2016, <https://www.opendemocracy.net/od-russia/anastasiya-ovsyannikova/moscow-s-authoritarian-future>: "the public sector in Russia is colossal, and still growing. According to the IMF, in 2014 the public sector's share of GDP exceeded 70 percent, and according to RBC [Russian business reporting service], it made up to 30 percent of employment, putting Russia fifth in the world in terms of public sector employment." In conversations in Moscow in May 2016, experts

and businessmen agreed on the lack of incentives to invest and the limited import substitution in important sectors.

<sup>8</sup> B. Hansl, "The New World Bank's Russia Economic Report: The Long Journey to Recovery," presentation at Johns Hopkins-SAIS, May 6, 2016. Author's notes.

<sup>9</sup> C. Miller, "Why Russia's Economic Leverage is Declining," Transatlantic Academy, April 2016, <http://www.transatlanticacademy.org/publications/why-russia%E2%80%99s-economic-leverage-declining>.

<sup>10</sup> M. Dmitriev, presentation at "Understanding Russia: A Tryout for the European Union," CIDOB, Real Instituto Elcano, and Friedrich Ebert Stiftung, Madrid, July 2, 2015, [http://www.realinstitutoelcano.org/wps/portal/web/rielcano\\_en/event?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/calendar/activities/understanding-russia-tryout-european-union](http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/event?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/calendar/activities/understanding-russia-tryout-european-union); see also his presentation "Russian Society and the Economic Turning Point: Opportunities Missed, Opportunities Taken," Chatham House, London, April 13, 2016, <https://www.chathamhouse.org/sites/files/chathamhouse/2016-04-13-dmitriev-presentation.pdf>; A. Kolesnikov, "The Russian Regime in 2015: All Tactics, No Strategy," Carnegie Moscow Center, September 2015, [http://carnegieendowment.org/files/Article\\_Kolesnikov\\_Sept\\_2015\\_Eng.pdf](http://carnegieendowment.org/files/Article_Kolesnikov_Sept_2015_Eng.pdf).

Most liberal experts doubt that the Kremlin has any genuine desire to engage in even limited reforms.

will be. Research and development will continue to lag behind major Western and Asian countries. Sergei Guriev, former rector of the New Economic School, now exiled and teaching at Sciences Po in Paris, writes that sanctions have made a bad situation worse: “Western sanctions imposed after the annexation of Crimea have isolated Russia from global markets, and Russia’s counter-sanctions, the country’s retaliatory embargo on Western agricultural imports and fish, have only compounded the problem.... Russia’s inability to borrow has led to a dramatic depreciation of the ruble and fall in real incomes and wages.”<sup>11</sup> In the opinion of most Russian economists, the situation is not currently reversible. A recovery calls for quick action, followed by structural reforms, and of course political will. But they doubt the Kremlin’s political commitment to reforms. In the near future, Russia will not attract urgently needed investment, domestic or foreign. This is the Achilles heel of its economy and precludes any foreseeable improvement soon.

Criticism of this new form of “stagnation” now shakes the Moscow Establishment. German Gref, president of Sberbank and former Russian economy minister, said openly at Davos early in 2016 that the Russian economy “must adapt,” otherwise it will lag behind. In April 2016, former Russian Finance Minister Alexei Kudrin, a longtime critic of the Putin-Medvedev tandem, reached an agreement with Putin to write up a new reform plan. He accepted the deputy chair of the president’s economic council. He cautioned, however, that no reform can succeed unless the authorities tone down the confrontation with the West. Most liberal experts doubt that the Kremlin has any genuine

<sup>11</sup> S. Guriev, “Russia’s Constrained Economy,” *Foreign Affairs*, May-June 2016, p. 19, <https://www.foreignaffairs.com/articles/russia-fsu/2016-04-18/russias-constrained-economy>. See also his Carnegie brief, “Деглобализация России” [Russia’s De-globalization], Carnegie Moscow Center, January 26, 2016, <http://carnegie.ru/commentary/2016/01/26/ru-62541/it69>.

desire to engage in even limited reforms. Such reform programs have been laid out at various key moments during Putin’s tenure, but Moscow-based social scientist Kirill Rogov argues: “They exist to prevent anyone else from proposing political or economic alternatives. Whatever happens in reality (...), Putin makes sure to always have a progressive reform program on the table. He makes it clear that he just might implement it at any moment.”<sup>12</sup> Foreign observers are equally suspicious.<sup>13</sup>

Russia’s lack of economic attractiveness results mainly from the lack of trust in the administrative and justice systems, the government’s incapacity to fight corruption and entrenched quasi-monopolies, and stubborn resistance to international transparency and economic globalization, in a glaring contrast with another authoritarian state, China.<sup>14</sup> Russia remains a semi-autarkic “economy of favors” with leadership and elites clinging to their privileges, even though it would be rational for many in business and finance to seek a rule-of-law state that protects their assets and attracts credit and investment.<sup>15</sup> Until a few years ago,

<sup>12</sup> K. Rogov, “Why Putin Tapped Kudrin to Write New Reforms Plan,” *The Moscow Times*, April 20, 2016, <http://www.themoscowtimes.com/opinion/article/putins-economist-why-kudrin-tapped-to-write-new-reforms-plan-op-ed/566809.html>.

<sup>13</sup> See K. Hille, “Kudrin’s resurrection fails to damp doubts on Russian reforms,” *Financial Times*, May 8, 2016, <https://next.ft.com/content/7f30cba8-13ae-11e6-91da-096d89bd2173>; M. Domańska, “Kudrin is back: the pretence of reform in Russia,” Centre for Eastern Studies (OSW), April 27, 2016, <http://www.osw.waw.pl/en/publikacje/analyses/2016-04-27/kudrin-back-pretence-reform-russia>.

<sup>14</sup> S. Guriev, “Деглобализация России” [Russia’s Deglobalization]. At an official event on Russia-China relations, organized by the Russian International Affairs Council in Moscow on May 31, 2016, Chinese speakers did not hide their confusion regarding at Moscow’s trade policies. They did not embrace the Russian catchword of import substitution. Author’s notes.

<sup>15</sup> A. Ledeneva, *Russia’s Economy of Favours: Blat, Networking and Informal Exchange* (Cambridge: Cambridge University Press, 2000); A. Ledeneva, *Can Russia Modernise? Sistema, Power Networks, and Informal Governance* (Cambridge and New York: Cambridge University Press, 2013); K. Dawisha, *Putin’s Kleptocracy: Who Owns Russia?* (New York: Simon and Schuster, 2013).



