



RUSSIA

STRATEGY, POLICY AND ADMINISTRATION

IRVIN STUDIN



Russia

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Editor

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For Allochka
Аллочке

PREFACE AND ACKNOWLEDGEMENTS

Russia is the world's most complex country. Its fate, as it returns to the centre of international affairs and struggles with a vexing multiplicity of domestic challenges, will, in many ways, be that of the entire world in the 21st century. With the largest territory of any country, 14 different land borders and several more maritime borders, 85 regions and huge ethnic mixity, it must be said that the only appropriate posture to be assumed in studying, analysing, or making determinations about Russia – past, present and future – is one of deep humility.

Humility, therefore, is the posture I assumed in preparing this book, which I hope will be unique and important in its time. The book is the first, to my knowledge, this century, in English or Russian or any other language, to assemble the leading specialists of Russia (and Russia only) in virtually *all* the public policy fields of the country, from foreign policy to education, health care, agriculture and, among multiple other areas, macro- and microeconomic policy, sport, culture and criminal justice. The book has three key premises:

1. A country as big and complicated as Russia must be understood across its system of strategy, policy and administration, from the *inside out* (from the bowels outward, as it were), rather than through a select, partial or episodic audit of a small sample of its political or social life.
2. Language and mentality matter enormously – perhaps even exceptionally – to understanding Russia's realities and prospects. Without these, one cannot penetrate beyond a surface-level apprehension of

the country. There is, in other words, no credible “outsider’s view”. As such, all the specialists in the book were, without exception, asked to write the first draft of their chapters in Russian (in all cases, their preference) – and in the local mentality, as it were – so as to maximise facility of expression and directness of message. I did all the translations subsequently (in all cases, highly stylised translations), with considerable editing and iterating with each writer throughout and afterward, in English and Russian.

3. The correct approach to seriously analysing both countries and international issues is not to impress those who know less, but rather to move those who know most. As such, all the chapters across the three parts of the book are pitched at a standard appropriate to present and future Russian policy leaders. And, paradoxically, all the practical policy recommendations in the book, while read in English around the world (my sincere goal), aim to have direct impact on real Russian policy-making over the next decade or two. This was my objective in pushing the writers to expand their thinking and imagination beyond the past and present, and to project into Russian (and global) futures, according to their various areas of expertise. God knows that Russia will be looking long and hard at such policy recommendations in the coming years, as there is much work to be done in that country.

I should stress that, in my view, the thinkers and experts gathered in the book are not only leaders in their fields in Russia, but excel many of their opposite numbers in other countries in their creativity, curiosity, porousness, depth of knowledge and breadth of intellectual culture. The only intricacy is that the majority of them, Russian language (and mentality) oblige, and perhaps post-Soviet cultural and institutional inertia also, are not well known outside of Russia and some of the former Soviet space. We try to overcome this major problem by providing a platform, through this book, to some of the world’s most interesting thinkers to tell us about the past, present and future of various parts of this mammoth country called Russia.

I came to my professorship in Moscow fairly serendipitously, but discovered among colleagues in the Russian Presidential Academy of National Economy and Public Administration some of the most eclectic and energetic people with whom I have worked in any academic, research or policy institution in my years of working around the world. For my

warm reception and for countless wonderful intellectual exchanges, I am particularly indebted to Vladimir Mau and Sergey Zuev, but also wish to mention Irina Ronzhina, Alexey Verbetsky, Robin Lewis, Evgeny Mironov, Alexander Abashkin, Eugenia Groushko, Natalia Abramova, Tatyana Batueva, Vasily Zharkov, Sergey Bepalov, Viatcheslav Maratcha, Timur Atnashev, Alexander Balobanov, Nikolai Grintser, Andrei Kolesnikov, Dmitry Uzlaner and Mikhail Dmitriev.

This book is curated under the venerable aegis of Palgrave Macmillan and, insofar as possible, in the style of *Global Brief* magazine, which I have headed for nearly a decade. It is non-dogmatic, deeply analytical, ambitious in the scale of its coverage, and very practical and forward-looking in its aim – to explain Russia, and to make real strategic, policy and administrative prescriptions for its future. I met with all the writers in this book in person more than once, breaking bread in Moscow (where doubtless some 90 per cent of Russia’s top specialists, in any field, reside), St. Petersburg and also Nizhny Novgorod, with countless phone, Skype and email conversations besides. The exchanges were always colourful.

The book is divided into three sections – strategy, policy and administration – corresponding to the subtitle of the book. I recommend to readers a serial reading of the sections and their constituent chapters, but am fully aware that different people will sooner gravitate to some of the more specialised topical chapters than others. Part I on strategy provides a macropicture of the goals, ideology (or philosophy), formal and implicit structures, and broad operational orbit of the Russian state as it looks ahead in this new century. Part II does a sweep of nearly all the spheres of Russian public policy, from the foreign to the economic, social, environmental and other. Part III treats Russian public administration and institutional structures, including the public service, the courts, regional administration, and even state corporations and companies. I myself have penned the introductory chapter, entitled “Ten Theses on Russia in the 21st Century”. Of course, since the Russians are far from bereft of humour, they may well retort: “Only ten? Why such limits?”

Even if I fancy that this book is nearly total in its comprehensiveness, I grant that, in a different world and perhaps in different times, more could have been said about three areas of Russia policy and administrative life in particular – first, Russia’s intelligence structures and policies (partly captured in the chapters on foreign policy, national security and also criminal justice); second, Russian water policy (only partly captured in the chapter on environmental policy); and third, to be sure, the organ-

isation and functioning of the Presidential Administration (the president's ministry or, in Western parlance, cabinet office or *Kanzleramt*) proper. A chapter on pension policy was excised for reasons of economy. Perhaps I can treat all these important areas in a future edition of this book. More direct commentary on the sui generis theme of the "Russian mentality" would also have been ideal (even if it is partly captured in the chapter on Russian political ideology), as this mentality is poorly appreciated outside of the former Soviet space, and yet is, as mentioned, exceedingly influential in shaping Russian institutions and decision-making. Having said this, as some of my colleagues argued, the Russian mentality would have commanded not a chapter, but indeed an entire second book.

Let me express my especial gratitude to my lead research assistant on this book, Svetlana Inkina, whose professionalism and energy were critical to the completion of the first third of the manuscript. Sincere editorial thanks also go to Jaelyn Volkhammer and Zach Paikin, respectively Senior and Juniors Editors of *Global Brief* magazine, as well as to Uran Bolush and Ivan Katsevman (the latter for fact-checking). Fred Lazar, Daniel Friedrich, Leonid Kosals and Seva Gunitsky were extremely generous in offering additional sets of eyes to a few of the more technical chapters. Jemima Warren and Beth Farrow, editors at Palgrave-Macmillan in London, were a delight to work with from day one.

This book is dedicated to my wife, life partner and love, Alla (Allochka), who never ceased to hold the fort, with characteristic charisma and good humour, even when our beautiful gremlins Noah, Gabriella and Isaiah were wondering why Papa was spending so many hours labouring over a book that interested them not at all.

Still, I tell my children as I do my students, friends and colleagues the world over: as goes Russia, so goes the fate of the international order, and indeed that of humanity more generally. The world has barely recovered from the October Revolution of a century ago, and some Russian analysts, like Fyodor Lukyanov in this very book, argue that the present Ukrainian crisis betrays the final death pang – delayed by some two and a half decades – of the Soviet Union. And yet, since the fall of the Soviet Union, there has been a steep secular decline in the number of Russia experts around the world, and perhaps especially in the English-speaking world. Unfortunately (if not distressingly), this decline in expertise outside Russia has not been compensated by increased penetration by policy experts within Russia into discourses about Russia outside the borders of the former Soviet space. Indeed, in my work in Russia and across the

former Soviet space – from Ukraine to Azerbaijan, from Moldova to Kyrgyzstan, and from Latvia to Armenia – over the last five years, and in lecturing on Russia and the unique post-Soviet theatre around the world – from Mexico to India – I have found the degree of general intellectual and policy fascination with Russia to be directly proportional to a general naïveté on the topic. This naïveté would be a curious thing were it not so consequential for the management of international politics in our time – a fact that has given me considerable pause as I and colleagues have, through the Institute for 21st Century Questions (21CQ), travelled the capitals of the world, in a Track 1.5 capacity, to try to translate post-Soviet realities into terms that might be comprehensible to decision-makers who have but fleeting or highly impressionistic exposure to Russia, its composition, and its particular pressures and imperatives.

This book, then, is inspired by my determination that the knowledge gap in respect of Russia – outside of Russia, above all, but even among Russians, cultured and less cultured alike – is unacceptably conspicuous. I hope the book plays some small part in filling this gap for readers the world over.

Irvin Studin
Moscow, Toronto, Montreal, Whitehorse and Buenos Aires

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Introduction: Ten Theses on Russia in the Twenty-First Century

Irvin Studin

Thesis 1 The future of Russian governance is neither necessarily democratic nor strictly non-democratic. This choice is likely too binary for Russia's extremely complex realities. Instead, a future Russia may well be—and perhaps should be—decidedly hybrid, drawing promiscuously on the best in twenty-first-century structures and practices from around the world.

Russia is a young country—even if most people, including many Russians, forget that this Russia, in its post-Soviet incarnation, is only just completing its third decade. It is therefore naturally still solidifying and indeed inventing, improvising and legitimating its governing institutions, not to mention forming (with inconsistent success) its future political elites. The country's constitutional youth, coupled with its present unique internal and international pressures, means that Moscow can look non-dogmatically westward and eastward alike (and elsewhere besides) to adopt the best in governing approaches, even as it indigenises these and ends up with its own idiom—as is, by history and mentality alike, the Russian wont.

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Let me propose that there are two dominant governing paradigms in the world today—on the one hand, the democratic tradition or, more tightly, what I would call “argumentative governance”; and on the other hand, “algorithmic governance”. “Argumentative governance” prevails in the presumptive West—the deeply democratic countries of North America, Western Europe and indeed much of the European Union, Australia, New Zealand and perhaps also Israel. “Algorithmic governance” is led almost exclusively by the dyad of modern China and Singapore. Most of the remaining countries in the world—in the former Soviet space, the Middle East, the Americas, Africa and much of Asia—are still in what might be called the “voyeur” world, still stabilising, legitimising or re-legitimising their governance regimes and institutions according to one tradition or the other, or indeed borrowing from both.

Argumentative (or democratic) governance is characterised by fairly elected governments that are constantly opposed, challenged or corrected by deeply ingrained institutions (like political oppositions, the courts or other levels of government) or broad estates (like the media, the academy, and various non-governmental organisations and groupings, not excluding religious organisations). Algorithmic governance, however, is characterised by the centrality of a smaller, select group of national “algorithm-makers” who, having been selected largely through intense filtering based principally on technical and intellectual (and perhaps ideological) qualifications (the so-called “smartest people in the room”), are constitutionally and culturally protected in their ability to generalise these algorithms throughout the country over the long run. Algorithmic governance lays claim to legitimacy via the securing of visible, concrete results in the form of consistently rising material wealth, advanced physical infrastructure, and general public order and societal stability—and indeed the rapidity (and even predictability) with which such outcomes are realised and real-life problems are solved.

Argumentative governance, on the other hand, maintains its legitimacy via procedural argument in the contest for power among political parties, and in the information provided to power via various feedback loops. A large number of these argumentative regimes are federal in nature (just as the number of federal regimes globally has grown markedly over the last couple of decades), and so centre-region relations are both another source of procedural argument and a species of feedback to power (from the local to the general or macro) (Fig. 1.1).

	Argumentative	Algorithmic
Strengths	<ul style="list-style-type: none"> • Procedural legitimacy • Rich feedback mechanisms to political power • Tendencies to constitutional decentralisation, if not federalisation (type of feedback mechanism) • High marginal value of individual life • More porous majority-minority relations 	<ul style="list-style-type: none"> • Results-based legitimacy • Highly trained, filtered and culturally respected and protected policy elite • Capacity for long-term planning • Capacity for rapid practical policy fixes
Weaknesses	<ul style="list-style-type: none"> • Weak long-term planning function • Slowness (in extremis, paralysis) in delivery of practical results or practical policy fixes (“too much argument”) 	<ul style="list-style-type: none"> • Weak feedback mechanisms to political power, resulting in “palace ignorance” • Instrumentalisation of individual life to the general algorithm • Succession of the political elite (see Thesis 5)
Hybrid Governance (Future Possible Russian Scenario)	<ul style="list-style-type: none"> • Development and recruitment/selection of bona fide policy elite (“algorithm-makers”) • Development of long-term planning capability • Deliberate fostering and protection of multiple feedback mechanisms to political power, including media, the academy, civil society, and among individual citizens • Gradual decentralisation, if not federalisation (including for purposes of richer informational feedback to the centre) 	

Fig. 1.1 Key characteristics of argumentative, algorithmic and hybrid governance

What would hybrid Russian governance look like in the twenty-first century? Answer: It would draw on the obvious strengths of the dominant algorithmic and argumentative governance models, while guarding against the major weaknesses of each of these idioms. What are the key strengths of the algorithmic system that Russia should wish to adopt? First and foremost, Russia must invest in properly creating, over time (say, the next 15–20 years), a deep policy elite, meritocratically recruited and trained, to populate all its levels of government, from the federal centre in Moscow to

the regional and municipal governments. Such a deep, post-Soviet policy elite is manifestly absent in Russia today, across its levels of government—a problem that repeats itself in nearly all the 15 post-Soviet states. Second, Russia must develop a credible long-term national planning capability (as distinct from the current exclusively short-term focus and occasional rank caprice of Russian governments, *pace* the various longer-term official national strategies and documents), led by the said algorithmic policy elite at the different levels of government, and implemented with great seriousness across the territory of the country. Third, as many of the writers in this book properly propose, Russia requires an intelligent degree of very *gradual* decentralisation (rapid decentralisation being potentially fatal to national unity, or otherwise fragmenting the country’s internal coherence across its huge territory) and, if necessary or possible, a degree of genuine federalisation of governmental power across the Russian territory (discussed further below). Fourth, Russia’s policy elites must foster the development (and protection) of many more feedback mechanisms from citizens to political power in both the federal centre and in regional governments—not for the purposes of democratic theatre or fetish but rather to avoid making major or even existentially fatal policy mistakes, or indeed to correct policy mistakes and refine the governing algorithms in the interest of on-the-ground results and real-life problem-solving (a major imperative in Chinese algorithmic governance today, where the governing elites, as with past Chinese emperors, are said to be “far away”). These feedback loops—from the media, the academy, various groups and, evidently, from ordinary Russians—help to ensure that even the smartest algorithm-makers in the future policy elite do not make catastrophic mistakes based on information that is wholly detached from realities on the ground in Russia, across its massive territory.

Thesis 2 Beyond the aforementioned decentralisation, Russia should ideally, as recommended, in various ways, by several writers in this book, from Busygina and Zubarevich, to Kryukov, Starodubrovskaya and Kynev, federalise substantively, even if the country is, according to its present constitution, legally and formally federal. At a minimum, as mentioned, the country must before long effectuate a gradual, controlled decentralisation. Uncontrolled federalisation or decentralisation, of course, could lead to the breakup of the country or to generalised chaos (a fact well underappreciated outside of Russia)—so strong are the centrifugal and also regionalised ethnic forces across Russia’s territory and its complicated

regional diversity. Unintelligent or careless federalisation, for its part, could lead to excessive ethnic concentration, to the detriment of the legitimacy of the federal centre in Moscow, as well as to the overall governability of the country—including through the destruction of the critical informational feedback to the centre provided by citizens and local governments in a decentralised regime.

Critically, because there is no *felt*—instinctual or cultural, rather than intellectual—understanding of how federalism works in any of the post-Soviet states—most of which are not only unitary but indeed hyper-unitary states, built on strict “verticals” of power—it is perhaps appropriate (if not inevitable) that Russia should end up, through iteration and trial and error (the only way of doing policy in Russia), with what the Indians call a federal system with unitary characteristics.

Thesis 3 Mentality is critical to the future of Russia. There once was a “Soviet person”. What is a “Russian” person in the post-Soviet context? Answer: He or she is still being developed (see Chap. 3 by Andrei Melville on Russian political ideology). The Soviet collapse left Russians with at least three types of *anomie* or general disorientation—strategic, moral and, to be sure, in identity. All three species must be reckoned with—not with fetishistic searches for single national ideas, but rather through deliberate investments in real institutions and public achievements, and through long-term, patient investment in the legitimation of these institutions and achievements, both inside Russia and, to a lesser degree, internationally. Indeed, part of this investment and legitimation must involve the fostering of a far deeper and more robust *policy culture* in Russia’s intelligentsia, among its still-venerable specialists in various professional disciplines, and also for its younger people, who are both the future algorithm-makers and also the future drivers of the feedback mechanisms that are essential to the effective governance of the country. Such a policy culture is dangerously underdeveloped in today’s Russia, which militates against effective pivots to either of the argumentative or algorithmic traditions, and indeed against the creation of a uniquely Russian hybrid governance this century.

Thesis 4 What of Russia and Europe this century? The conflict between the West (especially Europe) and Russia that erupted over Ukraine in 2014 and that endures, without foreseeable resolution and in multiplying manifestations, to this day, can be properly and fundamentally understood

as what I would call an “interstitial problem”—that is, as the result of two regional regimes and geopolitical gravities (the European Union to the west and Russia and, more loosely, the Eurasian Economic Union to the east) pulling ferociously, in opposite directions, on a poorly governed space or theatre (Ukraine), with weak institutions and unstable legitimacy at its own centre (the said problem of the “youth” or “newness” of all post-Soviet states). How can this be fixed? Answer: by creating a “Europe 2.0” framework that *interstitially*—and tendon-like—binds Moscow with Brussels, or indeed the Eurasian and European planes, via Kiev. The “thickness” of the binding mechanisms may well be de minimis to start—that is, comprising strictly confidence- or trust-building measures and economic exchange, evolving over time to security and political arrangements.

To be sure, as Fyodor Lukyanov notes in the book, with the European Union weakened, if not existentially compromised, by several concurrent crises (Brexit, refugees, economic stasis, the Ukrainian crisis and Turkish authoritarianism at its borders, and the serious prospect of more Eurosceptic governments on the Continent), an emerging strategic perspective from Moscow would seem to be that even the “European” option or pivot is now no longer on the table for Russia, even if the vision of constructing a common space between Lisbon and Vladivostok has been, with varying degrees of intensity and coherence, in the strategic psyche of, and expressed in many public statements by, Russian leaders going back to Mikhail Gorbachev (“Big Europe”) in the late Soviet period to Vladimir Putin from the early 2000s.

Having said this, as Europe 1.0 transforms, it seems inevitable that, if peace is to be maintained on the continent, and if Russia is to avoid accidental or even narcissistic isolation and find economic and intellectual openings to Europe, then this Europe 2.0, even if it seems improbable at the time of this writing, will still have to be “invented”. As such, there is a distinct strategic opportunity here for Moscow, if it is smart and plays its cards properly, to play a key role in its formulation and erection. Indeed, as Russia, on top of its juxtaposition with the European Union, shares borders with several existing or emerging or potential economic and political blocs or international regimes in Asia, the Middle East and even, via the melting Arctic, North America (a juxtaposition still underappreciated in North American capitals), Moscow has an opportunity to play a pivotal role in constructing a wide array of interstitial bridges and mechanisms that would help both to give its strategic doctrines greater and

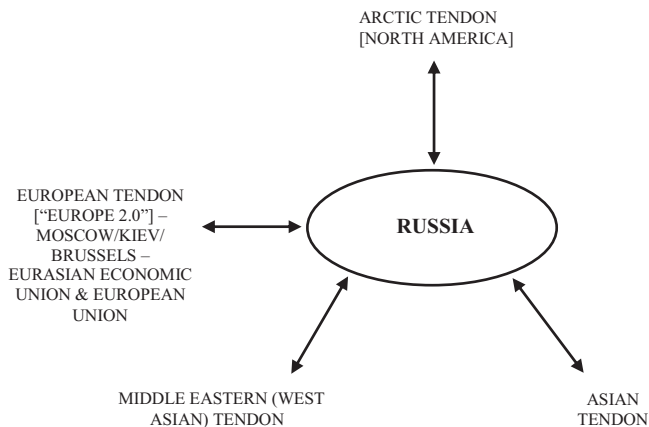


Fig. 1.2 Russia's interstitial links to key global theatres

more constructive focus, and also to drive the country's institutional and economic development this century (see Fig. 1.2). Moreover, to the extent that collision between two or more of these international blocs or regimes may, as with the Ukrainian case, lead to conflict—including, in extreme scenarios, nuclear conflict early this century—then the opportunity for intellectual and strategic leadership in such interstitial “knitting”, as it were, by Russia assumes a world-historical character.

Thesis 5 Russia has a serious succession problem. If this is not negotiated properly and carefully, it could result in civil conflict or chaos, and even the breakup of the country into several parts. (This is a fact that is deeply misunderstood outside of Russia.) The absence of “argumentative” institutions in Russia, including the peculiar weakness of its political parties (see Chap. 8 by Alexander Kynev), means that the nature of the contest and process for determining the next President and other strategic leaders of Russia are not (uncontroversially) clear. This, again, is not a question of democratic fetish, but indeed one about the ability of the centre in Moscow to project legitimacy across the entire territory and population of the country. In the absence of a process deemed legitimate and a persona who, in succession to President Putin, is able to command the agreement of the masses to be governed by him (or her), there is a non-negligible risk of civil destabilisation of the country. What's more, should the presidency end more suddenly, for

whatever reason, then the country could be seriously destabilised, as the process of relegitimisation of the centre in succession will not have been triggered in time.

It is in the interest of Russian leaders to make the succession process extremely plain to the Russian people immediately. It is also manifestly in the interest of outside countries to understand this succession challenge—not least in order to be disabused of any interest in destabilising the Russian leadership artificially, in the knowledge that a weak governing legitimacy in the aftermath of President Putin could create not only wholesale chaos in Russia but indeed major shockwaves in global stability (beginning at Russia’s borders and radiating outward).

Thesis 6 The creation of a true policy elite in the Singaporean or Chinese algorithmic idiom requires significant and long-term investment in education, and the creation of top-tier educational institutions, from kindergarten to the post-secondary levels. The USSR, for all its warts, had these (including “policy” and administration academies through its Higher Party School). Russia, as a new state, does not. On top of world-class institution-building in education, as numerous writers in this book, from Kudrin and Mau to Yuzhakov testify, Russia must, in order to improve the feedback mechanisms of the argumentative tradition, invest in, and deliver, renewed institutions of politics (including federalism), economics (including credible property rights protection), the judiciary (including serious judicial protection of the legitimate constitutional powers of different levels of government), as well as other spheres of Russian social life, including the religious sphere (as Boris Knorre writes in Chap. 10 on the Russian Orthodox Church).

Thesis 7 How to solve the Ukraine conflict and, by extension, Russia’s conflict with the West? I have written about this extensively, in many languages, and confess that the window for any clean, comprehensive resolution of this conflict may by now have passed (something both leading Russians and Ukrainians know fairly well, even if some Western analysts may not yet). In 2014 and 2015, a winning algorithm for resolution, on my assessment, would have seen the insertion into the Donbass region of neutral peacekeepers (for example, from a respected Asian country like India, or even Indonesia—that is, non-NATO, but also not post-Soviet), constitutional reform in Ukraine (including possible federalisation

in toto—recalling the aforementioned need for most post-Soviet states to decentralise or federalise—and/or special status or special economic zones for several regions of the south and east of Ukraine, in concert with the enshrinement of an indissolubility clause for the Ukrainian union in the national constitution, as in Australia’s constitution), and strong guarantees on the permanent non-membership of Ukraine in NATO (including through a possible UN Security Council resolution). These steps would have been accompanied by the removal (at least by the European Union) of economic sanctions not related to Crimea.

The paradox of the Ukraine conflict at the time of this writing is as follows: Ukraine cannot succeed economically or even strategically without re-engagement with Russia (no amount of Western implication will make up for the loss of Russian engagement); Russia cannot succeed (or modernise) economically without the removal of sanctions (and without a deeper reconnection with the European Union); and the coherence of Europe suffers for the disengagement and economic weakness of Russia, as well as for the Ukrainian crisis at its borders. No resolution is currently in sight because both Ukraine and Russia remain “two houses radicalised” in respect of this conflict, with key Western capitals not sufficiently understanding (or believing) the finer details of the conflict and its genesis, with Moscow gradually becoming “used to” the economic sanctions and renaissance of tensions with the West (including in its domestic political narrative), and with the government in Kiev increasingly unstable and therefore unable either to deliver major domestic reforms or to make decisive moves in respect of resolving the Donbass war. Moreover, the accelerating disintegration of the Middle East, in Syria and beyond, has grossly complicated any prospects of exit from the crisis—effectively fusing together the European theatre with the Western Asian theatre.

Leaving aside the succession issue in Russia (*Thesis 5*), there is a clear risk of systemic collapse in one or both of Ukraine (for political and/or economic reasons) and Russia (for economic reasons) in the near to medium term. Collapse of either country’s system would be devastating for both countries, as well as for European and global stability (including in nuclear terms).

Only a systemic solution is possible to the conflict, and yet I do not believe that Europe is currently sufficiently strong and united to be able to drive a solution. The USA, for its part, is politically unable to relieve Russia of sanctions, and so Moscow will not see much utility in

the American play except insofar as Washington can play a role in pushing or incentivising Kiev to make or not make certain moves. As such, the “solution” to the conflict can for now only be *partial*, rather than general and global. And in my assessment, it is Asia—particularly China, and perhaps also India—and not Western countries that must play the pivotal role. (Indeed, Moscow could cleverly seduce both New Delhi and Beijing, geopolitical rivalry between the two oblige, to play co-leads in this partial resolution.) The two key elements of the winning partial algorithm could include:

1. neutral peacekeepers from a leading Asian country and police or constabulary force in the Donbass and along the Russia-Ukraine border; and
2. heavy Russian state reinvestment into all of Ukraine, and, concurrently, heavy Ukrainian reinvestment into all of Russia, with both countries combining economically to rebuild the Donbass in particular—all with significant loan guarantees from the new Asian Infrastructure Investment Bank (AIIB) and the New Development (BRICS) Bank, as well as by the Indian and Chinese governments proper (with opportunistic but subordinate participation by other states).

Issues like NATO guarantees of non-membership for Ukraine and also the future status of Crimea, as well as global sanctions relief for Russia, all require deep and coherent Western engagement, and so are not on the table for the foreseeable future (although partial, non-Crimea-related sanctions relief is on the table). The above algorithm also insulates the Ukraine conflict somewhat from the Middle Eastern conflict—or, in other words, delinks, diplomatically, the resolution of the Ukraine conflict from that of the various, arguably less soluble Middle Eastern theatres.

Thesis 8 Despite its cultural dynamism and deep intelligentsia, Russia’s economy is unacceptably primitive. As Valeriy Kryukov rightly notes in Chap. 19, natural resources and energy products will continue to dominate Russia’s economy for the foreseeable future, just as they did in the last century—which also makes the national economy and the federal and regional budgets exceedingly vulnerable to commodity price swings (as at the time of this writing). However, what appears to be missing in Russia today, in addition to proper investment in infrastructure across the territory (see Mikhail Blinkin’s arguments in Chap. 18), is a matching of state

purpose, deep entrepreneurial talent and large-scale venture capital investment in Russian export-oriented sectors outside of commodities—the predictable result of which is a disproportionate dearth of great and global Russian companies and brands (again, outside of the commodities sector). And so here the model for Russia is likely Israel, from which algorithmic countries like Singapore have borrowed heavily in fashioning their own state-private sector models. Applied to the Russian context, that model would seem to commend two critical reform vectors for Russian industrial policy (which is far more important here than, say, tax policy): first, the creation of a handful of national educational, military or technical-scientific institutions (elite or quasi-elite) that are able to fashion an achievement-oriented mindset among Russia’s young adults, as well as deep, lifelong friendships and networks among these people; and second, assurances that the Russian state, with minimal bureaucratic friction (a perpetual challenge in its own right in Russian public administration), is positively disposed to giving entrepreneurs from this “class” of young achievers passing through these institutions a first contract (procurement), initial funding or indeed future contracts of scale.

