

Will the Financial Crisis Lead to Political Change in Russia?

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It is widely accepted that the stability of Russia's political regime and Vladimir Putin's high approval ratings, first as president and then prime minister, have depended mainly upon a steady increase in Russians' real incomes. Between 2000 and 2007, Russia's gross domestic product grew 72 percent, while real incomes grew 141 percent. Combined with the accessibility of cheap credit, rising incomes produced a consumption boom. Consumerist values displaced concerns for democracy and freedom and made the nature of the political system irrelevant to a depoliticized population. In the private sector, high profits allowed entrepreneurs to bear the costs of corruption and undercut incentives for collective action to combat it.

At the start of 2009, however, it became clear that major economic trends had reversed. Recession hit most sectors of the economy, industrial regions, and (especially) company towns, causing a corresponding rise in unemployment. If the political stability of the Putin era has, indeed, rested solely upon the fruits of economic growth, then economic decline should cause political change. Are there signs of pending change? If so, what forms might it take?

The Parameters of the Crisis

Since September 2008, Russia has passed through several consecutive phases of crisis. After prices declined in world commodity markets, Russia's stock market lost 73 percent of capitalization. \$500 billion in corporate debt, of little concern when the economy was on the rise, put many companies on the brink of collapse overnight. The liquidity crisis, capital flight, and a controlled devaluation of the ruble led the Russian government to spend \$200 billion, a full one-third of its currency reserves, during the first four months of crisis. At the same time, a decline in the extractive and metal

industries dramatically reduced official budget revenues and rents. In 2009, federal budget revenue is projected to be 42 percent less than originally planned, leading to an unprecedented deficit of 7 percent of GDP. Industrial production also fell, while unemployment rose. In the first half of 2009, the volume of cargo transportation by Russian Railways, the state-owned rail transportation company, dropped by 22.7 percent, reflecting the overall decline in Russian economic activity. The indicators for the first half of 2009 (see Table 1) show the Russian economy sliding into recession after years of growth.

Table 1: Russia's economic indicators

	2004	2005	2006	2007	2008	2009		2009*
						Q1	Q2	*projected
GDP (% of previous year)	7.2	6.4	6.7	8.1	5.6	-9.5	-10.4	-8.6
Industrial production (%)	6.1	5.1	6.3	6.3	2.1	-14.3	-14.2	-22
Railway cargo transportation (%)		5.3	4.1	4.2	2.5	-24.4	-20.1	-19
Retail trade turnover (%)	13.3	12.8	14.1	15.9	13	-0.1	-5.6	
Real income (%)	10.4	11.1	10.2	12.1	2.7	-0.2	0.2	
Unemployment, million people	6	5.6	5.3	4.6	5	6.1	6.3	7.4

Sources: Rosstat, Government of the Russian Federation, Russian Railways

Mass Political Protest Unlikely

In assessing whether economic crisis will lead to political change in Russia, one may start with simple but reliable assumptions. First, change can come either from below, as a result of mass pressure and protest, or from above, through a shift in the power balance of the ruling elite or a conflict within that elite. Furthermore, economic decline does not translate directly into political protest and regime change. It operates through intermediary mechanisms and requires the articulation of political alternatives.

Mass protest is more likely to ensue if the welfare of a population drops, not if it simply ceases to grow. With the exception of company towns, industrial decline has yet to undermine the general welfare of the Russian population. A decrease in retail trade turnover in the first half of 2009 was not as dramatic as the decline in industry and transport (see Table 1).

This is due to savings from previous years and to a government policy of increasing social spending. In 2007, savings by the Russian population equaled about three average monthly salaries (meaning that an average family can sustain itself for three months out of its savings). In addition, the government increased public spending by

5.5 percent as it revised the 2009 federal budget and pressured regional governments to maintain or increase welfare programs. Salaries constitute 67 percent of incomes, while social welfare adds another 14 percent. Thus far, salaries have declined by only 2 percent, and this has been partially compensated for by the increase in social payments and benefits from federal and regional budgets. Official statistics show that, at least in the first half of 2009, the population's real income did not fall.

Most Russians are likely to preserve their pre-crisis level of consumption at least until the end of 2009, especially if the government manages to reduce inflation. The crisis did compel people to give up or indefinitely postpone upgrades and new purchases, especially of real estate and durables, such as cars and household equipment. Though painful, forgoing the purchase of a new car, and generally having to readjust family consumption patterns, is not the kind of incentive that leads to mass political protest.

Moreover, the government has forcefully addressed protest at the local level. Since the beginning of 2009, there have been only a few instances of local protest. In January, traders and drivers in the Far East protested after Putin endorsed protectionist measures that included a ban on the import of used cars from Japan. Riot police dispersed protesters, while state-controlled television explained that protest actions were subsidized by the shadow economy and foreign interests. Protests in Pikalevo, a company town near St. Petersburg where desperate workers from three shuttered enterprises had blocked the highway, prompted the personal interference of Putin. Playing the part of a crisis manager, Putin resolved the conflict in front of television cameras, establishing that central authorities can still compel large business owners and regional authorities to keep enterprises afloat, contrary to the logic of the market that doomed them to closure.

During the summer, large enterprises began to cut employment. As a result, social tensions may grow in some regions and company towns. However, political change from below is also unlikely in the absence of a strong political movement or an influential opposition party that can articulate collective discontent, mobilize people, and translate local actions into a national movement. No alternative leaders or parties yet exist that can convince the majority of the population that they will gain more from changing the regime than by demanding material benefits from the existing one.