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the network-system and opaque rules benefited many in the upper echelons of society. A kind of *omerta* prevailed, by which secret deals and arrangements, hidden assets and flows of cash, were neither discussed nor exposed publicly in Russia, except by a few detractors and courageous journalists and politicians.<sup>16</sup> Since the Ukrainian conflict, and subsequent negative economic and political consequences for Russian business and intelligentsia, elites see the limits and costs of this network system and are faced with a difficult choice: exit, voice, or loyalty.

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<sup>16</sup> Boris Nemtsov and Vladimir Milov published several reports on corruption in the 2000s. Ilya Yashin edited a report on Ramzan Kadyrov's corrupt and violent regime in Chechnya in 2016. *Novaya Gazeta* continues to investigate political and economic violence, as well as abuse by military and police. Lawyer and political opponent Alexei Navalny, in a very hostile environment, keeps his Foundation to Fight Corruption and his blog going.

# 3 ELITES' CHOICE: EXIT, VOICE, OR LOYALTY

Russian elites and the upper middle class do not form an obedient nomenklatura as existed in Soviet times. They are plural, fragmented, and not prone to collective action.

Elites' attitudes depend to a large extent on signals coming from the top. This is self-evident for ruling elites that compose the power circles around Vladimir Putin or at the helm of key republics and regions of the Russian Federation. It is also true for more estranged elites, in Moscow and other cities, because they cannot devise their own plans without anticipating the leadership's encouragement, indifference, or obstruction. The leadership wants no contestation of its supremacy and prefers a shrinking budget to a competitive economy. They might even prefer to push out their best elites, and lose the exiles' intellectual and business input, rather than have to compromise with them.

## Elites' Plurality

Russian elites and the upper middle class do not form an obedient *nomenklatura* as existed in Soviet times. They are plural, fragmented, and not prone to collective action. A few excellent sociologists continue to undertake surveys of selected segments of the middle class.<sup>17</sup> Articles and public interventions by Russian experts and advisers that serve or served the regime provide fruitful material for analysis. Most of them expose their doubts and concerns, as the crisis deepens and puts them at odds with long-time friends and colleagues that were pushed out of the establishment. Also, independent Internet publications, sites, and blogs offer a rich insight into the mood and attitudes of elites and engaged Russian citizens. Social networks

<sup>17</sup> A new Levada-Center survey, following the 2008 survey commissioned by the EU-Russia Centre in Brussels, gives an interesting insight. This 2015 survey, directed by Lev Gudkov, was commissioned by the Open Russia Foundation in London. This survey is not published, but was made available to the author; some of the findings can be found in articles on the Levada-Center website, <http://www.levada.ru>. See also M. Dmitriev, "Evolution of Values and Political Sentiment in Moscow and the Provinces," in L. Aron, ed., *Putin's Russia*, pp. 73-82; and the article written by a Levada sociologist, D. Volkov, "Russian Elite Opinion After Crimea," Carnegie Moscow Center, March 2016, [http://carnegieendowment.org/files/CP\\_Volkov\\_WEB\\_Eng.pdf](http://carnegieendowment.org/files/CP_Volkov_WEB_Eng.pdf).

host active discussions on current events and the evolution of the Putin regime.

Of all strata of society, urban upper middle classes are most hit by the new context of recession and semi-isolation from Western countries. On average, their incomes have fallen more sharply than those of lower middle class households. Other incomes have gone down as well, but reliable data are missing. The grey zone of the economy is expanding; consequently, the share of non-declared activities, and incomes, is expanding too, and corruption remains unchecked. It has become difficult for small and medium enterprises, for liberal professions and non-state organizations to adjust to new constraints and limitations from above in a context where money is scarcer. If significant segments of the elites and upper middle class have managed to save their status, activities, and privileges, others face more hardships. Since 2013, differentiation has been growing between cadres and managers paid by the state or state-controlled business on one hand, and those paid by other employers or the self-employed, on the other. The former are, at present, better protected than the latter. The authorities try to increase salaries of those in strategic companies.<sup>18</sup> For private business, small entrepreneurs in services, and liberal professions, insecurity is rising and alternative strategies are needed to fight the new odds.

What constituted a relatively homogeneous and dynamic socioeconomic stratum is now under strain. Interviews conducted in Washington, London, and Moscow in the winter and spring of 2016 clearly point at this new trend among professional and cultural elites. For instance, a renowned Russian financial expert complains in harsh words, but off the record, about the government's inability to offer reasonable

<sup>18</sup> Author's conversations with Natalya Zubarevich, Washington, DC, February 2016, and with Dmitri Oreshkin, Moscow, May 30, 2016.

conditions for medium enterprises and banks to operate in Russia. A former deputy minister underlines the deterioration of market conditions and the net loss incurred on business as a result of inhibiting legislation and regulations. A U.S. consultant based in Moscow emphasizes the corrosive effect of undefined rules, unpredictable behavior, and unknown prospects. His clients express their concern about the sustainability of their business. While a growing number of individuals dissociate themselves from Putin's policies, they are a minority among the elites. Most prefer to keep a low profile and save what they can of their assets and position.

Regional elites also fall prey to the general climate of suspicion and intrigues. A striking number of governors had to step down in 2014-16; several of them were prosecuted, including the governor of Tula, an important region for the military-industrial complex, which is under total control of the Kremlin circle. In the North Caucasian republics, internal conflicts among the powerful aggravate poverty and insecurity. Loyalty to Moscow is bought by large subsidies to the ruling groups. Ramzan Kadyrov, the leader of Chechnya, is the only regional boss that can challenge the Kremlin leadership. He has built his own Pretorian guard and army, and is feared in Moscow. He is protected by Putin who, according to seasoned experts, is now a hostage of his own protégé, an uncontrollable despot in his own land.<sup>19</sup> Vladimir Milov, a leader of the democratic opposition and former deputy minister of energy, underlines the

