# The Limits of Conservative Influence on Economic Policy in Russia

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# Introduction

This volume argues that in recent years “conservatism” has become a new meta-frame and an “ideology” for those who challenge the liberal order. As Katharina Bluhm shows in her chapter, the conservative turnaround in Russia has two main sources: the first is the support for conservatism “from above” – from the centers of power around president Putin, and the second source is conservative movement by intellectuals and political activists who do not belong to Russia’s political establishment. For both groups, a “conservative” view on economics and economic policy is an important element. In our chapter, we will focus on the economic and public policy positions of Russian conservatives. Analyzing the ideas of several of the most influential groups and individuals, we label them “Russian conservative economists”, though not all of them are economists by education or occupation. We also use the term “conservative” in the sense of a self-definition by these actors; that is to say, Russian “conservative economists” are those who publicly identify themselves as supporting anti-liberal principles and propose alternative economic and public policy programs. The self-identification criterion leaves many prominent individuals outside the camp of conservative thinkers even if their views are very similar to the views of self-proclaimed supporters of “Russian-style” conservatism. Still, in Russia the camp of self-identified conservatives unites not only extreme ideologists of the extreme right or left, but many mainstream public figures and well-known intellectuals seeking to influence public policies.

Most importantly, Russian president Putin and his Prime-Minister Medvedev belong to the self-proclaimed “conservatives.” Thus, in fall 2009, Vladimir Putin's “United Russia” party held its convention in St. Petersburg, where “Russian Conservatism” was declared to be the party’s official motto. The party declared its intention of combining conservatism with a program of economic modernization, while the party’s principal task, as both Putin and Medvedev told convention delegates in St. Petersburg, was to bring about Russia’s economic and technological modernization without tampering with the country’s political regime (Trenin 2010). In a 2013 interview Vladimir Putin (2013) described himself as a “pragmatist with a conservative bent.” In Putin’s view, “conservatism certainly does not mean stagnation. Conservatism means reliance upon traditional values, but with a necessary additional element aimed at development. It seems to me that this is an absolutely essential thing.”

In 2018, the year of Putin’s reelection to another six-year term, practically all Russian conservatives publicly supported (and increasingly so over time) his incumbency.[[1]](#footnote-1) None of them was in open opposition to Putin. Even those belonging to communist groups claimed that there was no alternative to Putin as the political leader of Russia. However, at the same time it was quite common to criticize the Putin government and, in particular, to blame some officials for the neoliberal economic course promoted by the pro-Western economic block of the government. While the political leaders of Russia are self-proclaimed conservatives, since the 1990s the official economic course had been largely determined and implemented by a group of “liberal” economists. These economists were strongly influenced by the ideas of neoliberal economics, political science and development studies.

Thus, while supporting Putin as the political leader and rejecting liberalism in politics, Russian conservatives have proposed a variety of alternative economic programs. The alternatives advocated by them have been aimed at persuading Putin to change official economic policies, as all of them insist that their alternatives are fully consistent with Putin’s conservative political agenda, but could serve it better than the current status-quo economic course.

In this chapter our main claim is that the influence of conservative ideology on economics in Russia is likely to remain limited. The liberal economists have gradually accepted and adopted conservative political ideas, but continue to promote liberal economic policies. The conservative politicians and public intellectuals are increasingly interested in developing “conservative” alternatives to liberal economic policies, but their proposals are unlikely to be acceptable to Putin. At most, Putin could adopt some elements of the alternative economic politics offered by the conservatives. The status-quo in economic policies is therefore likely to prevail as long as Putin’s regime is relatively stable.

There is significant heterogeneity of economic platforms within the Russian conservative camp. One segment of this camp advocates conservative anti-liberal ideas in political, social and cultural life while continuing to support “liberal” economic policies. Most importantly, they argue in favor of a *limited economic role for the state*. In that respect, the Russian “liberal” conservative economists share the economic views of their conservative counterparts in Europe and the US.

Another group of conservatives advocates a more consistent combination – anti-liberalism in all spheres of social life, including economics. They all favor a *greater role of the state* in the economy, though disagree concerning the specific economic priorities of the state. In this respect, some differences between socialists and nationalists are noticeable.

Yet another small (though often quite vocal) segment of conservatives in modern Russia presents itself as seeking an economic alternative to both socialism and liberalism (belonging to this segment in particular are Dugin and Prokhanov). These claim to promote the “third” or even the “fourth” economic alternative to capitalism, socialism and all their various combinations. For instance, Dugin presents his agenda as “radical de-urbanization and a return to agricultural practice, to the creation of sovereign farmer’s communities […]. This isn’t about the building of a system of economics that is more effective than liberalism [...] but a religious, eschatological battle against death.” (Dugin 2012).[[2]](#footnote-2)

Overall there is a very significant variety of positions among the economists with anti-liberal political views – from those promoting the neoliberal economic principles of “liberal conservatism” and “liberal empire” to the advocates of protecting the Russian economy from global competition and the supporters of the “Fortress Russia” model. It is also worth noting that the diversity of economic views among Russian conservatives largely reflects (though not exclusively) their differences regarding the evaluation of the Soviet and post-Soviet experiences. This diversity also reflects the instrumental, “catch all” character of conservatism for Putin’s administration (Laruelle 2017).