In Israel (and also Singapore), it is often the military that serves this “bonding” and “maturing” function among young (future) achievers, including among future entrepreneurs, while in a country like the USA the Ivy League elite universities play a similar role. When young Israelis complete their compulsory military service, they typically are, by comparison with their international counterparts, more mature, more confident, more bonded or networked with future partners in life projects (including business ventures), and have had “real” or “consequential” experience in fields like computer science, engineering or logistics. Now, after they finish their university studies, and as they start different entrepreneurial ventures, the state plays a key role in providing initial liquidity or contracts for purposes of giving momentum to start-ups, and eventually for purposes of developing scale. Importantly, the state is often prepared to lose some bets on some of these companies in the knowledge that it and the country’s economy will likely win big on other bets (or on a broad sample of bets).

Thesis 9 A key aspect of the argumentative paradigm of governance is that the marginal value of human life is greater in the societal *geist* of argumentative states, given the high importance ascribed to procedure and also feedback to political power from citizens. This larger marginal value

of life is given expression through very robust constitutional and cultural bulwarks for protecting human life, which is viewed in absolute terms. By contrast, algorithmic states, especially of the Asian ilk, may, at least implicitly, attach greater instrumentality to human life—that is, human life as being in the service of, or subordinating to, the preferred Asian freedom (not freedom from government repression, but instead freedom from chaos). The Singaporeans and Malaysians, for instance, refer to the fear of chaos and death, in the Hokkien idiom, as *kiasi*, in response to which extreme or radical private or public measures may occasionally be necessary: consider the death penalty or, more commonly, the standing use of emergency laws and measures. An individual life or, short of that, what Westerners view as fundamental rights or liberties, may, on this logic, need to be compromised or traded in the service of the more important general protection and freedom from chaos. This may lead to swifter and less compunctious resort to peremptory punishment (like the death penalty) for what might, in the argumentative states of the West, be considered micro-torts (including some drug offences), or to draconian emergency laws and prerogatives in response to perceived threats of a political ilk (including terrorism).

The policy implication for Russia is that the “care” given to each individual Russian citizen (or the value of the individual Russian life) can be improved indirectly or circuitously—that is, that improvement may come not necessarily through direct legislative or regulatory changes (and certainly not from well-intentioned rhetoric and nice proclamations), but indeed through investment in some of the “argumentative” institutions themselves—including, as discussed in this book by Kynev, Kiriya, Knorre and Mersianova, improvement of the health and sophistication of the various estates, from political parties to Russian civil society (and even Russian businesses), that provide the feedback mechanisms from the governed to the governors, in order to remove some of the edge from the bureaucratic leviathan as it touches the human condition.

On this same logic of increasing the value of individual life, increased investment in argumentative institutions can arguably lead to better, more porous relations between the ethnic Russian majority and the many important minorities of Russia—an issue raised by Irina Starodubrovskaya in her meditation on the complicated interethnic relations in the North Caucasus in Chap. 6. A somewhat less classical, more citizen-oriented conception of, or approach to, national security (as discussed in Chap. 14

by Dmitry Baluev) and public safety and criminal justice (as discussed in Chap. 29 by Leonid Kosals and Sergey Pavlenko) is also instructive in this regard.

Thesis 10 Excellent Russian public policy and administration will never wholly eliminate Russian public corruption. As Alexander Auzan argues in Chap. 4, Russian corruption—narrowly conceived—can, to a limited extent, be seen as an informal institution of Russian state and society. In this, Russia is not that far removed from many countries and societies around the world, including the more advanced countries of Northeast and Southeast Asia. Instead, the key question for Russian statecraft in the early twenty-first century is whether, allowing for limited corruption as an informal institution, the governing classes can move the country to greater wealth and stability, and improve meaningfully and substantially the daily lives of citizens. Manifestly, it would be best to improve the lot of citizens with negligible corruption, as is the standard in the argumentative states of North America or Western Europe. And just as manifestly, it is unacceptable to remain corrupt while the quality of life for Russians stagnates or deteriorates. But the story of leading algorithmic pioneers like Lee Kuan Yew or, on a more serious scale, Deng Xiaoping, is not one of perfunctory non-corruption—as that would likely remove all lubrication from the administrative system—but instead public achievement and policy-administrative delivery to citizens in the context of significant corruption that, over time, enjoys a downward trajectory.

The paradox of Russian public administration as it applies to matters military versus non-military is instructive in this regard. In Russia, short-term military or emergency orders or decrees (or algorithms)—especially ones involving actual military missions—are typically dispatched with remarkable rapidity and efficacy (demonstrating a prodigious organisational ability to scale very quickly). And yet long-term plans and projects (including even military procurement) are delivered with notorious inefficiency, slowness and procedural corruption. For these long-term projects, presidential decrees are issued, with considerable regularity, even to repeat or remind the bureaucratic system about the existence of still-unfulfilled erstwhile presidential decrees. *Quaere*: what type of strategic, policy and administrative seriousness and quality would Russia need to be able to deliver, with the same inspiration on which it draws to deliver on various emergency prerogatives, on the country's long-term, more prosaic challenges? Can the country maintain

its focus (and cool)? Can it develop a professional leadership class across the country, at different levels of public power, that has a “synoptic vision” that is sufficiently vast to incorporate Russia’s endless complexity while constantly iterating and refining this vision through citizen input and feedback? Can this class of people both populate and in turn discipline the administrative apparatus of the state? And, whatever the compromises it may require en route, can it deliver the goods for the Russian people?

PART I

Russian Strategy and Statecraft

The Principles and Goals of the Russian State in the Twenty-First Century

Alexei Kudrin and Vladimir Mau

RUSSIA AND THE CRISIS OF STATE: A BRIEF PREHISTORY OF TODAY'S PROBLEMS

The role of the Russian state is at the heart of the national debate about the future strategic, economic and social development of this huge, complex country. The traditional Russian and Soviet conception of the state holds that the state is by far the most important player in the resolution of the country's major problems—in particular in respect of the “catching up” development that remains Russia's central challenge at the start of the twenty-first century.

In reviewing the post-communist transformation of Russia, it is essential to understand three important factors that affected the capacity of the state in general and the influence of state power on the development of

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the country in particular: first, the revolutionary character of the transformation of Russian state power and the entire public system after the collapse of the Soviet Union; second, the basic need to overcome the crisis caused by the Soviet disintegration—including in respect of the very existence and legitimacy of the successor Russian state—and to mitigate the socioeconomic consequences of radical change in the public system; and third, the imperative to create institutions that could drive a decrease in the divergence in the national level of social and economic development vis-à-vis that of the world's most developed countries.

To be clear, the systemic transformation of the Russian state in the wake of the collapse of the Soviet Union was, by definition, revolutionary in character and scale, and yielded a generally weak Russian state. Russia is the only country—perhaps with the exception of China—for which the communist system was the product of its own (internal) development, rather than having been foisted upon it from the outside. As such, Russia's exit from communism was incomparably complicated—connected as it was with the destruction of the national ideological, social and political consensus, as well as a dramatic sharpening of conflict among different social forces and interest groups. If, for the states of central and eastern Europe, overcoming the communist past and entry into the European Community and then the European Union served as goals that unified the societies, then in Russia the crumbling of the Soviet empire and the processes related to extricating the successor state from communism (or excising communism from the state) were, by contrast, factors of public and societal disintegration.¹

Revolutionary transformations have, in Russian history, a certain regularity or pattern, including in respect of the specific character of the concomitant strategic, economic and social policy dynamics and processes. (Naturally, economic policy in a country with deep social conflicts can rarely be stable or consistent.) The weakness of the Russian state has, in such revolutionary contexts—and certainly in the context of the post-communist transition—manifested itself through recurring economic crises, the multiplicity of competing centres of political and economic power, the absence of settled and functional political institutions and ill-developed societal “rules of the game”.

In any weak state, the central role in economic and social development is played not by a political majority rooted in a consensus that is properly formed through political institutions (for starters, parliament and parties)—as these are, by definition, still-born or unstable (see Chap. 8

on Political Parties and Parliament)—but rather through the direct, conspicuous influence of leading economic interest groups and factions on representatives of state power. The weak Russian state of the 1990s was, accordingly, characterised by terms like “state capture”, only to be replaced in the 2000s, after a brief interval, by so-called “business capture”. It follows that *overcoming both of these extremes—state capture and business capture—is one of the key challenges of Russia’s reform agenda in the first third of the twenty-first century.*

By the year 2000, on the strength of some rudimentary post-communist reforms, the central government in Moscow was able to address certain basic challenges of national stabilisation—macroeconomic and sociopolitical alike. Economic growth, doubtless supported by high oil prices, recommenced. Until the geopolitical and economic crises of 2014, this prolonged growth had created the preconditions for significant enlargement of the state’s capacity to regulate the country’s socioeconomic processes.

OVERCOMING RUSSIA’S BASIC DEVELOPMENT GAP: CATCHING UP

The fundamental challenge before Russia over the course of the last three centuries has been to overcome the gap between it and the most developed countries of the world. Closing this gap was set as a central strategic and policy goal by practically all the country’s governments, starting with Peter the Great. *And this challenge, which includes technical innovation and economic growth, remains central in the early twenty-first century.*²

The Russian experience of modernisation has one essential particularity separating it from that of many other countries: historical-economic studies show that Russia has, over the course of the last 200-plus years, preserved a stable degree of lag, in economic terms, vis-à-vis more developed countries such as France and Germany (see Tables 2.1 and 2.2 below). The magnitude of that lag is, as a general rule, approximately 50 years.³

Now, given this 50-year lag, three things must be borne in mind in respect of Russian modernisation. First, Russian development has been inconsistent across the various sectors of Russian life. For instance, at various stages of Russian history, the closing of the development gap with leading countries has been faster in, say, the military sector, than in, say, labour productivity, where significant gaps remain to this day. Second,

Table 2.1 The structure of employment in key sectors of the Russian economy, as compared with Germany, France and other advanced countries, in %

<i>Year</i>	<i>USA</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>	<i>United Kingdom</i>	<i>Japan</i>	<i>Russia</i>
<i>Agriculture, forestry and fisheries</i>							
1820	70.0	–	–	–	37.6	–	–
1870	50.0	49.2	49.5	37.0	22.7	70.1	–
1913	27.5	41.1	34.6	26.5	11.7	60.1	70.0
1950	12.9	28.3	22.2	13.9	5.1	48.3	46.0
1992	2.8	5.1	3.1	3.9	2.2	6.4	17.0
2000	2.6	3.9	2.8	3.1	1.5	5.1	13.0
2010	1.6	2.9	1.5	2.6	1.1	4.0	7.9
2014	No data	2.8	1.3	2.0	1.1	3.7	6.7
<i>Manufacturing and mining, construction and public utilities</i>							
1820	15.0	–	–	–	32.9	–	–
1870	24.4	27.8	28.7	29.0	42.3	–	–
1913	29.7	32.3	41.1	33.8	44.1	17.5	–
1950	33.6	34.9	43.0	40.2	44.9	22.6	29.0
1992	23.3	28.1	37.3	24.3	26.2	34.6	36.0
2000	23.2	24.1	34.5	20.8	25.4	31.4	31.0
2010	17.2	22.2	28.5	16.1	19.2	25.4	27.7
2014	No data	20.5	28.3	15.1	18.9	25.8	27.5
<i>Service sector</i>							
1820	15.0	–	–	–	29.5	–	–
1870	25.6	23.0	21.8	34.0	35.0	–	–
1913	42.8	26.6	24.3	39.7	44.2	22.4	–
1950	53.5	36.8	34.8	45.9	50.0	29.1	25.0
1992	74.0	66.8	59.1	71.8	71.6	59.0	47.0
2000	74.3	72.0	62.6	71.6	72.8	63.5	56.0
2010	81.2	74.4	69.9	71.9	79.0	69.5	64.4
2014	No data	75.8	70.4	75.3	79.1	69.1	65.8

Source: Maddison A. (1995) *Monitoring the World Economy, 1820–1992*. OECD, 39. For the data for 2000, see World Development Indicators 2016, World Bank (the data for Japan are for 2013)

Russia’s modernising achievements are fundamentally unstable. Russia has never had the ability to consolidate the outcomes of national reform—that is, after a breakthrough in one sector or another, the country often suffered reversals or regression. Such regression occurred not only because of sectoral or general crises in Russia but far more often because of acceleration in the development of advanced countries reaching a new technological orbit, and the corresponding absence in Russia of “pre-organised” plans and resources to support similar innovative bursts. And third, the said

Table 2.2 Russia's development gap with Germany and France, in per capita GDP

Country	Year					
	1870	1913	1950	2001	2005	2010
France	≈60	63	46	50	≈45	≈41
Germany	≈60	63	55	48	≈47	≈42

Source: For the data on per capita GDP for the period 1870–1950, see Angus Maddison, *Monitoring the World Economy 1820–1992* (OECD, 1995). For the data on per capita GDP for 2001, see the World Development Report 2003 (The World Bank). For the data on the per capita GDP for 2005 and 2010, see The Maddison Project database for 2013 (<http://www.ggdc.net/maddison/maddison-project/data.htm>). The data are in 1990 Geary-Khamis dollars

half-century development lag has always been largely *indifferent* to the political structure and character of Russian government—whether tsarist, communist or post-communist.

Why has Russia not been able to overcome its persistent development gap vis-à-vis the world's most developed countries? Answer: the modernising efforts of the Russian state have always been peculiarly *non-systematic* or otherwise *non-composite*. (We speak of the Russian case only, with all of its particularities, not wishing to overstate the extent of systematic change or its absence in other major modernising countries, including, say, China.) The Russian state has always focused on discrete aspects of the modernisation challenge, while ignoring or compromising other aspects. Indeed, the sequence and logic of Russian modernisation efforts over the last three centuries may, in broad strokes, be summarised as follows: in the beginning, the country fixed for itself modernisation imperatives in the military and military-related sectors. Military modernisation was followed by economic modernisation, on the understanding that the economy is the most natural bulwark for addressing national military challenges. However, cultural modernisation was often neglected until such time as the general cultural gap with the most advanced (Western) states was deemed critically large. Lastly, the modernisation of political institutions was ignored almost in toto. Only the most severe systemic crises—in the middle of the nineteenth century, and at the start and end of the twentieth century—led to political reforms.

In short, the history and experience of Russian modernisation (again, in particular) suggest that stable and long-term results can be achieved only in the context of system-wide or composite modernisation, including

modernisation of the country's technological base and, to be sure, state institutions. *This concurrent, system-wide modernisation therefore becomes the dominant imperative for Russia in the twenty-first century.*

Of course, recent discourses on Russian strategy have held that the modernisation of the country's political system is *not* a first-order issue—that is, that state modernisation can follow economic modernisation. This is an extremely questionable position. It is probably applicable to countries transitioning from an agrarian economy to an industrial one, where predominantly rural populations are particularly sensitive to improvements in material well-being and do not express any strong demand for modern political institutions. However, an urban, educated population like the Russian population, post-Soviet Union, reacts differently, demanding specific political guarantees. It is clearly ready to participate in state decision-making. For this reason, the modernisation of the Russian state is an absolute priority for purposes of addressing all other challenges of economic and social modernisation.

The politics of “catching up” modernisation traditionally imagines that the gap with more developed countries will be closed through the leadership of the state. And yet the precise role of the state in closing this gap is a particularly vexed question in a society that, like Russia's, is acutely aware of its relative backwardness and not content to settle for just any state of affairs. The twentieth-century economic historian Alexander Gerschenkron famously addressed this issue in his research, even if his prescriptions must be updated if they are to be useful for the development problems of modern (post-industrial) society. For Gerschenkron, the role of the state consists primarily in the creation of a favourable environment for development—that is, a general foundation for institutional reconstruction—and, in parallel, the removal of institutional restrictions on economic growth, including negative factors and forces created by the state in the first place.⁴ On this logic, the state played a limited role in the economic growth of the pioneer countries of industrialisation (the United Kingdom and the Netherlands), a significant role in the catching up industrialisation of Germany and Japan, and, lastly, an exceptionally important role in the development of Russia and the Soviet Union in the first half of the twentieth century—and, by extension, in the newly industrialised countries of Asia.

This allows us to posit the following requirements as essential to the proper functioning of the Russian state as it seeks to address systematically the challenges of modernisation this century:

Political Regime The regime must be stable and adequate for the tasks before the country. Which species of political regime will give Russia the greatest chance of overcoming its gap with the most developed countries? Clearly, the optimal political regime for catching up is different as between industrialised and post-industrialised contexts. If the industrialising markets of backward (agrarian) countries required authoritarian regimes that were able to concentrate national energies and assets on technological and productivity breakthroughs, then post-industrial breakthroughs appear to occur predominantly under conditions of stable democracy.⁵ Of course, for a society in which growth depends on information flows and the individualisation of consumption, feedback mechanisms and adaptiveness based on such feedback are critical. This means that Russia absolutely needs institutions that guarantee political, intellectual and creative freedom, and that protect property (see below).

Property The creation of an adequate post-industrial system of property relations is a fundamental challenge for the Russian state. There have always been problems with property rights in Russia (to say nothing of the more radical case of the Soviet Union). These problems cannot be solved through simple legislative or juridical announcements. Instead, a prolonged period of time is necessary for the formation of a deep level of *trust* in the actions of the state in relation to private property.

Economic Freedom Political freedom in the post-industrial world cannot be dissociated from economic freedom. If state spending as a share of GDP may be a reasonably good indicator of a country's standard of economic freedom, then analysis of the development experience of post-industrial countries allows us to draw two conclusions: first, to meet the challenges of catching up development in a mature industrial society, the state's budgetary footprint must be smaller than in pioneer countries, as the high technological and economic uncertainties of such a context require greater resources in the hands of private economic actors; and second, the budgetary footprint has both quantitative and structural importance—that is, not only are the general numbers important (reflecting the magnitude or extent of state participation) but so too are the targets of state expenditures, and especially the size of investments in the development of physical (especially transport) infrastructure and human capital.

Structural Policy Competition is an especially significant factor in post-industrial development. The state must enable economic actors to make their own decisions and bear accountability for the results of these decisions. This requires the state to establish uniform rules of the game, on the understanding that individually tailored, ad hoc or capricious state decisions (including ones that favour one sector over another) are especially dangerous because it is practically impossible, *ab initio* or *a priori*, and regardless of the intellect of the decision-makers, to determine the true relative advantages of a given post-industrial country. Of course, this does not mean that the state should refuse to support economic activity that meets general and sufficiently precise criteria—for instance, the export of manufactures and services. Indeed, it is both possible and desirable to support those sectors that can demonstrate their competitive advantages in foreign markets. Moreover, the refusal to artificially privilege certain sectors evidently does not eliminate the need to set clear national budgetary priorities—for instance, privileging the aforementioned investments in infrastructure and human capital.

Institutions In addition to the said political regime, catching up development requires the establishment of an entirely new system of institutions. However, direct, undifferentiated borrowing or adoption of institutions from foreign pioneer countries is not recommended (Russian mentality, culture and social context oblige). Some such institutions evidently have universal utility—that is, they are important for the stable functioning of any developed society. But not all of them, by any stretch, are able to play a clearly positive role in bridging significant gaps in socioeconomic development. In a number of cases, a given institution, having proved its efficacy in a developed society, can actually be a brake on the attempted accelerated development of a more backward country. On the other hand, it stands to reason that *prima facie* antiquated institutions can occasionally be a positive factor in accelerating growth.

INSTITUTIONAL REFORM AND ECONOMIC GROWTH IN THE TWENTY-FIRST CENTURY RUSSIA: NEXT STEPS

To repeat, a key task today before the Russian state and Russian society is the creation of favourable conditions for stable economic growth over the medium run, in concert with structural modernisation. The speed of

this growth—if slightly above the global growth rate—should lead to a reduction in the gap with the most developed countries of the world. And such growth is the principal precondition for increasing the well-being and socioeconomic stability of Russian society.

Indeed, *what lies ahead for Russia must be the creation of a new model of economic growth*.⁶ This, of course, is a non-trivial challenge at the start of the twenty-first century. The story of Japan over the last 25 years suggests that a developed country can experience secular stagnation that lasts as long as a quarter century.⁷ This is a fundamentally new phenomenon—one meriting serious scholarly and policy attention and research, including in Russia.

Creating economic growth requires that Russia address three interrelated challenges: first, diversifying the economy—and exports in particular—as Russia’s dependence on resource rents, characteristic of the 2000s, has reached its obvious limits; second, significantly opening up the Russian economy, as it is, at present, insufficiently capacious to be able to provide a sufficiently high level of demand and competition; and third, resolving the problem of diminished interest in private entrepreneurial activity, which most clearly manifests itself in the preference of many Russians for employment in state corporations and state security structures. These three challenges require the creation of corresponding political and economic institutions directed at economic growth.

Political and Legal Institutions These deal with the provision of legal and political rights—in particular, the rights and security of economic actors. It is essential to defend basic rights, the recognition of which by the state should in time become the foundation of modern economic growth. Relatedly, it is essential to guarantee the inviolability of person and property, the independence of the courts, the effectiveness of the law enforcement system and also the freedom of the media.

Institutions of Human Capital These include, first and foremost, education, health care, the pension system, and the provision of housing. It would be a mistake to attribute the problems of these sectors in Russia to inadequate funding. Instead, the key challenge here for Russia is the need to develop institutions that meet the modern challenges of human capital development. Today’s welfare state systems were evidently drawn up in the period of transformation of agrarian economic

systems to industrial ones, under completely different demographic and social conditions. When these social conditions changed in significant ways, traditional institutions of social support developed at the turn of the nineteenth century turned out to be extremely expensive and ineffective. *Russia is therefore in need not only of the aforementioned new model of economic growth, but indeed of a radically new welfare state model.*

Economic Institutions These deal with the laws, regulations and norms that protect and support the functioning and development of the national economy. Key vectors for the development of economic institutions in Russia for the first quarter of the twenty-first century include:

- (a) *Creating a favourable investment climate.* This must be a top priority for all levels of government in Russia, and especially for regional governments. Getting high scores in the Doing Business rankings is an important objective, even if this alone is not sufficient to attract business. Russia progressed from 120th spot to 51st between 2012 and 2016. However, investment activity during this same period was unconvincing. Among the urgent measures needed to improve the national investment and entrepreneurial climate are increased deregulation of the economy, support of small and medium-sized business, protection of property, and security and safety for business people and entrepreneurs.
- (b) *Fostering effective competition and reducing monopolies in the economy.* The anti-monopoly agencies and structures must, first and foremost, restrict the expansion of administrative and infrastructural monopolies instead of squeezing firms that succeed on the strength of efficiencies (thereby becoming local monopolies). It is also important to increase the effectiveness and transparency of public regulation, including through the drafting of precise, transparent criteria for state support in different sectors of economic and social life. Conflicts of interest among civil servants in regulatory decision-making must be prohibited.
- (c) *Diversifying exports and stimulating non-raw material exports (manufactures).* For contemporary Russia, with its limited domestic market (one of the many major differences with China), external demand is extremely important for sustainable economic growth. The work of

the Russian Export Centre, created in 2015, is aimed precisely at the development of such external markets. However, administrative decision-making must be supported by various institutional measures, including the removal of export barriers and more generally all barriers to external economic activity. (Russia's position in cross-border trade in the annual Doing Business rankings continues to be weak and needs priority attention.) The procedures for goods crossing the border must be radically simplified, moving to electronic document submission for three-quarters of all cases, and to the processing of all transactions through a single-service window. Administrative restrictions on non-raw material exports must diminish markedly. Import barriers must be removed, given that the effectiveness of exports in global value-added chains often depends on the effectiveness of imports used for the production of export products. And finally, the stimulation of exports must be directly associated with Russia's import substitution processes. Indeed, as a rule, and as mentioned above, the ability to export goods must be the main criterion for decision-making in respect of the support of any import substitution project (see Chap. 22 on Food and Agriculture).

- (d) *Increasing the efficiency and reliability of Russia's financial institutions.* In the context of the substantial impediment to investment and thus economic growth presented by the lack of confidence in the country's financial markets, this requires, among other things, the development of new financial instruments to serve as alternatives to traditional bank deposits as vehicles for private savings among Russians.
- (e) *Securing a healthy macroeconomy.* This involves stable monetary and fiscal systems, which should provide the general basis for implementing all the aforementioned institutional moves. More specifically, disinflation should finally bring the national inflation rate to the target level of 4 per cent (something not yet achieved). Of course, stabilisation of inflation will contribute to general economic and even political predictability in the country, which in turn will improve social stability and boost consumer demand in Russia. Meanwhile, the demonstration of consistent progress towards the 4 per cent target will give businesses clear and predictable macroeconomic bearings for key planning and operational considerations, as well as access to credit (as the key interest rate and the rate of commercial credit are related to the rate of inflation). Finally, fiscal

policy must address the following challenges: lowering the federal budget deficit and returning the country to a non-deficit budget position by restricting the growth of state debt as a basis for confidence in the macroeconomic policy and posture of the country; stabilising the tax system by avoiding, in the medium run, increases in the overall tax burden on business (dealing with this challenge inevitably requires reforms in the pension system); redistributing budgetary spending in favour of productive sectors (human capital and transport infrastructure); developing a new budgetary rule that prescribes how to use (invest) windfall revenues, depending on the fluctuation of oil prices (if such windfall revenues return); and, finally, reforming fiscal federalism (see Chap. 32 on Regional and Local Government).

In short, the macro-challenge facing the Russian state in the twenty-first century is, for all practical intents and purposes, the same as the one it has faced over the course of the last two to three centuries—to wit, overcoming the gap with the most developed countries in the world (“convergence”). Reckoning with this challenge properly will doubtless lead to a transformation in the well-being of Russian citizens. To be sure, this will require system-wide, concurrent modernisation of Russia’s institutions and sectors, alongside of which (and indeed partly as a result of which) national trust between citizens and institutions must grow. The concept of trust is evidently complex, and changing trust levels in a society as multifaceted as Russia is no simple feat, but this trust is a necessary condition for resolving any of the country’s economic, social and political challenges this century.

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Russian Political Ideology

Andrei Melville

“FORTRESS RUSSIA”: ASCENT OF THE NEW CONSERVATISM

Nearly a decade ago, I participated in a research project on possible Russian futures in the year 2020. One of the scenarios on the table was that of a dystopic future—a so-called Fortress Russia. That scenario involved Russia finding itself in a hostile environment, surrounded by regional conflicts. Oil revenues had dropped, and the country and population were beset by economic crises. In order to respond to the external threats posed by this scenario, Russia had to mobilise—even if such national mobilisation limited political rights and freedoms. My colleagues and I conducted focus groups on this “nightmare scenario” in cities across the country, from Kaliningrad to Vladivostok. Nearly all respondents judged this scenario to be extremely undesirable and also highly improbable.¹

Today, of course, there are clear signs that the “Fortress Russia” scenario actually approximates Russia’s emerging reality. A near consensus has been built around it among elite groups and the masses. And it receives strong propagandistic justification through the prism of an ideology that Russians call the “new conservatism”.

What happened? Answer: after two and a half decades of unsuccessful searches for a post-Soviet “national idea”, “new conservatism” was successfully summoned to fill the gap in the public consciousness, becoming

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Russia's ideological credo—as if a “symphony” between the state and the population.

What is the content of this new ideological consensus in Russia? What are the real functions fulfilled by new conservatism, and what is the social basis for the ideology? What policy and practical recommendations does it make? And, perhaps most importantly, what are its prospects, and are there alternative future ideological vectors for Russia?

THE NEW IDEOLOGICAL CONSENSUS

A bona fide ideological spectrum has not yet been firmly established in post-Soviet Russia. There are, to be sure, many types of ideological “-isms” in the Russian ether, but these “-isms” are, as a rule, eclectic and do not correspond to the classifications generally accepted in political science. As such, analysis of the modern ideological situation in Russia is not premised on any classical opposition between “liberalism” and “conservatism” (or their radical extremes)—not least because of the manifest devaluation of the democratic and liberal movement and their ideas in contemporary Russia.

And yet in Russia, at present, there is a full-blown intensification of ideological work—almost like an “ideological renaissance”, in the spirit of the once famous “Manifesto of Enlightened Conservatism” (written by the filmmaker Nikita Mikhalkov).² This ideological work presumes that there looms, over the horizon, not only a “Cold War 2.0” but also a “new ideological battle”—in the world at large and inside the country proper.³ The West, on this logic, is not only the permanent geopolitical opponent of Russia, but indeed the centre of a “new international ideocracy”.⁴

The claim of the new conservatives is that the confrontation between the nucleus of the current global system (the West) and the rising powers (including, loosely, the BRICS countries, but also other contenders for status) has not only a permanent geopolitical but also a deeply ideological character—with (Russian) conservative-radicals even positing the more extreme thesis of an eventual “war to the death”.⁵ In a simplified logic, the new conservatives hold that the values of these competing camps are irreconcilable: “freedom” (“the West as a whole”) versus “justice” or “fairness” (where Russia is the “anti-West”). Russia must constantly counteract Western values, including by not promoting human rights norms. As in the Soviet period, the impossibility of any universal values is affirmed.