<sup>19</sup> See *Novaya Gazeta* articles on Chechnya, <http://www.novaya-gazeta.ru>; I. Yashin, "Threat to National Security," February 2016, [http://www.4freerussia.org/wp-content/uploads/2016/03/Doklad\\_eng\\_web.pdf](http://www.4freerussia.org/wp-content/uploads/2016/03/Doklad_eng_web.pdf); D.N. Jensen, "Kadyrov, Putin, and the Whitewashing of the Nemtsov Investigation," Institute of Modern Russia, September 14, 2015, <http://imrussia.org/en/analysis/politics/2409-kadyrov-putin-and-the-whitewashing-of-the-nemtsov-investigation>; Institute of Modern Russia, "13 Takeaways from Ilya Yashin's Kadyrov Report," February 25, 2016, <http://imrussia.org/en/analysis/politics/2515-13-takeaways-from-ilya-yashin's-kadyrov-report>.

disastrous effect of violence and corruption on Russian society, but believes that in many regions, notably in Siberia, legislative and local elections will be more honest and will challenge the regime's centralization policy.<sup>20</sup>

Natalya Zubarevich, a political geographer who monitors regional disparities, has analyzed the widening gap between the affluent and the poor, rising inequalities between households, and the urban-rural divide. Disparities are increasing in the present period of budgetary constraints and distrust in the national economy.<sup>21</sup> The recession pushed another 2.3 million Russians into poverty in the first nine months of 2015, according to official statistics. Kirill Rogov summarizes the predicament: "Moscow's policy of confrontation with the West accelerated economic recession and social disarray; this deep crisis has a high cost, and drastically reduces the redistribution of dividends."<sup>22</sup> This is all the more so for elites and upper echelons of society, which have more at stake than the average Russian. How does the urban middle class tolerate Putin's confrontational policies? How sustainable is the quiet acquiescence, or silent reprobation, of these Russians? They have three options: exit, voice, or loyalty.<sup>23</sup>

#### Exit: Temporary Diasporas

Exiles should preoccupy the regime. Since opposition leader Boris Nemtsov was shot dead

<sup>20</sup> Conversation with the author, Moscow, June 1, 2016. The next State Duma elections will be held on September 18, 2016.

<sup>21</sup> Quoted in P. Goble, "Financial Instability In Russia's Regions Already 'Worse Than Default,' Zubarevich," *Window On Eurasia*, June 11, 2015, <http://www.interpretermag.com/financial-instability-in-russias-regions-already-worse-than-default-zubarevich-says/>, see also N. Zubarevich, "Four Russias and a New Political Reality," in L. Aron, ed., *Putin's Russia*, p. 20-35.

<sup>22</sup> K. Rogov, "Divided Elites," presentation at a conference "Can Russian Elites Sustain Putin's Foreign Policy?" Transatlantic Academy, Washington, DC, April 25, 2016.

<sup>23</sup> A.O. Hirschman, op. cit.

*While a growing number of individuals dissociate themselves from Putin's policies, they are a minority among the elites. Most prefer to keep a low profile and save what they can of their assets and position.*

Now a third wave is leaving Russia.

This exodus began in 2012 and is composed mostly of elites and the upper middle class who fear prosecution or harassment, and do not see how they could continue to live and work productively in their country.

in Moscow in February 2015, and with the *siloviki* capturing more and more power, a few more thousand intelligentsia, professional elites, and business people have settled in Western countries, Ukraine, and Asia. It seems that most of them maintain close ties with colleagues and friends in Russia — some go back to Russia for short periods — and consider their exile temporary. A number of engaged intellectuals and activists continue to monitor Russian politics closely and hope to play a role in their country again after the Putin system has ended.

Temporary diasporas are a new challenge for the Kremlin. To live, work, and find success outside Russia, with the project of returning to Russia, is a strategy that many exiles now pursue. Among them, a significant number are in semi-exile, keeping a part in activities in Russia and going back and forth. During the 1990s, when the economic situation was particularly dismal, Russian citizens were tempted by exile, but only a happy few had the financial means to accomplish it. A second wave of emigration surged in the mid-2000s. Scientists, artists, intellectuals, and businessmen wanted to work and earn in the West, without cutting ties with the homeland. This is when *Londongrad* emerged, and Berlin and a few other Western cities welcomed more and more Russians. Affluent businessmen invested in secluded, premium real estate, and sometimes settled down, or at least settled their families. Most of them express support for Putin.

Now a third wave is leaving Russia. This exodus began in 2012 and is composed mostly of elites and the upper middle class who fear prosecution or harassment, and do not see how they could continue to live and work productively in their country. A particular feature of these temporary diasporas is that they communicate constantly with the “home elites,” the old friends and colleagues. Networks function across borders. And the most engaged are devising alternative policies for when a

new government replaces the current leadership.<sup>24</sup> London is the strategic center where Khodorkovsky and other Putin opponents, along with lawyers, businessmen, journalists, and intellectuals, meet and discuss alternative policies for Russia. U.S. financier William Browder is a loud voice among the London detractors of Putin. His lawyer, Sergei Magnitsky died in pre-trial detention under inhumane conditions in Moscow in 2009.<sup>25</sup>

In Washington, New York, London, Paris, and other capitals, many scholars, journalists, and activists, as well as people in business or banking, are looking for jobs or fellowships in order to prepare for their exit from the motherland. It is also a challenge for the Kremlin that more and more elites settle down in former Soviet cities: Tallinn, Vilnius, Riga — and Kyiv! Others choose Warsaw or Prague. Proximity to Russia and familiar languages, as well as relatively cheap housing make these attractive destinations.

The new emigration wave has attracted media attention in Russia. It is interesting that the official publication *Russia Beyond the Headlines* gives a critical analysis of the reasons why elites have to leave their country:

“In June 2015, businessman Dmitry Zimin, founder of the VimpelCom telecommunications company and an important patron of science and education, left Russia. Many linked his departure to the scandal surrounding his scientific and educational organization, Dynasty Foundation, which on May 25, 2015 was

<sup>24</sup> At his foundation Open Russia, Khodorkovsky organizes talks and publications. One of the latest reports is E. Lukyanova, I. Shablinsky, and V. Pastukhov, “Constitutional Crisis in Russia and How to Resolve It,” Institute of Modern Russia and Open Russia, 2016, [http://imrussia.org/images/stories/Reports/Constitutional\\_Crisis/IMR\\_Constitutional\\_Crisis\\_in\\_Russia\\_And\\_How\\_to\\_Resolve\\_It.pdf](http://imrussia.org/images/stories/Reports/Constitutional_Crisis/IMR_Constitutional_Crisis_in_Russia_And_How_to_Resolve_It.pdf).