Despite many differences and disagreements among them, practically all self-identified Russian anti-liberals share the view that Russia urgently needs economic and technological modernization, economic reforms being crucial to restore Russia’s geopolitical status and military capability, as well as strengthening state capacity. Thus, all Russian conservatives are in favor of economic reforms and modernization.[[3]](#footnote-3) Their particular concern, however, is the choice of an appropriate economic model that would serve as a basis for economic modernization. They all advocate some form of unique or special “Russian path” of economic modernization that would not provoke a transition to liberal democracy in Russia. Thus, rejection of liberal democracy is *the marker* of all conservatives in Russia. Specific segments inside the conservative camp would also like to avoid many other “by-products” of economic modernization – e.g. increasing Western cultural influence or challenges to the influence of the Orthodox religion. More generally, as Chebankova noted: “conservative thinkers do not reject modernity as a project, but rather propose to develop a culturally specific Russian version.” (Chebankova 2013: 287).

For some conservatives, Russia is not yet ready for liberal democracy; yet most conservatives would prefer to avoid liberal democracy in Russia forever. All of them emphasize various shortcomings of liberal democracy and, especially the risks of *transition* to democracy. In the view of Russian conservatives, liberal democracy is inconsistent with: 1) unpopular but necessary measures of economic reform; 2) political stability; 3) a strong state; 4) territorial integrity; 4) measures necessary to upgrade Russia’s geopolitical status 5) military buildup; 6) Russian culture 7) family values; 8) the values of the Orthodox religion.

At the official level, the search for a special model of economic and technological modernization that would not lead to liberal democracy began with the promotion of the concept of “sovereign democracy” in 2006 (Krastev 2006). The concept had to shield Russia from the influence of Western political models (Krastev 2006; Okara 2007; Hassner 2008). It became an official position by the end of the second constitutional term of president Putin (2004-2008).

According to Urnov (2012), the first version of conservative modernization ideology had already been presented in the 2008 government’s ‘*Strategic Concept 2020*’ and in Putin’s speech of the same year, on which it has been based. In November 2009, “United Russia” has described itself as a “conservative force” promoting economic and technological “modernization” in Russia. “Conservative modernization [...] has become the Leitmotiv of the Kremlin’s policy agenda” and the key element of such a conservative modernization was the preservation of the existing political model (Trenin, 2010).

Since 2008, two distinct stages in the development of Russian conservative economic programs have been observable – a stage before and a stage after the drop in world energy prices. While these prices remained high, it was theoretically possible for the Russian government to implement economic and technological modernization in an orderly way using billions in revenue from energy exports. So it is no wonder, that during that period the debates among Russian conservatives focused mostly on how much export revenue could be spent without losing macroeconomic stability (for example by provoking inflation). After the collapse in energy prices the main focus has shifted to the issue of where to get money; how much to borrow, and whether it would be possible to further lower further the living standards of some sectors of the population. In the second period, options for economic and technological modernization that don’t risk provoking political reforms have become much more restricted. In fact, the primary focus now is on alternative models of state-led technological development, which is arguably still feasible under a federal budget deficit and increasing military spending. The alternative conservative programs promise to provide successful development of military related technologies with the limited resources available.

In the next section, we review theoretical explanations of the reasons authoritarian regimes such as Russian seek models of economic modernization that avoid the development of liberal democracy in their nations. We then detail the conservative economic modernization that has been implemented by Putin’s regime. Finally, we consider some details of major economic alternatives offered by conservatives in Russia.

# Theory: Instrumental Value of Conservatism for Authoritarian Regimes

As stated above, from an economic perspective, Russian-style conservatism is essentially an attempt to launch economic and technological modernization without liberal democracy. The most important constraints of such a type of modernization lie in the question of how to avoid developments that would provoke societal demand for democratization. Russia is not unique in this respect - in fact, from Belarus to Kazakhstan, non-democratic regimes across the post-Soviet space practice various models of such modernization. A comparative study of the literature provides several complementary theoretical explanations as to why many authoritarian regimes have to promote economic modernization while trying to avoid liberal democracy. For instance, Samuel Huntington predicted that “non-Western civilizations will continue attempts to acquire the wealth, technology, skills, machines and weapons that are part of being modern” (Huntington 1993, 49). They will also attempt to “modernize but not to Westernize” their political systems and societies (Huntington 1993, 41).

The major risk of economic modernization for authoritarian leaders is that modernization could change the balance of power in society and create demand for democracy. As Seymour Lipset (1959) has pointed out, democracy requires certain societal preconditions, and economic modernization helps to develop them. In particular, if economic growth leads to economic prosperity, it could then promote the demands of middle class for the institutional protection of property rights and more opportunities for participation in public affairs. A popular version of this argument emphasizes the increasing role of taxation in economic development and stresses that taxation leads to demands for political representation. To summarize, economic growth and technological development are likely to provoke societal calls for political reforms toward democracy.

In *Why Nations Fail*,Acemoglu and Robinson (2012) argue that *strategic* authoritarian leaders are likely to accept only a limited choice of methods for promoting economic prosperity, excluding most alternatives as being unacceptably risky to their political status. Most importantly, authoritarian leaders have to maintain control over how that increased prosperity is distributed, and who has economic and political power. Otherwise, economic progress may redistribute income and power in such a way that an authoritarian leader and his political supporters might become worse off. Economic growth and technological change are accompanied by what Joseph Schumpeter called creative destruction. The process of economic growth creates losers as well as winners in the economic marketplace and the political arena. Fear of losing the status of political incumbency often lies at the root of the resistance to creating opportunities for economic development (Acemoglu and Robinson 2012, 84).

Furthermore, according to Acemoglu and Robinson (2012), economic and technological development in authoritarian regimes is possible as long as it does not challenge the power of incumbency. For example, growth is possible “when elites can directly allocate resources to high-productivity activities that they themselves control” (Acemoglu and Robinson 2012, 91). Therefore, political centralization becomes the key to promoting growth under authoritarian regimes. However, even though such regimes “can generate some growth, they will usually not generate sustained economic growth, and certainly not the type of growth that is accompanied by creative destruction” (Acemoglu and Robinson 2012, 94).