The ideological opponents of new conservatism in Russia are today, for all practical intents and purposes, marginalised. (Similar to the pre-perestroika era, they look more like “dissidents”.) There are clear signs of a new ideological consensus, which virtually erases the last 25 years of post-Soviet ideological development, and indeed even the prior period of Soviet perestroika and “new thinking” under Gorbachev. Of course, one might attribute this new ideological “wave” to the historical logic of Russian “cycles” (catching up development via inconsistent reforms, stagnation, counter-reforms, etc.). This leaves open the theoretical possibility of other political and ideological innovations down the road. However, such ideological innovations do not loom large in the Russian political space—a function not so much of the intellectual solidity or persuasiveness of new conservatism as of its strong social basis and the very real practical interests of its proponents.

What are some of the other claims of new conservatism? On the one hand, new conservatives hold that Russia was not the “losing” side in the Cold War and that it should not and will not, as a consequence, agree to the subordinate post-Cold War vocation assigned to it by the West. On the other hand, based on this belief, Russian new conservatives hold that it is imperative to revise accepted international legal norms and to reject the “collective West” in geopolitical and moral terms. A pivot to the East (East and even South Asia) is posited as the essential geopolitical and even philosophical alternative.

The theme of Russia as a completely distinct civilisation, with its own eternal historical patterns and unique moral laws, is ever-present: Russia has its own conspicuous “path”, separate from that of other countries and peoples. As stressed in the aforementioned “Manifesto of Enlightened Conservatism”, Russia is a “continental empire, and not a nation-state”, where order and stability are more important than individual rights and freedoms. Traditional collective values and a spirit of solidarity are the foundation of the national social contract, while individualism and its excesses, masked by political correctness, are deemed destructive. Indeed, as today’s Europe (specifically, the European Union) will not, institutionally and strategically, survive in its current form (according to the new conservatives), Russia must protect traditional Orthodox Christian values from “European decay”. *Bref*, this is the special mission of Russia in today’s world of chaos, moral decay and mortal geopolitical threats.

These are, for all intents and purposes, the approximate contours of the “Fortress Russia” scenario, whose supporters feel threatened by enemies

from without and “fifth columns” from within. According to the new conservatives, in order to resist external and internal foes, the country and the population must “rally around the flag”—spiritually, politically and militarily. Of course, I do not wish to oversimplify, as this ideological consensus is not absolute. Important nuances are at play, and the intellectual homework and scaffolding supporting this consensus are not to be underestimated. Nevertheless, in today’s Russia, there is little doubt that such a mental map of the world generally predominates in the consciousness of the political class, the elites and the general population.

ARGUMENTS AND PRESCRIPTIONS

Even in the context of ideological near consensus, new conservatism is internally non-uniform—that is, it has, in broad strokes, both *radical* and *moderate* flanks. The radical flank finds expression in the quite marginal “Izborsk Club” (Alexander Prokhanov, Alexander Dugin, Natalya Narochnitskaya, Maksim Shevchenko, Sergey Glaziev).⁶ The moderate flank, for its part, is armed with some fairly refined arguments, developed through such large-scale initiatives as the international research project “Conservatism and Development”,⁷ sponsored by the Institute of Socio-Economic and Political Research (closely tied to the Presidential Administration) and the “Folders on Conservatism” almanac⁸ (under the same sponsor).

As mentioned, one of the starting points of new conservatism is the thesis on the rebirth of global, unresolvable ideological confrontation—for all intents and purposes, an ideological anti-Westernism that is supported by anti-Western geopolitics. Arguments that are geopolitical in spirit are often borrowed and reproduced about the “end of globalisation” or the start of “de-globalisation”, which in essence entails the rejection of any and all illusions about cooperation and a hard-headed reversion to the presumed “norm” of world politics—to wit, the “war of all against all”, a “game without rules” or the “Hobbesian moment”.⁹

The theme of the “renaissance of geopolitics”—one of the key planks of new conservatism, and one meriting separate analytical treatment—is today very popular in Russia (see Chap. 12 on Russian Foreign and Defence Policy). Of course, it cannot be said that the modern critique of globalisation—even among avowed globalisation optimists, inside and outside of Russia alike—has no basis in fact. And yet even the deepening of splits and the escalation of contemporary conflicts, the unmanageability

of global processes, the revenge of fundamentalism and extremism and the seduction of Realpolitik, together do little to change the governing global trends of world development—namely, powerful integration processes in the world economy (despite many bumps in the road), financial and political interdependence, information openness, the universalisation of cultural spaces and growing people-to-people interactions.

In the simplified geopolitical imagery of new conservatism, Russia is a “besieged fortress”, surrounded by enemies. This singularity, paradoxically, allows Russia to be independent in its renewed “sovereignty” vis-à-vis outside influences, in its self-reliance, and in its belief in the inviolability of its national interests. (The theme of the *supremacy of national interests*, while clearly articulated, remains conceptually underdeveloped—especially in terms of a concrete and long-term programme or agenda.) This posture, to be sure, also has its own internal tensions—that is, between the extremes of its isolationist and messianic camps.

The practical prescription for strategic self-isolation and autarky in the modern world works only for pariah states—which is why the followers of new conservatism themselves easily recognise the necessity of foreign investment for national development. It is an altogether different matter that many of these same followers, as convinced ideological and geopolitical “anti-Westerners” and “Eurasians”, would like to pivot towards the East. And yet this is, by and large, an entirely utopian “East”—one that is imagined to be simply waiting for Russia to act as a “bridge” between it and Europe, such that Russia and it can together develop various species of mega-projects—naturally taking into account the legitimate Russian interests that were previously ignored by the West.

The messianic pathos of new conservatism manifests itself primarily in ideological declarations: “[T]he Russian ideal is ‘sacredness’. Sacred Rus is a universal ideal – not limited geographically, ideologically or metaphysically” (taken from one of the reports of the Izborsk Club).¹⁰ In practice, however, Russia’s ambitions in this respect are today far more modest and include ongoing support for integration processes within the Eurasian Economic Union (see Chap. 15 on International Economic Policy) and calls to assemble the “Russian world” as a union of “the most dispersed people in history”. The “re-establishment of empire” is, as a serious imperative, not considered by the new conservative mainstream—not least because there simply are no resources for empire-building.

Above all, new conservatism emphasises “traditional” values and religious fundamentalism as foundations for “spiritual authenticity”.¹¹

“Orthodox ethics and the spirit of solidarity”—almost as an antithesis to Max Weber—are put forward as the bases for a distinct or special civilisation rooted in cohesion and communitarian values. These are supposed to represent the core of the basic “Russian mentality”—a notion much discussed by new conservatives but still lacking adequate conceptualisation. It is also notable, on this construct, that the principle of the primacy of law is not articulated—something that the new conservatives themselves do not hide: “For the conservative, tradition and morality are above the law.”¹²

Finally, the new conservatives also argue in favour of so-called “sovereign modernisation”—that is, a modernisation without dependence on the West, emphasising Russia’s indigenous capabilities. This evokes certain analogies with the Bukharin-Stalin concept of “building socialism in one country”. Of course, in the context of Russia’s extant global interdependence and its relatively modest internal resources, such a recipe for modernisation has little hope of being realised in practice in any foreseeable future.

FUNCTIONS AND SOCIAL BASIS

If most of the substantive arguments and practical recipes of new conservatism are precarious, then how did there come to be such high ideological demand for it? First and foremost, the ideology reflects the posture of the central government itself and of key elite groups for which the preservation, at all costs, of the status quo (and the reduction of threats from competing elite groups or the risks of popular dissatisfaction) is the dominant priority. The glorification of this status quo has been inculcated into the elite and mass consciousness via the muscular propagandistic influence of mass media—especially television (see Chap. 9 on Russian Media). It is noteworthy that, according to public opinion surveys, the success of the propaganda effort follows, to some extent, the paradoxical rise of conservative moods in large segments of Russia’s younger population as well.

Second, an important component of the social base of new conservatism is the constantly growing bureaucratic estate in today’s Russia. Bureaucracy and “bureaucratism” in Russia have very real material interests in the preservation of the existing state of affairs in the country—including through the privileges of status and office (see Chap. 30 on the Bureaucracy). Russia’s bureaucrats are, as in many other countries, the natural carriers of the conservative and protective ideology. And the

bureaucrats are supported by other social groups—including pensioners and the military—that are in one way or another financially dependent on the Russian state.

Third, Russia’s “middle class”, which, before the current economic crisis, on various measurements, comprised anywhere between 10 per cent and over 40 per cent of the population,¹³ is a very peculiar middle class. It is, in many ways, a product of the redistribution of revenues from the oil boom in the first decade of the 2000s—that is, redistribution aimed in part at procuring the loyalty of the “better off” population. The values of this middle class may well serve as a refutation of the “Lipset hypothesis”—much discussed today in Russia—to the effect that economic development and growth in well-being generally lead to an economically independent middle class, which in turn sooner or later begins to demand broader political representation and a transition to democratic processes and practices.

In Russia, the increase in the economic well-being during the oil boom did not lead to a corresponding demand for democratisation and political liberalisation from the new “middle class”. On the contrary, this middle class has remained conservative, non-independent, and completely loyal to the political authorities and the existing order on which it depends for its economic well-being (see Chap. 7 on the Social Structure of Russia). This, then, is a quite servile middle class, dependent in its economic existence on the administrative decisions of the bureaucrats of upper, middle and lower levels, who in turn comport themselves according to their particular material interests (as well the directives of their masters). There are no fundamental distinctions here based on the social status and economic wealth of members of this middle class—that is, a large private owner and a small individual entrepreneur can equally be stripped of property or deprived of their rights by dint of administrative discretion or caprice.

This middle class refers not to the “second”, “third” or “fourth” Russia (in the terminology of Natalia Zubarevich¹⁴)—that is, not to the residents of Russia’s villages, small cities or middle cities or autonomous republics. Instead, we refer here to the “first” Russia as the representative window of the modernising future, and comprising, for all practical intents and purposes, the materially advanced residents of the large cities, from Moscow and St. Petersburg downward. And *pace* Lipset, the representatives of this “first” Russia are, en masse, carriers of the present conservative consensus, and not of any deep or sustained demand for reforms.

Fourth, the ideological demand of the authorities and elites turns on a surprisingly harmonious brew of mass moods reflecting mobilised

propagandistic influence—but not only this. These mass moods are a very distinctly Russian, largely emotional, manifestation of mass complexes, authoritarian syndrome, nostalgia and imagined or phantom ills. And the simplified, new conservative picture of the world offers fast and easy prescriptions for addressing the country’s very real problems and pressures.

The consistent thrust of these mass moods is the return of Russia to the status of a *great power*. Indeed, this fancy is arguably the key force in the present ideological unity between the state and the people. Some 65 per cent of the Russian population are certain that “Russia is today a great power” (November 30, 2015),¹⁵ compared to 31 per cent in 1999. Moreover, 59 per cent are certain that “Russia has never been the aggressor or initiator of conflicts with other countries” (November 2, 2015). *Krym Nash*—the 2014 absorption of Crimea into Russia—is supported by up to 85 per cent of Russians (February 3, 2016).

The patriotic élan is bolstered by the presence of the “image of the enemy”, driven into the mass consciousness by propaganda. Some 80 per cent of the population today believe that Russia has enemies (November 2, 2015), and 75 per cent believe that the countries of the West are adversaries of Russia, rather than partners (October 13, 2015). The adversarial politics of Western countries is, according to surveys, reflected in: sanctions (55 per cent); information warfare (44 per cent); attempts to control or take over Russia’s economy and its natural resource wealth (35 per cent); designs to overthrow the Putin government (27 per cent); and, finally, campaigns to foist upon the Russian population foreign values, culture and ways of life (26 per cent) (November 2, 2015).

Some 62 per cent of Russians agree that relations with the West will always be based on distrust (June 26, 2015), while just as many think that “it is not worth paying attention to the criticisms of the West” (November 2, 2015). And, as mentioned, propaganda is able to persuade a significant portion of the population that the “enemies” are not only without, but indeed within, with some 41 per cent of the population believing that the fight against “Western fifth columns” is important (December 8, 2015).

The major ideological “building blocks” of new conservatism are fully consonant with the popular belief—held until recently by 55 per cent of Russians—that Russia has “its path” (discussed above), separate from other countries and peoples. However, what this “special path” is, and how it manifests itself concretely, is far less apparent to survey respondents. In the extreme, 69 per cent of the population have no or only the foggiest notion of it. Only 17 per cent think that Russia’s path is that of European

civilisation (April 21, 2015). Finally, some 61 per cent of Russians favour strong public order, even if this requires the restriction of individual freedoms and human rights (October 28, 2015).

While the parallels between new conservatism and the current public moods are obvious, they are insufficient for purposes of understanding the origins and prospects of the new ideological consensus. For this, we must properly appreciate the social contract between the Russian state and the Russian population. During the period of high oil prices, the population passively accepted the status quo in exchange for a constantly increasing standard of living. However, the end of high oil prices has meant that the preservation of such a system requires entirely different instruments—above all, a mobilising propaganda (privileging, as it were, the “television” over the “refrigerator”) with the spectre of an enemy and, to be sure, a resurgent Russia returning to its erstwhile great power status.

How sound is this new social contract? Public opinion polls suggest that there may be at least preliminary doubts about it, driven naturally by the serious worsening of the economic situation in the country and the diminishing material well-being of the population. Recent surveys suggest that Russians are starting to worry very seriously about some of the following: the growth in prices and impoverishment of the population (54 per cent); economic crisis (49 per cent); Russia being drawn into conflicts outside its borders (33 per cent); unemployment (29 per cent); and increased tensions in relations with Western countries (22 per cent) (February 26, 2015). It therefore remains to be seen whether the extant ideological consensus can compensate for the continuing economic deterioration of the country, as well as the growing fatigue of the population vis-à-vis mass propaganda—propaganda that has, predictably, become less potent and effective over time.

PROSPECTS AND ALTERNATIVES

Is the new ideological consensus stable over the long run? Is it capable of dealing with the challenges of today and tomorrow, as promised by the new conservatives themselves? If we understand these challenges to include defensive stabilisation and system preservation in the context of economic crisis, social stagnation and increased political authoritarianism, then, yes, new conservatism is, for the time being, adequate for the tasks at hand. But if we mean the challenges of developing and modernising the country in earnest, then the present ideological consensus is highly problematic. New

conservatism claims that only it can offer a model of development that takes into account national specificities, anticipating mistakes and mitigating the costs of Russia's transition. But is this in fact the case?

There have been cases in political history and in the history of political ideologies—in the USA, the United Kingdom and other European countries—in which conservatism turned out to be a constructive “antidote” to the radical extremes of other development projects, and above all against radical versions of liberal projects. Critically, in such scenarios, conservatism was an important element of the political and ideological “centre” (“The Vital Center”, as it were, of Arthur Schlesinger Jr.) in the context of general cooperation with its liberal opponents—that is, on a generally agreed philosophical or programmatic premise for national development. Conservatism, in other words, has been constructive principally when it has opposed and softened the extremes of other competing, more radical programmes of development.

Having said this, Russia's new conservatism claims to be self-sufficient—that is, not needing ideological and political opponents who propose different (even complementary) development agendas. It does not wish to oppose anything, as it considers its position to be naturally true, infallible and comprehensive. Of course, on the strength of only conservation and isolation from other political and ideological projects, it is nearly impossible to propose a credible programme of development and modernisation.

In short, the current Russian doctrine of “conservatism for development” may be rhetorically attractive for many social groups, but it has not produced and is unlikely to generate a genuine programme of development for the country. It does not have a concrete programme of economic, social and political development for Russia in the context of the present geopolitical conflicts and international disorder, or indeed in the larger context of global interdependence, economic integration and open information flows across borders. Moreover, new conservatism is fundamentally closed to dialogue with other alternative ideological and political programmes—that is, for the new conservatives, the followers of these alternative ideologies and programmes are not legitimate partners, but may even represent a “fifth column”. And without such a dialogue, of course, the country remains “Fortress Russia”, bereft of prospects for entry into the modern world.

To be sure, modern political history has, over the last decades, been resistant to simple and uniform predictions. Will the Russian population continue to support the current (revised) social contract in the event of

a further worsening of the national economic situation? Will the loyalty of influential elites be shaken in the event of new exogenous shocks? Will institutional inertia continue to lead to continued economic and social stagnation? Will viable alternative democratic projects eventually emerge? *Contra* the new conservatives, there is every reason to believe that in history in general, and in Russian development in particular, there exist critical junctures leading to alternative futures.

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The Future of Russia's Institutions

Alexander Auzan

RUSSIA'S INFORMALITY AS INSTITUTION: REFRAMING THE NATIONAL CHALLENGE

It is said that any new initiative inevitably goes through three phases: “what nonsense!”, followed by “there’s something to this!” and, finally, “who doesn’t know that?” At the start of the 1990s, debate over Russia’s post-Soviet institutions was at the first phase. It was thought at the time that the implementation of reforms aimed at macroeconomic stability, liberalisation and privatisation would automatically lead to market equilibrium, effective private ownership and, ultimately, national development (all independently of national institutions). When this hope was not borne out, the question of national institutions—today deemed central to national development—was suddenly thrust into the spotlight. The second phase began.

The next tranche of reforms involved a process of importing foreign institutional paradigms and the best in legislative and policy practices from developed Western countries. However, the foreign institutions and the legislative practices either did not survive in the Russian context or led to completely unexpected results (as with, for example, the law on business

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bankruptcy—a law for which many people lobbied hard, and which engendered many protests after its implementation, given that it turned out to be a perfect instrument for raider-like takeovers). The failure of direct institutional importation gave rise to a diagnostic discourse about Russia needing to better grasp the particular reasons for the rejection of foreign practices. This included a sudden national interest in the cultural settings and drivers that are propitious to formal institutions—or, in other words, how formal institutions can successfully combine with informal institutions.

If it is true, as suggested by multiple international indices,¹ that the institutions of Russia are manifestly imperfect, then the conventional framing of the task before Russia is that of a multidimensional improvement of these institutions by means of institutional reforms (backed by political will from the government). And yet, in my view, such a framing of the task is hopelessly antiquated. This is so not only because of Russia's own national experience with institutional reforms, but also because the development of institutional theory around the world has, over the last decade, led to the understanding of two important matters. First, as demonstrated in the studies of Douglass North, John J. Wallace and Barry Weingast,² and later Daron Acemoglu and James Robinson,³ institutions have different natures: some are extractive (exercised by the extraction of rents), while others are inclusive (promoting development). The transformation of extractive institutions into inclusive ones can be extremely problematic. For instance, if a given institution is extractive in nature, then its “improvement” or reform will likely (only) result in more significant extraction of rents from the existing economy. Second, as mentioned, institutions can be formal or informal, with informal institutions largely turning on the cultural specificities and norms of the society in question.

Given these two supplements to our appreciation of institutional theory, it makes little sense for Russia to move full-steam ahead with institutional reform—even if backed by political capital, and even if this reform is multipronged—until we have a firmer understanding of, first, which types of institutions, extractive or inclusive, are at play in the country, and second, how these institutions relate to the sociocultural circumstances of the country, and therefore how they reproduce themselves with the help of informal practices.

Evidently, the institutional structure, formal and informal alike, of a country strongly influences the national trajectory of economic development and, path dependence oblige, may not allow that country to

reach sustainable growth or high GDP per capita in the long run. Path dependence theory is important here in order to understand that Russia's original "choice" of institutions may have been incorrect, with all the consequences that this choice then entails. Institutions, therefore, may or may not be helpful in national development, and the said original choice is doubtless conditioned by culture—that is, by informal institutions. Having been accepted by society, such structures may well confirm (or consolidate) the country in its rut—that is, in a trajectory that the country would otherwise like to drop.

How to proceed? First, we must assess the character of the institutions that have been established in Russia in order to provide a diagnosis of the national system of institutions. Second, we must understand what kind of developmental variability exists within or without the bounds of the country's trajectory. Third, we need to determine whether it is possible, and under which circumstances, to initiate a process of change in the trajectory of Russia's development and a transition to a more effective national institutional structure.

THE CURRENT STATE OF RUSSIA'S INSTITUTIONS

A widely held, perhaps conventional (if not banal) view in Russia and internationally is that Russia underwent an unsuccessful transition process from the Soviet system to the post-Soviet system by inheriting wholly incomplete market institutions and ill-formed institutions of democracy (or a de facto authoritarian regime). On this logic, the unsurprising result is that Russia today finds itself in an entirely unsatisfactory institutional position.

Notwithstanding the current economic and geopolitical stresses on the country, the levels of social support for the state and for the government in Moscow are high—if not increasingly so. This begs the question: has the transition vector been correctly assessed? Has Russia achieved what it was foreordained or otherwise able to achieve? Did the transition yield better results than it is acceptable to suggest?

Was there a general demand for democracy and economic development (including innovation), as well as for the corresponding institutions of participation and decision-making? It would seem that such demand had a largely declarative character. It is well established that at the end of the 1980s and the start of the 1990s, the goals of achieving a democratic society and a market economy in Russia were proclaimed more than

once. However, the fundamental economic question for a democracy is: who pays for the decisions made, and also for the production of public goods? This, in its simplest form, is the question of taxation. And yet taxation did not seriously make it to Russia's national policy agenda in the 1980s and 1990s. For all intents and purposes, neither the opposition nor the government put before the population any discourse about democracy requiring that citizens carry a tax burden that can, in various ways, be shared, and that constitutes the most important source of funds to support the costs of public decisions, and more specifically the costs of national development.

Of course, the question of the market as a means of providing access to services was central to the national political agenda during Russia's transition period, though the companion question of how, in market institutions, to provide technical and economic development, and indeed whence the investments would come to develop science, industry and new technologies, was not part of the transition agenda. Instead, public discussion was limited to issues of redistribution, privatisation and other ways of dealing with the immediate burden of the Soviet legacy and the crisis of state succession.

From this, in my assessment, follows the possibility of an *alternative hypothesis of transition*. In the absence of any "taxpayer" pressure (demand) on political and economic institutions, as typically associated with democracy and economic development, the true transitional vector in Russia was directed not at the formation of a market economy and democratic society, but rather at overcoming the deficit-burdened economy and creating a consumer society. And it is precisely this vector that has become the backbone of Russia's transition.

Which institutions, on this alternative logic, were essential to the project of creating a consumer society (in lieu of a true market economy and democratic society)? Answer: institutions of the consumer market—including those providing consumer credit and the protection of consumer rights—as well as institutions capable of supplying the necessary incomes for consumers in the context of increased access to goods and services, but without active development of productive activity and innovation in the economy.

From the end of the 1980s to the early 2000s, the late Soviet and early Russian political regimes wrestled with the problem of the national budgetary deficit while enjoying the effective support of the majority of the population. Mikhail Gorbachev's programme was publicly endorsed until such time as his government removed restrictions on access to information,

ideas and literature—and yet in that same period the problem of citizen access to goods and services was not solved.

The new post-Soviet government of Boris Yeltsin and Yegor Gaidar, through highly problematic, radical shock reforms, failed to provide immediate access to goods and services for the population outside of a small handful of big cities. With the advent to power of Vladimir Putin, market institutions, fuelled by mobile phones, trade networks and other pioneering initiatives in the consumer markets, had already been generalised to a significant number of Russian cities, thus giving most of the national population access to most goods and services. In other words, by the start of the 2000s, a proper consumer society had effectively been formed in Russia. In the Putin period, therefore, the question of how to advance consumer well-being was no longer a pressing one.

Institutional reforms really began in earnest in 2000 with the so-called Gref Programme, which aimed to implement a social contract based on the formula of “taxes in exchange for order”. However, internal contradictions and macroeconomic changes, and especially the strong growth in oil prices, had by 2003–04 created the political opportunity and economic space to simply proclaim such goals without the backing of serious reforms and without the introduction of proper investment processes. This became the basis for a pivot in national politics and, in my view, changed the formula of the national social contract from the one announced in the reform programme of the first Putin term to one that was rarely announced but essentially implied as “loyalty in exchange for stability”.

Indeed, over the course of the so-called fat years of the Russian economy, from 2002 to 2008, the well-being of the population grew from 8 per cent to 10 per cent per annum—that is, well-being practically doubled during this period, while the population agreed to cede the sphere of politics to the exclusive prerogatives of the state: for instance, the state alone would decide whether gubernatorial elections were necessary, or, among many other decisions, whether to allow particular opposition formations into official political life (see Chap. 8 on Political Parties and Parliament). In essence, those institutions that contributed to the structure of the demand economy became extractive institutions, based on the extraction of rents—not only rents from natural resources but also monopoly and administrative rents. Extractive institutions became the basis of Russian consumption—a symbiosis that assured the stability of the political regime over the course of a fairly long period.

Following the 2008–09 global financial crisis, Russia’s demand economy entered a prolonged crisis. From 2011, development began to slow. From 2013, regional budgets went into the red. The sharpening of the situation as a consequence of the geopolitical clashes of 2014 and the fall in the price of oil only consolidated this trend line. The national demand economy, with its consumer-focused and rent-extracting institutions, proved incapable of providing any further meaningful growth. *Bref*, the exit of the Russian economy from its present crisis does not mean that the fall will be replaced by a countervailing rise. Indeed, if there are not serious changes to the institutional system in the country, the fall might instead still lead to prolonged depression.

THE PROBLEM OF TRANSITIONING TO THE INVESTMENT MODEL AND THE MEDIUM-TERM DYNAMIC OF RUSSIAN INSTITUTIONS⁴

The move away from the raw materials model and the demand economy to a supply economy—announced in 2011 as a national goal in Moscow’s “Strategy 2020”—required the development of investment processes in the country. From 2013, investments in Russia began to drop, with the investment crisis anticipating crises in other parts of the Russian economy. Now, in the context of the present geopolitical impasse, if foreign sources of investment are improbable, then the principal sources of investment must be the Russian private sector (14 trillion rubles at the end of 2014⁵), the Russian state—that is, from the reserves of the national government and the investment components of the federal budget (also about 14 trillion rubles at the end of 2014)—as well as money from the household savings of the Russian population (approximately 31 trillion rubles at the end of 2014). To be sure, the total savings of the population has more than twice the investment potential of each of the other two sources—something that confirms that it was indeed a *consumption society* that resulted from the post-Soviet transition. And in this consumption society, there was an accumulation of significant financial resources within the population (household savings) that are not, at present, finding entry into the formal economic system—a blockage that militates against the economic development of the country.

Let me propose that there are three possible vectors of future institutional development in Russia over the medium term. We might call these

“private capitalism”, where institutions provide incentives for the introduction of capital from private Russian business; “state capitalism”, which features the more or less efficient use of state investments; and, finally, “popular capitalism”, where the accumulated savings of the population over the course of the development of a consumer society become the basis for a national investment strategy. Each of these vectors evidently requires the development of different institutional systems. For private capitalism, for instance, what is needed is, among other things, an increase in the administrative quality of the state, significant strengthening of the rule of law (in particular, the protection of property rights) and support for competition (as distinct from exclusive support for national champions). In my judgement, the decisive factor here is the quality of government, because with low-quality government Russia will repeat the experience of the 1990s—that is, capture of regulators by business, where legislation is not observed and, as a consequence, competition works towards negative selection.

To create institutions that can facilitate state investments, what is needed is a different plan of institutional development—one associated with the refinement of the mechanisms of strategic planning, as well as an active state role, through public-private partnerships and state companies, in the sectors that form the backbone of the economy. All of this requires a transition to *long-term thinking* from decision-makers and from the various interest and stakeholder groups that influence strategic decision-making.

The third institutional variant (“popular capitalism”) alone has, at the time of this writing, the only meaningful *existing* institutional channel of the three—to wit, the placement of money deposits in banks, and especially in large state banks. However, getting this money into real investments is made difficult by instruments such as percentage guarantees on deposits (with returns on deposits by Russian citizens significantly exceeding the returns of which Russian industry is currently capable in borrowing this same money). To move in this direction, then, what is needed is significant strengthening of the institutional investment sector—including the accumulative pension system, pension funds and insurance companies—and also improved opportunities for direct entry by Russian citizens into the stock markets, which requires changes in certain mechanisms of shareholding, stock offers, access to information and so on (including regulations on dividend policy for large and/or state companies).