<sup>25</sup> B. Browder, *Red Notice: A True Story of High Finance, Murder, and One Man's Fight for Justice* (New York: Simon and Schuster, 2015).

declared to be a 'foreign agent' in accordance with a controversial Russian law requiring organizations receiving funding from abroad to be referred to as such."<sup>26</sup>

The article mentions a very different case of forced emigration: Yevgenia Chirikova, a leading ecological activist, who decided to settle in Estonia with her family. Chirikova became prominent in Russia during the 2010 summer of deadly wildfires that devastated many regions, and caused several thousand casualties, which she claimed could have been prevented had local and central authorities been up to the task. Since she participated in popular protest against the Putin regime in 2011-12, she has been a victim of harassment, and finally chose exile in the spring of 2016.<sup>27</sup>

A map of Russian communities abroad shows how the successive waves of emigration in the last century produced important centers of Russian presence in a number of countries.<sup>28</sup> The Institute of Modern Russia in New York monitors the exile phenomenon more broadly, beyond the elites and intellectual circles. They quote official data showing that in the first eight months of 2014, 203,600 people left Russia, compared with 186,400 in all of 2013, and anticipated that more Russians would leave in 2014 than in the previous record high year of 1999, when 215,000 left. However, as Vladimir Milov clarifies, a significant part of this migration flow concerns residents of Russia that move back to Central Asian republics, but may continue to spend time in Russia

(e.g. workers that go back and forth from Uzbekistan or Kazakhstan). Furthermore, these figures do not distinguish emigration from semi-exile, i.e. the many thousands of residents who return home regularly, but no longer work in Russia.<sup>29</sup>

### Voice

The regime is concerned with political opposition, and has adopted unprecedented repressive measures to thwart public expressions of protest. Street demonstrations are rarely approved by city authorities; even a one-person picket with a political sign is not tolerated. Opposition movements cannot register as parties. The "party of power," United Russia, receives constant television coverage; none of the other parties do. Putin is afraid of "color revolutions" and wants to reduce political opposition to a trickle. Repressive measures, prosecution, asset grabbing, and threats have fallen on most leading figures since 2012.<sup>30</sup>

Internet and social media have been playing a key role as providers of information and communication. Urban protest in 2011-2012 mobilized online, and political forces campaigned on the web. Many sensitive issues were discussed, including fraud and corruption at the top. Since then, the authorities have been clamping down on sites and blogs, significantly curtailing freedom of expression and information. Andrei Soldatov and Irina Borogan give a thorough analysis of the "Red Web," tightly monitored, and subverted, by tens of thousands of zealous Federal Security Service

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<sup>26</sup> Y. Sinelschikova, "The politics of emigration: Why are Russians packing their bags again?," *Russia Beyond the Headlines*, June 24, 2015, [http://rbth.com/politics/2015/06/24/the\\_politics\\_of\\_emigration\\_why\\_are\\_russians\\_packing\\_their\\_bags\\_again\\_47215.html](http://rbth.com/politics/2015/06/24/the_politics_of_emigration_why_are_russians_packing_their_bags_again_47215.html).

<sup>27</sup> Yevgenia Chirikova was a guest at Sciences Po, and at the National Assembly in Paris in 2012 and 2013.

<sup>28</sup> See P. Goble, "Moscow seeking to make Russian diaspora a Soviet-style political weapon against West," *Euromaidan Press*, February 2, 2015, <http://euromaidanpress.com/2015/02/02/moscow-seeking-to-make-russian-diaspora-a-soviet-style-political-weapon-against-west/#arvlbdata>.

<sup>29</sup> See K. Semenova, "A New Emigration: The Best Are Leaving. Part 1," *Institute of Modern Russia*, April 7, 2015, <http://imrussia.org/en/analysis/nation/2224-a-new-emigration-the-best-are-leaving-part-1>. See Vladimir Milov's Facebook page: <https://www.facebook.com/milov.vladimir/posts/934506833287659>.

<sup>30</sup> M. Zygar, *All the Kremlin's Men: Inside the Court of Vladimir Putin* (New York: Public Affairs, 2016); S.L. Myers, *The New Tsar: The Rise and Reign of Vladimir Putin* (New York: Alfred A. Knopf, 2015).

*The challenge from Maidan and the fall of Yanukovich, followed by constitutional change, is that it breaks the myth that there is no alternative to the Putin system. If the Ukrainians could fight and win alternative rule, why not the Russians?*

(FSB) and paid trolls.<sup>31</sup> The regime does not want any serious contest in the parliamentary elections scheduled for September 18, 2016. The Council of Europe, of which Russia is a member, has been refused electoral monitoring.<sup>32</sup>

The leadership has focused on political opposition, but it should pay more attention to social protest. In recent years, local unrest, strikes, sit-ins, and open criticism of local authorities have become part of social life. Such episodes will occur more and more often as the situation deteriorates. Will the central authorities put the blame on local administrations and employers, and antagonize them further? Will they try to negotiate directly with the dissatisfied? In this respect, Putin's April 2016 annual "conversation with the people" is quite telling. Hundreds of citizens asked questions of their president, via video links, and often complained about late salaries payments, corruption of officials, lay-offs, etc. The president listened to complaints and requests, took good note of them — and ordered his administration to solve all the issues presented to him. Some cases were trifles, other disclosed high-level misrule and corruption, for example, the Vostochny Cosmodrome construction scandal, in which wide-spread corruption was uncovered at Russia's multi-billion dollar spaceport.<sup>33</sup>

<sup>31</sup> A. Soldatov and I. Borogan, *The Red Web: The Struggle Between Russian Digital Dictators and the New Online Revolutionaries* (New York: PublicAffairs, 2015).

<sup>32</sup> The Council of Europe stripped Russia of its voting rights after the annexation of Crimea, but Russia remains a member.

