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RUSSIA AFTER PUTIN

HOW TO REBUILD THE STATE

A report by Anders Åslund and Leonid Gozman

Russia after Putin: How to rebuild the state

Report by **Anders Åslund** and **Leonid Gozman**

Tags: Civil Society, Corruption, Fiscal and Structural Reform, Political Reform, Rule of Law, Russia

Key points

- The new government's first action should be to establish all elementary freedoms: of speech, media, assembly and organization, and religion and to release all political prisoners.
- It should dissolve the Federal Security Service (FSB), the principal security agency of Russia, and dismiss all its employees and form a new judicial system, courts, as well as the general prosecutor's office.
- Russia should abandon its presidential system and hold early founding elections at all levels soon after a democratic breakthrough

We do not know when and how Russian President Vladimir Putin's regime will end, but there are signs that it is struggling and the end could come in the foreseeable future. This final stage may last years, but we need to start discussing now how a new state should be built on the ruins of the old system.¹

The Putin regime is commonly called an authoritarian kleptocracy. It is characterized by a small ruling elite who have usurped all power and most wealth. This power is concentrated in the president, who delegates much of it to the secret police. The president's clients control state finances and big enterprises. They may be state executives or private businessmen. Law enforcement and the judicial system are subordinated to the president.²

The Putin regime continues to evolve, though the word "develop" would be inappropriate since the regime is falling apart. For example, two hundred and eight amendments to the current constitution were adopted in the summer of 2020 through a plebiscite that was marred by violations. Russians describe the referendum as a "nullification" because they perceive the essence of these changes to be that Putin's four previous terms as president no longer count. Thus, Putin received the right to be reelected president two more times

until 2036. In addition, through the referendum, Russia officially dismissed the principle of the priority of international law on its territory.

In the spirit of the new constitution, new laws are being adopted that render the current regime more repressive and make it similar to occupation. In every way, it reduces the influence of the population on the uncontrolled ruling class. In November/December 2020, the State Duma adopted laws that practically declared all forms of public protest illegal. The Duma prohibited the publication of information about the assets of judges, prosecutors, investigators, and members of law enforcement, thus facilitating theft by civil servants from the budget without punishment. The Duma also expanded the rights of the police to use force against citizens. In the last days of 2020, it legislated the legal immunity of former presidents and rendered them senators for life. This also applies to Putin, allowing him to live a comfortable life if he resigns or is ousted.

The main reason for the unfortunate situation of the Russian people is the current elite, which is caught with an inadequate perception of the current reality, in addition to simply being criminal. Practically, all members of the country's higher leadership are involved in corruption and other crimes. The ruling elite lives in a zero-sum game with the population. What is beneficial to the elite aggravates the situation of the nation, and what is necessary for the nation hurts the elite's interests; for example, honest and transparent state procurement. The changes that are necessary for the country are harmful to Putin's friends who thrive on state orders without tenders. Russia would benefit from an end to the amoral and meaningless war in the Donbas, but for the elite this is a means to legitimize their power. Russia cannot develop normally as long as this group stays in power.



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Russians’ apathy, which is based on a sense of hopelessness, can turn into hate and aggression toward the authorities.”

Police officers detain a participant of a protest against amendments to Russia’s Constitution and the results of a nationwide vote on constitutional reforms, in Moscow, Russia July 15, 2020. Credit: Reuters

Ordinary Russians do not expect anything good from the state, which they call “THEY,” as was the case under communism.³ Yet, their limited expectations may be described as a social contract with the elite. They appreciate a certain private space; they expect some social benefits and some economic freedom, as long as they do not become big businessmen; and they appreciate their freedom to travel abroad. Their attitude to the state can be summarized as “Don’t touch us! Don’t interfere in our lives!” In return, the citizens are prepared to pay moderate taxes and stay politically passive. Yet, the current apathy,

which is based on a sense of hopelessness, can turn into hate and aggression toward the authorities.⁴

The popular alienation will not automatically end with the demise of the Putin regime because it is profound. Russians have experienced too many disappointments in recent years. The country's new leadership will have to carry out fundamental changes to gain credibility so that people become convinced that they live under a different administration and feel that they own it.

The preconditions for reform are in many ways more propitious today than in the early 1990s. Then, two concerns were dominant—the ongoing economic collapse and the relationship with the former Soviet republic. Today, these two matters have been largely resolved. Therefore, Russia can now focus on the two major pillars of a normal society—the building of democratic and legal institutions. In addition, today Russia can afford a stronger social safety net.

This report offers some suggestions as to what should be done after Putin's rule ceases in order to end Russia's alienation and make Russians feel that their country is theirs.