There is, in my view, one additional channel that can serve as an outlet for money from the population into investments in the context of the

general disinclination of the population to participate in the stock market or engage with the accumulative pension system—specifically, direct taxation of the population, with the possibility of introducing selective taxes in which the taxpayer uses his or her own rubles to effectively vote in favour of one or another direction of development. This, of course, is a form of withdrawal of money from the population, but with due consideration for popular opinion—something that could inform the quality and goals of investment development.

For the third investment vector, the decisive factor is the level of institutional trust—that is, the trust of the Russian people in the institutions operating in the country. When there is a high level of institutional trust, positive consequences are evidently possible—including, the introduction of a significant (legalised) monetary mass, and indeed an inclusive policy process that incorporates the views and preferences of the population into the long-term development questions of the country. Of course, in the opposite context of low institutional trust, there is a high probability that there will be misuse of the money of the population, and indeed that there will be an exodus of private savings into the black market.

Given the relative bargaining power of groups representing demand for different institutions, the dominant trend in Russia over the medium term will likely be a movement towards increased “state capitalism”, with attempts at compromises with “private capitalism”, as well as the parallel development of separate institutions to involve money from the population in the financial markets. Such compromises may be possible if there is greater inclusion of the population in the accumulative pension system, expansion of the decision-making powers of the regions (see Chap. 5 on Federalism) and a transition to the aforementioned direct taxation of the population (which would activate participation of the population in decision-making). At the same time, to offset or counter the possible negative consequences coming from the increase in the magnitude of the state capitalist vector (including the erosion of property rights), complex institutions like public-private partnerships and closed joint stock companies may be used for various infrastructure investments and projects.

If Russia is not successful in developing the appropriate institutional mix—in particular, if it is unable to mitigate the dominance of the state capitalism vector—then, in the context of increasingly scarce government resources, a pivot to protectionism and isolationism is quite probable. This could involve various semi-open forms of expropriation by the state and effective nationalisation of some (or parts) of the large companies, with

the goal of subsequent resale for purposes of raising additional capital. Evidently, this scenario would have significant long-term negative consequences for the institutional system of Russia.

PATH DEPENDENCE AND THE PROSPECT OF LONG-TERM INSTITUTIONAL TRANSFORMATION⁶

Transforming the types of institutions required for successful economic development in Russia necessarily goes well beyond a transition to an investment-driven model. And here analysis of long-term trends in Russia's transformation demonstrates that the central problem for Russia lies not in the sources of investments, but rather in the country's path dependence problem. In other words, the key question is whether Russia can overcome—or move outside of—its present trajectory of low institutional effectiveness. This inertia is strengthened or consolidated by the “resonance” of the extractive institutions that were created in the period of abundant oil rents, as well as by the cultural characteristics of Russia's informal institutions.

In my view, moving beyond this path dependence will require Russia to look at the resources that can help to wholly *reposition the country in the world*. Aside from the country's obviously significant oil and gas potential, there are three types of resource potential (or “plays”, as it were) that could have a non-trivial impact on Russia and the future of its economy: first, the country's human potential (i.e. the existence of highly qualified human capital and talent); second, Russia's territorial potential (as the largest country in the world); and third, the national military-technical potential—a manifest inheritance of the USSR as an empire of global import, and one that remains wholly relevant in global strategic and economic competition this century.

There is an easy consensus among Russia's elites to the effect that Russia's future development could well be based on high-quality human capital. The quality of this human capital finds affirmation in the regular outflow of brainpower from Russia and the active use of Russians in innovation development in Europe, the USA, Canada, Israel and several other countries. Of course, betting on human capital requires that the country once again become prestigious and attractive, in institutional terms, for top talent, and that there be appropriate work for highly qualified people. By these markers, the Russian economy, which over the course of many decades has been oriented towards oil and gas, has been fairly primitive—and increasingly so in the post-Soviet period. *Bref*, the attractiveness of the

country for highly qualified human capital is undermined by the extant dominance of extractive institutions, a major consequence of which is the emigration of world-class talent.

Institutional exclusion is no less important a driving force in Russia's brain drain than the fundamental primitiveness of the Russian economy. Of course, this is a vicious circle: to retain human capital in the country, Russia must create inclusive institutions, and yet the demand for inclusive institutions in today's Russia is very weak, as these must come from highly qualified human capital, which is itself being ousted from the country. This does not mean that such a strategy of institutional development cannot be divined, but only that the construction and execution of the strategy will be complicated.

The second potential—the territorial one—entails the repositioning of Russia as a global transit point or hub. This would not only be a new Great Silk Road but would also include necessarily the possibility of transpolar transportation (e.g. the revitalisation of communication and transportation on the Northern Sea Route) and the reclamation of new territories—for instance, in the Arctic shelf, leveraging high technology (see Chap. 13 on Russia's Arctic Strategy).

On its own, the use of territorial potential would not guarantee a transition from the present rentier economy and extractive institutions to inclusive ones. (In principle and theory, Russia's territorial potential could also be realised through extractive methods alone—in the extreme, for instance, by leasing or renting out Russian territories for, say, waste disposal.) A pivot to the use of territorial potential via inclusive methods would also be extremely difficult because of the depopulation pressures with which the country is struggling in cities not only beyond the Ural Mountains but also beyond the Volga River (see Chap. 23 on Population and Migration). The development or reclamation of large territories beyond the Urals and in the Far East would be exceedingly complex. Conversely, the activation of a positive, “inclusive” vector of territorial development would require fiscal decentralisation to the regions and the creation of national and regional institutions of development aimed at the reclamation of territory via high-quality human capital.

The third potential for Russia—military-technical potential—was not in the strategic foreground prior to 2014, given the significant expenditures associated with the preservation of armaments inherited from the Soviet Union. And yet the rapid deterioration of relations with the West and

the start of local wars led not only to huge additional investments Russia's military-technical potential but also to the display of this potential for the country and world—most prominently in the Middle Eastern theatre. Can this potential be used to reposition Russia? This is a difficult and controversial question. On the one hand, this potential could increase the strategic importance of the country and would force others to reckon with or countenance Russia's interests in global decision-making (see Chap. 12 on Foreign and Defence Policy). On the other hand, heavy investments in the military-industrial complex could come at the expense of investments in other areas of the economy, thereby lowering the attractiveness (or perhaps soft-power brand) of the country and otherwise suggesting that Russia is not genuinely interested in the development of human capital and a peaceful and productive future.

The conversion of the military-technical potential to the economic sphere and to an economic logic—that is, using it for economic growth—may be possible through the sale of arms or military services (which can be difficult, considering the competitive geopolitical footprint of Russia), or, in extremis, through the receipt of revenues from certain controlled territories, which appears highly improbable. In institutional terms, such a move would require an increased role for the state in the economy (the formation of a system of state capitalism) in concert with private-public partnerships (closed national ones or open international ones). Extractive institutions would be most probable in this context, but the possibility of converting military technologies into civilian ones, thus producing fundamentally new products, means that we cannot exclude the prospect of inclusive institutions.

The construction of a Russian future on the basis of any of these three potentials would strongly influence not only the national complex of institutions and the direction of change within these institutions but also the ability of Russia to break from its extant path-dependent trajectory such that it may occupy its appropriate place in the global division of labour. Such a break is possible through the development of a long-term national strategy of societal transformation and institutional development—as distinct from the fashionable idiom of mere legislative reform that is so dominant in the present ideology of institutional transformation. For starters, any real national strategy for institutional reforms in Russia must create new models of national health care and education. And the new institutions must develop incentive structures that bring together the long-term goals of the state with those of the private sector. For now, with the

exception of the accumulative pension system, I cannot think of any existing Russian institution that has the hallmarks of a truly long-term project.

The development of such a plan of institutional reform and the creation of incentives for long-term planning must be accompanied by political and policy movement in at least a few other directions—something that is critical for the efficient use, absorption and reproduction of Russia's human capital. Given Russia's powerful informal institutions and cultural inertia, education policy is extremely important, for it is uniquely able to gradually change these informal institutions. Examples of such processes of informal institutional transformation—including those that followed the fall of the Berlin Wall—suggest that the length of time required for serious cultural change is approximately 40 years, although meaningful results may appear within as few as 15–20 years.⁷ Of course, culture often changes far more slowly than laws. And yet the evolution of Russian culture is critical to the effective operation of even Russia's best laws—that is, informal institutions must act in support of, and also be confirmed by, effective formal institutions.

Another direction of institutional transformation must be the amendment of the national social contract. In other words, the bases of the political regime in Russia must be changed. For in the absence of both democracy and high-quality human capital in the economic markets, there cannot be demand for appropriate and effective institutions. Moreover, we can hope or even expect that increased demand for high-quality human capital in the markets will allow for gradual intensification of the national demand for new species of political institutions.

All these directions of transformation are, of course, interrelated. In my view, changing, say, the national goal from that of fostering military superpowerdom to that of Russian territorial-spatial development may involve complex cultural changes that include a growing willingness and capacity within the Russian population and among officials to abstain from ready-made solutions, to take risks by investing more and to build partnerships at all levels. Territorial development, for example, is considerably more enticing than military-industrial development to many regional elites as well as for private enterprise. Such a choice of direction would certainly require growth in the size of private capital. The concomitant decision to invite investments from the population would require that cultural problems related to the development of long-term thinking be addressed, along with efforts to enhance Russia's "bridging social capital"—that is, the trust and cooperation among heterogeneous groups and people in Russian society.

In effect, overcoming Russia's path dependence problem is possible if there is movement along the "arc" of available resources. This would involve consistent and gradual displacement of antiquated solutions in favour of demand for high-quality human capital as the decisive factor for transformation: from "intellectual manoeuvring" within the confines of the military-industrial complex, through spatial development, and finally to the dominance of high-quality human capital in the national economy and in Russian politics. To be sure, this path will take several decades. But in the words of the famous Soviet and Russia satirist, Mikhail Zhvanetsky, "He who wants to get everything all at once ends up with nothing – and gradually so."

NOTES

1. Worldwide Governance Indicators (<http://info.worldbank.org/governance/wgi/index.asp>); Global Competitiveness Index (<http://www.weforum.org/issues/global-competitiveness>); Transparency International (<http://www.transparency.org/research/cpi/overview>).
2. North D. et al. (2009) *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge, U.K.: Cambridge University Press.
3. Acemoglu D. and Robinson, J. (2012) *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown Business.
4. In this part of the chapter, we use materials produced by various Russian institutes and experts for the 2015 Sochi Investment Forum.
5. Here and below, the estimates are based on the Ministry of Economic Development's economic forecast for 2015 (<http://economy.gov.ru/en/home/>).
6. In this part of the chapter, I use material gathered by the working group on the preparation of the structure and fundamental directions of the "Strategy for the Social and Economic Development of the Russian Federation to 2030", working under my direction between June and September 2015.
7. Alesina A. and Fuchs-Schündeln N. (2005) *Goodbye Lenin (or Not?): The Effect of Communism on People's Preferences* (No. 11700). Cambridge, Mass.: National Bureau of Economic Research.

Russian Federalism

Irina Busygina

IS RUSSIA A FEDERATION?

Russia is not, at the time of this writing, a real federation. This is the only conclusion that can be drawn from the institutions that structure the relations among the country's 85 regions¹ and the federal centre in Moscow, and from the low degree of political and economic autonomy enjoyed by the regions. Of course, given the size of its territory and its demographic diversity—including its multinational makeup—there will always be a degree of formal and informal decentralisation in Russia. However, such decentralisation does not make the country a federation proper (see Chap. 32 on Regional and Local Government).

Should Russia become a bona fide federation? Answer: In the absence of a competitive political landscape and a developed party system (see Chap. 8 on Political Parties and Parliament), federalism as a constitutional form in Russia would eventually lead to anarchy that would end with the disintegration of the country or, in the alternative, would provoke a reaction that leads to a political recentralisation that is far more acute than is the case today.

If the federal form is so complex and risk-laden for Russia today, why might it still be necessary for the country? Is the risk justified? Indeed, the

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risk is justified because the alternatives to real federalism in Russia are, on the one hand, disintegration into several smaller constitutional formations or, on the other hand, a renunciation of democracy and the standing up of an empire with ad hoc governance and extremely high administrative costs and inefficiencies.

WHAT IS FEDERALISM?

Federalism involves a process of institutional “bargaining”, enshrined in the constitutional contract, between two or more levels of public power—typically one central and two or more regional jurisdictions. Federalism fixes the relationships between central and regional organs of powers and administration on the basis of a protected division of powers and specific degrees of self-administration or self-government for different groups and/or territories within a unified political system. (In some sense, federalism involves the exhaustive division of national sovereignty between the federal and regional governments of a country.²) As the late Canadian federalism thinker Ronald Watts wrote: “[T]he essence of federalism as a normative principle is the perpetuation of both union and non-centralisation at the same time.”³

For now, Russia, like all the former Soviet states, remains a unitary state. Critically, *there is no experience or culture of federalism in the former Soviet space*—so even a transition to a federal order, as commended in this chapter, remains an exercise in the counterfactual. As such, although the Russian constitution enunciates clear federal principles, this does not automatically make the Russian state federal—that is, what is most important is the effective character of relations between the centre and the regions, and the extent to which the political autonomy of the different levels of government is assured in practice. This means that, under the same formal Russian constitution of 1993, different types of political regimes—and different degrees of democracy and federalism—may exist, and indeed have existed, in practice.

Federalism is not a self-supporting or self-sustaining process—that is, it needs a framework of conditions and guarantees in order to function properly. This includes formal constitutional arrangements for effective relations between the centre and the regions (balance of power and also conflict mediation), but also a viable system for channelling public interests and other principles of democratic society. Indeed, the experience of many stable federations suggests that so-called integrated parties have

often emerged to support the relationships between the politicians of one level and those from other levels of government. Other important factors supporting federalism include respect for the rule of law, reasonable trust among the different levels of government (even as these governments may compete among themselves), and, to be sure, an independent constitutional court that mediates political disagreements among levels of government, including through the affirmation of constitutional protections for regional governments (see Chap. 31 on the Judicial System).

RUSSIAN FEDERALISM BEFORE PUTIN

For the founders of the Soviet state, federalism seemed inevitable, even if not desirable. It was a means of pacifying or taming nationalist passions and energies across the huge territories absorbed after the 1917 revolution and the subsequent civil war. But the Soviet Union was a federation in form only—for instance, through the presence of quasi-state institutions in the regions, as well as a bicameral national parliament. In actuality, it was characterised by a high degree of centralisation of executive power and a strict hierarchy of administrative structures.

At the start of the 1990s, the choice of a federal state structure was commended to post-Soviet Russia by the effective absence of serious alternatives. The federal centre in Moscow was weak, and the regions were undergoing a process of chaotic decentralisation. Federalism was the only constitutional form that could preserve the territorial integrity and unity of the country (note that the “Federal Agreement” was signed in 1992—that is, *before* the implementation of the 1993 Constitution). However, the Russia of the 1990s could not properly reckon with the “federal challenge”, just as it could not reckon with the “democratic challenge”. President Yeltsin’s way of doing political business was to invest in direct, personalised relations with regional executives, including through political favouritism. Informal institutions, arbitrary rules and the general caprice of the game overwhelmed and undermined the new formal institutions, or otherwise filled the existing institutional vacuum.

The new system of federal-regional arrangements put regional elites on a steep learning curve. New conditions of autonomy gave these regional elites significant experience of self-government, which manifested itself peculiarly in the search for independent paths of survival and growth in a post-Soviet, post-communist Russia. Agreed norms of intergovernmental relations were developed, involving compromises between the interests

of the centre and the regions. This practice was evidently novel for Russia, but began—slowly but surely—to approximate a federal process.

Unfortunately, the hope that federalism, with its systemic checks and balances, would shield Russia from abuse of power turned out to be ill-founded. In practice, abuse of political power and breaches of human rights grew, especially in the regions. In most of the regions, the consolidation of political regimes occurred not on the basis of democratic practices, but rather through authoritarian strategies. The term “feudalisation” entered the Russian political lexicon, reflecting the emergence of regional “feudal” lords who undertook to monopolise the administrative and financial resources of their jurisdictions. As such, federalism in Russia did not strengthen the openness of Russian society or the permeability of the political system, but instead led authorities at different levels of government to disengage from close cooperation with one another (vertically and horizontally). Regional elites kept their distance from the federal government, and neither of these levels paid close attention to what happened in the municipalities. By the end of the 1990s, then, Russia’s political decentralisation had reached such an extreme that the centre had exhausted practically all its levers of influence on the regions. Moscow began to be seen by regional elites as a quasi-outside actor.

PUTIN’S REFORMS

The reform of federal relations undertaken by President Putin at the start of the 2000s was multidimensional and underwent several iterations. Its core elements were the introduction of the post of an authorised representative of the President, created by presidential decree (order), in the federal districts (*okrugs*); significantly increased federal intervention in the regions; the reform of the Federation Council (the upper chamber in parliament); and, finally, legislative harmonisation to bring regional legislation into line with federal legislation. On the whole, the reforms, which also worked their way into Russia’s economic framework, served the goal of weakening the regional elites and concentrating administrative and financial resources in the hands of the federal bureaucracy.

Putin’s second term was marked by further centralisation and a broadening of the measures for federal intervention in the regions. On September 13, 2004, he announced new approaches to state administration in the context of the fight against terrorism. (This was shortly after the Beslan school attacks.) Putin articulated the need—and this was reflected in a law

passed by the Duma—for a transition to a new method of executive power formation at the regional level, where executive heads would be selected by regional legislative assemblies based on the recommendations of the President. For all practical intents and purposes, this was a transition to a mild-form centrally controlled appointment process—something rare in other federal states, where governors, if appointed, do not fully control regional executive power.

The cancellation of direct elections for governors shrunk the national field of political competition and turned regional executives into agents of federal power. In this new system, governors subordinated to federal power, which in turn controlled multiple levers to punish or reward them. The main demands from Moscow were loyalty, the delivery of electoral results “ordered” by the centre, and the assurance of political stability in the regions. Beyond these agreed boundaries or terms, the centre gave the regional governments broad freedom of action. Moreover, regional governments had, and continue to have, powers to enlarge *marge de manoeuvre* by leveraging information asymmetries—that is, by not providing the centre with full information about local matters, or even via disinformation. But in the end, critically, access to redistributed wealth bolstered (consolidated) the unity of the national political power vertical and the mechanisms of allegiance.

This state of affairs is highly reminiscent of imperial times in Russia. And yet, to this day, no degree of internal systemic pressure could provide the requisite life-energy to the multinational Russian state if it were to run counter to the interests of regional elites. As such, the “empire” constantly works to incentivise regional elites to contribute to the stability of the centre by restricting political competition and by making appointments into the elite on the basis of personal loyalty to the central administration.⁴ Not having sufficient resources for total control of the regions, the empire is forced to allow elements or degrees of non-centralisation. This, however, is not to be confused with conscious or even strategic decentralisation, and instead consists in *degrees of indifference* about, or toleration of, certain activities of the regions outside the parameters of agreement.

These later Putin reforms led, in institutional terms, to a strictly latent or dormant Russian federalism. In August 2011, the authors of Russia’s “Strategy 2020” proposed to reinstate the election of regional governors and to replace the current appointed city managers with mayors elected by the population.⁵ In their view, the system of the power vertical was ineffective, even if they remained apprehensive that populists and nationalists could well be elected in the regions.⁶

After several days of street protests triggered by the December 2011 legislative elections, then Prime Minister Putin announced the return to the erstwhile elections of governors (subject to a presidential filter) and the potential direct election of members of the Federation Council by the population (which existed in Russia between 1993 and 1995).⁷ The new law on the selection of regional chief executives was signed by President Medvedev on May 2, 2012. The law established that gubernatorial candidates must undergo a process of municipal scrutiny—that is, the so-called municipal filter, laid out in regional law, involving the collection of supportive signatures from at least 5 per cent to 10 per cent of regional deputies. Having said this, with the exception of one election in Irkutsk, there has to date not been a single incumbent candidate who has, over the last 4 years (49 campaigns), lost a regional election to a non-incumbent candidate.

FEDERALISM AND RUSSIA'S MODERNISATION

Any meaningful policy reform in a country as big and diverse as Russia invariably affects the relations between the centre and the regions. In the short and medium term, political reforms will, in all likelihood, exacerbate the problems of territorial administration, and any potential improvement in federal-regional dynamics can only be expected in the long run, after a period of prolonged uncertainty and a number of crises. Any return to increased federalism—either as a result of democratic transformation or as a reaction to economic crisis and the limited resources of the centre—will doubtless lead to a period of political instability in the regions, up to and including heightened risks to the territorial integrity of the country. If federalisation threatens the territorial integrity of the country, then this will be used by opponents of democratisation as an argument for a course correction away from democracy. In other words, successful democratisation in Russia and, in concert with this, federalisation, requires time and investment of significant economic and political resources, and comes with serious risks.

Let us stress that any reforms would surely weaken the centre and its ability to control the state of affairs in the regions—at least in the short and medium term. Evidently, the need to keep the centre (Moscow) strong and legitimate will be constant. And in the event of excessive expenditure by the centre of its political and economic resources and levers of influence on the regions, Russia would return to the situation of the 1990s and its historical dynamic of decentralisation-cum-recentralisation.

CAN A BONA FIDE FEDERATION BE BUILT IN RUSSIA (AND HOW)?

The simplistic paradigm of zero-sum federal games that was supported by many Western experts in the 1990s—“less to the centre, more to the regions, or vice versa”—turned out, alas, to be unwise and untenable for Russia in practice. Stable federations function not on the principle of “either-or”, but rather on the principle of “and-and”—a strong centre and strong regions. In the Russian case, the huge territory of the country explains why it will always require a given degree of decentralisation—that is, why a strictly unitary order is impossible. Of course, as mentioned, such decentralisation does not have any conceptual relationship with federalism *per se*.

Fortunately, the fundamental institutions of federalism are already outlined and enshrined in the Russian Constitution of 1993. Large-scale institutional reforms are therefore not necessary for the construction of authentic federal relations. For now, the restoration of gubernatorial elections—although in itself insufficient—would be a step in the right direction, as would a return to the direct election of deputies to the Federation Council. But what is really fundamentally important to the credibility of Russian federalism is the provision of *guarantees of federalism*—in particular, fair elections, inter-party competition, and an increase in the role of parliament and the Constitutional Court.

Of course, even with these federal guarantees in place, Russian federalism, structurally and spiritually, is controlled by two key factors: first, the high level of inter-regional disparity—that is, wealth imbalances among the regions, requiring regular redistribution via the centre, which means that a Russian federation would objectively always preserve a certain degree of centralisation (see Chap. 32 on Regional and Local Government); and second, Russia’s ethnic regions (see Chap. 6 on the North Caucasus).⁸ These ethnic regions cannot be ignored. Let us recall that in the 1990s, the rhetoric of federalism served to cover up and justify sporadic, if not chaotic, decentralisation processes involving massive appropriation by the regions of the functions and powers of the federal centre. Inter-ethnic differences assumed a political character, such that the electorates in the ethnic regions were mobilised through slogans about independence for their respective regions.

Federal reforms and the concomitant weakening of the centre would lead invariably to the return of ethnic mobilisation, starting in the republics.

To counteract this possible course of events, an *ethnic federal model* may be one of the most promising scenarios for Russia's new federal-regional arrangements, and indeed the price that would have to be paid for the preservation of the unity of this very large, multinational state. However, choosing this model would mean that the entire political system would have to be organised such that ethnic minorities trust the federal government and are reassured by conscientious obligations that the ethnic majority takes upon itself vis-à-vis the minorities. Here, of course, the link between federalism and democracy is apposite, as the necessary degree of confidence from the national or ethnic minorities in the undertakings to which the majority contracts can likely only obtain in the context of a more democratic system.

NOTES

1. Of the 85 “regions” (i.e. “subjects”, in Russian constitutional vernacular), there are 22 republics, 9 krais, 46 oblasts, 3 federal cities, 1 autonomous oblast, and 4 autonomous okrugs.
2. Studin I. (2014) *The Strategic Constitution: Understanding Canadian Power in the World*. Vancouver: UBC Press, 20.
3. Watts R. (1999) *Comparing Federal Systems* (2d ed.) Montreal: Ithaca, 6–9.
4. Busygina I. and Filippov M. (2009) “The Problem of Compulsory Federalisation.” *Pro et Contra*. 13(3–4), 125–38.
5. See Chap. 23 by Starodubrovskaya I. et al. <http://2020strategy.ru/>
6. http://gazeta.ru/politics/2011/08/18_a_3737589.shtml
7. http://www.gazeta.ru/politics/2011/12/15_a_3928774.shtml
8. Heinemann-Grüder A. (2009) “Federal Discourses, Minority Rights, and Conflict Transformation.” *Federalism and Local Politics in Russia*. Ross C. and Campbell A. (eds.). New York and London: Routledge.

The North Caucasus

Irina Starodubrovskaya

SETTING THE STAGE: RUSSIA'S MOST UNIQUE THEATRE

If asymmetrical federalism remains topical in Russia, then it applies most directly to the complex North Caucasus region. (As Irina Busygina demonstrates in Chap. 5, “federalism” itself is still a work in progress in post-Soviet Russia.) The North Caucasus is distinct from other Russian regions in multiple ways—for some observers, because of its deeply archaic nature, the adherence of most of its population to Islam, its susceptibility to conflict and the prevalence of violent social practices. Of course, others might contend that there is little that is fundamentally unique about the region, as clannism, corruption, limited upward mobility and a predisposition to violent dispute resolution are present in many parts of contemporary Russia.

The truth, of course, lies somewhere between these two camps. The North Caucasus macro-region is indeed very different from most other Russian regions, though it is not internally monolithic: the larger constituent republics are Dagestan (population of approximately 3 million) and Chechnya (population of 1.4 million), while the smaller republics, each with populations of less than 500,000, are Ingushetia and Karachay-Cherkessia. Multiethnic (with Avars, Dargin, Kumyks and Lezgin)¹ and

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very Islamised, Dagestan is different from the ethnically homogeneous and more traditional (though also Islamised) Chechnya and Ingushetia.

The Northeast Caucasus, which includes these three republics, is different from the Northwest Caucasus, which includes Kabardino-Balkaria, Karachay-Cherkessia and North Ossetia-Alania. The most distinct province is Stavropol krai, which is culturally much closer to other Russian regions, and with diverse values and ethnic groups often colliding due to regular migration into the province.

For purposes of public policy, no less important than the particularities of North Caucasian societies is the need for these not to be supplanted by, or enmeshed in, myths and stereotypes that have been built up over time in the Russian public, political and policy understanding. For now, public policy in contemporary Russia is in many ways still based on unsophisticated representations of the North Caucasus—perceived as depressed, primitive and inhabited by a passive population. Indeed, the key defect of present-day Russian public policy in the North Caucasus is that it does not take account of the not inconsiderable internal resources of the region—to wit, the existence of centres of economic development and modernisation (*including* in the underground economy), an active, young and increasingly urban population, and also a proper culture of dialogue in the resolution of conflicts.

Let me argue that there are 4 dominant Russian policy stereotypes concerning the North Caucasus that must be corrected in order to make the national policy approach to the region more effective.

Stereotype 1: The North Caucasus is a depressed region with high unemployment and no resources for investment.

The policy approach taken by Moscow envisages the development of the Caucasus through private investment from outside the region, accompanied by significant state guarantees as compensation for the high investment risks. Moscow presumes that such development—starting with the regional tourism industry—can create jobs and otherwise decrease the tensions in the region.

In reality, this policy approach has run into serious problems of implementation. While external investments (external to the Caucasus, but still largely Russian) have flowed into some of the North Caucasian provinces—first and foremost, to Stavropol krai and the republics of the Northwest Caucasus—these investments have been unable to substantially change the economic situation on the ground. For its part, the Northeast

Caucasus has seen no real external investment projects, except those launched strictly for demonstration purposes and delivered by politically motivated local oligarchs.

What happened? The push to deliver large-scale projects with outside investment significantly increased conflict between private investors and local residents. Lands proposed for the projects belonged to local residents. Thus, instead of giving local people sources of survival and reason for hope, the investments were perceived by locals as a threat—that is, as presenting the prospect of expropriation, as well as the sudden need to compete with new and more powerful economic actors. This led, predictably, to public protests, resulting in the delay or termination of certain projects.

