

RUSSIA IN 2020 AND BEYOND: WHAT ONE SHOULD EXPECT AND WHY

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On January 15, 2020 President Vladimir Putin announced a dramatic turn in Russian politics declaring that he wants to amend the country's Constitution, to change its Government and to introduce a new structure, the State Council, into the constellation of the highest political bodies. Once again, the global community got a proof Russia is a riddle wrapped in a mystery inside an enigma. But even under these new circumstances one can look on Russia's perspectives and see them a bit clearer than from the recent years.

I would argue that Mr Putin's move was absolutely rational. His main message consists in what was well known long before: he will stay at the top of Russia's politics till his last gasp. But the perspective not to be eligible for reelection in 2024 already provoked too much agitation in Russia's political elite for being tolerated further. Announcing the constitutional changes, the president says that he will find an option to stay, and there is no reason for the other top officials to dream they might become independent figures. At the same time it's clear that the amended Constitution (or, most probable, a new one) will provide Mr Putin a variety of possibilities to control the situation in the country.

So, if to address political issues, I would predict the Constitution will be edited in coming several months and approved by popular vote with significant margin. Soon thereafter president will reshuffle the Supreme and Constitutional Courts, squeeze from the public service several hundred officials with either dual citizenship or foreign residence cards and declare Russia will not longer respect any rulings of the international courts. Maybe the early elections to the State Duma will be announced as well with some 'predictable' liberals being allowed to run. All this will not cause any huge resistance on part of the Russian society.

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But, and this is the most important point in my presentation, these dramatic events of 2020 will change much less than many observers would believe. On the one hand, Mr Putin's position will not become different. I do not believe he will resign as president and become a chairman of the State Council. His tenure will continue till 2024 when he would possess two opportunities: either to preside over the State Council or to run again for president as the Constitutional Court rules that all the previous terms in office are nullified after the 2020 Constitution was adopted by the people. On the other hand, the most crucial Russia's problems – those that have economic nature – will not disappear. Mr Medvedev's government might be called responsible for many faults and shortcomings, and it was very little respected, but economic stagnation is caused by the entire system of 'putinism' based on the increasing restrictive powers of bureaucracy and security services, so there's no chance for Russia to reach high economic growth till Mr Putin is in charge.

I would start from economic issues in assessing whether Russia can remain stable enough in coming years.

My point is that Russia's economy has no room to grow. In 2019 the GDP advanced by 1.3% (2.3% in 2018), investments into fixed assets grew by 1% (4.3% in 2018), the real disposable incomes were largely unchanged. All this happened as the budget's primary surplus advanced to Rub3.38 trln, businesses' profits went up by 9%, the ruble gained 12.1% against the dollar, inflation hit the post-2017 low of 3%, the stock market shot up by 33% (RTS) and 28% (MOEX), and the National Welfare Fund by the end of the year was almost twice as big as at its start, at Rub7.78 trln (€114b). All the major financial trends indicate the fact the economy cannot absorb the money it produces. Around 60% of overall profits of publicly traded companies were paid out as dividends and not reinvested. The stock market advances happened because investors do not want to put money neither into new ventures nor in the bank deposits preferring just to speculate on the stock exchange. Mr Putin has promised to liberalize the business environment but this never happened, and will not happen in the future (the new prime minister is known as a person who believes 'people are Russia's new oil' being nothing more than taxpayers to be perfectly squeezed). Therefore Russia will rely further on natural wealth and energy exports – but they cannot become a stable basis for high incomes for all. The overall value of oil and gas exports for 2019 equals to \$2,320 per each Russian citizen while the same figure in Qatar stood at... \$262,340 for 2018. So while the state possesses money for arranging some 'mega-projects' like the construction of the Crimea Bridge or (maybe) building Russia's first high-speed rail, there are no funds at hand able to change the overall situation in the social sphere Mr Putin targeted in his recent address. Russia remains a very poor country. Since January 1, the minimal wage has risen to Rub 12,130 (€178) and minimal pension – to Rub 9,311 (€137) with roughly 19m people surviving on these money. The health care expenditures from both the budget system and National healthcare fund amount Rub 23,200 (€334) per person annually with Rub 11,400

(€167) being spent out-of-the-pocket for commercial medical services and drugs (one can compare this to €4,310 being spent in The Netherlands per capita in 2018 not including spendings on drugs). So my strong argument is that Mr Putin cannot change the trends in Russia's economy by increasing social benefits by around Rub 1 trillion per year. I can believe families with kids will feel some relief, but the new prime minister already outruled any chance for exempting minimal wage from an income tax that was advocated by many Russian experts and deputies for years. So I should argue that in coming years the poverty in Russia will be on the rise, the real disposable incomes will be 'eaten' with higher utility tariffs and servicing of consumer loans (by the way, the number of personal bankruptcies went up by 57% in 2019) while the education and healthcare systems will further deteriorate. I expect the quality of life to fall, and I simply cannot see any sources from where the additional money might be poured in for rejuvenating these sectors.