A Medvedev-Putin Split Unlikely

As in previous years, most of the Russian population invests its hopes and expectations not in parties or institutions, but in state leaders. Approval ratings for Prime Minister Putin and President Dmitri Medvedev, although slightly lower than in 2008, remain significantly higher than those of other political institutions or actors (see Table 2). That their approval ratings were not significantly affected by the crisis might be explained by the fact that real incomes did not significantly decline. The stability of their ratings can also be attributed to the effects of state-controlled media, which project the idea that a strong and unified leadership is vital in hard times.

Table 2: Approval ratings for Putin and Medvedev

	Aug 08	Sept 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09
Putin's activity approved	83	88	83	86	83	83	78	78	76	78	79
Medvedev's activity approved	73	83	76	78	76	75	71	71	68	72	71
Putin's activity disapproved	15	10	14	12	15	14	20	20	21	18	19
Medvedev's activity disapproved	22	14	18	17	21	22	26	25	27	23	27
No answer for P	2	2	4	2	2	3	2	2	3	4	2
No answer for M	5	3	6	4	4	4	4	4	5	5	3

Source: Levada Center

Note: Figures represent % of respondents in a nationwide representative sample who answered the question, "In general, do you approve or disapprove of the activity of Putin/Medvedev in his capacity as Chairman of the Government/President?"

Despite episodic polemics between members of the presidential administration and the government, Putin and Medvedev have avoided public confrontation and enjoy roughly equal coverage on national television. They also continue to observe the implicit contract that divides responsibilities between them. Putin handles large business, industrial policy, state investment, and the executive and legislative branches, while Medvedev tends to foreign policy, human capital, small and medium-sized business, and the judiciary.

The crisis did not significantly affect popular perceptions of power sharing within the Putin-Medvedev tandem (see Table 3). About 50 percent of those surveyed continue to think that real power is shared equally. Among those who think the distribution of power is unequal, the share of those who endow Putin with more power is higher and has grown. However, this trend began well before the economic crisis.

Table 3: Who holds real power in Russia?

	Aug 08	Sept 08	Nov 08	Dec 08	Jan 09	Mar 09	Apr 09	May 09	Jun 09
Medvedev	14	16	11	10	11	12	12	11	9
Putin	26	28	30	32	32	34	30	30	32
Both equally	49	48	51	49	50	50	48	50	51
Hard to say	10	8	8	8	8	4	10	10	8

Source: Levada Center

The crisis has objectively increased the value of government decisions and, on the whole, the power of the state. State investment programs and orders have revived the aerospace sector, continue to support the defense industry, and promise to recover shipbuilding. Both state companies and private businesses look to the state for credits, guarantees, and the easing of tax burdens; large employers expect rescue packages. Small and medium-sized businesses depend upon public measures to keep up consumer demand and to reset the banking sector. Given such conditions, cooperation with government agencies is much more likely than conflict.

Institutional Reforms

Finally, the government may yet address some of its own shortcomings. Critics of Putin's political-economic model have cited the government's failure to reform the economy and the weakness of the judiciary and private property as the main reasons why the global crisis hit Russia so hard. In years of high oil and commodity prices, budget revenues were generated by a small number of large enterprises, the economic activity of which was regulated by personalized, informal agreements between owners and state officials. In such conditions, the government had no incentive to improve the business environment or to stimulate the development of small and medium-sized business. Personified governance (*ruchnoe upravlenie*, or manual control) of the economy left no chance for legal reform; independent courts and the rule of law would have undermined the discretionary powers of the state bureaucracy, particularly its coercive agencies.

While Russia's top political authorities habitually talk about the need to reduce bureaucratic pressure on private business, the state's tax, regulatory, and coercive agencies have become even more active, increasing informal pressure and extraction from the private sector. The narrowing of the resource base due to the reduction of hydrocarbon rents has sharpened contradictions over the distribution of private profits and stirred new property disputes. Surveys of entrepreneurs, as well as criminal prosecutions against businessmen, including new trials for Mikhail Khodorkovsky and Platon Lebedev, indicate that those parts of the state bureaucracy endowed with coercive and administrative powers pursue their own interests and successfully resist all efforts to improve the business environment.

At the same time, the crisis has returned institutional reform and economic restructuring to the center of the policy agenda. Fearing massive unemployment and a falling standard of living, the government has continued to support large, inefficient enterprises and to postpone the restructuring of the economy. However, the outlook for institutional reforms is better now than it has been in the last several years; it is reminiscent of the three-year period before the 2003 YUKOS affair. Members of Medvedev's advisory team, the presidential administration's associated think tank (INSOR, the Institute of Contemporary Development), and a number of independent expert communities are working on various dimensions of institutional reform. Several anti-corruption laws have been adopted by the Duma; reform of the state service has also returned to the agenda. However, decisive changes in legal and law enforcement systems have yet to be made.

Conclusion

Despite the deepening economic crisis, the likelihood of political change in Russia, be it through a change of leadership or political regime, is rather low. If there is a change in Russia over the next year, it will be designed and conducted from within the existing power structures rather than from below or by external actors. The government has unlimited powers and sufficient financial resources to mitigate potential social unrest. At the same time, Medvedev's administration is likely to proceed with several institutional reforms, concentrating on measures to improve the rule of law in the hope that political consequences will eventually follow.

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