Regime change

Freedom and end of all repression

When a new popular regime gains power it usually enjoys a limited period of extraordinary politics, when it can do almost anything politically, but it has limited capacity to carry out detailed reforms. This is the time for major qualitative reforms that may be politically or legally difficult to carry out later on.⁵

On the day after the Putin regime ends, the new government's very first action should be to establish all elementary freedoms: of speech, media, assembly and organization, and religion. These freedoms should be full and unconditional.

The new leadership should also immediately release all political prisoners regardless of whether they have been incarcerated for ideological or religious reasons. Since many actual political prisoners are being kept in pretrial detention for alleged economic crimes, a broad range of prisoners who do not pose any physical danger should be liberated.

The new leadership should establish far-reaching transparency and open all state archives so that the population can find out the truth about whatever they are concerned with. Only archives involving current national security concerns, commercial projects, and medical information about individuals may stay secret. Today, even the archives of World War II are secret.⁶

Russia's main problem at present is that the state has been captured by a small group of top officials. Technical competence is ample and is no longer a primary concern, but many highly competent senior officials have the wrong objectives, namely their own enrichment

at the expense of the state and society. The new leadership will need to surgically cut out this cancer—the ruling circles of the Putin system—and at the same time establish checks and balances that can maintain a new system.

The task may actually be easier than it first appears. Russia has about one hundred billionaires. Some have made their fortunes through their proximity to the current rulers, while others made their fortunes before Putin's regime but have been forced to develop close links with them. Many so-called oligarchs have property abroad and even multiple citizenships so they are ready to leave Russia when they deem it necessary. Most of them will presumably flee the country when the Putin clique loses power. The new government will need to make sure that they do not continue to influence politics in Russia through intermediaries, media, or social media. The best way to disarm them politically is to insist on full transparency of the ultimate beneficiary ownership of all enterprises, including media companies.



Russia's many oligarchs have property abroad and even multiple citizenships so they are ready and likely to leave Russia when the Putin clique loses power. From top left clockwise: Oleg Deripaska, Andrey Kostin, Igor Sechin, Herman Gref, Roman Abramovich, and Vahid Alakbarov and German Khan. Credits: Reuters and Wikimedia Commons

Building the Rule of Law

The most important task after the establishment of freedom is to develop the rule of law. Russia's current large law enforcement apparatus does not work for the Russian people but for the interests of the ruling elite. Its most odious elements need to be eliminated and their staff dismissed. A new system of law enforcement and justice should be built on the basis of the rule of law. At long last, Russians should obtain proper justice and real property

rights. After having been recreated, the court system should be rendered independent from politics and the executive.

The first task is to dissolve the Federal Security Service (FSB), the principal security agency of Russia, and dismiss all its employees, prohibiting their future employment in any state institution. The poisoning of opposition leader Alexei Navalny on August 20, 2020, showed that Russia's special services continue to operate as instruments of terror. Instead of defending the country and its population from enemies, they defend the ruling elite from the Russian people.

After Boris Yeltsin was elected president of Russia in June 1991, he declared that he “came to the presidency with the idea of making a clean break with our Soviet heritage.”⁷ After the failed hardline August 1991 coup, however, Yeltsin, unfortunately, stopped that effort halfway. His tone changed. As he noted in his 1994 memoirs: “To break everything, to destroy everything in the Bolshevik manner was not part of my plan at all. While bringing into the government completely new, young, and bold people, I still considered it possible to use in government work-experienced executives.”⁸ He continued: “It would have been disastrous to destroy the government administration of such an enormous state. Where it was possible to put in experienced ‘old’ staff, we did.”⁹ He was fearful of a repeat of the chaos that followed the dissolution of the Russian imperial service after the February 1917 revolution.

An unfortunate example of this policy was Yeltsin's treatment of the KGB. He did not dissolve the KGB or dismiss its officers, only split and weakened it. Normal democratic countries do not have secret police that suppress their citizens—what they do have are foreign intelligence and domestic counterintelligence to protect their national security. Russia will need to create a new domestic counterintelligence agency, but a precondition for employment should be never to have worked for the FSB. The three Baltic countries—Estonia, Latvia, and Lithuania—have set a good example. All three abolished their old KGB and created new intelligence agencies that appear to be both effective and law-abiding. For other Russian special services that are formally not political, disregard of the law has become the norm. These special services need to be fundamentally restructured as well.



MON, OCT 5, 2020

Lubyanka federation: How the FSB determines the politics and economics of Russia

The FSB is one of Russia's most closed government agencies, its work cloaked in secrecy. This report lifts the veil on how the organization works.