<sup>33</sup> In 2009, the authorities decided to build a space center in the Far East of Russia in order to reduce dependency on the Baikonur Cosmodrome in Kazakhstan. The construction works were marred by scandals and strikes, and many imperfections made the project far costlier than expected. The first space launch took place in April 2016 from the yet-to-be-completed facility. M. Mirovalev, "The bumpy road to Vostochny, Russia's new multibillion-dollar spaceport," *The Los Angeles Times*, May 4, 2016, <http://www.latimes.com/world/europe/la-fg-russia-space-20160504-story.html>. See also *The Moscow Times*, "Russian Director Responsible for Vostochny Gets Prison Sentence," April 29, 2016, <http://www.themoscowtimes.com/>

Corruption, opaque attribution of contracts (no tender), and lack of accountability provoke acute management crises that call for "manual control" by the leader.<sup>34</sup> This is one of the caveats of centralization of decision in the hands of a few. Even administration bosses no longer have authority and capability. They are officially empowered by a presidential decree and a government order, then not given the budgetary means to govern effectively.<sup>35</sup>

Ukraine demonstrates that a seemingly "no-alternative" regime can fall when it no longer delivers minimal security and decent living standards. The challenge from Maidan and the fall of Yanukovich, followed by constitutional change, is that it breaks the myth that there is no alternative to the Putin system. If the Ukrainians could fight and win alternative rule, why not the Russians?

### Loyalty

By and large, the upper echelons of society go with the flow, and apparently remain loyal, but do not trust Putin's confrontational strategy. They have much to lose from further domestic aggravation and continued isolation from Western societies. Hyper-nationalist propaganda creates fear and populist retrenchment in a large section of the public, but such xenophobic hysteria may be short-lived. Most Russian scholars, journalists, experts, and former government officials interviewed for this study emphasize the volatility of public emotions "if things go very wrong" (a major accident, epidemics, war, local social unrest), and

[news/article/russian-director-responsible-for-vostochny-gets-prison-sentence/567494.html](http://www.themoscowtimes.com/news/article/russian-director-responsible-for-vostochny-gets-prison-sentence/567494.html).

<sup>34</sup> M. Lipman and N. Petrov, eds., *Russia: Scenarios for 2020* (London: Palgrave, 2015), and N. Petrov, "Putin's Downfall: The Coming Crisis of the Russian Regime," European Council on Foreign Relations, April 19, 2016, [http://www.ecfr.eu/publications/summary/putins\\_downfall\\_the\\_coming\\_crisis\\_of\\_the\\_russian\\_regime7006](http://www.ecfr.eu/publications/summary/putins_downfall_the_coming_crisis_of_the_russian_regime7006).

<sup>35</sup> Insight from Igor Fedyukin, former deputy minister of education (2012-13).

the vulnerabilities of Putin's ruling system, a system that no longer delivers what society expects.<sup>36</sup>

There are different shades in the wide spectrum of loyal attitudes, from full participation in serving the leadership to passive resistance and muffled criticism among many in administration, and intelligentsia and among corporate/economic managers. As Nikolay Petrov aptly explains, "elites' attitudes depend on their degree of dependence on the ruling circles, and on the capacity of the latter to reward loyal servants, and to punish restive ones. Active loyalty is doubly rewarded, as more and more among the upper middle class bow their head, but do not commit to any big effort in service of the country's economy."<sup>37</sup> Sociologist Lev Gudkov, director of the Levada-Center, explains that the leadership is trying to drive a wedge between the half of Russians that are paid by the state, even if less-well than before, and those Russians who work in the non-state sector or are self-employed. The latter form a disparate group. Many work in companies that depend on state orders, or are managed by civil servants. Others work independently from the state and quasi-state structures, and their situation varies according to sectors, markets, and regional location. However, Gudkov stresses, they all share a sense of insecurity, as they do not believe that the national economy will improve in the near future.<sup>38</sup>

As state and state-related economic activities are centralized and monopolistic, more independent

<sup>36</sup> Author's interviews with Elena Racheva, journalist for *Novaya Gazeta*; Konstantin Sonin, economist at Chicago Harris School and former professor at the New Economic School in Moscow; Igor Fedyukin, former deputy minister of education; and Vladislav Inozemtsev, economist, formerly close to Dmitry Medvedev's team in 2008-11.

<sup>37</sup> Conversation with the author, Washington, DC, April 27, 2016.

<sup>38</sup> Conversation with the author, Levada-Center, Moscow, May 31, 2016. See also Levada-Center opinion polls, in particular the assessment of national indicators: <http://www.levada.ru/indikator/odobrenie-organov-vlasti/>.

actors are hit by the decline of the state sector, and find themselves trapped by the shrinking of money and opportunities. Hence, they are experiencing a new dependence on state and oligarchic structures, the strongest providers of activity and revenues. Several examples may illustrate this growing dependence on state orders: An architect who worked mainly for foreign firms and private individuals no longer gets work, and he cannot easily switch to state commissioning as the budget is contracting. Another example is a travel agent who built his business on holidays in Turkey. Since the clash between Putin and Turkish President Recep Tayyip Erdoğan over the downing of a Russian military plane by Turkish forces, travel to Turkey has been forbidden for functionaries, and made virtually impossible for other travelers. Flights have been sharply reduced between the two countries, and the travel agency may need to close. In another case, a small company that produced technological devices for a German-Russian joint venture, now ended, must close or relocate to Germany.

Loyalty in today's Russia means that managers, directors, and influential minds abandon their capacity to make their own choices, and do not take the initiative. They are implementers, not thinkers, analysts, or independent actors playing a part in the socioeconomic evolution of their country. They used to give their best to government, production, culture, and public services, but they now adopt a wait-and-see attitude and try not to attract attention, in order to avoid the unfortunate fate of many in similar positions that criticized the powers that be. Prosecution, assets-seizure, dismissal, and loss of privileges and benefits are part of the regime's repressive toolbox to raise the cost of those tempted by exile or resistance.

*Loyalty in today's Russia means that managers, directors, and influential minds abandon their capacity to make their own choices, and do not take the initiative. They are implementers, not thinkers, analysts, or independent actors playing a part in the socioeconomic evolution of their country.*

# 4 LEADERSHIP — ELITES — SOCIETY: A COMPLEX TRIANGLE

*The structure of leadership and influential groups has evolved during the 17 years of Putin's reign. From the initial strategy of reestablishing a "power vertical" in government, the president has quickly moved to building a network state, serving the economic and political interests of his close associates, and of the wider circle of administrators and oligarchs.*

In the leadership circles, only two options really exist: stay loyal and defend Putin's dominant rule, or leave the group — often leading to the obligation to leave the country. The option of protest, or even moderate criticism, is not an alternative if one wishes to protect oneself. The closing in of the ruling group has consequences for relations with society and with upper middle class. This is why the triangle composed of leadership, elites, and society is a critical, yet fragile, construction.