Bref, the North Caucasus is not a stagnant, depressed region. But if the economic processes in the North Caucasus are highly differentiated across the different territories, and if there are some areas of economic dynamism and modernisation in both the official and underground economies, then it follows that external investors will often enter into competition with internal projects. In this context, the chief problem of the macro-region is not so much its depressed state and unemployment as the lack of protection for entrepreneurs and workers, the precariousness of labour and income, and the absence of social guarantees combined with widespread black market activity—not to mention ineffectual institutional mechanisms for insuring against agricultural risks. There are therefore no long-term economic incentives for private investors, resulting in a public preference for quick-spend projects and conspicuous consumption. Economic policy for the Caucasus should, as a matter of priority, operate on the basis of the *internal resources of the region*, including support for local economic projects at the level of municipal governments, the removal of barriers to accelerated economic development based on the self-organisation of local communities, support for the existing tourism infrastructure, as well as for small- and medium-sized businesses and start-ups. In addition, a policy of careful legalisation of the underground economy must be developed, based on negotiations and consultations with local business groups and associations.

Stereotype 2: The core problems in the North Caucasus are ethnic in nature or, interethnic tensions are the foundation of the conflict potential in the region.

In Russian public policy, ethnicity is typically taken to be something fixed and unalterable. The conflicts in the Caucasus region are therefore

seen as springing inevitably from the very nature of things, as it were. There really is no precise strategic framework to address the ethnic issues in the region, but instead a deference to fairly general sociological concepts and constructs, the creation of state organs responsible for national policy in strictly functional terms, as well as organs trading in extreme forms of intervention, including through the use of force in conflicts that reach a “hot” stage.

What are the real factors that strengthen or weaken interethnic tensions in the North Caucasus? In other words, what are the factors that are so poorly appreciated by Russian policy-makers? First, power and property are the foundation of nearly all the conflicts among ethnicities in the region. The absence of normal democratic mechanisms for transitions of power, the absence of strong property rights protections, and especially the non-susceptibility of land questions to regulation, all lead to heightened tensions. Land problems are aggravated by the extant moratorium on the privatisation of land.

Land conflicts are most common in Dagestan and Kabardino-Balkaria, where highly discretionary administrative decision-making in respect of land and abuse of power are relatively common. In Dagestan, flatlands are also used for the migration of highlanders (*gortsy*), which leads to increased tension between incumbent residents and newcomers or settlers, along ethnic lines. At the same time, in Karachay-Cherkessia, where land reform was undertaken and there is, exceptionally, no moratorium on land purchases, such conflicts are less common—although, notoriously, there were extremely sharp (*prima facie* interethnic) internal conflicts over political power in Karachay-Cherkessia at the end of the 1990s.

Second, many of the interethnic conflicts—once again, interethnic in form, but essentially about land—are the long-term consequence of the deportations of the Stalin period and the less well-known compensatory repopulations in which the residents of other territories were resettled by force to take the place of deported people. When those deported returned, tensions erupted among conflicting claimants—most famously in the Prigorodny district of North Ossetia and in lands in and near Dagestan’s Khasavyurt district, where Chechens are trying to re-establish the Aukhovskiy district (which existed prior to their deportation). Of course, these are very complex problems, for which the path to resolution is not yet apparent.

Third, in the cities of the North Caucasus—especially in the larger cities of Chechnya and Dagestan—ethnic identity is starting to fade due to

the high rate of urbanisation. It is being supplanted by urban identity, and often by Islamic identity. This transformation is not fully appreciated and incorporated into policy—that is, the new supra-ethnic or extra-ethnic character and consciousness of these urban communities are not taken into account.

To regulate interethnic conflicts, the central policy task must be the resolution of land questions. This is a manifestly complicated task, given that significant parts of lands in dispute have already been allocated via corrupt practices (with these allocations having acquired “legal” status). At the same time, these lands are, in many cases, used according to customary law and unofficial norms, on the basis of decisions made by local communities.

Migration also causes vexing policy problems. In Dagestan, for example, there are more than 200 unregistered population settlements as a result of highlander migration to flatlands. Questions have been raised about settlement legalisation, against which the residents of flatlands began to protest publicly from the start of the 1990s. Of course, nationalist movements tend to exploit all these problems—typically without any interest in a peaceful resolution.

Policy here should be restarted from scratch. For it is impossible to change the present general equilibrium in land relations—specifically, to bring these into the legal sphere—without a rapid escalation of conflict. An alternative process should review land relations on a case-by-case basis—that is, gradually, on the basis of compromises and non-zero sum solutions, leveraging the authority of the state, but without direct pressure on the relevant parties. Given that regional-level officials themselves often belong to particular ethnicities and may even represent the interests of these minorities in a conflict, this process should be curated by the authorities at the level of the North Caucasus federal district (*okrug*), which sits between the federal and regional levels of Russian government.

Stereotype 3: Intra-Islamic conflict in the North Caucasus is linked to the fact that the Islam that is traditional to this region is unlike the radical variant imported from Arabia (the adherents of which are, or will become, terrorists or supporters of terrorists).

Russian public policy is based, on the one hand, on unconditional support for so-called traditional, official Islam and, on the other hand, the suppression of alternative Islamic currents. This suppression may some-

times include maltreatment of people based on their appearance (e.g. women in hijabs and men with beards). The results of this policy approach are multilayered. Terrorist activity in the North Caucasus has been largely crushed, including through special operations and law enforcement clamp-downs. However, it is not obvious that this outcome is sustainable—for one thing, there has been a massive exodus of North Caucasian youth to Syria. Ultimately, the price that will be paid for this outcome is high: bloated state security forces, massive infringement of citizens' rights based on people's religious beliefs, marginalisation of large numbers of young people and underground radicalisation as a reaction to violent repression.

What is the reality of the relationship between conflict and Islam in the region? First, there are important internal factors driving North Caucasian youth to reject traditional Islam in favour of more fundamentalist strands of Islam—specifically, the profound shifts in the nature of social relations in the North Caucasus, as well as intergenerational conflicts, the erosion of traditional sources of authority in the region, social protest and the tendency of the younger generations to search for a fairer system of rules and norms in the absence of social and professional upward mobility.

To be sure, not everyone in the North Caucasus who has switched to Islamic fundamentalism is radicalised. Instead, the believers arguably fall into three categories, depending on how they see their place in contemporary society, how they frame their future goals and how they wish to achieve these goals: first, Muslims who wish to live according to Islam at home and in their family life—observing all the rules, but without pursuing any political goals; second, Muslims working to stand up a caliphate in the long run—by peaceful means, and only when the necessary conditions are in place; and third, Muslims who wish to establish the caliphate immediately, by violent means.

Evidently, having a uniform policy approach for all three categories, based on force and involving massive infringements of citizens' rights, can only lead to increased protest and radicalisation—even if the use of force is manifestly legitimate against the third group, and especially against those involved in violent or terrorist activities, or who call for armed struggle against the Russian state. Overall, however, public policy in this area must be transformed significantly, putting at its core not pressure by force, but rather measures to advance civic agreement and consensus. Some attempts were made at such a policy posture in various Caucasian republics, but they were inconsistent and ultimately negligible in impact. The revised policy settings must be based on the following: sustained protection of

the principle of freedom of conscience in Russian law (as guaranteed by the Constitution); development of civic dialogue, including intra-Islamic dialogue; the formation of robust institutions for the reintegration of fighters into civilian life; the creation of credible civilian control and oversight over force operations; guarantees against religious discrimination in employment and mobility rights; and inclusion of Muslim youth in various processes of socialisation (discussion groups, civil control initiatives, etc.).

The informal use of Sharia law in the North Caucasus is also a sensitive matter. There is a widely held belief that Russian laws do not work in this part of the country because, among other things, they are being displaced by Sharia. In reality, it is the other way around. To the extent that the courts in the North Caucasus are corrupted and largely serve the interests of clans and other elite groups, alternative legal systems have acquired popular legitimacy. To be sure, the suppression of these systems has not led to the supremacy of secular law but instead to the strengthening of legal uncertainty and the “right of the strong”. It follows that while Sharia courts should not be suppressed, guarantees in respect of the life and health of Russian citizens should be fully protected, and attempts to violate these guarantees on the basis of Sharia law should be stopped. Full legalisation of Sharia courts would be ill advised, as this would risk generalising Sharia beyond civil affairs and could increase conflict among different strands of Islam seeking to occupy “official” Sharia courts and positions (e.g. judges). *Bref*, the primacy of Russian law must be strengthened by increasing its efficacy and fairness—a major challenge today in the North Caucasus, given that the professionalism of Russian courts in the region is low, while corruption is widespread.

Stereotype 4: Clannism and corruption in the North Caucasus can be overcome by political will, using the legal mechanisms currently available.

This was the governing ideology of the last major “cleansing” campaign targeting abuse of power, when a large number of criminal charges were laid against members of the political elites in the region—especially in Dagestan. That campaign and past similar campaigns succeeded in breaking the link between guerrilla fighters (militant groups) and North Caucasian elites, leading to a weakening of the armed or underground resistance.

However, given the structure of Caucasian societies, such initiatives cannot and do not have enduring systemic effects. The overwhelming

majority of the residents of the North Caucasus tend to solve their problems with the help of clan-related mechanisms, including through influential relatives. Although the growth of cities and economic development of the region will gradually break down the universality of these mechanisms, this will not happen quickly.

Clan-based practices and corruption are common to North Caucasian elites. The high degree of “closedness”—largely preserved from the Soviet period—is particularly characteristic of elite groups in Dagestan and Kabardino-Balkaria. The situation is different in Chechnya, where the elites changed as a result of social shocks and wars, and where the principle of “loyalty in exchange for social mobility” remains *du jour*. In the Chechen context, of course, authoritarian rule militates against the recruitment of the most talented and capable into the elite. Indeed, the most educated youth try to leave the republic.

The character of the North Caucasian elites not only freezes the development of the republics but also holds the federal government hostage, with huge grants from Moscow to the region accumulating primarily within the elite groups. Cuts in these grants from Moscow, if significant, could lead to social disturbances, provoked by these very groups. This leads to the vexed question of whether there should be a wholesale “renewal” of the North Caucasian elites as a prerequisite to regional development. Free elections in the North Caucasus could to some extent improve the situation, and yet they would almost certainly result in the reshuffling of the same political class. As such, the key “real” opposition to the old elite is an Islamised youth, whose integration into political power would come with its own—granted, sometimes exaggerated—political risks.

Large-scale educational programmes, along the lines of the selective *kadrovyy rezerv* programme launched by the Russian government in 2008, are critical to the establishment of a community of highly talented North Caucasian youth—to create a future regional elite—with modern skills and a broad outlook, capable of developing their own views on the challenges and strategic prospects of the North Caucasus. These programmes should include the study of modern administrative methods, immersion in new cultural contexts, linguistic training and also practical exposure to the cultures, economies and public systems of other countries, at both the national and local levels.

Bref, the fundamental weakness of contemporary Russian policy settings in the North Caucasus consists in the fact that they do not recognise and do not properly account for the internal resources of the region. Incorrect

diagnosis leads to incorrect and often counterproductive policy moves in practice. Lowering the conflict potential, introducing democratic political mechanisms and providing credible guarantees of rights and freedoms for people from all religious and ethnic groups—all of these are imperatives that must be part of a revised institutional framework that can leaven the inevitable problems in the North Caucasus as it transitions to a more modern and urbanised society, and that forms the basis for proper use of the human, economic and natural potential of the region.

NOTE

1. In Dagestan, Russia's most ethnically heterogeneous republic, there are dozens of ethnicities, the largest of which, according to the 2010 national census, are Avars (almost 30 per cent of the republic's population), Dargin (17 per cent), Kumyks (15 per cent) and Lezgin (13 per cent). These groups include many smaller ethnicities that were reclassified and artificially united with the ethnic Russian majority from the 1930s in order to increase the size of larger groups and their claims to political dominance in the republic.

The Social Structure of Russia

Simon Kordonsky

DEFINING RUSSIA'S SOCIAL STRUCTURE

By social structure, I mean the structure of Russia's various social groups and the relations among them. Historically, the social structure of Russia has been described in terms of concepts and constructs provided by the state itself—through the national system of laws determining socially significant groups and, to a limited degree, the relations among these social groups. These groups typically included civil servants, military personnel, law enforcement, judges, political representatives, municipal officials and bureaucrats, and Cossacks—all of whom served the state.

Now, let us call these groups the official (state) estates. The essential role of the members of the official estates is to neutralise various species of threats to the state—in other words, to provide or underwrite defences against these threats. It follows that the list of the present official estates in Russia is determined according to the threats identified by the state: military personnel are meant to neutralise external threats, law enforcement internal threats, civil servants threats related to social justice violations and so on. The members of the official estates serve the state and underwrite the members of the other estates. For their service and underwriting, the members of these estates receive salaries, allowances, bonuses and different types of monetary compensation. Moreover, they receive

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administrative rents—that is, revenues from the status derived from affiliation with the state.

There are also, of course, the so-called servant estates inherited from the former USSR, such as government employees, pensioners, fixed-wage workers, those tried and convicted, and those limited in rights. In addition, there are the new, post-Soviet Russian servant estates like merchants and what may be loosely described as “free professionals”—a grouping that includes everyone from artists and writers, to prostitutes, priests and lawyers. Finally, there are a significant number of people who have already lost, are losing, or are just starting to acquire estate status—for starters, migrants, but also various types of homeless people, vagabonds and anomalous individuals. The members of the servant estates serve the members of the official estates in their difficult task of neutralising threats.

The sources of income for the servant estates are as follows: pensions (for pensioners); salary and status rents (for state employees and fixed-wage earners), market revenues and profits (for merchants), honoraria and grants (for members of the “free professions”), benefits, stipends and scholarships (for dependents), and donations, rations, allowances and criminal rents (for outcasts and criminal groups).

Let us suppose that the basic relationships that tie the various estates together within the social structure of post-Soviet Russia are mutual service and underwriting (provision), for which the members of the estates receive income—that is, wages, bonuses, salaries, pensions, pay, benefits and so on. Moreover, the type of income received is an indicator of one’s belonging to a given estate, and also an indicator of the estate that one underwrites or serves. As such, a government employee serving the state bureaucracy—for instance, a doctor in, say, the medical department of the office of the Russian president—fundamentally differs from a government employee serving the law enforcement agencies. Specifically, the type of income (wage, salary, pension, etc.) together with the source of the income determines the social status of the person. And this is arguably the major difference between Russia’s society of estates and modern estate societies in other countries, where what matters is the size of the pay and not its type and source.

The entire population of Russia is officially divided into estates by the state (not through self-identification). This means that each person belongs to a particular estate or otherwise to a group of people bereft of estate certainty (and therefore subject to compulsory “estatisation”,

often formally by the Federal Migration Service). Indeed, every person in Russia can be assigned to several estates concurrently—that is, one can be a pensioner, a government employee and also a member of a “free profession” all at once. However, to the Russian citizen, these classifications and the resulting overall social structure are largely non-transparent and often poorly understood. And because self-identification is not supported by the state, the resulting absence of clarity in basic social relations breeds both protest and *anomie* within the population—that is, uncertainty among citizens in social space-time and related constraints (moral and other) on their personal strategies.

Bref, it is exceedingly difficult to obtain reliable information from individual Russians about their particular estate affiliation. Surveys and statistical methods—especially those that tend to affix only one social status to every individual—are limited in their ability to describe the Russian social order. In this chapter, then, in order to describe the national social structure, we propose a model based on the highly idealised but well established post-Soviet estates and the relations among them, as determined by the manner in which the population of the country has been divided by the state.

THE STARTING CONDITIONS FOR A MODEL OF RUSSIAN SOCIAL STRUCTURE

We start from the fact that there exist explicit and implicit state standards of underwriting and service, from which it follows that the number of officials and servants in the country must be proportional to the number of people underwritten and served. As such, the number of state employees (doctors, teachers, etc.) is calculated on the basis of the normative (regulatory) requirement, which, in turn, is produced from the size of the “servable contingent”. We assume that analogous relationships are inherent in the social structure as a whole, and we work from the overall population and the approximate distribution of this population among the estates in order to represent or describe the national social structure.

The official population of Russia is 149 million people, each of whom is assigned to a set estate (by the state) or is considered without estate—that is, subject to compulsory “estatisation”. (For those with more than one potential estate affiliation, we assume that a single dominant estate membership applies.) We divide the estates into 4 clusters. The first cluster comprises the government and official estates, which include state

and municipal civil servants, military people, law enforcement, judges, deputies and Cossacks. For their service, members of the government estate receive salaries, bonuses and administrative rents. The basis for their common grouping is that the members of these estates all serve the state.

The second cluster includes state employees, pensioners and fixed-wage earners. We call this grouping “ordinary people” (perhaps even “commoners”, as it were). The state does not associate the members of all the other estates with ordinary people (commoners). The specific property of ordinary people consists in the fact that the majority of the members of this cluster constantly participate, in various ways, in elections—that is, unlike the members of other estates, they vote. These ordinary people receive pensions, benefits, wages and status rents (for rank, proficiency, title), stipends and so on. And the basis for combining these estates into this single cluster is the fact that the state guarantees the members of these estates income in the form of pensions, minimum wage, benefits and payments.

The third cluster is the “merchants” (or the “active population”)—that is, tradespeople and members of the “free professions”. The sources of income for this cluster include market incomes, honoraria and status rents (including rents from membership in business associations such as the Russian Union of Industrialists and Entrepreneurs). These estates are grouped together because their members’ incomes are generated by the members themselves.

Finally, the outcast (marginalised) population—the fourth cluster—includes the tried, the convicted and those limited in rights (e.g. conscripts in the Russian army), as well as “non-estate” migrants. Their sources of income include rations, begging and rents accruing from criminal status. The basis for combining these estates into one group is the fact that membership therein typically results from activities of the members of the official (state) estates that, in neutralising various species of threats, use administrative and criminal-legal sanctions against those people who threaten the state or the citizenry. As these sanctions are deployed, people lose their estate certainty (i.e. they stop being officials, commoners or entrepreneurs) and instead form the marginalised population. The sources of income for the members of this group are generated either by the state (rations) or by the members themselves—that is, as criminal incomes and rents accruing from criminal status.

NUMERICAL ASSUMPTIONS FOR THE MODEL OF SOCIAL STRUCTURE

The estates are tied to the social structure through mutual relations of underwriting and service. Within each estate, part of the membership, in the case of the official (state) estates, underwrites other estates, or, in the case of the non-state estates, serves other estates, and receives income from this underwriting or service (salaries, wages, fees, etc.). The size of this part of the membership is proportional to the number of members of other estates who are underwritten and served—that is, if estate A has x members, and estate C has y members, then the percentage of people belonging to A and serving C is proportional to the ratio of x to y (i.e. x/y).

The number of people (including family members) in each of the 4 clusters of estates is, today, as follows: government—7.7 million people; ordinary people—99 million; active population—22.7 million people; and outcasts—20 million people. The members of the official or government estates receive salaries for underwriting the activities of the other estates. A portion of the members of the official estates underwrite the activities of the official estates themselves. The number of members of the official or government estates is 7.7 million people, or 5.1 per cent of the population. The number of members of the government estates underwriting their own activity is 5.1 per cent out of 5.1 per cent—that is, exactly 0.26 per cent of the population. These people are, for all practical intents and purposes, the top decision-makers in the state or government. The other members of the government estates underwrite the other estates. Moreover, the number of members of the government estate actually underwriting a specific other estate is proportional to the membership of the estate that may be underwritten.

This means that ordinary people (the state employees, pensioners and self-employed who together comprise 66.3 per cent of the population) are underwritten by 66.3 per cent of the members of the government estates (who themselves comprise 5.1 per cent of the national population)—that is, by 3.39 per cent of the population, or 5 million people. A portion of the ordinary people receive pensions, wages and other benefits for serving ordinary people themselves—for instance, teachers in schools where the students are the children of state employees and the self-employed. The portion of the representatives of ordinary people who serve ordinary people is 66.3 per cent of 66.3 per cent (or 43.9 per cent of the national population)—that is, 66.3 per cent of ordinary people serve themselves.

This means that 33.7 per cent of ordinary people (commoners) in Russia serve other estates. Moreover, the number of ordinary people involved in serving the active population cluster is proportional to the size of the active population and comprises 15.2 per cent of ordinary people. A portion of the people associated with the active population and merchants serves (receives incomes from serving) the active population itself. These are professional entrepreneurs, including players in the financial markets. This portion represents 15.2 per cent of 15.2 per cent—the footprint of this cluster in the national population—that is, 2.31 per cent. The remaining 12.9 per cent of the active population serve the other estates. A part of the marginal population, proportional to its share of the overall population, serves the outcasts themselves—that is, 13.4 per cent of the marginal population receives income (alms, rations and shares) from serving itself. This means that 1.79 per cent of the population of Russia is comprised of full-time outcasts and those for whom the fundamental sources of income are criminal operations.

Building from these hypotheses, we can now model the population of the country as the totality of the estates serving and underwriting the activities of other estates (Table 7.1).

What does the table tell us? The second row shows the distribution of the representatives of the government estates, depending on which estates they underwrite.

Members of the government estates, receiving salaries (and other incomes, including administrative rents) for underwriting the state itself. These are people who personify the power structures of the state. They represent 0.26 per cent of the country's population—that is, 0.39 million people or, with a coefficient of relatedness of 2.7, 1,63,276 people, which seems, prima facie, close to reality. (A coefficient of relatedness of 2.7 means that the number of family members among the members of any estate is 2.7 people.)

Members of the official estates (military, civil servants, law enforcement, judges, deputies) receiving salaries for underwriting ordinary people (pensioners, state employees and the self-employed). These are bureaucrats who provide the payments for pensions and benefits, audits for wages and control work and living conditions. They comprise 66.3 per cent of the total number of official people (3.39 per cent of the national population), 5 million people or, with the coefficient of relatedness, 1.879 million people.

Members of the official estates underwriting the active population (entrepreneurs, merchants and "free professionals"). These are members of law

Table 7.1 A model of the social structure of Russia

<i>Social clusters and types of income</i>	<i>Members of the official estates (7.7 million people, or 5.1% of the population) (salary/wages)</i>	<i>Pensioners, government employees, fixed-wage earners (99 million people, or 66.3% of the population) (pensions, benefits, salary)</i>	<i>Entrepreneurs-merchants, "free professionals" (22.7 million people, or 15.2% of the population) (market income, honoraria, grants)</i>	<i>Non-estate people (20 million people, or 13.4% of the population) (rents, criminal rents)</i>	<i>Total</i>
Government (wages, bonuses, administrative rents)	The core state—members of the official estates (0.26% of the number of people employed by the state, receiving pay for serving the state; 391,863 people)	Members of the official estates, receiving wages for underwriting ordinary people (3.39% of the population, or 5,072,321 people)	Members of the official estates, receiving salary for underwriting entrepreneurs and merchants (0.78% of the population, or 1,163,538 people)	Members of the official estates, receiving salary for underwriting (controlling) non-estate people, those being tried, etc. (0.69% of the population, or 1,024,836 people)	5.1.2%
Ordinary people (wages, pensions, benefits, rents from estate status)	Ordinary people earning salaries, pensions, benefits for serving the state (3.39% of the population, or 5,072,321 people)	Commoners earning salaries, pensions and benefits for serving ordinary people (43.93% of the population, or 65,656,716 people)	Ordinary people earning salaries, pensions and benefits for serving the entrepreneurs (10.08% of the population, or 15,060,977 people)	Ordinary people receiving pay, pensions, benefits for service and criminality, on the strength of their own marginalisation and criminalisation (8.88% of the population, or 13,265,590 people)	66.28%

(continued)

Table 7.1 (continued)

<i>Social clusters and types of income</i>	<i>Members of the official estates (7.7 million people, or 5.1% of the population) (salary/wages)</i>	<i>Pensioners, government employees, fixed-wage earners (99 million people, or 66.3% of the population) (pensions, benefits, salary)</i>	<i>Entrepreneurs-merchants, "free professionals" (22.7 million people, or 15.2% of the population) (market income, honoraria, grants)</i>	<i>Non-estate people (20 million people, or 13.4% of the population) (rations, criminal rents)</i>	Total
Market players (market incomes, honoraria, rents from estate status)	Entrepreneurs earning incomes from serving the state (0.78% of the population, or 1,168,538 people)	Entrepreneurs earning income from serving ordinary people (10.08% of the population, or 15,060,977 people)	Businessmen and merchants earning income from serving businessmen and entrepreneurs (2.31% of the population, or 3,454,833 people)	Merchants earning income from serving outcasts and criminals (2.04% of the population, or 3,042,990 people)	15.2%
Outcasts (rations, criminal rents and incomes)	Outcasts and criminals earning income from serving the state (0.69% of the population, or 1,024,836 people)	Outcasts and criminals earning income from serving ordinary people (8.88% of the population, or 13,265,590 people)	Outcasts and criminals earning income from serving entrepreneurs (2.04% of the population, or 3,042,990 people)	"Enemies of the people": professional criminals earning income from serving outcasts and criminals (1.79% of the population, or 2,680,242 people)	13.39%
Total	5.12%	66.28%	15.2%	13.39%	100%

enforcement and the civil servants controlling business activity, issuing licences and other permits for activities, collecting taxes and carrying out repressive measures against those who violate government regulations. They represent 15.2 per cent of the government people, 0.78 per cent of the national population or 1.2 million people (430,940 with the coefficient of relatedness).

Members of the servant estates underwrite the outcasts (the tried, convicted and rights-restricted, and as well as migrants). These are military people, law enforcement, state civil servants and judges who are paid to control the behaviour of different types of outcasts. They represent 13.4 per cent of the government people (0.69 per cent of the overall population)—that is, 1,024,836 people or, with the coefficient of relatedness, 379,569 people.

Now to the third row of the table, which describes ordinary people and their relations with the other clusters of estates.

Members of the estates comprising the ordinary people, employed in, and receiving salaries, pensions and benefits for, serving the state. These are the teachers and doctors in state organisations and institutions. They also comprise retired former state employees, military and law enforcement, and individual pensioners. They represent 3.39 per cent of the national population, 5.07 million people or, with the coefficient of relatedness, 1.9 million people.

Members of the estates comprising ordinary people, receiving pay for serving these same ordinary people. These are pensioners and also family dependents of state employees and pensioners. They represent 43.93 per cent of the population, 66 million people or, with the coefficient of relatedness, 24.3 million people.

Members of the estates comprising the ordinary people, receiving pay and benefits for serving different types of entrepreneurs and “free professionals”. These are the fixed-wage earners working for merchants, employees of the “free professionals”, private schools teachers and the personnel in private hospitals (and including pensioners who work informally for entrepreneurs and “free professionals”).

Members of the estates comprising the ordinary people employed in the service of outcasts (such as those formally unemployed) and also criminal groups. These are teachers and doctors, the migrant service, fixed-wage earners in the Ministry of Internal Affairs, as well as people receiving pay for serving different types of criminal businesses, from gambling to drug trafficking. Through direct interaction with the types of people they serve, these people inevitably marginalise and criminalise themselves.

Now to the fourth row—to wit, entrepreneurs, merchants and “free professionals” in their relations with other groups in the population.

Entrepreneurs, merchants and “free professionals” receiving incomes and honoraria from serving the government estates. These are people who fulfill different types of state procurement contracts, as well as jurists, media workers and “free professionals” serving the state. Priests may also be included here to the extent that they provide services to the state—say, in the military sector. Moreover, this group includes “oligarchs” who enjoy a government protection racket, not to mention representatives of small and medium-sized businesses, whose activities would be impossible without state procurement or a protection racket from the members of the government estates.

Entrepreneurs, merchants and “free professionals” earning income from serving ordinary people—pensioners, state employees and fixed-wage earners. These are people who have networked trading systems, stores and small-scale production operations catering to mass demand and serving people living on pensions, salary and benefits. We may add to this group tutors, private doctors and nurses, officially “estatified” (given estate classification) as working in institutions and organisations, but otherwise selling their service for honoraria to the representatives of the ordinary people.

Entrepreneurs, merchants and “free professionals” earning income from serving their own. This is the elite within the business class, oriented towards serving people with high income and demand levels. This group includes economic and financial consultants, owners of boutiques and expensive stores and their affiliates, businessmen, those offering “elite” services, bankers, and “expensive” doctors and healers of various kinds.

Entrepreneurs, merchants and “free professionals” earning income from serving outcasts and criminals. These are owners of stores and affiliates serving particular “zones”, not to mention suppliers of illegal goods and services (prostitution, drugs and weapons, and stolen and counterfeit goods), contrabandists and smugglers.