REPORT BY **THE DOSSIER CENTER**

Corruption

Defense Industry

After the burden of the secret police has been lifted from the population, a new judicial system, courts, as well as the general prosecutor's office, need to be formed. This is one of the most difficult but also most important tasks. These institutions should be rebuilt from the top down on the basis of new democratic legislation with new professionals. They need to be reformed at the same time as their top officeholders are being replaced.

Estonia and Georgia under Mikheil Saakashvili have each done this successfully. Both countries abolished the old prosecutors' offices and courts and laid everybody off, building up new agencies employing outsiders. In this way, no lustration was needed. Given the small numbers of judges and prosecutors required, this is perfectly feasible to do in Russia by attracting lawyers from the private sector and newly minted lawyers.¹⁰

The Investigative Committee appears to be one of the most corrupt elements of the Putin regime and should be abolished. The ordinary police are less of a concern and its more limited problems could be left for later. Yet, its department supposed to combat organized crime and corruption is infamous for doing the opposite. It should be abolished, and a new specialized agency for financial and economic crimes should be set up with new staff.

Post-Putin Russia would benefit from a Truth Commission, which would establish for what crimes the Putin regime was actually responsible. All employees of law enforcement agencies who have carried out torture, which unfortunately has become common practice in contemporary Russia, should be prosecuted and sentenced in open courts. In particular, the torturers, those who gave them orders, and those who concealed their crimes should all be prosecuted and sentenced.

The best means to fight corruption are transparency and democracy, which embody good governance.

Building a Real Democracy

Democracy is the least-developed institution in Russia. A thorough reform of every element in the political apparatus is needed.¹¹

First, Russia should abandon its presidential system that harkens back to tsarism, reflected in the president often being called "tsar." In the former communist world, a strong correlation exists between presidential rule and authoritarianism and between parliamentary systems and democracy. The outstanding political scientist Juan J. Linz argued that this is true in the world in general for many reasons.¹² A presidential system grants the president far too great executive powers. Unlike a prime minister, a president cannot be dismissed through a parliamentary vote of no confidence, and impeachment is mostly ineffective. The natural tension between president and parliament tempts the president to decide far too much by decree, which is an inferior form of legislation. A

parliamentary system offers far more transparency and a need for coalition building in the parliament.¹³

Second, Russia needs to establish a normal, functioning parliament, based on a few elementary principles. It should be based on political parties and proportional elections with a hurdle of four or five percent of the votes cast for representation in the State Duma. Preferably, the parties should have open lists so that voters can vote for both person and party as is the case in Germany and Finland. As Russia is a federation, a second chamber based on regional representation—a federation council—appears natural.

Third, a democratic Russia should hold early founding elections at all levels soon after a democratic breakthrough. Duma, Federation Council, regional council, and local elections could be held simultaneously, which would preempt any sense that one level has been more democratically elected than another. That was the case when the Soviet Union broke up. Since the parliaments of the union republics were elected later than the Union Congress of People's Deputies, they were perceived as more democratic.¹⁴ Presidential elections could be held separately, preferably before the parliamentary elections since they are less complicated, and it might be dangerous if there is no government authority at hand.

Fourth, Russia has all along been overcentralized. Power, taxation, and public expenditures need to be decentralized to regions and cities. At the same time as a new Duma is being elected, Russia should elect regional governors and councils, mayors, and city councils. Regions and cities would be given clear mandates with their own revenues to take care of typically decentralized affairs, such as local public construction, education, and some health care.¹⁵

In the process of decentralization, separatist tendencies will be reinforced and some regions may want to secede from Russia. The new government has to be prepared to handle such developments. Therefore, the mechanism for secession should be clearly delineated in advance in new laws. The new government should focus on the welfare and security of its people, and not on maintaining territory, and it should definitely not do so with force, as was the case with Chechnya. Presumably, Russia's borders may change in the process, but the new government should focus on minimizing violence and bloodshed. As other former empires, Russia needs to overcome its imperial nostalgia (discussed further below).



A Chechen refugee woman walks with her children at Sputnik refugee camp in 1999. Russian forces created a dire human rights situation with thousands dead and thousands of refugees in order to maintain control of Chechnya. Credit: Reuters

Fifth, a democratic Russia needs a new democratic constitution. The destruction of the current constitution, which took place through the “nullification,” has been so far-reaching that it makes little sense to introduce limited amendments to the current version. A new constitution should be written as fast as possible, but after the elections, and be based on a standard division of executive, legislative, and judicial powers.¹⁶

Sixth, political financing must be made transparent and regulated. In the decade before Putin’s authoritarianism, Russian politics attracted vast funds from wealthy businessmen., Post-Putin Russia needs to check and regulate political financing, and it should do so as most European countries do. It should adopt the new European standard of full transparency of election funding, public financing of parliamentary parties, and strict limits on any private funding.