Schlumberger (2008) has defined the prevailing model of economic development in non-democratic countries (including Russia) as “patrimonial capitalism” – an economic order that is strongly shaped by the political order and informal power relations. “Non-democratic governance is a necessary condition for patrimonial capitalism to emerge and survive over time” (Schlumberger 2008, 635). On the other hand, “the selective enforcement of closely interwoven formal and informal institutions enables rulers to maintain power” (Schlumberger 2008, 638). Developing Schlumberger’s ideas, Robinson (2013) has provided detailed analysis of the operation of “patrimonial capitalism” in the post-Soviet space, focusing on Russia. He has argued that in the post-Soviet region, patrimonial capitalism developed as a means of coping with exogenous pressure to modernize the economy while preserving the political power of elite groups. Robinson (2012, 191-197) has predicted that “the political dysfunctions of Russian capitalism” will allow Moscow to avoid democratic reforms for the foreseeable future.

Studying the cases of China and Russia, Bueno de Mesquita and George Downs have concluded that significant economic development will not lead to democracy (Mesquita and Downs, 2005). These authoritarian regimes (as well as many other autocracies around the world) might have learned how to sustain economic development on the one hand and avoid political liberalization on the other. De Mesquita and Downs use the concept of “strategic coordination” to explain how authoritarianism can avoid democratization. Strategic coordination refers to “the set of activities that people must engage in to win political power in a given situation. Such activities include disseminating information, recruiting and organizing opposition members, choosing leaders, and developing a viable strategy to increase the group’s power and to influence policy” (Mesquita and Downs 2005, 80). If autocrats can weaken the strategic coordination of their political challengers, they can also avoid the emergence of democratization. The fundamental problem is how to “raise the costs of political coordination among the opposition without also raising the costs of economic coordination too dramatically” (Mesquita and Downs 2005, 80).

In the Russian case, the ideology of conservatism (especially when mixed with “patriotism”) serves as an effective instrument for weakening opportunities for “strategic coordination” among those who could potentially demand democratization. According to Tatiana Stanovaya (2015), the return of Crimea proved to be a particularly powerful and successful instrument to split the pro-democratic opposition. Conservatism serves as a part of Putin’s Code[[4]](#footnote-4) (Taylor 2015) or a marker of loyalty that helps to identify and punish potential critics and political opponents. Interestingly, the presence of conservative ideology is most significant in social media and online sources. Overall, the promotion of “conservatism” is aimed at presenting the political status quo of the Putin regime as the best possible choice for the country, and to delegitimize the liberal opposition and Western influences.

Second, the rise of conservatism in Russia scares many potential supporters of democracy more than the shortcomings of Putin’s regime. To them, Putin is less of a threat than the conservative masses, in particular those outside the major cities. Indeed, if, as Lesley Chamberlain (2015) argues, the vast majority of Russians “are intensely conservative,” there is little hope to benefit from democratization.” Perhaps such critics should recognize that the Russian people “are not prepared to accept a fully—fledged democracy in the true sense of the word. They are not ready to fully experience democracy and gain a sense of involvement in and responsibility for the political processes”’ (Medvedev 2010).

Finally, the ideology of conservativism also serves as an instrument uniting potential supporters of the incumbent regime, while liberal democracy is associated with those to whom Russia and its people are deeply alien. The Western liberal democracies are blamed for their apparent attempts to promote liberal democracy, and by doing so to weaken Russia domestically and internationally. “Russia's dominant conservatism seeks to strengthen itself by appealing to the tradition of a strong, essentially unitary state led by a strong leader, where all nominal branches of power are in fact departments of the supreme authority.” (Trenin 2010).

# The Political Conservatism of the Russian Government Has Limited the Choice of Economic Policies

As stated above, the specifics of economic development in authoritarian political systems limit the choice of economic policies. Chris Miller labeled the choice of specific economic policies aimed at preserving Putin’s political power as Putinomics and summarized Putinomics as: “growth is good, but retaining power is better” (Miller 2018).

In Putin’s Russia, political constraints dictated the choice in favor of public policies with significant economic inefficiencies. First, economic policies aimed to increase political support for the incumbent president. There was increasing dependence of citizens upon state, most importantly in terms of employment opportunities. Wages, pensions and other sources of personal income of politically important groups of citizens were growing faster than the economy. Second, it was crucial for the Kremlin to limit the opportunities for successful businesses to influence politics and support potential opposition. Third, the economic prosperity of regions continued to depend upon the Kremlin. At the macro-level those and other economic inefficiencies were compensated by high energy prices. In fact, the economy and the federal budget depended more and more on the high level of energy prices.

# A Social Contract to Keep Putin in Power

Since Vladimir Putin came to power in the Kremlin in Fall 1999, the government followed an implicit social contract based on a trade-off between economic prosperity and political liberties: the government provides steady improvements in living standards and in turn, citizens refrain from political demands. As Cook and Dimitrov (2017, 10) explain: “the terms of the contract were dictated by the state, not bargained with society; [….] these terms nevertheless imposed constraints on both parties: the regime acted as if it had to deliver these policy goods and allocational outcomes in order to maintain political and social stability; the population had to receive them in order to remain quiescent and conformist.” In terms of macroeconomic policies, such a contract was based on a substantially higher growth in per capita consumption than the rate of growth in per capita GDP. In other words, the living standards of Russian citizens were improving faster than the economy. The accelerated growth in consumption became possible thanks to steadily increasing energy prices. Yet, because in most sectors of the Russian economy labor productivity failed to follow the growth in wages, the Russian economy suffered from a significant increase in labor costs.