Let us now review the fifth and penultimate row of the table—that is, the marginalised and criminalised population in its relations with other estate groups.

Outcasts, criminals and those with restricted rights, earning income from serving the government estates. These include conscripts (paid rations and allowances), migrants, those informally employed in the service of government institutions, as well as bureaucrats in these organisations, bandits and contrabandists (working under “protection” underwritten by the

official estates), providers of illegal services and goods used by members of the official estates, and many other categories of people living from criminal incomes.

Outcasts, criminals and those limited in rights, earning income for serving ordinary people. These are amateur and professional thieves, as well as small-time bandits, who fleece (to the extent possible) state employees, pensioners and fixed-wage earners—all associated, in the public consciousness, with the criminal subculture.

Outcasts, criminals and those restricted in rights, serving businessmen, merchants and “free professionals”. These people have a share in the incomes of merchants and traders, providing them with a “defence” of their activities and taking part in these activities as executors of commercial operations that cannot be undertaken legally.

Outcasts, criminals and those restricted in rights, providing the types of activities peculiar to these communities. This is the elite of the underground world—its authorities and rule-makers, through whose activities the subculture is reproduced. They have weight in every illegal activity and operate according to the principles specific to this sphere of social justice. *Bref*, they work according to the law of thieves.

Political Parties and Parliament

Alexander Kynev

WHAT IS A RUSSIAN POLITICAL PARTY?

Russia has a unique but exceedingly weak party system. The system is weak in terms of the political and policy influence of the parties and the general absence of “thick” organisational networks for parties at the local or grassroots level across the country. In the majority of the country’s 85 regions, there are few active local party organisations, with the exception of the short periods during which actual election campaigning occurs. To the contrary, Russia’s parties are very dependent on the state. Moreover, the national and regional parliaments have little effective power.

THE 1990s TO THE 2000s: FROM CHAOS TO STATE CONTROL

Until the 2000s, there had been no law on political parties in Russia; instead, various norms (e.g. on elections) from the laws of the former Soviet Union were used. From 1995, the Russian law on social organisations was the main legal framework for political parties, which meant that any social organisation could participate in elections as a de facto “party”. As a consequence, labour unions, veterans’ and women’s associations,

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and even associations of sanitation workers could independently promote candidates for the national elections in 1995. On June 17, 1995, then, 258 social associations and 15 unions had the right to participate in Russia's nation-wide parliamentary elections.

In 1997, a new juridical form—the “sociopolitical organisation”—was introduced into Russian law. In order to preserve the right to participate in elections, organisations were required to re-register with the Central Election Commission in their new capacity (as “sociopolitical organisations”) and enshrine in their charters wording to the effect that their primary purpose was political activity. As a result, in the 1999 State Duma (lower house) elections, the number of political parties participating decreased significantly—that is, only 139 “sociopolitical organisations” had the right to participate.

The most radical changes began under the presidency of Vladimir Putin from 2000. State regulation of political parties became far stricter following the passage in 2001 of the law on political parties. Federal control over the regions increased. The law stated that only parties had the right to independent participation in elections. In order to obtain this new status (eligibility), a group had to have a minimum of 10,000 members, as well as offices in more than half of the country's regions. Regional parties were forbidden, as were parties based on gender, ethnicity or religion (e.g. the Christian Democratic Party). In 2002, betraying the extreme weakness of the parties in the country, independent candidates dominated regional parliamentary elections. (Candidates put forward by the parties represented only 14.3 per cent of all candidates; among these, only 9.6 per cent were elected.) Party lists were used in only 4 regions in those elections, with the majoritarian system used in the others, and with significant variations in voting rules from region to region. By the end of 2003, there were only 44 parties in existence. A peak of 46 parties was reached in 2004. From July 13, 2004, the regions were required to select no less than half of the deputies of their parliaments by proportional representation.

The structure of the parties implied a strict hierarchy, with candidates standing in regional elections requiring approval of the central leadership. At first, there were no articles in the law on political parties about the rights of ordinary party members. The leadership of the parties had the de facto right to exclude any members in order to control the party majority. Between 1990 and 2000, then, there was not a single case of a democratic transition in power in any serious Russian party—that is, no case in which the internal opposition to a party leadership came to run

the party. Indeed, the leaders of all the leading parties today have essentially held their posts since the early 1990s. Changes in party leadership have only occurred in the event of problems in the relationship between a party and the government or a retreat of the *de facto* leader of the party to the *arrière-plan* (e.g. “Just Russia” in 2011–2013, and “Yabloko” from 2008).

Today, Russian parties are formed from the top down, starting at the centre in Moscow, with the federal organs subsequently establishing regional parties for the national parties. Once registered in Moscow, each party must, within 6 months, register its offices in no less than half of the country’s regions. Law enforcement agencies actively check party data, attempting to identify lists of people supporting specific political parties. The registration requests of regional offices can be rejected by regional authorities for very small inaccuracies in party data. For their part, the federal organs that control the activities of the parties (i.e. the Ministry of Justice and also certain departments of the Presidential Administration) are directly answerable to the Russian president. It follows that the President has the exclusive, effective right to decide whom to admit to elections—that is, the said law on parties has essentially become a law on state control of political parties.

Alongside Russia’s “executive vertical” system and other verticals (in the security structures, the corporate structures and other spheres of Russian life), a “party vertical” has been created, where the final word in any party lies effectively with its central leaders. To be sure, a key argument of the defenders of this system is that the party vertical serves the unity of the country and its internal integration and coherence. This includes the idea that, symmetry oblige, the regional parliaments should be no less dependent on the federal centre than the regional governments.¹

From 2003, half of all regional deputies were required to be nominated by the regional offices of the national parties. As the activities of the majority of parties in the regions had, by the early 2000s, a fictional character, this move led unsurprisingly to the rapid commercialisation of the parties. Having obtained the right to nominate candidates, the regional offices were still without resources. Other actors—for starters, business leaders—did have resources, but did not have the right to nominate candidates independently. Demand and supply predictably intersected: local business groups and other leaders began to effectively purchase from parties the right to run in regional elections. The consequence has been the constant migration of candidates among the parties, often even among parties

of opposing philosophies. When there is conflict with one's new party, a candidate may reach an agreement with another party. A single business group may thus control several parties at once and run candidates with different political ideologies in different regions. Consider that United Russia (the "party of power") and Just Russia could not be more different between themselves, and yet one can readily find within each of them former members of all past and existing parties (from former liberals to former communists and nationalists). It follows that the parties often have no motive for their activities other than to obtain rents or benefits from leasing out the right to nominate candidates during the short periods of election campaigns.

As electoral experience under the new rules increased, the federal centre began to establish additional control mechanisms in respect of the nomination of candidates. In 2005, electoral coalitions—that is, parties coordinating election activities, including joint candidates or common political programmes or platforms—were prohibited. Only registered political parties could run. The threshold of nation-wide support necessary for existing parties to obtain seats in the State Duma was raised from 5 to 7 per cent. Registration of candidate lists became far stricter and more cumbersome, involving lengthy processes of verification of party data by regional election commissions. In 2006–2007, for instance, it was no longer possible to include in party lists candidates belonging to other parties. And deputies were prohibited from changing parties over the course of the life of a single parliament.

Amendments in December 24, 2004 increased the minimum number of party members required for official party status to 50,000 (and no less than 500 per regional office). Parties that, on inspection, did not meet the new standard were, from September 1, 2007, required to dissolve. One such dissolved party was the Republican Party of Russia. (In 2011, it obtained a successful decision from the European Court of Human Rights on the illegality of its dissolution and of the dissolution procedure.) By the start of 2006, there were only 37 parties left, and only 15 parties by the end of 2007.

In 2001, state financing was introduced for parties that received at least 3 per cent of the nation-wide vote in elections for the Duma. By contrast, those that received no more than 2 per cent were punished financially and required to pay for any broadcasting time and newspaper space used up to that point. Therefore, all parties, apart from the 4 that made it to the Duma in 2007, became debtors. In lieu of paying debt, most of the

parties chose to dissolve. Only 6 parties remained, while a seventh—Right Cause—was created under the manifest patronage of the Kremlin to replace the Union of Rightist Forces (URF), the Democratic Party of Russia (DPR) and Civilian Power. Many members of the dissolved URF, including the late Boris Nemtsov, were unable to find a place in this new party. In July 2009, the debts of the losing parties were eliminated by massive backdating amendments to the tax code. By that time, however, all the debtor parties, except Yabloko and Patriots of Russia, had already self-liquidated.

Against the backdrop of the dissolution of most of the “old” parties between 2004 and 2011, and, with the said exception of Right Cause, there was no successful attempt to create a new party. The *prima facie* new parties of this period—Patriots of Russia, as well as Just Russia—were simply the result of changes in the nomenclature of extant state-controlled organisations.

The purpose of this system of increasingly restricted competition and managed “party-ness” is plain: if the proportion of deputies selected by party lists grows, and parties are themselves directly dependent on the federal state that controls their activities, then the control of the authorities over the parties entails indirect control over the deputies themselves. *Bref*, even weak representation is viewed as a species of threat to the existing political system and order.

The next reform was a gradual transition, during the presidency of Dmitry Medvedev (2008–2012), to a fully proportional (not mixed proportional) electoral system. From 2007, this system was introduced for the elections of deputies to the Duma. (By 2011, 11 of the then 83 regions had transitioned to the fully proportional system of regional parliamentary elections.) In 2009, a law on the mandatory use of party lists for municipal elections was introduced. Citizens were boxed into voting for a very limited number of approved parties.

The Presidential Administration of Medvedev tried to strengthen the “system” opposition—that is, the opposition deemed legitimate by the state *qua* having the status of a registered party, and that, in its most useful manifestation, plays a non-negligible policy brokerage and intra-executive conflict resolution role in the Duma. In the context of his constitutional majority (enjoying more than two-thirds of total seats in the Duma), Vladimir Putin (then prime minister and leader of United Russia) also worked to strengthen other players, thereby reducing his own dependence on the “party of power”. To this end, amendments were made to ensure

that the political work of party representatives in the regional parliaments was officially considered full-time work. Moreover, the minimum number of party members was lowered slightly—to 45,000 (from January 1, 2010), and then to 40,000 (from January 1, 2012).

REFORM 2012: RENEWED “DE-PARTY-SATION” OF ELECTIONS

New opposition forces grew under Medvedev in the context of the 2009–2010 economic crisis, with social media and external events like the Arab Spring also playing a catalysing role. Discontents in the Russian electorate started massing around the few remaining alternative parliamentary parties. One of the leaders of the unregistered (“non-system”) opposition, Alexey Navalny, led a public campaign advocating “voting for any party except United Russia”. As a result, even in the context of mass falsification (at least 15 per cent, by my own estimates and those of several others²), United Russia obtained less than 50 per cent of the total vote.

The crisis, as well as the return of Vladimir Putin as President, led immediately to the dismantling of a number of elements of the political system of the 2000s. In order to avoid a concentration of protests around the few remaining parties, extreme measures were taken—principally through amendments to soften party and electoral law. In the 2012 law on amendments to the federal law on political parties, the number of party members required for registration was decreased to 500 people. Still, all other repressive norms, including the multistep registration of parties and the requirement for party offices in no less than half of the regions, were preserved. As intended and expected, the number of parties began to grow rapidly (in May 2012, there were 16, and 74 by the summer of 2015). Indeed, parties began to be registered with amazing rapidity—many without apparent leaders but otherwise bearing names that closely resembled those of existing parliamentary parties. At the same time, however, a number of well-known opposition parties were refused registration, including the party of the allies of Navalny, which after several registration rejections changed its name to the Progress Party. Registration for party candidates was also simplified: they were no longer required to collect voter signatures for registration. For independent candidates, the number of required signatures was reduced from 2 to 0.5 per cent of the total number of voters in the electoral district in which they wished to run.

There were also several retaliatory measures taken to target opposition forces, including certain members of Just Russia and the Communist Party who had spoken against the government between 2010 and 2012. These measures included negative media coverage and the launching of criminal investigations (e.g. in relation to the Duma deputies Ilya Ponomarev and Gennady Gudkov from Just Russia, and against Vladimir Bessonov, Nikolai Parshin and Konstantin Shirshov from the Communist Party). This pressure was leavened somewhat by the increase in state funding for political parties (from 20 to 50 rubles per vote in December 2012, and to 100 rubles from January 1, 2015). A number of gubernatorial posts were also offered to opposition members (e.g. Vadim Potomsky of the Communist Party was appointed governor of the Orlov oblast, while Konstantin Ilkovsky of Just Russia was named governor of the Zabaykalsky krai).

Of course, the advent of new parties also meant new initiatives and new politicians who could threaten the established system with more dangerous competition than the old, well-known projects and programmes. As such, after the elections of September 8, 2013, when Evgeny Royzman became mayor of Ekaterinburg and Alexei Navalny came second in the election for mayor of Moscow—the latter earning 27 per cent of the total vote, and more than all the “old system” candidates combined—attempts were made to depreciate the role of formal political parties. The so-called Klishas Law was passed on November 3, 2013, lowering the mandatory minimum proportion of regional deputies who must be nominated by the regional offices of national parties from 50 per cent to 25 per cent. Moscow and St. Petersburg were allowed to do away with party lists altogether and elect their legislative assemblies by single-mandate majority districts. Several provisions of the law on parties from the Medvedev period were removed—specifically those dealing with the introduction of party lists for municipal elections (for the 2014 elections, in 14 of 20 regional centres, the majoritarian system was fully restored). The municipal counter-reform measures included mass cancellation of direct mayoral elections. This eventuated in a shift from a proportional to mixed electoral system for the nation-wide 2016 elections. The parties were thus effectively deprived of “space” in which they could achieve any success, and their role in the political system once again began to decline.

The “old system” parties found themselves under a two-front assault by the authorities and the new parties. But whereas the old parties were already familiar with, and understood the basic grammar of, their

relationship with the authorities, which guaranteed them a minimal modicum of representation, they found in the new parties a threat to their very electoral existence. As it turned out, the 2014 Crimean crisis led to a sudden “rally around the flag” unity between the old parties and the authorities. On May 5, 2015, the law on political parties was amended to cancel earlier privileges accorded to the new parties in respect of their registration process, in order to reinstate the requirement for signature collection and to increase the number of required signatures to 3 per cent of the number of voters in the electoral district in which candidates wish to run—to be sure, the largest such proportion in the history of elections in Russia.

The 2015 regional elections were, predictably, artificially uncompetitive and excluded the new parties in a significant number of cases. Some 39 per cent of the parties that wanted to run and submitted candidate lists for regional parliamentary elections did not make it to election day (due to mass refusals of registration for representatives of new parties). In single-mandate majority districts, 88 per cent of the candidates nominated by parties did not make it to election day, as the parties did not have the “parliamentary party privilege” of registering candidates without collecting voters’ signatures. The use of the “Klishas Law” effectively stopped. The mixed system returned to all 23 regional capitals in which city councils had already been elected, though certain electoral results were cancelled (e.g. in Novosibirsk and Krasnodar), given that cities were forced to change their election rules several times over the course of a single year in order to reflect federal legislative changes.

And so the federal authorities returned once more to the formula of restricted competition and managed “party-ness”. As such, the role of proper political parties in Russia has steadily declined, while the number of socio-political organisations has, conversely, increased based on Moscow’s fear of opposition forces concentrating around a few centres of influence. These dynamics have served the objective of increasing the fragmentation of the newly emerging “non-system” opposition.

Such pendulum-like swings in Russian electoral policy clearly militate against the development of a sustainable party system. Instead of using political parties to help citizens articulate their interests or self-organise (or otherwise provide feedback to power), the state sees parties as vehicles for filtering and controlling the boundaries of the opposition, and indeed to exclude undesirable figures from Russian political life. The net result is the protection of ineffectual state structures and unpopular leaders. (The 2016 parliamentary elections saw the lowest turnout in the country’s

history at 47.88 per cent—a consequence not only of a conscious electoral strategy by the authorities to diminish participation among independent voters but also of the degradation of the party system and conspicuous public disappointment with the electoral options in play.)

FEDERALISM AS A CHANCE FOR THE CREATION OF NORMAL PARTIES IN RUSSIA

The current semi-ephemeral state of the majority of Russian parties begs the question: is it possible to create a bona fide Russian party system, and if so, under which conditions? Undoubtedly, a party system cannot develop normally with the many prohibitions and restrictions in place at the time of this writing. Truly free registration of all proper political parties is absolutely necessary (e.g. making it possible to register by filing a simple application), as is the removal of restrictions on the admission of candidates to elections. Of course, in the absence of such measures, parties simply behave like businesses or are otherwise extensions of the state.

At issue is the very meaning and purpose of political representation in Russia. The Russian Constitution of 1993, adopted in the aftermath of a violent presidential-parliamentary standoff, originally deprived the State Duma of meaningful legislative and representative functions and entrusted the Russian president with nearly unlimited powers. This led to the degradation of public institutions, including electoral processes and free political competition, and the evolution of a “managed” system of party affiliation. It is therefore not surprising that Russians do not trust their parties and that interparty competition today is often reduced to squabbles over seats and mandates, rather than expressing itself through battles over ideas about the future development of the country.

Does this mean that, absent constitutional reform, we can forget about a strong party system in Russia? Let me propose that we must look elsewhere for solutions. First, Russia must implement in legislation, and give new life to, the formal Russian constitutional principles of federalism and the development of local self-government (see Chap. 5 on Federalism). In the 1990s and the first decade of the 2000s, the quality of party networks in the regions was highly varied. In the context of the overall weakness of the party system, the parties were always stronger in regions like Karelia and Irkutsk oblast than in, say, Bashkortostan or the Yamalo-Nenets autonomous okrug. There are many reasons for such regional differences, including the history, culture and quality of local political institutions.

Given the colossal size of the country and the extent of its internal differentiation, to go from nothing to suddenly having strong federal parties is an extremely complicated task. Still, it is fully possible to have regional institutional reform—that is, to strengthen the control and powers of regional parliaments and local councils—within an authoritarian system. Moscow may well be interested in this, as the construction of a system of controls and counterweights at the level of the regions (and especially in the large regions) would be an important factor in weakening the influence of excessively strong governors and, consequently, in strengthening the unity of the country.

In their regular conflicts with the governors, in the 1990s just as today, the regional parliaments and local governments have always appealed to the federal centre—their natural defender, as it were. What is now in question is the readiness of the federal centre, together with the primitive system of “executive verticals” (semi-federal regional autocrats, arrayed in a pyramid), to create an institutionally complex system that is more stable and less dependent on the personal ambitions and caprices of the governors. In the event, even given the present weakness of the federal parliament and the personalised political culture of Russia, the country’s political parties—at least at the regional and local levels—may at last have a higher purpose.

NOTES

1. <http://www.ridus.ru/news/117749.html>
2. <http://arxiv.org/abs/1205.0741>

Russian Media

Ilya Kiriya

THE PROBLÉMATIQUE: RUSSIA'S MEDIA DUALISM

Russian media are often accused of succumbing to state pressure, being an instrument of such pressure,¹ and being excessively dependent on state funding. To this day, however, there has been precious little systematic analysis of how the Russian state, in its post-Soviet incarnation, incorporates the media into the national system of public institutions, and indeed how the state develops and implements public policy in respect of Russian media. Such analysis is, of course, complicated by the dual nature of media in Russia and in many other countries—on the one hand, as a branch of the economy and a market player among many, and on the other as a purveyor of information, interpreter of cultural codes and provider of public goods.²

Even in countries with very low state intervention in the economy, a so-called cultural exception³ has been crafted for the media. As such, public policy on the media and the overall presence of the state in the media sector have, in all countries, been more significant than in other branches of the economy and national life at large.

Russian media are characterised, as with most Russian institutions, by another species of dualism: some of their elements, including commercial advertising, news journalism and the various privately owned media

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properties, are borrowed or imported from Western models, while others, such as relations with political power,⁴ the prohibition on private ownership of certain types of media, the use of media for forceful advancement of government policy and the generally narrow participation of the population in the public sphere, are largely indigenous to Russia.

COMMERCIAL VERSUS PUBLIC INTERESTS

The central element in the dualism of the current media system in Russia is the search for balance between two different models of media funding and general survival—the first commercial, and the second public. The commercial funding model does not, as a rule, allow for the full development of high-quality journalism, and therefore often does not provide Russian society with the best information to make informed decisions about policy and politics. The dependence of this model on commercial advertising revenues leads to the veneration of ratings and viewership statistics. In order to attract an audience, the commercial media must publish or broadcast content that privileges entertainment, which manifestly leads to a lowering of the quality of media as a public good. (The television medium remains *primus inter pares* among all the media in Russia.)

Outside of Russia, on the European continent, after the liquidation of the state broadcasting monopolies in the 1980s and 1990s, public broadcasters began operating according to principles that stressed increased accountability to (political representatives of) the public, but also public funding, state regulation of media content, as well as the regulated entry of new television channels into the market, guaranteed by universal service. Under such a model, the media assumed stricter obligations in respect of content, thereby offsetting some of the pathologies of the commercial model. As such, there could not be a large number of advertisements in the public media (with some channels completely forbidding advertising), which diminished dependence on ratings and allowed for the production of content (including journalistic investigations and public debates) that would be properly useful for society and often expensive to produce.

In most European countries, the coexistence of commercial and public media established a balance between media as commodity and media as public good. What of this balance in Russia? The dualism of the Russian system stems from the fact that, since the breakup of the Soviet Union, Russian “state” media—that is, media meant to advance a species of

the public good—have always been the largest commercial players in the national advertising markets.

During the economic troubles of the 1990s, given its limited resources, the new Russian state, while providing a modicum of financial support, allowed media concerns to earn profits independently, with few constraints. Paradoxically, it was the largest media concerns—starting with the newspapers—that were the first to appeal to then President Yeltsin for financial support, including a freeze on the price of paper.⁵

The state did not obstruct the earning capacity of the media in advertising and did not place restrictions on media ownership in the context of the growing concentration of media concerns and the transition to control by the large oligarchic groups that were able to finance them. By 1996, the majority of the large Russian media were under oligarchic control, with Boris Berezovsky and Vladimir Gusinsky, the largest media owners in the 1990s, openly stating that they did not see media as a business but rather as a political tool.⁶

At the start of the 2000s, the advertising markets began to change sharply: growth in oil revenues anticipated the expansion of media advertising revenues. The fiscal capacity of the state to subsidise mass media increased considerably—a trend reflected first and foremost by the rise in the number of state media entities.⁷ The All-Russia State Television and Radio Broadcasting Company (VGTRK) was enlarged and launched many new channels. A new television holding company of the Ministry of Defence, called “Star”, was created. Significant resources were invested in the management of Russia’s image and brand internationally, including through the “Russia Today” channel, the Orthodox channel “Spas”, and, in radio, “Voice of Russia”. In the print media, the state increased direct funding to one of the country’s biggest publishing houses, Rossiyskaya Gazeta, while Russia’s regional governments established multiple regional newspapers.

Still, Russia’s media dualism has created a situation in which the state allows state-funded media to earn money on the commercial market. In my view, this is due to the fact that the state has never attached robust requirements to the content that is broadcast and produced at state expense. As a consequence, the role of the state in media regulation in Russia has been reduced to creating favourable conditions for the implementation of commercial imperatives underwritten by public expenditure. Furthermore, in the context of the economic crises that started in 2014, the state began to look anew at strategies to save public resources by shifting the burden

of media funding to the advertising market. The state restricted foreign ownership of Russian media and forbade commercial advertising on pay or subscription television, which progressively brought previously privately owned commercial media into the hands of large media groups affiliated with the state, and advertising money from smaller players over to mainstream media principally controlled and owned by the state.

WHICH CONTENT IN EXCHANGE FOR SUBSIDIES?

What are the specific content requirements for Russian television in exchange for receiving state funding? For VGTRK, the key state player (holding company) in the television market, the main requirement is to respect a normative quantum of broadcast hours.⁸ In the rules for granting subsidies for VGTRK, and also for “Channel One” and NTV, it is stated that the subsidies are given for the diffusion of television signals to smaller population centres. The specific items on which state funds may be spent by the various channels are also detailed in these rules. However, there are no similar strictures in respect of the specific content that the various channels are required to provide.

For its part, the television channel “Culture” does not air commercials, subsisting instead through grants from the head company VGTRK. Public Television of Russia (OTR), created by President Medvedev in 2012 for the development of civil society and public education, also does not air commercials, relying exclusively on state grants. This model is closest to the classical conception of public television, even if a detailed description of the requirements that the state, as protector of the public interest, places on such channels is not publicly available. Moreover, viewer ratings for these channels are, at the time of this writing, negligible: “Culture” (Channel “Russia K”) hovers around 1.5 per cent of the daily share of national viewers, while OTR’s share is not measured by the nationally authorised mediametric company (currently TNS Russia). Meanwhile, the state “Channel One” and “Russia-1” together command about a quarter of total daily viewers.⁹

Each year, the Federal Agency on Press and Mass Communications (FAPMC) gives funds, on a competitive basis, to support the production of programmes, websites, print media and other platforms deemed of public value—that is, content having social or educational import or that is consistent with a patriotic upbringing, the protection of maternity and children, the spiritual-moral and cultural values of the Russian

people, and the fostering of tolerance in the fight against extremism.¹⁰ For their part, regional governments give resources on the basis of open calls for subsidies to various forms of media—largely without precise content requirements. The resulting contracts typically involve basic informational coverage of the activities of the regional authorities in question, although the very vagueness of the contracts, with their multiple implied terms, often makes these agreements *de facto* mechanisms for assuring the loyalty of particular media reporting on government. (Within the regions, the quantum of resources spent on such contracts generally amounts to about a third of the total advertising revenue pool of a given region.¹¹)

Of course, the scant clarity of the content and operational (behavioural) requirements for the Russian media space points to a major opportunity for the Russian state to use mass media to strengthen substantially the shaping of socially meaningful content in the country. The development of precise content requirements for state media operating (or deeming themselves to be operating) in the public interest, as distinct from commercial media earning revenues on the open market by creating programmes for mass audiences, is one of the most fundamental challenges of Russian public policy in respect of the media for the foreseeable future. After all, all credible foreign public broadcasters (and perhaps even credible foreign media, more generally) operate in the context of very detailed content requirements from public regulatory instances. Such requirements typically specify the type and frequency (or quantity) of content, as well as the times of airing, with councils comprised of civil society representatives, professors and cultural figures playing a key advisory or oversight role in respect of the requirements. France, for instance, recently began a national reform to remove advertising entirely from public television.

One approach could be to provide state funding to media on a project-by-project basis. Instead of giving money once per year to state-owned corporate behemoths, the state could shape and describe more precisely what it considers to be socially meaningful or valuable content. Each project (television or radio programme, newspaper, website or social media platform, or indeed any media initiative) would be examined and funded according to considered principles of public value (informed by the expertise of an advisory council, as described above). Commercial projects not corresponding to these criteria or principles would not be produced with state money or could otherwise be produced by state-owned channels on a purely commercial basis.

The development of such content requirements would, in a paradoxical sense, create additional accountability for the regulating instances also, as they begin to properly address “market failures”—that is, the provision to the Russian population of content that cannot be produced reasonably under a commercial media model—alongside the extant imperative of budgetary optimisation and rationalisation.

Finally, the state should elaborate general principles of support for local identity—local languages, cultures and traditions—through the media. This would be on the understanding that the existence of truly public media in Russia may be most consequential at the regional levels in order to support region- and geography-specific cultures and values, in concert with a national identity that is supported by the federal media. In the majority of multicultural or regionally diverse European countries, such policies and requirements exist: consider Finland, where the state supports mass media in the Swedish language in regions populated by ethnic Swedes; or France or Germany, where at least one of the public television channels broadcasts local content in each of the regions of the country.

What of social media? In Russia, social media are used mainly as vehicles of interpersonal communication, and still not, for all practical intents and purposes, as a tool of deep civil engagement. Moreover, as a general rule, the techno-deterministic intellectual frames that tend to ascribe huge power to new media are progressively replaced by arguably more realistic theories that, as with the work of W. Lance Bennett and Alexandra Segerberg on connective action, see social media as one of the many tools of community creation, but not a particularly important one.¹² In any event, the Russian state should realise that true public dialogue cannot be created solely by passive reliance on social media and other media platforms existing in parallel with, or alternative to, classical or mainstream media. Media policy in Russia will need to be far more deliberate than that, and the media as a proper “estate” will have to be far more sophisticated and robust in advancing the public interest.