Finally, symbols are always important, perhaps more so for Russia than in most other countries. The incomplete reform of national symbols was one of the shortcomings of the Yeltsin period. The new government will need to carry out the following few simple steps as fast as possible:

- Move the president’s office from the Kremlin, which is associated with the despotic power of the Muscovite tsars and the Bolshevik dictatorship, as well as amazes with its barbarian luxury, to an ordinary office building. The Kremlin should be open to the public as a museum;

- Discard the current Stalinist national anthem;
- Close the necropolis on Red Square, where the Soviet leaders are buried. All of them, starting with Vladimir Lenin, should be buried in line with Russia's traditions;
- Dismantle the monuments of those Soviet figures whose names are connected with repression of the population and the destruction of Russian culture and traditions, including Lenin and many others. These monuments should not be destroyed but moved to museums.¹⁷

How to fix the economy

Unlike in 1991, the Russian economy today elicits few concerns thanks to the Yeltsin-Gaidar-Chubais reforms in the early 1990s. A country needs to remember its real heroes to be able to move forward.

Russia currently has quite a stable macroeconomy with low inflation, minimal budget deficit and public debt, and large international currency reserves. It has a strong central bank and ministry of finance as well as a reasonably well-functioning tax system. These institutions do not require any major reform. Russia also has a well-functioning market economy, even if state interference is excessive. Finally, the country has numerous small and medium-sized private enterprises. The structure of the economy has completely transformed from Soviet times.

The main reason for the current Russian economic stagnation is the endeavors of the ruling Putin circle to enrich itself through the exploitation of natural resources. They develop the resource economy in spite of all their talk about their desire to “escape the oil curse.” The Putin regime is suspicious of people who develop high tech and demand a certain respect for their rights. Technical progress, which reduces the development of oil, gas, and other natural resources, is an objective enemy of this parasitical elite. The high-tech developers, who perceive themselves as integrated with the world, contradict the regime's ideology. Russia suffers from the great monopolization of the economy, leading to rent for the monopolists and high prices for the population, large enterprises concentrated in the hands of the state and Putin cronies, and poor social support.

FRI, JUN 5, 2020



New challenges and dwindling returns for Russia's national champions, Gazprom and Rosneft

As Russia's economic future is clouded by negative demographic trends, new energy technologies and efficiencies, volatile commodity prices, and the likelihood of continued Western sanctions, Gazprom and Rosneft, Russia's two natural resource champions face a comeuppance: international competition, global and regional market access, capital investment, and revenue/cost efficiency.

REPORT BY **ANDERS ÅSLUND & STEVEN FISHER**

Economy & Business

Geopolitics & Energy Security

The Putin economic cancer can be combatted by many means: transparency, deregulation, open markets, freedom of enterprises, and privatization. All of these methods need to be deployed.

Deregulation is the easiest task. All artificial monopolies should be dissolved and the domestic market opened up. Open and competitive public procurement needs to be introduced as far as possible. The Anti-Monopoly Committee should start pursuing real competition policy rather than protecting vested interests. The most effective means against monopoly is the freedom of enterprises. It should become as easy to set up an enterprise as it was in the early 1990s when new enterprises mushroomed by the hundreds of thousands.

In the early 1990s, a major concern was that the Russian government had neither the financial means nor the administrative capacity to build a social safety net. Now both assets are at hand. The post-Putin government should show an interest in the welfare of the Russian people and carry out all necessary social reforms, such as providing better health care, public education, pensions, unemployment benefits, and child allowances. Russia should develop a normal European welfare state.

The most complicated task is privatization. Under difficult conditions, Anatoly Chubais spearheaded the greatest privatization in the world in the early 1990s. This was a mastodon and largely successful project, laying the ground for Russia's fast economic growth for a decade from 1999. In its absence, it is doubtful whether Russia would have become a market economy.¹⁸ Unfortunately, the Putin regime instigated a major renationalization, largely by taking over successful private companies through corporate raiding. At present, the public sector generates about half of Russia's GDP.¹⁹ For the last two decades, the big state enterprises in energy, banking, transportation, and machine-building have expanded. But to a large extent, these companies are predatory, serving their managers rather than

the Russian people. This is an important cause of Russia's decade of economic stagnation. The aim must be to privatize all state enterprises that are not natural monopolies.