Cook and Dimitrov (2017, 18) have argued that the Putin-era social contract has been maintained through the 2008–2009 recession and the first three years of the current economic downturn, but “at great costs in both budget expenditures and market inefficiencies.” Thus, the government has continued to maintain pension income stability, industrial employment protections, and health care guarantees, and Putin’s government justified these policies with the rhetoric of state responsibility for society’s well-being and the maintenance of social stability. Before the elections in 2012, Putin, forgetting about the modernization agenda, made extensive spending promises, including raising pensions and public-sector salaries and massive new investment in the military-industrial complex. As Juliet Johnson (2012) has shown, Putin himself estimated that the social spending commitments would cost 3 percent of GDP per year, while in other estimates this was as high as 8 percent.

As Daniel Treisman (2014) has demonstrated, until 2014 Putin’s approval ratings closely correlated with economic performance. After the 2014 annexation of Crimea, the nature of Putin’s popularity has fundamentally changed: his social contract with the population was no longer about economics but rather Russia’s geopolitical status (Guriev, 2016). Despite the economic recession, Putin’s popularity has remained at a level above 80 percent.

# State-Business Relations Limit Business Opportunities to Influence Politics

As the economic situation in Russia has started to gradually improve since Putin came to power, so has his public approval rating. While citizens demonstrated an increasing willingness to support Putin’s regime, a growing economy meant increasing economic power for private businesses. This power of businesses could present a threat to political incumbency.

In mid-2003 Putin began redefining business–state relations. However, as William Tompson (2005) has pointed out, a frontal assault on the owners of the largest businesses as a group “would have led to falling tax revenues and rising capital flight, putting at risk both the economic recovery that was getting under way and Putin’s own consolidation of power.” Instead Putin targeted selected “oligarchs”, most notably, the owners of Yukos, which at the time was the largest oil company in Russia. In the Kremlin-controlled media, Yukos was blamed for the provision of financial support to several opposition parties, including Yabloko, the Union of Right Forces and the Communists. Moreover, apparently, the largest shareholder of Yukos, Mikhail Khodorkovsky, had publicly announced his political ambitions and perhaps even wished to succeed Putin. Khodorkovsky was arrested in 2003 and after a show trial was sentenced to a long prison term. The Yukos case became the most impor­tant turning point in the development of business-state relations in Russia, as the case sent a clear signal to the “oligarchs” about the “red line” that they should never cross in dealing with the state if they valued their businesses and freedom. In fact, two options were left for Russian big business: accepting the new reality or urgently leaving the country.

The combination of measures reducing the opportunities for businesses to influence politics had significant negative consequences for economic development in Russia. Most disturbingly, it created a problem for the Russian government’s reputation and scared potential foreign and domestic investors. It demonstrated that the Kremlin cannot credibly commit to respecting and sustaining the rules of the game which it itself promises to investors (Tompson 2005), so Russia has been losing the competition for foreign direct investment in modern sectors of the economy. Russian businesses also became reluctant to invest in new technologies domestically, preferring to invest elsewhere. As Aven (2010) has explained: “there are so many emerging economies where people believe there is huge potential for growth, and the problem is Russia is not regarded as one of them by investors.”

According to a survey by the Higher School of Economics, a leading Russian University, in 2010 natural resource extraction was the most active area of investment. The survey revealed the tendency to invest not in new technologies, but rather in repair and maintenance of old, obsolete equipment. The equipment in use had become so old that it was now necessary to divert much of available investments just to keep it running. Almost 60 percent of all businesses reported that their key technological equipment was more than 10 years old, while almost 20 percent reported that it was more than 20 years old.[[5]](#footnote-5)

# Economic Centralization Has Limited the Influence of Regions

From the very beginning of his rule Putin had the clear intention to neutralize alternative sources of political power in the country, in particular, the power of regional executives. Prior to the elections of March 2000, Putin stated in an interview that ‘from the very beginning, Russia was created as a super-centralized state. That’s practically laid down in its genetic code, its traditions, and the mentality of its people’ (Quoted in Brown 2001, 51). The president solved the problem of the political autonomy of the regional executives, and their disproportionate influence on the national decision-making process, by introducing several reforms. In the summer of 2000, seven new federal districts ruled by Putin’s representatives were created. After that the governors lost the opportunity of direct contact with the President, as a new administrative layer was formed between the Kremlin and the regions. Governors were also deprived of their right to serve as deputies in the upper chamber of the parliament – the Federation Council. As Kryshtanovskaya concludes, “with these reforms, the governors were transformed from independent politicians with their own power bases into executives who were fully dependent on Moscow’s favor” (Kryshtanovskaya 2009, 28).

In 2004 the institution of the election of regional governors had been replaced by their nomination. This turn has massively suppressed political competition and made regional executives the agents of the federal executive. Indeed, in the new system the governors were subordinated to federal authorities and acted on their behalf, while the latter had at their disposal the instruments to punish or reward the governors. In 2012 the procedure of the election of governors was restored in Russia; however, this did not bring fundamental changes to the nature of center-region relations. The candidates for election must undergo a process of municipal scrutiny (the so-called “municipal filter”), and this condition makes it possible to get rid of candidates that are objectionable to the federal center in advance.