Elite theory has long been anchored in the binary concept of rulers and ruled.<sup>39</sup> In Russia, however, it is essential to differentiate between ruling groups on one hand, and elites/upper middle class on the other. If we adopt this broad definition of elites, a few million Russians belong to this loose and differentiated ensemble, whereas the rulers or "ruling groups" number in a few thousand. Under Putin's authoritarian and personalized rule, the interconnections between the Kremlin, the people, and the elites weave a complex socioeconomic fabric that must be analyzed to see beyond the simplistic paradigm of the "popular autocrat" served by shrewd, greedy servants, indifferent to the rank and file.

The estrangement of elites from decision-making in recent years is a factor of destabilization. Since 2012-14, Putin's rule has drifted from a somewhat open system of elite participation to a closed fortress where a small number of individuals control big resources and power structures, and no longer communicate with economic and administrative elites; they seek the input of intellectual, scientific, and journalistic expertise, and they combat competent, critical analysts.

<sup>39</sup> K. Prewitt and A. Stone, *The Ruling Elites: Elite Theory, Power, and American Democracy* (New York, London: Harper & Row, 1973); V. Pareto, *The Rise and Fall of the Elites*, (Totowa, N.J.: Bedminster, 1968); Suzanne Keller, *Beyond the Ruling Class* (New York: Random House, 1968).

Consequently, it makes sense to detach the leadership from elites. What we are observing in Russia is the marginalization and disempowerment of individuals and institutions that previously had influence over domestic policies, in the economic, administrative, cultural, and social realms, as well as in external relations.<sup>40</sup>

## A Closed Ruling Circle

The structure of leadership and influential groups has evolved during the 17 years of Putin's reign (he became prime minister in August 1999). From the initial strategy of reestablishing a "power vertical" in government, the president has quickly moved to building a network state, serving the economic and political interests of his close associates, and of the wider circle of administrators and oligarchs.<sup>41</sup> The new "pyramidal order" announced in 2000 has never been seriously constructed. It was a slogan and deterrent, rather than a strategy of rule. It never led to an orderly, hierarchical, and readable system of checks and balances. To the contrary, since the May 2000 decrees, Putin has sought to solidify his power in selected groups and organs and to hollow out public institutions.<sup>42</sup> This "de-institutionalized" state was to be governed by parallel structures and networks; some of them simply replaced, in practice, constitutional institutions. For example, the Public Chamber comprised of non-elected members and created in 2005, was meant to replace the State Duma as the locus of official debate, and deprived elected deputies of the little representative legitimacy they still had in the early 2000s. A power constellation, gravitating around a strong leader, in

<sup>40</sup> This argument was convincingly made by all speakers, in particular Nikolay Petrov, Sergey Aleksashenko, Kirill Rogov, and Igor Fedyukin, at the conference "Can Russian Elites Sustain Putin's Foreign Policy?" Transatlantic Academy, Washington, DC, April 25, 2016.

<sup>41</sup> M. Mendras, *Russian Politics: The Paradox of a Weak State*, (New York: Oxford University Press, 2014); K. Dawisha, *Putin's Kleptocracy*.

<sup>42</sup> M. Mendras, *Russian Politics*.



lieu of administrative hierarchy, fuels corruption. The public and private spheres are more and more entangled, and decisions from above are increasingly opaque and arbitrary.

Impunity makes rulers free from accountability to citizens. Arbitrary rule constitutes a prime obstacle to foreign and domestic investments in the economy. Recent repressive legislation and regulations have aggravated an already critical situation. William Pomeranz of the Kennan Institute argues that the increased dependence of judges, and the unrestrained corruption that ensues, makes even a slight improvement toward rule-of-law unlikely: “Russia’s small legal elite, in particular the *procuracy*, has continued the tradition of serving the state, as opposed to the law itself, thereby making it difficult, if not impossible, to discipline Russia’s political leaders... One might think that the Ministry of Justice would be a part of the legal elite, but it is decidedly not. It is primarily an administrative organ — it oversees layers, notaries, prisons, NGOs, the legalization of documents, and so forth.”<sup>43</sup> Judges are appointed by Putin and well paid; they receive bonuses for “good” decisions. It is important to know that in Russian courts, in the overwhelming majority of cases, the accused is found guilty and sentenced. Prosecutors are absolutely loyal to the regime. This situation contributes to the general degradation of institutions, unaccountable government, and further economic decline.

Putin’s power was patiently constructed on several organizational pillars and networks, not just the inner circle of friends, new oligarchs, and former KGB officers. The president could rely on obedient public institutions, dependent courts, hydrocarbon state monopolies, other big state-controlled companies, and an extensive security system

<sup>43</sup> W. Pomeranz, “Russia’s Missing Legal Elite,” presentation at a conference “Can Russian Elites Sustain Putin’s Foreign Policy?” Transatlantic Academy, Washington, DC, April 25, 2016.

comprised of army, intelligence services, police, and Interior Ministry special forces. Until the political protest of the winter 2011-12, he confidently rested on the loyalty of elites and the relative passivity of voters. Putin’s constellation used to be wider and encompass significant segments of economic elites and intelligentsia, beyond the networks of friends, *siloviki*, and loyal oligarchs. Since the Ukrainian conflict, the leadership has monopolized power and resources, controlled economic and social life more tightly, and deprived elites of the relative autonomy that they previously enjoyed and cuts them out of policymaking. The Kremlin no longer tolerates even limited autonomy of medium and big companies, media, NGOs, which can no longer rely on credit, investment, or expertise from abroad, and have to give preference to a national bank or institution in seeking cooperation.<sup>44</sup> The rules of the game are changing, and elites outside the ruling group have trouble adjusting to the new, more unpredictable context. With recession and higher military expenditures, the opacity of decision-making is bound to fuel resentment among elites, which have much to lose in a protracted confrontation with the West, and further recession.

### A Shrinking Middle Class

As was argued earlier, the majority in the upper middle class and professional elites tend to adjust. But they do so by stepping back from power positions, standing on the margin, and waiting for the storm to quiet down. The split between the Kremlin and the elites/upper middle class is widening, and may become problematic for the Putin regime. The leadership-elites-society triangle is changing shape. The ruling group is retracted and aloof, and closed to any new recruits. The elites are more differentiated and divided, and partly exiled. Society is now more cut off from both elites-upper

<sup>44</sup> Conversation with Russian and U.S. financial consultants in Moscow, May 2016.