The current situation is very different from the early 1990s, and, therefore, a more sophisticated scheme of privatization is possible. In the early 1990s, the economy was in free fall and hyperinflation destabilized everything. Property rights were not defined, and relevant market prices of assets were missing. Moreover, the state had minimal administrative capacity. Today, by contrast, Russia has strong macroeconomic stability. The economy is not collapsing, but stagnating. The current owners of property are known, and the state administration functions. That facilitates a much more sophisticated strategy of privatization, which should also be more politically satisfactory to the Russian public that remains dismayed about the privatization of large enterprises in the 1990s, which many saw as a giveaway to the oligarchs.



Boris Yeltsin (R), Anatoly Chubais (C) and Sergei Dubinin. Anatoly Chubais spearheaded the greatest privatization in the world in the early 1990s . Credit: Reuters

First, the new Russian government should strengthen property rights through sound judicial reform.

Second, the new Russian government will need to reestablish a full-fledged privatization ministry as Russia had under Chubais. To begin with, it should split up the state companies and demonopolize all markets, exposing them to normal competition, and then proceed to privatize them with standard Western techniques. It would be much easier and less controversial to accomplish now when market values of the enterprises and their assets exist.

Third, the breakup of the big state companies would lead to the emergence of thousands of medium-sized enterprises, which could be auctioned off lock, stock, and barrel to private entrepreneurs. For enterprises of limited size, no particular tender conditions should be imposed, with a minimal check that monopolistic companies are not being recreated.

Fourth, the truly big state-owned enterprises, which are highly valuable, must not be sold off for prices below the market level. These companies are presumably highly corrupt, and good corporate governance as defined by the code of the Organization for Economic Cooperation and Development (OECD) is required, with independent supervisory boards and public accounting in preparation for their privatization. The aim should be to improve the companies' operations and maximize state revenues. The government should gradually sell off these big companies at real market prices, either through auctions to major companies or in part through initial public offerings (IPOs). This process will take a couple of decades.

Controls need to be established so that the remaining big state companies do not lead to new state capture. They will generate large dividend incomes that should be properly controlled. One suitable approach would be to establish a number of pension funds, say ten, that hold stock in the large state companies. This would have multiple beneficial effects. Sweden has seven state pension funds, which are politically neutral and only bother about return and governance. Romania has transferred remaining state shares to one company, whose management it auctioned out to foreign management (Franklin Templeton), which has an interest in both enhancing stock values and selling off assets at good prices. For Russia, the Romanian model would probably result in too large a concentration of power in one single asset manager. The Swedish model seems more relevant, but there are many options. In any case, the state dividends could be utilized to finance the pension system at a much higher level than is now the case.

An enormous, and so far not utilized, potential for the development of Russia is the large Russian diaspora. Many Russian émigrés have made excellent careers in the West, at universities, in high-tech industries, and in venture capital business. Many of them would be ready to return to or to cooperate with their historical homeland, but the current rulers attempt to utilize them exclusively for the promotion of their political projects. In a post-Putin Russia, the diaspora could become an invaluable source of experience, contacts, and economic development.



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The only positive thing that can be said about Putin’s foreign policy is that he has stayed engaged in multilateral forums.”

President Putin has continued Russia’s involvement in international institutions and forums, even if he is using them for his own political gain. The seats for Ukraine (front row on the left) are shown empty after the delegation walked out during Putin’s address in 2015. Credit: Reuters

A new foreign policy

Say farewell to empire and welcome the world


Russia’s current foreign policy appears a major failure. It has left Russia isolated, subject to massive international sanctions, and unable to attract foreign investment or talent. It has nearly rendered Russia a rogue state. As a consequence, Russia has been forced to maintain larger currency reserves and less foreign debt than would be economically rational, while compelling it to high military expenditures. If the aim of the government is to maintain security and maximize the economic welfare of the population, this approach makes no sense.

The fundamental problem is that Putin’s regime does not care about the population’s welfare but merely about its own power, wealth, and power perception. Empire is a fatal attraction because empires belong to history. Their very essence was undemocratic, being based on the idea that a master people rules over minor peoples. Most traditional European states were at one time empires. Some parted easily after major defeats, notably Sweden and the Netherlands. They decided to rebuild their greatness at home. Others suffered in the agony of insufficient defeats, notably Germany after World War I, and the United Kingdom and France after World War II. France collapsed politically during its war against Algeria’s independence in 1958. The UK opted for its supercilious Brexit because too many Conservatives had not come to grips with the idea that the UK was no longer an empire.

Most tragically, Germany caused World War II because of Adolf Hitler’s theory that Germany had been stabbed in the back, which is reminiscent of Putin’s belief that the collapse of the Soviet Union was the greatest geopolitical tragedy of the twentieth century.²⁰ This is an incredible opinion for the leader of a country which lost tens of millions of people in two world wars and in communist terror carried out against its own people. These were three far greater tragedies that hit Russia in the twentieth century. Moreover, Putin’s grievance comes from a man who was born and raised in Leningrad, where hundreds of thousands perished during World War II. The collapse of the Soviet Union, by contrast, was peaceful.