From the beginning of Putin’s rule, political centralization has been accompanied by economic centralization: from 2000 to 2003, the share of consolidated regional budgets in the consolidated budget of Russia decreased from 45.2 percent to 40.5 percent (Klimanov and Lavrov 2004, 113). Moreover, as Goncharov and Shirikov have shown, “the current highly centralized taxation system does not allow most of Russia’s regions and municipalities to balance their budgets without external assistance. They are dependent on transfers from federal budget or regional budgets, respectively, and in many cases these transfers are the main sources of funding. These transfers reached 35% of federal budget expenses in 2008, 36% in 2009, and 38% in 2010” (Goncharov and Shirikov 2013, 34). To the end of 2017, more than 40 of Russia’s regions had growing budget deficit.[[6]](#footnote-6) There is every reason to assert that economic centralization is inefficient from the point of view of economic growth, since it substantially constraints it. In Russia’s system only a few regions have sufficiently strong local competitive advantages and are able to cope with globalization pressures - these were the capital cities of Moscow and St Petersburg, regions with abundant natural resources, as well as some border regions. Almost all other regions are not competitive enough, and do not provide economic growth.

# Alternative Economic Models of Conservative Modernization

For centuries, Russian rulers have attempted to implement reforms to reach a similar level of economic, technological and military development as Russia’s European counterparts (Gerschenkron, 1962). In modern Russian debates, the term economic “modernization” most often stands for a “catching-up” plan, that is, an economic program “aimed at bridging the gap between Russia and the most developed countries” (Urnov 2012, 38). On December 30, 1999, then-Prime Minister Vladimir Putin stated, “It will take us about 15 years and an annual growth of our gross domestic product by 8% a year to reach the per capita GDP level of present-day Portugal or Spain, which are not among the world's industrial leaders.” (Putin, 1999)

Since 1999 the Russian economy grew about 7 percent annually and by 2007 restored the GDP level of 1990. According to IMF data, in 2011 Russia overtook Portugal’s 2000 per capita GDP in U.S.-dollar terms.[[7]](#footnote-7) However, in 2016, Russia’s per capita GDP was still below 50 percent of Portugal’s (just below $9000 in Russia and $19800 in Portugal).[[8]](#footnote-8) The gaps between Russia and the US both in terms total size of the economy and per capita have been increasing since 1990 (see Figure 2).

**Figure 2 about here**

Various groups of Russian economists blame government policies for the failure to promote necessary rates of economic growth, for the accumulation of economic imbalances (e.g. the growing gap between wages and labor productivity), and for the high level of economic inequality. They often emphasize that the current rate of economic development is not sufficient for Russia to sustain the status of a great power. For example, in January 2018 a group of experts working for Alexey Kudrin stated that:

Russia is one of the most prominent powers in the world today. [...] At the same time, Russia is lagging behind in a number of critical areas. […] The underdevelopment of the Russian economy and its governance institutions poses a much more significant threat to the country’s sovereignty and territorial integrity than realistic military threats that Russia is already well protected from.” (Kortunov et. al. 2017)

For critics it would be natural to emphasize the connection between the failures of economic policies and the shortcomings of the non-democratic political regime in Russia. However, below we only focus on the views of the “conservative” critics – those who argued that it would be possible to achieve greater economic success without changes to the political system. There is no consensus among them on what could be a more appropriate economic strategy for Russia without political modernization; conservative agendas are conflicting. Thus, the most important dividing line is between “liberal” and “statist” alternatives. The “liberal” camp among Russian conservatives sees the main shortcoming of the current economic model in excessive government involvement in the economy. The “statist” conservatives, in contrast, argue for a greater role for the state. However, none of them propose to restrict the state by the means of democratic political competition and accountability. Generally speaking, all Russian conservatives are looking for a way to improve the economy without taking the risk of democratic transition.

# “Liberal” Economics and Conservative Politics

In modern Russia, among the most influential critics of the economic policies of Putin’s government are economists who support conservative ideas in political, social and cultural areas but who also advocate “liberal” economic policies. Many of them share the economic views of their conservative counterparts in Europe and the US. Almost all of them have worked in the government at some point in their professional careers and were a part of what is known as the group of “liberal reformers.” The two most important premises of Russian liberal economic thought are: opposition to state involvement in the market and opposition to income redistribution.

In fact, the liberal reformers were among the first to use conservative ideas in mainstream Russian politics. Since the late 1990s, they sought to use claims about the uniqueness of the “Russian path” and destiny as an instrument to gain political legitimacy for liberal market reforms. Due to the lack of financial resources and because of domestic political competitiveness, the Russian reformers had to balance the divergent objectives of multiple players – from the military, to the regional bosses in the Council of Federation and to the communist and nationalist Duma majority. Particularly binding were the constraints set by the need to appease the military and to limit the popular appeal of the communists and the nationalists. When the government was at its “weakest”, as for example during electoral seasons, these influences pushed it to resort to its own populist rhetoric on the issue of Russia’s immediate (and not so immediate) neighbors. Recall Primakov’s famous “plane U-turn” when on his way to the United States in March 1999, in response to the commencement of the NATO bombing of Yugoslavia.

In Summer 1999, Alexey Ulyukaev[[9]](#footnote-9), a long term friend and, at that moment, the first deputy of Yegor Gaidar presented a book “Right Turn” (*Pravyi Povorot*). It was first published before Putin came to power and even before the start of the second Chechen campaign.[[10]](#footnote-10) At the time of the first printing, the ideas expressed in the book seemed controversial and risky, as it called on democratic and liberal activists to adopt the nationalist rhetoric of re-building the Russian Empire when campaigning for the December 1999 Duma elections: “Tradition must be our backbone, while our actions focus on Renewal” (Ulyukaev 1999). Later, the infamous Russian nationalist and open xenophobe Egor Holmogorov claimed that he was the ghost-writer of Ulyukaev’s book.