*Impunity makes rulers free from accountability to citizens. Arbitrary rule constitutes a prime obstacle to foreign and domestic investments in the economy. Recent repressive legislation and regulations have aggravated an already critical situation.*

*By the end of 2014, Russians' responses to pollsters evolved from outright support for intervention to anxiety about war and insecurity.*

middle class, and the outside world, and the middle class is shrinking.

It is too early to measure the precise impact of economic recession, sanctions and counter-sanctions on the Russian middle class in terms of assets, revenues, and living standards. Official statistics, coupled with independent data, clearly point to a decline in revenues on average, and seem to indicate that most segments of society are hit by the economic crisis to varying degrees. The key elements to watch are real wages, savings, consumption, and access to good education and health services. "Consumer confidence in Russia fell to 63 points in the first quarter of 2016 on Nielsen's Consumer Confidence Index, the lowest level since records began in 2005," *Kommersant* newspaper reported in April 2016.<sup>45</sup> "In the same period in 2015, the index stood at 72 points. According to Nielsen, a record low number of people now have any extra money after covering basic needs and bills. At the same time, the share of Russians forced to slash their spending rose to 76 percent in the first quarter of the year." About 60 percent of Russian citizens now have to abstain from entertainment expenses and put off the purchase of new clothes; and 50 percent have to buy cheaper food. Real wages shrank approximately 10 percent in 2015, and the downtrend is continuing in 2016, according to the state statistics service. According to deputy prime minister Olga Golodets, "51 percent of purchased items in February 2016 were food products while the consumption of certain types of light industry has fallen by 20 percent."<sup>46</sup> Lower incomes mean lower consumer activity.<sup>47</sup>

<sup>45</sup> *The Moscow Times*, "Russian Consumer Confidence Falls to Historic Lows," April 29, 2016, <http://www.themoscowtimes.com/business/article/russian-consumer-confidence-falls-to-historic-lows/567532.html>.

<sup>46</sup> *The Moscow Times*, "Russian Consumer Confidence Falls to Historic Lows."

<sup>47</sup> Research on the social impact of recession is conducted at the Higher School of Economics' sociology department and demographics center, and at the Levada-Center in Moscow.

### **Public Opinion, or Public Emotion?**

Given the bleak economic picture, a critical assessment of opinion polls, and of Putin's high ratings, is in order. Russians live in a world of negative emotions, worked up by television and official speech. They express emotions rather than a clear political understanding of the situation. Putin is not popular in the sense of being preferred to another politician, as no contender is allowed to speak on television and no alternative policies are discussed. He represents the embodiment of "public order" and "national identity." Many Russians cannot even think about "Russia after Putin" because they want to keep a roof above their heads and they fear change. Still, they might turn less supportive of Putin if things go from bad to worse.<sup>48</sup>

*A posteriori*, Crimea clearly appears to be a unique episode of nationalist fervor, which the conflict in Donbas failed to maintain at such intensity in 2015. The annexation was embraced by a large majority of Russians, of all social categories, who cried together with Putin: "*Krym nash!*" (Crimea is ours!). But by the end of 2014, Russians' responses to pollsters evolved from outright support for intervention to anxiety about war and insecurity. "Russia's ambitious foreign policy began to be considered not as an achievement but as a source of the threat of military conflict," Mikhail Dmitriev explains.<sup>49</sup> People do not like confrontation, and worry about their material security and living standards. Putin may have a strong rating, but he is not trusted as capable of pulling the country out of the slump. Henry Hale of George Washington University notes that the "rally around the leader" has limits, and does not express the profound

<sup>48</sup> Conversations with Denis Volkov, Kirill Rogov, and Lev Gudkov, in Washington or Moscow, May-June 2016.

<sup>49</sup> I. Nechepurenko, "Predicting the Future With Russia's Economic Nostradamus," *The Moscow Times*, March 18, 2015, <http://www.themoscowtimes.com/news/article/predicting-the-future-with-russias-economic-nostradamus/517659.html>.

distrust of Russians in their own government and social system.<sup>50</sup>

A majority of Russians consider the impoverishment of citizens and rising prices to be the major threats facing the country. The other threats that Russia currently faces, according to respondents, include the economic crisis (49 percent) and rising unemployment (35 percent). More than 80 percent of Russians believe there is an economic crisis in Russia; about 20 percent say the crisis will last for a long time. Only 12 percent of the respondents believe there is no financial crisis in Russia.<sup>51</sup> Even the pro-Kremlin public opinion center VsTIOM rings the alarm, writing that 40 percent of the population expects the situation to worsen further.<sup>52</sup> The Levada-Center publishes findings on the socioeconomic preoccupations of the average Russian, and the latter's suspicion that the current government and regional administrations will not alleviate their hardships.<sup>53</sup>

For Putin, it is essential to retain very high poll ratings, at all costs. He is probably aware of the limited representativeness of such results, as Russians are not asked if they prefer X to Y but whether they support Putin's work as president. In a non-pluralist regime, no alternative figure can

<sup>50</sup> H. Hale, "Rallying Behavior in Conflict: Evidence from a Panel Survey in Russia 2012-15," paper presented at George Washington University, February 22, 2016.

<sup>51</sup> The poll was carried out between December 2015 and January 2016 among 1,600 Russian residents in 48 regions. *The Moscow Times*, "Majority of Russians Consider Impoverishment Country's Main Threat," February 12, 2016, <http://www.themoscowtimes.com/business/article/majority-of-russians-consider-impoverishment-countrys-main-threat/559298.html>.

<sup>52</sup> Quoted by Vladimir Milov, "From Disapproval to Change: Russia's Population May Surprise Putin at Next Elections," Martens Centre for European Studies, June 2016, <http://www.martenscentre.eu/publications/disapproval-change-russias-population-may-surprise-putin-next-elections>. See VsTIOM polls at <http://www.wciom.com>.