Russia under Putin is an extreme case of foolish imperial nostalgia, which he has used to whip up nationalism in support of his presidency that has failed to deliver freedom or an increased standard of living for the last decade. To promote chauvinism, Putin launched military aggression against Georgia in 2008 and against Ukraine in 2014. In addition, Russian mercenaries fight in Syria, Libya, and several African countries. Russian troops have stayed in Transnistria in Moldova. New Russian engagement is possible in Belarus, Russia's closest ally, which might already have happened. It is rumored in Russia that fighters from the Russian National Guard participate in the repression of protests in Belarus, and Russia and Belarus have officially concluded an agreement that legalizes such an intervention.

The basic idea of Putin's foreign policy appears to be to antagonize all of Russia's post-Soviet neighbors, Europe, and the United States in order to reduce Russians' sense of security, while a rational foreign policy would seek to enhance national security. Russia's neighbors turn away from it as far as they can and dare. The United States and Europe have imposed severe personal and sectoral sanctions on Russia, which have minimized economic integration.



MON, NOV 23, 2020

How the West should deal with Russia

The United States must deal with Russia as it is, not as it wishes it to be. What does a policy framework to address both Russia's dismal current realities and its better future potential look like?

REPORT BY ALEXANDER VERSHBOW, DANIEL FRIED

Arms Control European Union

The Kremlin's foreign policy has a very different aim, distant from the national interests of Russia—namely, to safeguard the personal prestige of, and respect for, Putin. Putin is not concerned about the resolution of concrete problems but aspires to secure his place in history. He wants to be remembered not only as the “gatherer of Russian lands,” like Prince Ivan Kalita, but also as the man who stood up to the United States and the West and defeated them. He is supported by radical right-wing parties and politicians who are not connected with any concrete project but simply desire to destabilize the West. Since Putin has such unpragmatic aims, he cannot achieve any long-term agreements with the West. Worse, he is not even interested in any such endeavor. The West had better realize this and understand that it can only reach minor agreements as long as Putin and his circle rule Russia.

Putin's policies run counter to Russia's real national interests—to protect the security and welfare of its citizens, or to maintain peace and security at a reasonable cost and to pursue economically beneficial integration.

Since the collapse of the Soviet Union in December 1991, Russia has not faced any real external security threat. In the 1990s, the Russian government adjusted sensibly and saved public resources by cutting defense expenditures, but from 2008 to 2016 these expenditures rose sharply for neo-imperialist reasons. Russia should cap its military expenditures at no more than three percent of GDP, corresponding to the current US level, in its own national interest.

Russia in no way benefits from its actual occupation of the Donbas, Transnistria, Abkhazia, and South Ossetia or from its mercenary forces in Syria, Libya, and the Central African Republic. The military and budgetary costs might be limited, but these activities, as well as assassinations abroad, denigrate Russia's international standing, and are followed by endless mendacious denials by top Russian officials. As a consequence, most Western countries are reluctant to have bilateral meetings with the Russian president, who is widely seen as a lowly assassin. It cannot be in Russia's national interest to be treated like a nearly rogue state, just above Iran, Venezuela, and North Korea, and far below China.

The economic costs of being nearly a rogue state are substantial. Since Russia's military aggression started in Crimea in February 2014, it has been hit by severe Western economic sanctions. These sanctions reduce Russia's access to international finance, investment, and GDP growth, and thus depress the standard of living. To foreign business, the sanctions risk is compounded by credit and reputational risks. While other emerging economies benefited from cheap international finance, Russia was compelled to slash its foreign indebtedness from \$720 billion in January 2014 to \$464 billion in September 2020, and it has stayed at a similarly low level since the summer of 2018.²¹ The market values of stocks on the Russian stock market are remarkably low by international standards because of the combined effects of domestic kleptocracy, low oil prices, and Western sanctions, which have regularly been reinforced since March 2014.

In a post-Putin period, the new Russian government's prime international economic interest should be to get rid of the Western sanctions. International economic integration should be a major Russian objective, but under the current conditions little integration can occur. This reason alone should convince any Russian government to moderate its foreign policy.



Russia is involved in numerous conflicts, both close to its borders and further abroad. From top left clockwise: South Ossetia (2008), Donetsk region (2015), Nagorno-Karabakh (2020), Homs district of al-Waer in Syria (2017), President Putin with the President of the Central African Republic Faustin Archange Touadéra (2019), and Donetsk region (2014). Credits: Reuters

Thus, Russia after Putin needs to reverse its foreign policy. Rather than wasting trust and money on a range of regional conflicts and mercenary warfare in a variety of countries, post-Putin Russia should try to settle these conflicts and establish good relations with most countries, making sure that all sanctions connected with them are ended. Most importantly, Russia should start speaking the truth in its public statements. It should respect international law. The only positive thing that can be said about Putin's foreign policy is that he has stayed engaged in multilateral forums.