In 2003, another leading spokesman of Russian “liberals,” Anatoly Chubais (who had brought to life Russia’s privatization program), published an essay on foreign policy offering a new vision of Russia's role in the post-Soviet space. He argued in particular that Russia's mission was to integrate the former Soviet republics into a “liberal empire”, while the key role in building this new empire was given to the conditional supply of energy to the post-Soviet countries (Papava, 2007). Chubais wrote that Russia was a “natural and unique leader” and that Russia’s ‘mission’ should be to promote Russian culture and protect Russian populations in the countries of the former Soviet Union. Only through “liberal empire”, by combining market liberalism and imperial principles, Chubais argued, “can Russia occupy its natural place alongside the United States, the European Union and Japan, the place designated for it by history” (as cited in Wenger et al (2006, 219).

According to Trenin (2011,148), Chubais was neither nationalist nor imperialist; rather, he attempted to gain more public legitimacy for economic reforms and thus, “sought to marry liberal capitalism and imperial tradition in Russia.” As a result, however, the ideas of Chubais’s “Liberal Empire” proved to be strikingly similar to the ideas of “sovereign democracy” proposed by the Kremlin’s chief political manager Vladislav Surkov in 2005. As Skidelsky (2007) has observed:

Surkov’s world view points to the same conclusion as Chubais’s. Russia is one of the world’s natural “great powers”. Greatness is defined by sovereignty. Sovereignty is conferred by history, geography, and the will to power. Some countries are destined to be sovereign, others to be subjects.

Though Chubais publicly criticized the idea of “sovereign democracy”, as Artemy Magun (2010) pointed out, the thesis of “liberal empire” also meant the combination of liberal economic institutions with isolationism in politics. As Maler (2007) concludes, overall the position of Russian liberal reformers could be described as “liberal conservatism.”

# Liberals after the Crimea Annexation

The Crimea has split liberal critics of Putin. Most of those who earlier advocated the movement of the country towards the development of liberal democracy supported the annexation of Crimea. For instance, in December 2017 a group of experts working for Alexey Kudrin explained the annexation of Crimea thus: “in the course of the Ukrainian crisis, Russia reunited with Crimea, solved the Black Sea Fleet problem, and put a long-term block on Ukraine’s membership in NATO.” (Kortunov et. al. 2017) After the annexation of Crimea it became hardly possible in Russia to maintain one’s status as a mainstream public figure while at the same time advocating liberal democracy for Russia. As for Kudrin, his disagreement with the Kremlin’s position regarding Crimea would mean automatically losing any chance of ever entering any government under Putin. As Stanovaya (2017) has stated, although there is no official state ideology in Russia, “there is a reality in which professors are fired for taking an unpatriotic stance and victimized for “wrong” interpretations of historical events. A politically incorrect tweet or blog post can result in search and seizure.”[[11]](#footnote-11)

Facing the reality of the political climate in Russia, “liberal” economists now argue that though in theory liberal democracy could provide the best conditions for economic development; Russia is not yet ready for democratic transition. Today, the practical alternative is the *second-best solution* - economic liberalism but without democracy. In 2017, as the leading liberal economists were preparing proposals for a new economic program for Putin, ‘Strategy 2035’ (Jacobs, 2014), one of them, Alexander Auzan, wrote in the Russian edition of *Forbes*:

“Before trying to build a democracy from which a modern, innovative economy should emerge, one must understand that certain cultural conditions are needed for this ... In Russia in the 1990s, democratization brought controversial economic results, the same thing happened in Ukraine.” (Auzan 2017)

In practical terms the most recent idea - the “second best solution” – of “liberal conservatives” relates to non-political institutions like social networks, big data, digital platforms for crowdsourcing, and improving government services via the Internet. Apolitical technocratism, managerial effectiveness – “all this could become a basis for the formation of new institutions that can compensate for the weaknesses of traditional democracies” and contribute to “communicational democracy” (Stanovaya 2017). In essence, this is a technocratic approach that opposes itself to the political one and is not based on the protection of the interests of certain socio-political strata, but rather on addressing specific managerial tasks.

# “More State Control” Alternatives

For the supporters of “more state control” option, the main problem lies in the wrong priorities of economic development set by the liberal economists. For them, the economy is an instrument of the state, and economic policies should focus not on economic stability, low inflation or a balanced budget, but on national priorities. Most argue that “political will” has to prevail and to move economic reality in the desirable direction. For example, the status of great military power could be sustained with a relatively modest level of economic development, but requires keeping up with advances in military technology. Thus, the focus of economic development has to be on an acceleration of Russian technological and military capacities, even if such an approach would limit resources available to other sectors of the economy.

Broadly speaking, there are two sets of policy proposals connected to the conservative ideas that advocate a greater role of the state in economic development. One group is based on more or less rational principles and assumptions: for instance, there are specific proposals aimed at protecting national industries from global competition or allocating parts of the federal budget to the development of technological innovations centers across Russia. Among these, one can distinguish two extremes: Right-wing and Left-wing Conservatisms. Right-wing conservatism supports a free domestic market with state regulation of foreign economic activity in the interests of domestic entrepreneurship. The economic view of left-wing conservatives conforms to the “third way” model of economics”, that is, to a set of economic theories which combine the market approach with the concept of a regulated economy on the basis of supra-economic criteria and priorities. Thus, the free market approach has to be combined with control over the strategic sectors of the economy while the redistribution of profits needs to be controlled according to the national and social needs of society as a whole. At minimum it requires nationalizing companies engaged in the export of natural resources, while the state controls domestic energy production, transport and communications.