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Religion and the Russian Orthodox Church

Boris Knorre

THE RUSSIAN ORTHODOX CHURCH AND RUSSIA'S NATIONAL-CULTURAL CODE

Russia is a multiconfessional country. According to the Levada Centre, the national breakdown is roughly as follows: Orthodox (74 per cent), Catholicism (1 per cent), Protestantism (1 per cent), Islam (1 per cent), Judaism (1 per cent), Buddhism (less than 1 per cent) and Hinduism (less than 1 per cent). Other religions are listed at less than 1 per cent, while some 5 per cent of Russians identify themselves as atheist.¹ Still, the Russian Orthodox Church of Moscow Patriarchate (ROC), with its many parishes, fancies itself as the core institution of Russian religiosity (41 per cent of Russian Orthodox formally associate with the ROC)². Indeed, the ROC is a socioreligious institution and has significant influence on the sociocultural composition of Russian society, as well as on the Russian mentality.

If Russian Orthodoxy is an institution that is immanent on the national-culture code of Russia, then, without overstating its import in post-Soviet Russia, the ROC is the only national institution that at once provides contemporary Russia with historical-cultural succession to, and continuity from, pre-revolutionary Russia and carries forward the imperial message of the Soviet Union.

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After the breakup of the Soviet Union, the Church was able to operate independently, without pressure from the state, to develop its strategy of engagement with Russian society—something that evidently did not happen in the Soviet period or even before the 1917 revolution. Over the course of the entire post-Soviet period, then, the revitalisation of Church life has been accompanied by the growing conviction on the part of Church leaders about the need for the Church to enjoy universal influence over society and for it to be reconstructed according to a religious-ideological logic.

This logic or general doctrine was articulated in the 2000 ROC publication, “The Basis of the Social Concept of the Russian Orthodox Church”.³ This was followed by the issuance of formal Church documents establishing the position of the Church on sociopolitical questions ranging from human rights to human dignity, business ethics and Russian identity. The general strategy of the ROC became the advancement of the conception of “Orthodox civilisation”, which posited the existence of a special civilisation of communities and promoted specific cultural and ethical norms, a distinct organisational model for society (with its own political, economic and cultural principles), and a deliberate nomenclature of policy priorities in domestic and foreign affairs.

THE FUNDAMENTAL ETHICAL AND SOCIOCULTURAL PRINCIPLES OF “ORTHODOX CIVILISATION”

In general, “Orthodox civilisation”, which the ROC sees as incorporating the concept of “*russkiy mir*” (Russian world), celebrates the values of traditional society—first and foremost, the institutions of family (see Chap. 28 on Family Policy). On this logic, the ROC promotes reproduction and opposes abortion, euthanasia and the use of biomedical reproductive technologies, deeming them an attack on the foundations of humankind (which is created in the image of God). Orthodox ideology emphasises non-acceptance of homosexual marriages, LGBT communities and free sexual mores. And in its defence of traditional values, the ROC attempts to find allies in the Catholic world, as evidenced by the February 2016 meeting between the Patriarch and the Pope in Havana, Cuba. The joint declaration from that meeting stated: “Orthodox and Catholics share the same conception of the family, and are called to witness that it is a path of holiness, testifying to the faithfulness of the spouses in their mutual

interaction, to their openness to the procreation and rearing of their children, to solidarity between the generations and to respect for the weakest".⁴

Formally, Orthodox civilisation stresses the ideals of "self-restraint, prioritisation of the spiritual over the material, including sacrifice and duty over consumption and selfishness; love and justice over the 'right of the strong'"⁵; and coexistence among different cultures and convictions, as well as among different religions. Moreover, the Church has tried to assert for itself the sole authentic guardianship of the classical cultural heritage of Russia and an arbitrating function in respect of the role of culture in structuring the behaviour of Russians. On this logic, the ROC critiques globalisation processes that fundamentally change human culture, including processes that it characterises as "devoid of any spirituality" and "based on the freedom of the fallen man".

In the majority of cases, in its view of the individual, the Church starts from the posture of anthropological pessimism, emphasising not the inherent worth of the person, but rather his inadequacies, alluding to the fact that "the patristic and ascetic thought and the whole liturgical tradition of the Church refer more to human indignity caused by sin than to human dignity".⁶ This conception is premised on the thesis of the aforementioned "fallen man". In Russian theology, then, the ability of a person to make the right choice between good and evil is viewed as highly constricted.

Such an understanding of the nature of man has far-reaching practical consequences in the relations of the ROC to human rights and freedoms, including some of those, like freedom of conscience and human dignity, articulated in various international legal documents (for starters, of course, the Universal Declaration of Human Rights). If the ROC says that it "cannot positively accept a world order in which at the centre of everything is human identity darkened by sin", then the Catholic Church, for its part, does not stress the idea of "fallen man" to the same extent. Instead, the Catholic Church warns against excessive focus on the sinfulness of man, which "engenders a false anxiety of sin and a pessimistic view of the world and life, which leads to contempt of the cultural and civil accomplishments of mankind".⁷ The result is that Catholics relate to concepts of human rights, democratic values and international law with far greater trust (or indeed with far less anxiety) than do Russian Orthodox Christians.⁸

The natural implication of the ROC's overall posture is a rejection of the interpretation of man through the prism of the ideas of the Enlightenment and general opposition to the ideas of humanism and any universality of values. The rejection of humanism by various Russian theologians (and in various ROC documents) entails a certain depreciation or downgrading of the "earthly life", as distinct from the anticipation of "eternal life".

Collective values are privileged over individual ones. To this end, Archpriest Vsevolod Chaplin, one of the major ideologues of Orthodox civilisation, states: "The individual, in advancing his interests, is called upon to coordinate them with the interests of close ones, families, the community, the people, and all of humanity". Chaplin goes on to say that "self-sacrifice and, under certain conditions, sacrifice of other people's lives (in the case of the protection of faith or fatherland), self-restriction and refusal [to exercise] one's rights, freedoms and wealth in favour of the well-being of close ones, the community, and the people—this is the behavioural norm for an Orthodox Christian".⁹

To be sure, the Church's anthropological pessimism spills over into its outlook on economics and politics, which includes a deep scepticism vis-à-vis human entrepreneurship, innovation, initiative, competition and radical progress in general. On the one hand, the Church attempts to fight the cult of consumption and the distractions and seductions of socioeconomic innovation; on the other hand, this defensive posture, when elevated to an absolute norm or diktat, clearly militates against the country's potential for political and economic development.

A number of contemporary studies note that Orthodoxy (Russian Orthodoxy, but other branches as well) is substantially propitious to (and compatible with) a command-administrative economic and governance model—particularly of the socialist type—rather than the development of a market economy. Famously, in this vein, the title of an article by the leading Russian researcher on the sociology of Orthodoxy, Ivan Zabaev, played on Max Weber's "Protestant Ethics and the Spirit of Capitalism"—to wit, "Orthodox Ethics and the Spirit of Socialism". Zabaev argued that the predisposition of the Orthodox sociocultural paradigm to paternalistic models, the primacy of idealistic beliefs over professional pragmatism and the prevalence of a planned economy over free markets together lend themselves to a redistributive system in lieu of a competitive one.¹⁰

The ROC typically opposes the principles of economic competition in their purer forms, seeing these as conducive to aggressive consumerism. Having said this, the "List of Moral Norms of Business Activity", adopted

at the VIIIth World Russian People's Council meeting in 2004, did not attack competition per se. It aimed only to "humanise" business relations (i.e. to make them "partner-like"), to strike a balance between material and spiritual interests and also between the pursuit of commercial profit and the dispatch of one's responsibility to society. In addition, the document sought to restrict the influence of business on politics, stating that "political power and economic power must be divided".¹¹

For the realisation of its social and political ideals, the ROC works to secure the support of the state, which it prefers to see not as a neutral arbiter, but as endowed with a specific "ideological and religious mission, which stretches beyond the bounds of the life of a generation, state, people, and even the earthly world".¹² It follows that the ROC regularly proposes changes to Russian federal laws and often argues for the general necessity of rewriting the Constitution of the Russian Federation. Indeed, many federal laws have been amended to reflect ROC proposals, including the 2007 law on freedom of conscience and religious associations, the 2011 law on the defence of children from information harmful to their health and development, and the 2013 law on education. The law on counteracting insults to religious feelings was adopted in the same year, expanding article 148 of the Criminal Code (on insults to religious beliefs) and giving religious organisations the right to establish internal (confessionally prescribed) requirements for clergy, religious personnel and other Church employees.

As for the international strategy of the ROC, it is fair to characterise it as state messianism,¹³ positing the return of Russia "to its historical role as the patron and protector of the Orthodox Churches" in countries with an Orthodox majority just as in countries with significant Orthodox minorities. This messianism lends itself the idea of dividing the world according to territorial-religious principles, where states whose cultures were formed under the "decisive influence" of the Orthodox religion and "Orthodox civilisation"—in particular, Bulgaria, Belarus, Greece, Cyprus, Moldova, Macedonia, Russia, Romania, Serbia, Montenegro and Ukraine—are united. Within this civilisational community, the ROC also relates to the "diasporas of Orthodox peoples, as a rule, living in the countries of Western tradition" and the people "comprising the denominational minority in their countries of residence, while still constituting stable cultural-ethnic entities".¹⁴

Indeed, in its conception of Orthodox civilisation, the ROC espouses the meaning given to civilisation by Samuel Huntington in his 1996

book, *The Clash of Civilizations and the Remaking of the World Order*.¹⁵ And in its geopolitics, as the researcher Anatoly Krasikov notes, the ROC advocates the creation of (or return to) a bipolar or multipolar configuration of states, in the logic of the “Yalta-Potsdam system”.

As for other confessions in Russia, their present situation in Russia is largely determined by numbers and perhaps even more so the degree of their “implantedness” on Russian soil. Formally, the preamble to the 1997 federal law on freedom of conscience and religious associations not only asserts the “special role of Orthodoxy” but also stresses respect for “Christianity, Islam, Buddhism, Judaism and other religions and creeds, which constitute an inseparable part of the historical heritage of the Russian people”.¹⁶ Nevertheless, the reality of the relationship between the state and the minority religions, and also among the religions themselves, is contradictory. For instance, Buddhists in Moscow were long denied lands for Datsan (Buddhist monasteries). And Muslims in Russia, despite official declarations of goodwill from state authorities and the ROC alike, continue to reject the status of “little brother” vis-à-vis the ROC. Officially, of course, there have been professions of common values between Islam and Orthodoxy, including a general conservatism and the non-acceptance of Western, liberal values.¹⁷ Unofficially, however, relations are not all that peaceable. Russian Muslims regularly draw attention to the problems they experience with the construction of mosques, by conspicuous juxtaposition with the Orthodox churches that often receive state budgetary funds for the construction of their facilities.

Finally, unsurprisingly, in Russian schools, in the context of the “Basics of Religious Cultures and Secular Ethics” course, it is the study of Orthodox culture that is clearly privileged.

WHAT’S TO BE DONE?

The influence of the ROC on Russian society does not, by design, generally fill policy gaps or compensate for the inadequacies of the state. Instead, the Church appeals consciously to existing state institutions, trying to develop a working relationship with many of them, and in the process weighing in on their decision-making.

Of course, without significant evolution of the Church from within—through self-critique, and through greater humanisation of Church dogma—its influence on major national political transformations, and on the Russian mentality prior to this, will be negligible. To be sure, part of

the responsibility for the current state of the Church and therefore for the said evolution, lies with Russia's academic and social institutions, which must make greater efforts to establish a closer dialogue with the ROC, and between the ROC and Russian society at large, in order to find ways to expressly include the ROC in practical processes of national development.

In particular, there must be emphasis on open spiritual educational institutions (e.g. Saint Tikhon's Orthodox University of the Humanities in Moscow) as an alternative to traditional spiritual seminaries. Moreover, for purposes of broadening thinking and debate, future clergy should receive at least part of their education outside of Russia. And many more conferences, both on religious matters and policy questions of national import, should be organised jointly by scholars, clergy (including bishops) and other Church officials. Indeed, because sociocultural changes in the ROC will affect relations with other confessions in Russia, leaders of the minority religions in Russia should actively participate in these composite conferences and in the expansion of ROC thinking more generally.

Institutes and platforms must be created to provide for different forms of horizontal interaction between the Church and society, softening the organisational and cultural verticals within the ROC and, as a consequence, expanding the social life of the parishes—that is, involving clergymen and parishioners alike in real-life (and often painful) local problems, from environmental protection to the needs of the poor and the destitute. Some of this, of course, is already happening.

For its part, the state must work to maximise, to the extent possible, the transparency of Church organisation and operations. This could include having bishops and parish rectors publish the revenues and expenses of the various diocese and parishes. While professional media organisations should be insulated from ROC influence, the state should regularly sponsor different forms of institutional interface between the parishes and secular organisations and institutions, and between the Church and various professional organisations across the country.

Finally, and critically, but perhaps improbably at the time of this writing—for the temptation is great—the state must refrain from using the Church as a conspicuous instrument of foreign and domestic policy, including for purposes of national consolidation and legitimisation of the centre. In turn, in order to find its own bearings and role in modern Russian society and life, the Church must avoid being instrumentalised—happily or unhappily—just as it must, as its internal thinking and organisation evolve, avoid anticipating the preferences of the state, consciously or unconsciously.

NOTES

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Russian Civil Society

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WHAT IS RUSSIAN CIVIL SOCIETY?

We understand civil society, in the very classical sense, as referring to the sphere of human activity outside of the family, the state and the market—for all intents and purposes, the “third sector”, which is created by individual and collective actions, norms, values and social relations, to deliver a number of specific functions, including socialisation, service, articulation and mobilisation. And we argue in this chapter that the governing intellectual and policy interest in civil society in Russia today and for the foreseeable future must be based on the hypothesis that any meaningful increase over time in the negotiating power of civil society in its interactions with the state and the private sector—particularly in respect of the redistribution of benefits in favour of weak groups—will improve the quality of governance and life in Russia, not least because civil society is a key force in identifying and helping to fill gaps in the country’s economic, political and legal institutions.

Civil society in Russia is influenced by ideological, educational, legal, political and economic factors. The influence of the ideological factor manifests itself in the disposition of the population vis-à-vis participation in civil society: half of Russians are apparently prepared to unite with other

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people for collective action, if their ideas and interests intersect.¹ However, the national participation level in the activities of non-government non-profit organisations (NPOs) remains low—that is, only 13 per cent of Russians are members of any NPOs and/or participate in their activities. Moreover, if 55 per cent of Russians made some description of financial donation to an NPO over the last year, only 14 per cent of the population did so through formal institutional channels.

Some notable examples of modern Russian non-profits include Perspektiva, which promotes inclusive education and employment for people with disabilities; the charitable fund Downside Up, which works to change the early childhood support system for, and public attitudes about, those with Down syndrome; the charity Flophouse, which seeks to rehabilitate the homeless and the disadvantaged; the famous “Memorial” human rights society, which focuses on historical memory of the Soviet past and monitors human rights issues in Russia and in several other post-Soviet states; the Civic Assistance Committee, which defends refugee rights in Russia, including in relation to refugees from the Donbass and Syrian wars; and the Vera Fund, which supports hospices in Russia and works to change public perceptions of palliative care in the country. We should also note, of course, the work of the Agency for Social Information, an important civil society information platform that aggregates and disseminates, on a country-wide basis, news and information concerning Russia’s third sector.

The educational factor in Russian civil society includes the direct training and retraining of NPO talent or cadres, as well as the more general system of civic education that provides the knowledge and skills enabling citizens to participate in civil society institutions to defend their rights, organise to solve local problems, provide public oversight of state services and so on. At present, civic education for adults does not exist in any serious form in Russia. However, at the regional levels, increasing the qualifications among NPO cadres is a key area of governmental support. (Particularly active support to NPOs is provided by the governments of Krasnoyarsk krai, Novosibirsk oblast, Nizhny Novgorod oblast, Arkhangelsk oblast, Yaroslavl oblast, as well as the city government of Moscow.) *Bref*, there is still much work to be done in post-Soviet Russia in order to advance moral citizenship, civic competence, volunteerism and continuous education in the NPO community.

The legal factor refers to the juridical conditions surrounding the activities of civil society institutions. The legislative framework for NPOs

has undergone fairly radical amendments in recent years. Unfortunately, these legislative changes have been largely non-systematic and juridically and terminologically imprecise. There is therefore a need to change the basic federal legal framework (including the laws on non-profit organisations, public associations and charity and charitable organisations) in order to remove contradictory norms brought about by changes to Chap. 4 of the Civil Code of the Russian Federation in 2014. The role of NPOs as active players in various areas of the national social sphere could be strengthened. To this end, for instance, the 2013 federal law on the foundations of social services for citizens created the basis for the inclusion of NPOs and non-state providers in the provision of social services. In 2016, in addition to the concept of socially oriented NPOs, the concept of NPOs as executors of publicly useful services was introduced in law. The government confirmed the road map “Support for access of non-governmental organisations to provide social services”, which includes a complex of measures that, for the most part, should be implemented by the end of 2017, though some will be implemented on a continuous basis.

The influence of the political factor manifests itself principally through government policy on civil society—embodied variously in the NPO legal framework, state resources deployed to support (or frustrate) NPO activity, as well as in communication channels between the state and civil society. According to a nation-wide survey of NPO leaders conducted between 2012 and 2015, nearly a third of Russia’s NPO leaders believe there to be a big gap between proclaimed and actual state policy on civil initiatives and NPOs. In at least 40 per cent of the cases, this view is voiced by NPOs that do not approve of the state’s positions *vis-à-vis* the third sector. Moreover, 27 per cent of respondents said that there is no consistent government policy for the third sector—a belief held even more commonly (over 35 per cent) by NPOs not supporting state positions *vis-à-vis* the third sector. By contrast, approximately a quarter of NPO leaders believe that state policies on NPOs and civil initiatives are in fact consistent—more often than not organisations regularly interacting with the federal ministries, agencies and political parties (mostly with “United Russia”). Some two-thirds of NPO leaders assess that state support for NPOs significantly influences civil society development in Russia. Only 17 per cent considered the influence “fairly insignificant”, while 6 per cent said that state support (financial and non-financial alike) for NPOs had no influence whatever on the development of civil society in Russia.

In post-Soviet Russia, cooperation between the state and NPOs first began to take shape at the municipal level and then at the regional level. Discussion of federal support for NPOs only began in the early 2000s, with the content and currency of the NPO debate turning on the magnitude of state support for NPOs and the meaning or understandings attached by the state to such support. From 2005, there was a shift from state neglect, selective support for a limited number of organisations and suspicion of NPOs receiving foreign funding, towards a certain revitalisation of constructive interaction between government and NPOs. This was most notable in the creation of the Russian Federation Public Chamber and its analogues in the regions, the revision of the NPO legislation to remove certain capricious restrictions and also the inclusion of noted human rights defenders in the Presidential Council for Civil Society and Human Rights. To date, there is a broad spectrum of types of financial and non-financial support for NPOs (including informational, consulting and educational support). This includes subsidies for NPOs, competitive allocation of grants, tax privileges, as well as property transfers to NPOs (*gratis* or on favourable terms of lease).

The influence of the economic factor is marked by the gradual growth in the size of individual and corporate philanthropic resources (including the development of endowments in Russia) as well as the evolution of Russian corporate social responsibility practices and volunteerism. While the second half of the 2000s saw a significant reduction in foreign donor resources, federal budget allocations towards socially oriented NPOs rose from 2010 until the recent economic crisis, increasing by a factor of 2.5 over 5 years. Of course, the long-term health and sustainability of the resource base of Russian civil society is closely tied with the state of the country's economy, including the country's ability to overcome the raw material model of growth and advance modernisation in earnest (see Chap. 19 on Energy and Natural Resources). To be sure, the crises of 2008–09 and 2014–15 demonstrated the vulnerability of this civil society resource base in the context of falling state revenues and diminished private and individual incomes.

According to a 2015 All-Russian population survey, the nucleus of the base of Russian civil society includes 10 per cent of adult Russians, the satellite of the nucleus includes 23 per cent of adults, the contiguous buffer zone 26 per cent, and the periphery some 33 per cent of the Russian adult population. If we add to this the basic finding of our research—to the effect that the state remains the dominant force in the development of civil

Table 11.1 Scenarios for the development of civil society in Russia

		<i>State policy for promoting the development of civil society institutions</i>	
		<i>Weak</i>	<i>Strong</i>
Public activism	<i>Low</i>	Deep freeze	Greenhouse effect
	<i>High</i>	Boiler explosion	Responsible action

society institutions in Russia—we are able to illustrate, in simplified form, in Table 11.1, how the strength or weakness of state policy for civil society institutions, in concert with the level of public activism, is expressed in the evolution of Russian civil society. We propose 4 possible scenarios of civil society development: the greenhouse effect scenario, characterised by low levels of public activism but high levels of state influence on the development of civil society institutions; the deep freeze scenario, characterised by low levels of public activism and weak state policy for promotion of the development of civil society institutions; the boiler explosion scenario, characterised by high levels of public activism and weak state policy on the development of civil society institutions; and, finally, the responsible action scenario, which obtains at high levels of public activism and strong state policy in support of civil society institutions.

Given the strengthening of government policy in supporting NPOs and enhancing civic activism in the country—as reflected by growing Russian engagement in civil society practices—one could argue that Russia is, at the time of this writing, transitioning from the borderline between the greenhouse effect and deep freeze scenarios to the responsible action scenario (bottom right of Table 11.1).

WHAT'S TO BE DONE TO REALISE THE RESPONSIBLE ACTION SCENARIO?

Russian civil society, which already struggles with horizontal collaboration across NPOs, must consolidate on key policy questions in the country. The NPO community should agree to uphold basic political, humanitarian and civic values and foster a transition to a qualitatively new level of interaction with Russian governments at all levels based on a partnership of reasonable equals. NPOs must improve their internal governance and self-organisation. And there must be a substantial increase in the contribution

of the NPO community to the creation of sustainable mechanisms for citizen scrutiny of laws of public significance.

Of course, the NPO community needs greater public support and confidence—something possible through maximum transparency and the use of modern means of informing the population about its activities. (Today, 46 per cent of adult Russians do not trust NPOs of any type.) Mapping out strategic directions for NPO development through the consolidation of expert resources and the development of a system for identifying and spreading best practices is also important. NPOs should diversify their activities and technologies in respect of the general improvement of the quality of life among Russians, to raise cultural and educational levels in post-Soviet Russian society, as well as tolerance and legal awareness.

For its part, the state must create conditions that are propitious to the development of civil society and the strengthening of its influence on political, social and economic processes. This includes, first, a strategic commitment to collaboration; second, a reformed legislative framework for such collaboration; and third, continuous improvement of the government support toolkit—financial (ranging from targeted subsidies for NPOs to tax incentives) and non-financial (consulting and educational support) alike. It is essential to monitor and assess all programmes jointly implemented by the state and NPOs. NPOs must be intensively involved in the processes of the country's modernisation, combatting corruption, supporting reforms of law enforcement and the judicial system, education, environment, health care and the development of twenty-first century regional policy. Finally, there must be a permanent mechanism of civic expertise for law of social importance that makes use of NPO experts. Optimisation is necessary for better functioning of organisational-financial mechanisms of budgetary funding of state and non-state suppliers of social services. This should happen through the creation of conditions that stimulate state and municipal organs to create a competitive environment for the provision of state and municipal services in the social sphere and the removal of barriers to attracting NPOs for the provision of such services. Most importantly, the state must strengthen public participation in solving issues of local importance via territorial self-government, public hearings and legislative decision-making.

Russian media must provide regular coverage of social issues, motivate civic participation and help to form responsible behaviour among citizens. Media can help to develop understanding in society to the effect that the resolution of social problems can and should draw on NPOs, volunteers

and active citizens. Russian media can also help to spread best practices for NPO participation in solving problems of local significance, providing social services to the population and using technologies of intersectoral cooperation.

Businesses and donors should develop a trilateral “state-society-business” partnership to achieve a balance of interests on key issues of socioeconomic development for municipalities, regions and the country in general. Business should help to create resource centres for NPO support aimed at strengthening and developing third-sector human resources (talent).

Educational organisations, too, will have to develop a system of training and study for third-sector participants and volunteers, for Russian civil servants working on NPO issues and, more globally, for intersectoral collaboration through the introduction of courses and academic programmes at the bachelor’s and master’s levels, online offerings, as well as new professional training programmes for the country’s social sector. A serious system of Russian civic education should be developed, targeting preschoolers, students and adults for the purpose of forming the necessary knowledge, skills and competence, and imparting the necessary experience, to motivate active citizen participation in the country’s civil society.

NOTE

1. These and subsequent figures in this chapter are the results of the 2014–15 All-Russian surveys of the national population conducted by the Centre for the Study of Civil Society and the Non-Profit Sector in the Higher School of Economics, as part of the Basic Research Program of the Higher School of Economics.

PART II

Russian Public Policy

Russian Foreign and Defence Policy

Fyodor Lukyanov

AFTER THE CRASH: CATCHING UP WITH THE TOP ECHELON

The collapse of the USSR remains the dominant watershed for Russia's elites in the early twenty-first century and, under their influence, for Russian society at large. The collapse is, as an event, not only a historical fact, but indeed a central element of today's Russian politics—one that has conditioned the moods and interpretations of several generations of Russian thinkers and political actors. And it is these moods and interpretations that are the core of today's contradictions between Russia and the West, which, three decades later, find themselves in a state of “hybrid confrontation”.

The year 1991 marked not just the end of one more empire—indeed, the last remaining one—but also the destruction of one of the two pillars of the bipolar world order built in the second half of the twentieth century. It was a tectonic shift that brought about fundamental global changes and engendered differences that have never been resolved and have become more acute since 2014.

For the West—the USA and its allies—the collapse of the Soviet Union was a manifestly positive event that ushered in “a new world order”—one in which Western countries had not only a political but also a moral right

F. Lukyanov (✉)
Valdai Discussion Club, Moscow

to organise the world as they saw fit. From Russia's point of view—a view that became stronger over time—no new order had been built. Indeed, what little remained of the previous order gradually fell apart. The international system sank into chaos as its institutions—reasonably effective in the last century, but unable to adapt to new-century realities—eroded. All attempts to create a “centralised” or unipolar global system of governance simply failed.

The relationship of Russia to its place in the world demands, first and foremost, an answer to a critical question: how do Russian society and Russia's political class see their own state—as a state with certain intrinsic, deeply rooted values, or, alternatively, as a shard of a “real”, far greater country that was ruined (in part by the designs of others)? The former view suggests that Russia's search for its place in the world will end successfully despite all the bumps in the road. The latter interpretation, however, is more problematic—not least in practical terms—as it suggests the revival of superpower status one way or another. Indeed, the crises of 2014–15 and Russia's interference in the conflicts in Ukraine and then Syria seemed more consistent with this second interpretation.

However, a closer look suggests that this may not be the only possible interpretation and that these two military-political moves (in Ukraine and Syria) were, in some ways, dramatically dissimilar in nature. Some suggest—not without justification—that one of the reasons for Russia's Syrian intervention was Moscow's desire to make up for the negative effects of its Ukrainian campaign, which not only failed to raise the country's international status, but actually reduced it, at the expense of national economic development.

The history of the Soviet Union, then, did not end in 1991, and any jubilation over the “civilised divorce” among its component parts and within its general sphere was premature, as evidenced by the Balkan nightmare. The Yugoslav syndrome caught up with Russia more than two decades later in Ukraine.

Of course, when the leaders of Russia, Belarus and Ukraine famously dissolved the Soviet Union in Belavezha in early December 1991, they did not risk raising the issue of Crimea, as their main priority was to get rid of centralised rule and redistribute power into the hands of the 12 republics (the Baltics having already left by that point). Instead, the Crimean question exploded in 2014, causing a chain reaction and becoming a turning point in the history of what we may call “Soviet decentralisation”. The Crimean annexation was, on this logic, a key step by Vladimir Putin's

team to deconstruct what remained of the Soviet Union—to wit, to overcome the loose taboo on revisiting and revising the administrative borders drawn by the Soviet authorities. *Bref*, the ghost of the Soviet Union was at last vanishing.

Gorbachev's perestroika was laid to rest, first and foremost, by the separatism of the Russian nomenklatura. Only the will of the Russian establishment—the old one that was trying to hold on to the reins of power by distancing itself from Gorbachev, the experimenting general secretary, and the new one that was seeking to assume control of the state—could have caused the demise of the Soviet empire to occur with such rapidity. It is therefore quite logical that, some 25 years later, the ideological descendants in the Russian leadership of those who put an end to the Soviet state should move in this same direction.