Economically, Russia should engage with developed economies in Europe, North America, and Asia. It has tremendous potential for high-tech development with its great human capital in engineering and mathematics that has been wasted and scared abroad under Putin. This capital is best developed through intense integration with the most developed economies. That requires the freedom of trade, labor, services, capital, and investment. Russia should aim to conclude beneficial agreements on bilateral integration with the European Union (EU), North America, and East Asia, which is out of the question as long as Russia is subject to Western sanctions.

The return of Russia's foreign policy to normality requires not only new people in the Ministry for Foreign Affairs and new directives from the new political rulers, but also a major effort to overcome prejudices that have developed among many citizens.

Among Russians, the idea of "eternal enemies" of Russia, who for centuries tried to contain and humiliate it, is widely developed. While the traditional enemies are the UK and the United States, in recent years this list has been enlarged to include almost the whole of

Europe, not to mention Georgia and Ukraine. The memory of the common battle against Hitler is etched away. Nobody in Russia wants to talk about US assistance to the Soviet Union through the Lend-Lease Act. Instead, it is increasingly stated that the Soviet Union won World War II single-handedly.

Most Russians do not understand the idea that something may not be a zero-sum game. In any international conflict they seek not a mutually beneficial decision but “victory.”

The new government will need both time and effort to overcome this mentality.²² After Russia has returned to democracy, the West needs to engage. The EU is likely to be the main actor. In eleven post-communist accession countries, the EU has proven that it knows how to build democracy and the rule of law.²³ It should pursue the same agenda with Russia. Article 49 of the European Treaty states: “Any European State which respects the values referred to in Article 2 and is committed to promoting them may apply to become a member of the Union.”²⁴

By every definition, Russia is a European country. Its level of GDP is slightly higher than the poorest EU member state, Bulgaria. The EU should engage fully with Russia, as well as with Ukraine, Belarus, Moldova, the Caucasian countries, and the Western Balkans.



Participants attend an authorized rally to demand the release of political prisoners and to protest against detentions during nonviolent opposition demonstrations near the Kul Sharif Mosque in Kazan, Russia February 14, 2021. A banner with an image depicting Russia's President Vladimir Putin reads: "New 1917 for new tsar". Credit: Reuters

Can Russia really reform?

All too often, any discussion about Russia ends up with a vague reference to its difficult history and culture, implying that Russia or Russians are just like that. The arguments for Russia's democratic backwardness are primarily the aforementioned imperial hangover, a strong conservative ideology with an authoritarian tradition, and great dependence on oil revenue.

The dominant argument on democratization, however, is the powerful modernization theory, which teaches that countries are likely to become democratic when they have surpassed a certain level of economic development and reached a certain degree of education. The late US sociologist Seymour Martin Lipset formulated the basis for this in 1959, and it holds up well empirically.²⁵

The late dean of Russian history in the United States, Richard Pipes, emphasized the strong conservatism in Russian history.²⁶ But Russia also has an impressive liberal tradition, represented by people ranging from Alexander Herzen to Petr Struve. Pipes's contemporary counterpoint, the late Martin Malia, saw Russia as part of Europe.²⁷ As early as 1767, Empress Catherine the Great stated: "Russia is a European power."²⁸ Russia has European cities and the majority of the population always preferred a European style of life. Russian and European cultures have always influenced one another and they continue to do so. Russia has a strong authoritarian tradition, but that was also true of South Korea and Taiwan, and they did become democratic after they had developed sufficiently economically and socially.

The strongest reason for Russia's democratic backwardness appears to be its great dependence on oil revenues. In 2019, forty countries in the world with more than one million inhabitants had a GDP per capita exceeding Russia's \$11,601.²⁹ Of these forty states richer than Russia, only six are unfree by the standard of Freedom House. They are the city state Singapore, which is an exception in everything, and five wealthy oil states in the Persian Gulf—Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.³⁰ China is still slightly poorer than Russia in per capita terms.