The second set of economic policy proposals by Russian conservatives is based mostly on wishful thinking - on the hope of finding a magic shortcut, a “unique path” that would have an “explosive effect” and give sudden and significant economic advantage to Russia. For example, Dugin (2014, 65-67) proposes subordinating the economy to “higher civilizational spiritual values”; spiritual development has to become “the main priority of life, which cannot be replaced by any economic or social benefits.” Another illustration here would be the proposal by Dmitry Rogozin (2012), who has suggested defining the “points of development of the Scientific Technical Progress”, without losing time to develop those technologies that will be required in 30-50 years. It is theoretically possible that there are people who truly believe in such ideas, though most likely these proposals are aimed at helping various specific interests to lobby the Kremlin.

Indeed, various groups in Russia lobby on behalf of the interests of certain segments of the economy. For example, Russian business ombudsman Boris Titov is running for president in the 2018 election. His team has presented the *Growth Strategy* program developed by the Stolypin Club (Dumes 2017).[[12]](#footnote-12) It proposes increasing state lending to the real sector of the economy - that is, primarily large state-owned enterprises with low or non-existent profitability; this would supposedly yield economic growth of 5-7 percent per year (Titov, 2017). The competing team of Konstantin Babkin, leader of the “Party of Business”, has developed its *Strategy for the Economic Development of Russia until 2030* (Babkin, 2017). According to this document, the policy of economic nationalism should replace the liberal model. At the same time, as a practical measure of Strategy-2030, Babkin proposes starting a policy of increasing the competitiveness of the agro-industrial complex by changing the principles of taxation and regulating foreign economic activity.

The most serious person to influence the Kremlin’s choices, however, is Sergei Glazyev. In 2017 in the newspaper “Zavtra” he published an article with the title: "What ideology will raise Russia." (Glazyev, 2018) Glazyev proposes combining "good elements of the capitalist and socialist systems, and abandoning the bad." Such synthesis, in his opinion, was carried out by the Chinese, "having built a socialist market economy". Its essence is in the synthesis of centralized planning and market competition, state ownership in the basic sectors of the economy with private entrepreneurship in the rest. In the capitalist system, explained Glazyev, the main criterion of economic activity is profit. In the Soviet system it was the growth of production, which raises the standard of living of the population. All in all, as this brief review shows, conservative politicians have very little to offer Putin in terms of alternative (and at the same time reasonable) economic policies.

# Conclusion

In modern Russia economic policies are highly centralized and defined by the presidential administration, and this means that any publicly relevant economic program has to obtain the approval of the presidential administration. But there are several contradictory constraints on obtaining this approval. First, president Putin is reluctant to implement unpopular policies, and this means that it is necessary to frame economic changes in a form acceptable to the majority of voters. Second, Russia’s foreign policy priorities are not subject to alteration. For example, no alternative program could venture to propose an elimination of state expenses in Syria or, whatever foreign military campaign Putin chooses to be involved in. Another “red line” is unconditional support for the annexation of Crimea, with all financial burdens that this has caused. Thus, according to some estimates, in 2017 Crimea received up to 20 percent of total financial assistance allocated to all Russian regions from federal budget. But no conservative would dare to challenge significant state expenses for developing Crimea, or North Ossetia and Abkhazia. Third, alternative programs cannot discuss cuts to federal budget expenditures on military buildup, security forces and the secret services. As a result of such multiple constraints, alternative economic policies publicly advocated by conservatives are necessarily eclectic, combining various populist appeals and contradictory policy recommendations.

In general, it is to be expected that “conservatives in power” (that is, in the government) will continue to use conservative ideas for politics, while at the same time promoting liberal economic policies. The perspective of more radical conservatives for influencing current economic policies in Russia is limited, no matter how much they wish otherwise, by the need to obtain and sustain broad electoral support. In modern Russia it is practically impossible to build a coalition in favor of any economic reforms, conservative or liberal, so that the relatively liberal status quo is likely to prevail in economics. As clearly follows from Putin’s message to the Federal Assembly on March 1, 2018, increasing budgetary expenditures on defense and security forces with the ambition of Russian military domination in the world (Zheleznova et.al. 2018), will be the only – although very significant – exception.