<sup>53</sup> Levada-Center polls, [www.levada.ru](http://www.levada.ru), for example attitudes toward government and administration: <http://www.levada.ru/indikatory/odobrenie-organov-vlasti/>. See also V. Milov, "From Disapproval to Change."

publicly contest the incumbent. Moreover, it is risky to criticize the Kremlin's policy in a time of "national defense against foreign threats." Precisely because he wants no rival, and no successor, Putin needs to protect himself behind the shield of "plebiscitary approval" in polls, which is far larger than the percentage he ever really won in elections in the first round.<sup>54</sup> He wants to demonstrate that the people gather around him, and just him. He thus cuts short any audible criticism from the ruling groups. As political geographer and election specialist Dmitri Oreshkin says: "This is all theatre, but every actor needs to pretend the stage is real life."<sup>55</sup>

Opposition activist Vladimir Kara-Murza argues that the creation of a new National Guard in the spring of 2016 is in part motivated by the Kremlin's urge to fully control the Duma elections in September:

"According to its statute, the National Guard will have the right to arrest people and enter their homes; use force and shoot 'without warning'; and employ armored vehicles and water cannons in the event of 'mass disturbances'—a Kremlin term for street protests that followed rigged elections in other post-Soviet states, including Ukraine. Given all these preparations, one cannot help but ask: does this really look like the behavior of a government that has, as it claims, '89 percent' popular support?"<sup>56</sup>

<sup>54</sup> K. Rogov, "Triumphs and Crises of Plebiscitary Presidentialism," in L. Aron, ed., *Putin's Russia*, pp. 83-105.

<sup>55</sup> Conversation with the author, Moscow, May 30, 2016.

<sup>56</sup> V. Kara-Murza, "Kremlin Leaves Nothing to Chance as Election Nears," Institute of Modern Russia, April 28, 2016, <http://www.worldaffairsjournal.org/blog/vladimir-kara-murza/kremlin-leaves-nothing-chance-election-nears>.

*For Putin, it is essential to retain very high poll ratings, at all costs.*

# 5 THE KREMLIN'S RESPONSE: TOO LITTLE, TOO LATE

*The Russian authorities are now encouraging businessmen, diplomats, experts, artists, and journalists to engage with European and U.S. counterparts.*

**W**ith the economic decline, carrots have grown scarcer, and smaller. Consequently, the leadership waxes sticks more often and more prominently than before Crimea and the confrontation with the West. Moreover, many among ruling circles and elites are victims of Western sanctions, directly or indirectly. Aside from asset freeze and visa denial, they also suffer from investment crunch and rapidly closing foreign opportunities.

Clearly, the leadership is not busy devising a new strategy to reconquer the trust of national elites. And its response to the domestic crisis is inadequate. Through early 2016, the Kremlin's response to domestic challenges has been a combination of denial and wait-and-see, just putting patches on the most urgent problems (such as raising pensions). This posture may be untenable as economic prospects are not brightening, and more Russians are becoming aware of it. Even government-controlled media now discuss stagnation, falling revenues, and uneven development across the Russian Federation. Struggling against the new odds, the Putin leadership is using several instruments:

- Economic emergency plans, prioritization of investment and spending in the immediately lucrative sectors (hydrocarbons, arms industry, agro-business), and reorientation toward newer markets and partners in Asia.
- Political protectionism, served by repression, and growing media and Internet control, and leading to more stagnation.
- Courting or sanctioning elites to divide and rule, driving a wedge between the loyal and the less loyal or “traitors.”

- Foreign policy as a distraction from domestic stagnation, and as a means to reinforce the police nature of the regime.
- Nationalist, war-scare propaganda pointing at “enemies” as responsible for the confrontation. Emotional propaganda creates fear, but stifles political, economic, and social development.
- Propaganda and subversion abroad in an attempt to divide elites and ruling groups in Europe.

This strategy does not seem to be quite as productive as expected, as the Russian authorities are now encouraging businessmen, diplomats, experts, artists, and journalists to engage with European and U.S. counterparts. The new “reaching out” started in the spring of 2016, with many events organized in Russia and abroad where discussions are more open than anytime since the Ukraine crisis erupted. Criticism of the government, and even the president of Russia, is voiced “off the record.” The explanation for these overtures may well be that the authorities understand how difficult it will be for the economy to sustain a long, isolating confrontation with European neighbors.

Great power resurgence has not yielded the expected success. Donbas remains a bone of contention between Moscow and Western capitals. Direct military intervention in Syria has forced the U.S. administration to co-host conflict-resolution talks with the Kremlin, and has reestablished frail direct lines of contact between the U.S. and Russian presidents. The end of Washington's rebuff of Putin is a relief to him, but it remains a fragile connection without trust. Domestic affairs and foreign policy are, more than ever, tightly intertwined, and pose new challenges to the ruling group in keeping elites and society onboard. Confrontation with Western countries and sanctions has proven

costly in economic and social terms.<sup>57</sup> Closing the ranks and controlling elites will continue to be the Kremlin's main tactics. This paper has indicated that the biggest vulnerability of Putinism is the difficulty to deliver what the elites and middle class expect in the short and medium term: adequate living standards and a peaceful orderly climate to continue to function, produce, and preserve their positions. Undoubtedly, challenges are coming from inside, not outside, but they are presented to the public as external threats.

The strategic question for Western governments and business is not so much *when* the Putin system

<sup>57</sup> See also M. Mendras, "The Rising Cost of Russia's Authoritarian Foreign Policy," in M. Light and D. Cadier, eds., *Russia's Foreign Policy: Ideas, Domestic Politics and External Relations* (Basingstoke: Palgrave, 2015); M. Mendras, "The West and Russia: From Acute Conflict to Long-Term Crisis Management," in D. Hamilton and S. Meister, eds., *The Eastern Question: Russia, the West, and Europe's Grey Zone*, Center for Transatlantic Relations and German Council on Foreign Relations (DGAP), 2016, pp. 133-140.

might explode or implode, but *how* the process of self-disintegration and inner conflict will lead to dangerous breaking points. European countries are confronted with the uncertain development of Ukraine and other in-between states, like Georgia, Moldova, and Belarus. They have high stakes in finding common grounds with Moscow on easing tensions and ensuring relative peace in their vulnerable Eastern neighbors. But they have learned a hard lesson with Crimea and Donbas, and will not lift sanctions and go back to *status quo ante* unless the Russian president makes significant progress in his position. Western policymakers would be well advised to take into account anxiety and expectations among Russia's elites, middle class, and society more broadly. They will continue to negotiate with the current leadership, but should also engage with alternative elites. In the long run, the Russian people, and not just the Kremlin, are Europeans' neighbors and potential partners.

*The strategic question for Western governments and business is not so much when the Putin system might explode or implode, but how the process of self-disintegration and inner conflict will lead to dangerous breaking points.*

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