These observations suggest two conclusions. First, Russia is most of all a victim of the oil curse. Extensive literature has analyzed whether oil hinders democracy and arrived at a resounding yes. Oil dominance has many effects that are harmful to democracy. Because of the rentier effect, oil states live on oil rents and do not need to tax their population all that much. In Russia, oil and gas usually contribute half of the federal revenues. Second, through the repression effect the ample oil rents allow an oil government to spend amply on security forces, which is obvious in Russia. Third, oil rents also impede modernization. Since talented people can make the most money in the oil and gas industry, the most ambitious go there rather than into tech or other innovative industries. The empirical evidence of the oil and commodity curse is overwhelming.³¹

Therefore, with a low global oil price the hope for democratization in Russia increases. The government will then need to finance itself to a greater extent from taxes paid by the population, who will demand more influence over government policy. When state revenues become scarcer, the government cannot spend as much on repression any longer, compelling it to take the Russian people more seriously. When the oil and gas barons lose luster, other entrepreneurs—presumably, most of all, the high-tech entrepreneurs—will gain shine, and the government will become more hesitant to chase them out of the country as it does today.

Thus, the best that can happen for Russia's democratic and economic development is a low oil price. From 1981 until 2000, global oil prices were low (around \$20 per barrel). Then they started rising and stayed high until 2014, when they collapsed. The commodity super cycles of some twenty-five years were detected by the late US economist Simon Kuznets in 1940.³² They persist, and we should expect commodity prices to stay low for almost another decade. What Samuel Huntington named "the Third Wave" of democratization lasted for three decades from the mid-1970s to 2005, largely coinciding with the period of low oil prices.³³ From 2005-2020, the world has suffered from a reversal of democratization, what Hoover Institution political scientist Larry Diamond calls the "democratic slump."³⁴

Russia is a prime example of the effects of oil price variations. The Soviet Union stagnated and collapsed when the oil price was low, and it contributed to the start of Russia's democratization and market reform. The person who made this point most strongly was Yegor Gaidar, the late economist who served as acting prime minister of Russia from June to December of 1992.³⁵ If he were alive today, Gaidar would undoubtedly see a new opportunity for democratization and a free economy as he did in the late 1980s.³⁶ The combination of petrified and moribound political structures with low oil prices suggests that Russia is about to approach a profound transformation.

Our optimistic conclusion is that Russia may look forward to a great future of freedom, rule of law, private enterprise, and rising economic welfare as soon as the obsolete despotism of Putin has been eliminated, but we dare not predict when.

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From 2008 to 2013, Leonid Gozman served as director of humanitarian projects at RUSNANO, a state-owned enterprise that commercializes innovations in nanotechnology, and from 1999 to 2008, he was executive board member and representative for governmental and NGO relations at Unified Energy System of Russia (RAO UES). An active participant in Russia's democratic movement who has served as political advisor to Anatoly Chubais and Yegor Gaidar, he is also the author of eight books and is a lecturer at Moscow State University. He was previously a fellow at the Woodrow Wilson Center, and professor of psychology and Russian area studies at Dickinson College in Carlisle, Pennsylvania. During his fellowship, Dr. Gozman explored social entrepreneurship as a means for deepening civic engagement and democratic development in Russia.

Endnotes

¹ Former Russian oil tycoon Mikhail Khodorkovsky recently published a book with ideas similar to ours. See Mikhail Khodorkovsky, *Gardariki, the Land of Cities* (London, November 2020). The essence of this report is captured in Leonid Gozman, “Posle Putina: Budut li doveryat’ novoi vlasti? (After Putin: Will People Trust the New Government?)” *Republic*, October 8, 2020.

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³ For an illustration of the communist perception of the rulers, see Teresa Toranska, *Oni: Stalin’s Polish Puppets* (New York: Vintage, 1987).

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⁵ Leszek Balcerowicz, “Understanding Postcommunist Transitions,” *Journal of Democracy* (1994), 5 (4): 75-89.

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⁷ Boris Yeltsin, *The Struggle for Russia* (New York: Times Books, 1994), 36.

⁸ Ibid., 127.

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¹⁸ Anatoly Chubais, ed., *Privatizatsiya po-rossiiski (Privatization in a Russian Way)* (Moscow: Vagrius, 1999).

¹⁹ Aleksandr Radygin et al., *Effektivnoe upravlenie gosudarstvennoi sobstvennost'yu v 2018-2024 gg. i do 2035 g. (Efficient Management of State Property in 2018-2024 and to 2035)* (Moscow: Centr strategicheskikh razrabotok, January 2018).

²⁰ Russian President Vladimir Putin, "Annual Address to the Federal Assembly of the Russian Federation," April 25, 2005, <http://en.kremlin.ru/events/president/transcripts/22931>.

²¹ Central Bank of Russia, *External Debt of the Russian Federation*, accessed on January 16, 2021, https://www.cbr.ru/eng/statistics/macro_itm/svs/

²² Leonid Gozman, Valdai-Madrid, *Novaya Gazeta*, October 28, 2015.

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