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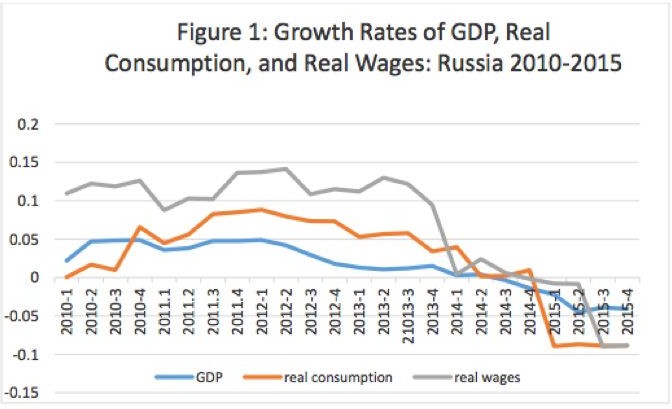
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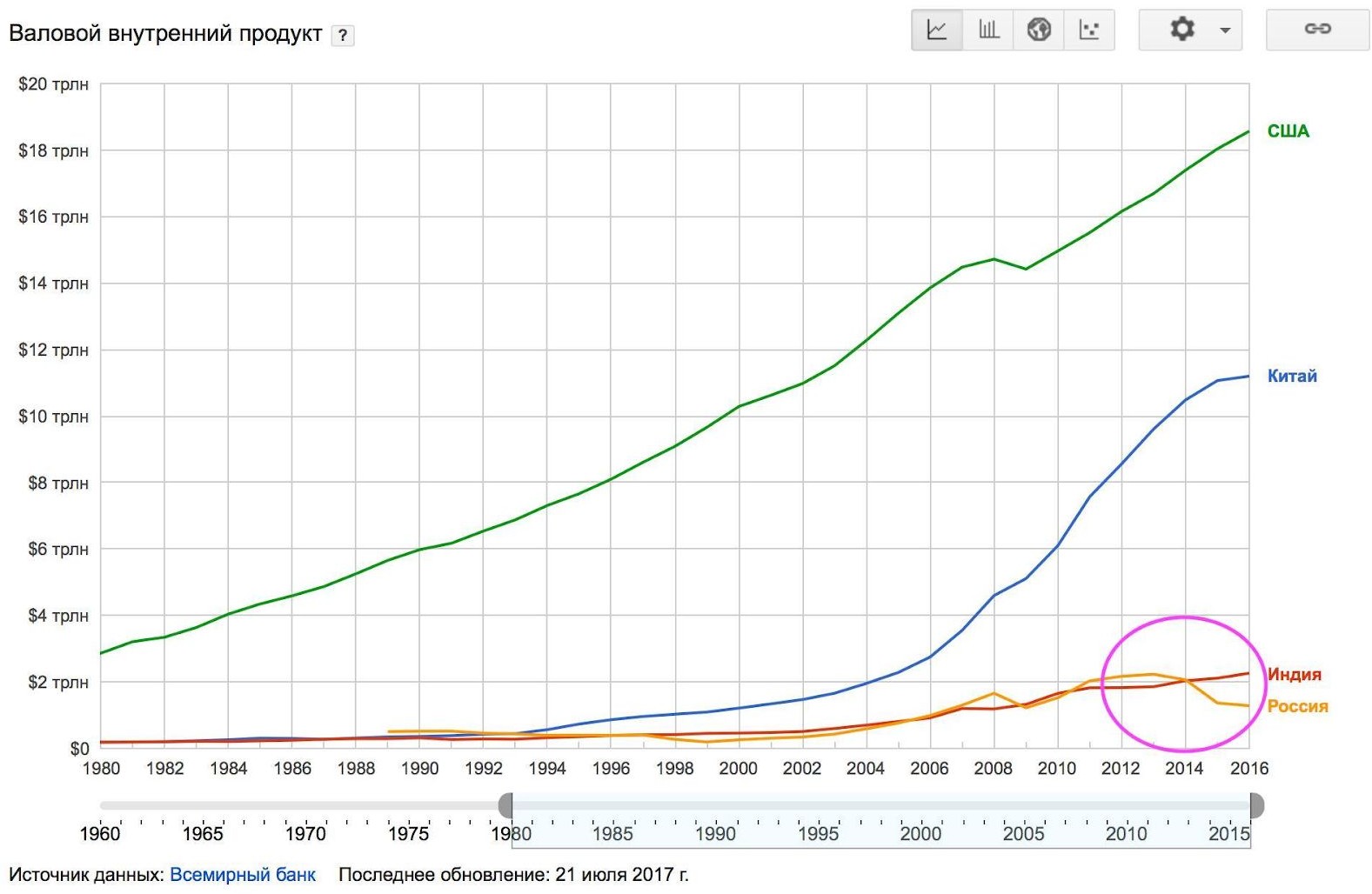
**Figures**

**Figure 1.**



<http://www.nationalreview.com/article/427481/russias-economic-stagnation>

**Figure 2 Russia’s economic power is shrinking** (change in legends in English)



1. More precisely, some conservatives dared to challenge Putin, but they were quickly charged and convicted as “extremists” in criminal court [↑](#footnote-ref-1)
2. http://www.4pt.su/en/content/economic-personality [↑](#footnote-ref-2)
3. Alexander Dugin with his idea of rural life as an ideal for Russia is the exception [↑](#footnote-ref-3)
4. Taylor has argued that political loyalty to Putin is based on Putin’s Code, which is “both more and less than an ideology; more, because it involves not just ideas but other stimuli for action, and less, because it is not a coherent and encompassing system of thought.” [↑](#footnote-ref-4)
5. www.vedomosti.ru/newspaper/article/251692/ne\_do\_investicij [↑](#footnote-ref-5)
6. https://www.rbc.ru/opinions/politics/27/12/2017/5a438d209a79474d024dd2a8 [↑](#footnote-ref-6)
7. https://themoscowtimes.com/articles/russia-overtakes-portugal-and-spain-is-next-18420 [↑](#footnote-ref-7)
8. https://countryeconomy.com/countries/compare/russia/portugal?sc=XE15 [↑](#footnote-ref-8)
9. Alexei Ulyukaev served as First Deputy Minister of Finance of the Russian Federation in 2000-2004, First Deputy Chairman of the Bank of Russia in 2004-2013 and held the office of Minister of Economic Development of the Russian Federation between 2013 and 2016. On 15 December 2017, Ulyukaev was found guilty of corruption and sentenced to eight years in a strict-regime labor colony and fined 130 million rubles (2 million US dollars). [↑](#footnote-ref-9)
10. An abridged version was also published in the daily Izvestia shortly before the December Parliamentary elections - at that time Putin was Prime Minister (Izvestia, December 6 1999) [↑](#footnote-ref-10)
11. Translated by Eugene Bai see http://www.russia-direct.org/analysis/real-reason-why-resurgence-conservatism-russia-dangerous# [↑](#footnote-ref-11)
12. Besides Titov, the Stolypin Club includes many of Russia's well-known public figures, such as presidential adviser Sergei Glazyev, Deputy Chairman of Vnesheconombank Andrei Klepach and the deputy chairman of the Duma committee on economic policy Victor Zvagelski. [↑](#footnote-ref-12)