I would also mention the growing problem caused by the regional disparities, affecting not so much the remote oblasts or republics, but rather first and foremost the central parts of Russia. I would say that one should not focus so much on the territories that are the 'donors' of the federal budget and on those that are subsidized from the federal center. Much more important are budget outlays which drastically differ between the huge agglomerations and mid-size regional centers. The most telling example is, of course, Moscow with a budget that is roughly 8 times higher than the combined budgets of 7 oblasts that surround the city. Moscow city council in 2019 spent on refurbishing the city more money than all other Russian cities and towns combined, and both Moscow and St. Petersburg suck all the resources and all the youth from the neighboring territories (the gross regional product per capita in Smolensk oblast is now less than $\frac{1}{4}$ of the Moscow's number) with their population shrinking and the share of retirees in the overall population increasing. I would argue that there is no special intention to make Moscow rich, and the neighbouring regions poor – it comes in a natural way since both the wealthy and the active people move to Russia's capital cities, to spend their money there, to pay taxes and to enjoy life. Contrary to the United States where the payroll tax goes predominantly to the federal coffers, in Russia it ends in the regional ones, so the interregional disparities will only grow even the central government supports the regional budgets securing from 30-35% (on average) to 80% (as in quasi-independent Chechen Republic or in occupied Crimea) of their regular spendings.

Summarizing the economic issue, I would argue that Mr Putin's authority might remain stable only if people feel their wellbeing remains at least stable if not increasing. This may come at huge cost since the ordinary Russians suffer of stagnating wages, constantly rising utility tariffs, increasing taxes and levies (six new taxes were introduced since 2016, and three existing were increased), and considerable indebtedness. I would estimate annual expenditure for maintaining the 2018 purchasing power of the majority of the Russian citizens at Rub 1-1.5 trillion of additional

spendings so if combined with Mr Putin's promised subsidies these measures may deplete the government reserves in three years without producing substantial economic growth – and the Kremlin has no any other resources available. If a global financial crisis erupts in 2020-2022, the Russian government would have very limited levers to counter its effects, so all the increases in wellbeing might evaporate in several months causing a deep frustration that may produce a political explosion.

The political situation also looks quite stable right now, but may become vulnerable to some decisions taken in the future.

As I mentioned earlier, the process of amending the Constitution will not create any huge political upheavals first of all because people were quite pleased by those economic promises Mr Putin recently made as well as by the government dismissal; moreover, I would even argue that the most part of the population already came to terms with the fact Mr Putin stays in power till 2024 – so whatever he's doing during this time will not produce crucial changes. The vast majority of people are concerned by purely economic matters; around 60% are employed either by the state or by the state companies, or get pensions from the state, therefore under the unchanged economic conditions and before 2024 the chances for destabilization are tiny. The issues of human rights concern people only marginally; the most acute problems, such as ecological ones, mobilize only regional groups and lack the nationwide attention; gender issues and domestic violence also do not resonate with the major part of the nation. Of course, no one should forget about the repressive powers of the state that grow from year to year – the so called 'Moscow case' of 2019 reflect that the Kremlin can be very cruel in dealings with those who may take to the streets to protest. Moreover, quite often the newly emerged leaders of the crowd and active protestors become seduced by the ruling national and regional elites and successfully incorporated into different institutions where they get enough public attention and competitive salaries.

I might be mistaken, but I foresee only one option that may cause a wide public outcry: the one when Mr Putin decides to run for president again in 2024 on the ground the newly drafted Constitution allows him to do so. This might be considered enough by a vast majority of the people and undermine any kind of political predictability. No one can evaluate whether this will happen or not, but if the current president will continue to govern using some other positions and posts, I would rather say he can effectively stay on top of Russia's politics for a very long time.

To conclude this part of the story, I would say that the chances for Russia to change due to domestic economic and political trends look very remote these days. The only realistic option I can envision is a profound economic debacle caused by external factors (like the worldwide financial collapse, deep fall in energy and resources prices, comprehensive Western sanctions that may follow another Russian meddling in domestic issues, etc.). Without such developments, I see no much risks for Mr Putin's regime in coming years.



So what The Netherlands and the European Union may do in these circumstances? First of all I would say that they shall strengthen their defense against all kinds of intrusion, toughen the laws and regulations that prevent the European political parties and organizations to get money and other support from abroad, and develop sophisticated security systems for resisting Russian propaganda in Europe. I would not bet too much on the European 'soft power' instruments like the European Court of Human Rights since Russia will simply ignore its rulings in the very near future. As the policy vis-à-vis Russia's near-abroad is concerned, I would argue that not only Ukraine should constantly be supported as a prospective case of a post-Soviet Orthodox Slavonic country choosing European path instead of an 'Eurasian' one, but also Belarus' commitments to its sovereignty and independence should be mentioned and rewarded. Geopolitically Mr Putin these days is trying to identify 'historical Russia' with the former Soviet Union and/or the Russian Empire while the country he presides over resembles much more the mid-17th century Russia, and this should be constantly mentioned in the public discourse in the West. The last but not least is the issue of Russian corruption and money laundering which looks extremely important since The Netherlands appear to be the home for hundreds of Russian shell companies that control many of the largest Russian commercial enterprises and use European regulation and European courts for compensating the absence of the rule of law inside Russia thus making Russian judicial reforms less desirable.

But I would argue that all these measures can mainly defend the European values and institutions from Russian insults while Europe actually possesses no adequate means to change Russia's policies. Therefore, the main strategy should consist in out-living, not undermining, Mr Putin's regime. Political systems resembling the one that exists now in Russia cannot be sustained without the leaders who created them, and this may give all of us some hope.