In explaining the need for the incorporation of Crimea into today's Russia, Vladimir Putin put forth the “Russian world” concept—meaning that Russians carried a conspicuous responsibility in respect of their compatriots who ended up outside of Russian borders after the disintegration of the Soviet Union. To be sure, post-Soviet Russians became one of the largest divided or dispersed people in the world, as 25 million of them suddenly became effective foreigners without having moved anywhere. In his interview with Germany's *Bild* in January 2016, Putin stressed: “For me, it is not borders and state territories that matter, but people's fortunes”. Some commentators again took this as proof, or further proof, of his imperial ambitions, even though the reference to Russians looked more like the drawing of an ethnic or mental border—not an imperial or administrative one—that evidently excludes “the other” or “non-Russians”.

To this end, in an interview with Deutsche Welle in the spring of 2014, Ivan Krastev, a Bulgarian researcher of post-communist transition processes, offered the following interpretation: “If the Russian policy is to be described in one word, it would be isolationism – not geopolitical, but cultural and psychological. This is what makes it different from the Soviet one. When the Soviet Union decided to close up, it built the Berlin Wall. Now Russians have created a situation where others want to build a wall around them”.¹ Richard Haas, the American foreign policy specialist, for his part, said: “Russia no longer represents anything that appeals to anyone other than ethnic Russians”, and, being at the periphery, it cannot be a source of truly serious challenges to the USA.²

Another way of looking at this dynamic, in less dramatic terms, is that inward consolidation in Russia has won the day over major outward

initiatives. And yet events have clearly changed this logic: the Kremlin concluded that its chances on the limited Eurasian stage (the Ukraine conflict) would diminish over time without active participation in the major Middle Eastern arena (starting with Syria).

A CRISIS OF IDEAS: TOWARDS CONSOLIDATION AND THE EMERGENCY POSTURE

The main problem in today's Russia is a crisis of ideas—that is, the absence of a vision for the future. Global ambition faded with the collapse of the Soviet Union. Russia began to focus on its own problems, even though its impact on the rest of the world was still significant by virtue of its physical size and residual geopolitical importance. But deep reflection was manifestly not a priority after the Soviet Union's breakup; economic and political survival was. Survival, for its part, gradually gave way to extemporised pragmatism, commensurate with the need to mend and invigorate the state system. This worked in part, reviving the urge for new quests—even if all ability to think globally had by that time been lost.

Perestroika was the last period in Russia's national history when the country not only drew international attention but actually offered a bigger idea in a bid to attract the world. After the Soviet collapse, Russia deliberately followed other countries—initially in the hope of fitting into the realm of Western concepts. Over time, however, the country became more and more withdrawn, nurturing grudges about its own failure to succeed. These grudges laid the foundations for a protective and defensive ideology that did not inspire the country to look beyond its borders but, instead, to fortify the wall and deepen the moat in the context of the chaotically changing and dangerous world around it.

Perestroika and today's Russia are antipodes. The optimism and idealism of the late 1980s stand in stark contrast with the gloomy realism of the mid- and late 2010s. And yet there is one thing they have in common. In both cases, *politics trumped economics*, even as the gap between the weakening economic base and the ambitious political superstructure remained a clear source of national vulnerability.

In 2015, not only did political logic outweigh economic calculations, but external policy was more important than internal policy. Witness the instantaneous rupturing of ties with Turkey after it downed the Russian military aircraft (and indeed the resuscitation of the bilateral relationship in 2016). This move by the Kremlin proved that national prestige is more

important than mercantile considerations and indeed that national prestige could substitute for a national idea and national identity.

The search for elements that could bind Russian society and the state were on display in 2012 when Vladimir Putin reassumed the presidency amid public demonstrations. Protests in Moscow, beginning in late 2011, brought together members of the bourgeoisie and certain groups—including nationalists and leftists—who insisted on increased civil and political liberties and, more generally, deep reform of the national system of government.

Superficial modernisation started during Dmitry Medvedev's presidency. It left a strange aftertaste by ending so abruptly. It did, however, bring a logical end to the period of relatively care-free consumption in the first decade of the 2000s, following the depression of the 1990s and the struggle for Russian survival. Of course, the troubles of the 1990s also cut off perestroika, leaving disputes about the future of the country unresolved.

The late 1980s, for their part, now seem an ephemeral and doomed intermezzo in Russian history. And yet, as mentioned, the declining Soviet empire was at the time still bustling with great debate amid the kaleidoscopic mess, as it tried to explore fundamental issues of state, society and international community from different angles and to set tasks for the future.

The collapse of the Soviet Union interrupted this process, replacing it with the struggle for power and property. A quarter of a century later, there was a return to the interrupted Soviet-era debates. The first indication of such resumption was in 2012–13 when Vladimir Putin, who is very sensitive to the public mood, began to speak with great regularity about matters of ideology and morality. His appeal to conservative authors and controversial attempts to revive and refashion traditional values were a response to a latent but manifest demand in the body politic.

All this was torpedoed by the Ukraine crisis. Since its outbreak, the Russian state has been operating in emergency mode, responding and improvising to ever-changing situations. The debates about perennial Russian topics have been sidelined in favour of urgent national mobilisation. And while the “Russian world” concept has not mended the divide first exposed in late 2011—when many middle-class Russians protested in Moscow against the lack of democratic development—it has changed the balance dramatically: some of the opponents “have gone to war” and dropped their complaints, while the minority, more opposed than ever to the Kremlin, has been further sidelined. Consolidation has been achieved.

It took extraordinary external factors to strengthen the internal base. In a paradoxical way, then, foreign policy is performing its main role in creating conditions for the country's internal development. Moscow's success in countering external challenges and proof of the state's ability to be a major player on the international stage have become necessary conditions for internal stability and legitimacy. This is all the more true—even if partly in a self-fulfilling way—now that widespread instability is no longer a Kremlin fantasy but indeed objective reality.

To be sure, the Ukraine crisis and the “Russian world” discourse were together part of a larger identity debate. The operation in Syria is a different case altogether, consistent with the national objective of regaining superpower (“first echelon” state) status. Russia intruded on what has been the main prerogative of the USA since the end of the Cold War—to wit, the use of force to restore order wherever necessary. The show of force proved Moscow's capacity to carry out such missions on a regular basis. The subsequent offer of cooperation with the West in this field demonstrated co-equal status. And Moscow's readiness to change relations abruptly with those that do not recognise this status signalled self-confidence.

This is not, however, a return to the Soviet model. The Soviet Union had an activist foreign policy and always used different versions of the “besieged fortress” excuse for action. However, the internal system of the Soviet state was not based on foreign policy and, instead, on a rigid socio-economic structure. Outward expansion was driven largely by ideology, which over time developed into an instinct for competition with America.

Strange as it may seem, the current situation has parallels with the Gorbachev period, albeit with the opposite sign. Gorbachev's failure resulted largely from the fact that his foreign policy appeared to be not just more successful than his domestic endeavours, but that foreign policy had actually taken centre stage. His main treatise was called *Perestroika – New Thinking for Our Country and the Whole World*. To this end, the “whole world” quickly overshadowed “our country”. The idea to “change the world by changing oneself” was turned inside out—that is, the internal development of the Soviet Union became a function of global transformation initiated by the Soviet leader. Everyone knows how this turned out. And yet today's world is far less stable than it was 30 years ago, and such dependence on it for purposes of domestic change would appear to be even more risky.

Still, a fundamental difference between today and the world of Gorbachev is the absence of illusions among Russia's elites and, along

with this, the absence of good international examples to follow. The intelligentsia in the late Soviet Union looked hopefully at the West as a model for emulation, while the Soviet leadership believed in a convergence of the two systems. Gorbachev believed that a new world order would emerge through the integration of East and West on a completely equal basis. His approach echoed the views of such respected intellectuals as Russian-American sociologist Pitirim Sorokin and Nobel Peace Prize winner and dissident Andrei Sakharov. Of course, the disintegration of the Soviet Union put an end to fancies of equality and joint construction of a European and global order. The Russian Federation, which at birth was thrust into the throes of existential crisis, was no longer viewed by the West (and indeed the East) as a potential co-creator of any new world order.

The “end of history” construct triumphed. The Western model was the winner. Russia was essentially told to find its place in the US-centric system. Although initially, in the early 1990s, the Russian leadership was almost ready to agree to this, the deep-rooted character of the country did not allow it to do so. For all practical intents and purposes, a large country with the mentality and history of an independent great power could not simply turn itself overnight into a “big Poland” and follow in the footsteps of states seeking admission into the European Union and NATO—institutions that in point of fact never offered membership to Russia.

Outside the painful transformations in Russia, which over the past three decades has still not come to understand what it wants to be and do, the international system has also been going through turbulent twists and turns. No unipolar world has been built, and the existing institutions will be unable to function effectively in a polycentric system. This is most vividly borne out by the deep crisis of the European Union, which not only profited most from the end of the Cold War confrontation but indeed became a candidate prototype for the future world order. Now, alas, the EU may be shrinking into itself, trying to rescue a vast integration project that has failed to adapt to dramatic changes.

NATO is undergoing an even more interesting transformation. Having won the Cold War and obtained full freedom of action, it has been unable to identify its core *raison d'être*. It simply cannot consistently think up missions that will succeed in consolidating allies in the absence of bipolar confrontation. The experience of using force outside of the core NATO zone of responsibility has to date ranged from unsuccessful to disastrous. Of course, the alliance has managed to achieve some semblance of consolidation by opposing Russia during the crisis in Ukraine, but this too will

not last long. Russia is not the Soviet Union, and it cannot pose the same species of threat to the West no matter how hard it tries. Moreover, major strategic challenges like radical Islam and the resurgence of China cannot be addressed by a NATO that operates along Cold War lines.

As such, modern-day Russia is a country that has not yet made up its mind about its image and future place in an utterly unpredictable world. There is no one for it to use as a beacon (as most countries are living through crises), there is nothing to fit into (old communities and international regimes are falling part, and new ones are still embryonic), and it has no resources—financial or intellectual—to launch its own grand project. *The current course is therefore not tactical but rather fatalistic (if not existentialist), undergirded by a belief that nothing can be foreseen. The only way to go about the business of state, on this logic, is to be ready to respond to any change quickly and decisively. And this means enhancing all national capabilities in order to meet any emergency.*

Another important factor in Russia's strategic mentality today is the lack of faith in the rationality of the West. The overall feeling in Moscow today is that good judgement in the USA and Europe has given way to ideologised arrogance and the predominance of left-liberal political correctness. The West, as such, is no longer viewed as a source of inspiration—even if there is nothing else to take its place just yet.

In his “major geopolitical catastrophe” speech in 2005, Vladimir Putin spoke about the painful efforts that Russia was undertaking to get out of the crisis—constitutional-legal, socioeconomic and geopolitical-strategic—caused by the collapse of the previous model, stating: “That was precisely the period when [...] our society was generating not only the energy of self-preservation, but also the will for a new and free life. [...] Many thought or seemed to think at the time that our young democracy was not a continuation of Russian statehood, but its ultimate collapse, the prolonged agony of the Soviet system. But they were mistaken”.³

To repeat, the trauma of the fall of the USSR has not been overcome. Indeed, it has worsened to the extent that there has been a reconsideration or reinterpretation of the reasons for the fall. The end of the USSR, caused by various internal factors, is today seen in Russia through the prism of the last three decades. The wars in Yugoslavia, Iraq, Libya and Syria, as well as the “coloured revolutions” in the post-Soviet states, have in all cases seen Western participation play a decisive role in geopolitical and political transformations, including regime change, the imprisonment of leaders and the destruction of states. The Russian leadership projects this model

of outside influence onto its own past (the breakup of the USSR as the result of a concerted policy from abroad) and its possible future (to the effect that the goal of the USA is regime change and even the dismemberment of Russia). In short, the deep-rooted interpretation of Russian elites is that the logic of Western policy since the fall of the USSR drives not only towards geopolitical expansion in the classical sense, but over and above this to change everything in its path—if not by decree or example, then by force.

The West accuses Russia of revisionism. But from the perspective of the Russian leadership, it is the West's behaviour that betrays the more dangerous form of revisionism—to wit, the attempt to reinvent the foundations of what was a reasonably strong international system in the second half of the twentieth century, and also to reengineer states that do not correspond to Western representations of the “correct” form of government. In this sense, in Russia, the “soft power” of which the West is so proud is today equated with “hard power”—that is, it is seen as a form of pressure that is comparable to military-political or economic power.

By all appearances, then, the era that began with the end of the Cold War has ended. For the West, that era was marked by the euphoria of victory. For Russia, it was felt in the sting of inferiority coming from strategic defeat. Both sensations led to a dead end, and there is no way out in sight—even if such a way out will have to be found with some urgency.

The world around Russia is changing, moving further and further from the contours of the twentieth century. Any coherent conception of the post-Soviet area or space, where Russia and the West compete as a dyad, is disappearing. China is playing a manifestly growing role, with its own pivot to the West. Eurasia is becoming, for Beijing, a theatre for the advancement of strategic interests, including the construction of transport links and the associated infrastructure. For Russia, this is both an opportunity and a challenge, but what is most important is that the geometry of events around the country is changing fundamentally.

The nearly exclusive Western-oriented policy settings undertaken by Moscow since 1991 no longer correspond to the new state of affairs. There must, as such, be a change in national strategic priorities. If anything, the quasi-existential crises of the EU have only accentuated the fact that any variant of integration into the “European sphere” now no longer exists as a realistic future possibility for Russia. And all this is occurring against the backdrop of the irreversible disintegration of the Middle East. Russia is unlikely to earn more strategic points in Syria than it has already.

Meanwhile, closer to home, cascading instability in Central Asia, including through the radical Islamist vector, is something about which Russia (and China also) will have to worry in the coming years.

Bref, Russia is trapped in a twentieth-century agenda, trying to return to the top echelon it occupied in that era. But the criteria for success have changed today, and economics (even if always subordinate to politics in Russian strategy) matters much more than it did in the Cold War. As such, Russia must urgently do something about its economic policy—for in its present state of political-economic affairs, it can in no way assume a leadership position, whatever the world order around the bend may be.

Part of this will require Moscow to dial down international strategic and geopolitical tensions (in other words, to decrease ambitions) vis-à-vis the West in general and the USA in particular—a path apparently commended to President Putin in camera by the deputy chair of the President's Economic Council, Alexei Kudrin, in a remarkable debate that allegedly took place in May 2016. Kudrin's key argument was that Russia's lag in technology and economic performance (see Chap. 2) requires it to integrate into international production chains.⁴

Another part of this, however—should Russia fail to integrate into international production chains—will require Russia to find opportunities for itself to become a term-setter in international affairs once again, realising its potential as the world's biggest country occupying critical geography. Indeed, term-setting—or rather the ability to set international terms—will be critical to the ability of major countries this century to reap not only economic rents but also geopolitical rents.⁵ On this same logic, clashes of standards between term-setters and those outside the club will often make compromise impossible—that is, integration will involve either ostracism to the economic and geopolitical sidelines or general subordination to a term-setting player.

For its part, the five-member Eurasian Economic Union, in which Russia is the pivotal country, is still an embryonic bloc and remains clearly uncompetitive with the larger and more dynamic Western and even Eastern political and economic blocs, including the EU, NAFTA and the Association of Southeast Asian Nations (ASEAN). Russia will need to find ways of partnering with other larger international groupings, including China's Silk Road Economic Belt initiative. Indeed, to the extent that Russia is pushed away, and sees itself as being pushed away (or blocked), from US- and Western-led groupings, Moscow will have little choice but to intensify its pro-Asian pivot. Evidently, Sino-Russian cooperation will require

enormous efforts on both sides in order to bridge the not inconsiderable mental and cultural gap between the two nations and civilisations.

For now, Russia is barely able to produce its own normative sphere. It is also, however, unlikely to subordinate to anyone else's framework. As Dmitri Trenin puts it in his book, *Russia and the World in the 21st Century*, Russia is still a great power—"not because it can control others and impose its norms, rules and solutions on them, but due to its high level of self-sufficiency and its resilience to external influence". Trenin considers this to be "very important, because of [Russia's resulting] ability to generate global public goods like the delivery of international security, international justice and peacekeeping mediation".⁶ As such, let me propose that the only solution, for the foreseeable future, may well be for Russia to pursue total strategic flexibility, using all economic and geopolitical opportunities, and in all directions—West, East, South and North alike—as it attempts to find its place in the upper echelon of states and solidify its internal order.

NOTES

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Russia's Arctic Strategy

Alexander Sergunin and Valery Konyshov

RUSSIA'S NATIONAL INTERESTS IN THE ARCTIC

Moscow has extremely important national interests in the Arctic region. These interests include access to, and exploitation of, the mineral and biological resources of the Arctic Zone of the Russian Federation (AZRF). The region is the most prolific producer of Russian gas (95 per cent of total Russian production) and oil (approximately 70 per cent).¹ Russian geologists have discovered some 200 oil and gas deposits in the AZRF. There are 22 large shelf deposits in the Barents and Kara seas, which are expected to be developed when oil and gas prices rise again.² The AZRF is also abundant in other mineral resources. Its mining industries produce primary and placer diamonds (99 per cent of total Russian production), platinum-group elements (98 per cent), nickel and cobalt (over 80 per cent), chromium and manganese (90 per cent), copper (60 per cent), antimony, tin, tungsten, rare metals (between 50 per cent and 90 per cent) and gold (about 40 per cent).³

Some of Russia's moves in the Arctic over the last decade have provoked strong reactions from other regional players.⁴ Indeed, some Western analysts believe that Russia, due to economic weakness and technological backwardness, tends to privilege coercive military instruments to protect

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its national interests in the Arctic—which could lead to a regional arms race, militarisation and even military conflicts in the High North.

Moscow, for its part, insists that its intentions, as articulated in the Arctic doctrines of 2008 and 2013, are inward-focused, purely defensive and aimed principally at the protection of Russia's legitimate interests. The Kremlin stresses that its primary interest is the development of the AZRF, which is rich in natural resources and underdeveloped in terms of the local economy, infrastructure, communication systems, social institutions and culture. The Kremlin also maintains that it is not pursuing a revisionist policy in the Arctic, but rather wishes to solve all disputes in the region by peaceful means, relying on international law and international organisations.

How does Russia address such major Arctic challenges as climate change, environmental degradation, the need to develop a sustainable socioeconomic strategy in the region, and, among others, the efficient use of sea routes? What are Russia's real military policies and plans in the Arctic? Do they pose a security threat to other Arctic players, or are Moscow's military preparations and activities in keeping with the existing regional military balance? Is Russia a revisionist power in the Arctic, or is it more properly an Arctic soft power—perhaps in the making—interested in regional stability and open to international cooperation in the region?

To be sure, Russia is trying to modernise the AZRF's industrial base, which currently accounts for 11 per cent of Russian GDP (even if the AZRF accounts for only 1 per cent of the national population) and 22 per cent of Russian export revenues.⁵ The Russian federal and regional governments have, together with the private sector, articulated plans to restore and further develop the industries and infrastructure of the AZRF, including hundreds of billions of dollars in Russian and foreign direct investment in important sectors of the regional economy, such as energy, mining, transport infrastructure and communications.⁶

Moreover, if the Arctic ice continues to melt, Russia stands to earn considerable economic rents from the development and exploitation of the Northern Sea Route (NSR)—the shortest shipping route between European and East Asian ports—as well as from the important domestic route connecting the Arctic seas and Siberian river ports with the European and Far Eastern parts of the country. Of course, possible shrinkage of the ice cover to its lowest level in recorded history does not necessarily imply safe navigation in polar waters or predictable sailing schedules, meaning that expectations of the NSR turning into a principal route for world trade

may for now be excessive. At the same time, the route may well improve transport access to and for the isolated parts of the Russian North, giving them more efficient outlets to global markets.

Moscow believes that by improving NSR infrastructure and safety, the maritime route will be attractive not only for Russian business but also for foreign shipping companies. The construction of 10 search and rescue centres along the NSR by 2018 (with 3 of them already operational) will help to promote the route internationally. And as the Yamal LNG plant becomes operational in 2017, shipments of LNG from Sabetta to East Asia (and potentially to Europe and North America) will be facilitated. (Circumpolar air routes between North America and Asia, with transit via Siberian airports, are also being considered. Indeed, circumpolar air traffic is already growing 4 times faster than the global average.⁷)

Moscow is also genuinely concerned about the environmental situation in the AZRF. As a result of intensive industrial and military activity in the region, many Arctic areas are heavily polluted and pose serious health hazards. Russian scientists have identified 27 so-called impact zones where pollution has led to environmental degradation and increased morbidity in the local population. The main impact zones are the Murmansk region (10 per cent of total pollutants for the 27 impact zones), the Norilsk urban agglomeration (over 30 per cent), the West Siberian oil and gas fields (over 30 per cent) and the Arkhangelsk region (approximately 5 per cent).⁸ In toto, some 15 per cent of the AZRF territory is polluted or contaminated.⁹

The Arctic Council and the Barents Euro-Arctic Council (BEAC) have emerged as the main international fora to discuss and solve Arctic environmental problems. In 2010, the BEAC, based on a report by the Nordic Environment Finance Corporation (NEFCO) and the Arctic Council's 2003 Arctic Monitoring and Assessment Program, identified 42 "hot spots" (where permafrost is vulnerable to collapse) in the Barents Region. All these hot spots were in Russia. In 2013, an 8-step process to eliminate the hot spots was initiated, with the financial support of the Barents Hot Spots Facility, which is managed by NEFCO on behalf of the governments of Finland, Iceland, Norway and Sweden.¹⁰

In 2011, the Russian government launched a programme worth 2.3 billion rubles to clean up the AZRF, including the Franz Joseph Land and Novaya Zemlya archipelagos. By the end of 2016, some 42,000 tonnes of waste had been removed from these archipelagos and 349 hectares of insular land had been cleaned. In 2015, another AZRF cleaning programme

was launched—this time with a 21 billion ruble funding envelope. By the end of 2016, the cleaning of Wrangel Island—including the removal by the Russian military of 36,477 barrels of fuel and 264 tonnes of scrap metal—was nearly complete.¹¹ A comprehensive analysis of the environmental situation in another 7 major AZRF areas had been planned, but the federal government was unable to find reliable contractors for this purpose. Similarly, in 2011, the cleaning of the Russian mining villages on Spitsbergen Island, planned for 2011–13, was never implemented.

Nuclear safety in the Arctic region is also a matter that exercises Russia and other Arctic states. Notably, more than 200 decommissioned nuclear reactors from Soviet-era submarines and icebreakers are stored on the Kola Peninsula—a Soviet “legacy” that is especially problematic for neighbouring countries like Norway, Finland and Sweden.

In nuclear waste management, a Russian government programme on nuclear and radiological safety for the 2008–15 period succeeded in dismantling 195 retired nuclear submarines (97 per cent of the total quantum), removing 98.8 per cent of radioisotope thermoelectric generators from service and dismantling 86 per cent of these generators. Centralised long-term storage facilities for spent nuclear fuel were constructed. In addition, 53 hazardous nuclear facilities were decommissioned, 270 hectares of contaminated land was remediated and open water storage of radioactive waste was ended.¹²

In 2016, Russia launched a large-scale programme to remove nuclear waste from the former Soviet submarine base in Andreev Bay in the Murmansk region. The programme must reckon with some 22,000 containers of spent fuel from nuclear submarines and icebreakers currently stored in 3 storage tanks in Saida Bay on the Kola Peninsula, as well as approximately 18,000 cubic metres of solid waste and 3400 cubic metres of liquid radioactive waste, which, according to Norwegian sources, are collectively as radioactive as 5000 Hiroshima bombs.¹³

There are, to be sure, serious social and economic problems in respect of the indigenous peoples of Russia’s Far North, including the incompatibility of their traditional way of life with present economic systems and processes, the low competitiveness of traditional economic activities, as well as rising disease rates, a high infant mortality rate and alcoholism. The unemployment rate among Russia’s indigenous people has been estimated at between 30 per cent and 60 per cent, which is 3 to 4 times higher than that of other AZRF residents.¹⁴ Life expectancy is 49 years, compared to slightly over 71 for the average Russian.

In principle, Moscow's policies aim to foster favourable conditions for the sustainable development of the indigenous peoples; for example, in 2009, the Russian government approved the concept of sustainable development for the indigenous small-numbered peoples of the North, Siberia and the Far East. Among other things, the concept set the general task of raising the quality of life in these regions to the Russian average, and the specific task of halving the infant mortality rate (as at 2007) by 2025. However, these policies have still not come close to their targets and are harshly criticised by Russia's indigenous peoples and national and international human rights organisations. The quality of life for indigenous peoples in northern regions like Khanty-Mansi, Yamalo-Nenets, Koryakia and the Chukotka autonomous okrug remains unacceptably low. The Yamalo-Nenets autonomous okrug, perhaps exceptionally, has an indigenous economy built around reindeer herding that is booming, with social programmes being implemented effectively, and with major conflicts between indigenous interests and oil and gas companies generally avoided.

Critics of Moscow's policies on indigenous peoples believe that Russia should endorse the United Nations Declaration on the Rights of Indigenous Peoples and respect and protect the rights of indigenous peoples set out therein. They also argue that Moscow should ratify International Labour Organisation Convention 169 on Indigenous and Tribal Peoples. Indeed, there is a line of argument among rights activists to the effect that Russia should recognise indigenous peoples' customary law as a source of rights, including land rights, in Russian law and jurisprudence. On this logic, Russia should take immediate measures to enable the establishment of federal-level "territories of traditional natural resource use" in order to give indigenous peoples maximum control over these territories, in recognition of their inalienable rights to land and resources and their right to adequate food.¹⁵ This, of course, would require revision of Russia's Land Code, which is seen by indigenous peoples and their proponents as fundamentally discriminatory and partial to extractive industries.

TOWARDS A PRUDENT RUSSIAN STRATEGY IN THE HIGH NORTH

In general terms, Moscow's Arctic policies are an eclectic and still-embryonic combination of hard- and soft-power approaches. On the one hand, Moscow is properly assertive in respect of its claims to the Arctic continental shelf—planting a flag at the North Pole in 2007,

and resubmitting its ambitious application to the United Nations Commission on the Limits of the Continental Shelf in 2015. The Russian military modernisation programmes in the High North are seen by other Arctic players as excessive, destabilising the regional strategic balance. Russia's international partners—specifically Norway, Finland, Sweden and Canada—are also concerned about the lack of serious progress in the country's environmental strategies and its policies towards northern indigenous people.

On the other hand, Russia has, as mentioned, since 2007, been defending its legal rights on the extended continental shelf in full accordance with existing norms and procedures. To this end, Russia's 2015 continental shelf submission is generally seen by international observers as legally pedantic and punctilious. Moreover, the Russian leadership now realises that most of the threats and challenges to the AZRF actually have more domestic than external dimensions, including the degradation of the Soviet-made economic, transport and social infrastructure of the region, the extant resource-oriented model of the Russian economy and the general inadequacy of funds and managerial skills to develop the AZRF. Russia's current Arctic strategy therefore aims primarily to solve existing domestic problems rather than focusing on international expansion.

Bref, Moscow understands well that the country's success in the Arctic theatre depends on the effectiveness of its socioeconomic and environmental policies in the region. The Arctic doctrines of 2008 and 2013, the 2014 state programme on the socioeconomic development of the AZRF up to 2020, and the 2002 law on environmental protection together suggest an integrated national approach to sustainable development in the AZRF—one supported by the country's official and academic communities. Over the past two decades, this integrated approach has included state incentives (investor tax privileges, loans and government guarantees) to develop the AZRF industrial sector. Moreover, the economic sanctions levelled against Russia from 2014 have perhaps had the paradoxical effect of creating significant incentives for national innovation in the Arctic (in place, for instance, of imported foreign expertise, equipment and technology). They have also led to intensified contact between Russia and non-regional states like China (between Yamal LNG, China National Petroleum Corporation and the Silk Road Fund), India (the Vankor oil and gas field), Japan and South Korea (for shipbuilding purposes).

There have also been significant efforts to balance industrial development plans with the needs of indigenous peoples and the Arctic

environment. For instance, in order not to disturb the herding of reindeer, the construction of the Yamal LNG plant was coordinated closely with local communities—a dynamic that is, to this day, not without its frictions and complications.

Of course, if the ideas have been articulated, then implementation remains problematic—something true of many areas of Russian public policy. The path to Arctic modernisation and innovation charted by the Russian government must begin to move from policy declarations to actual implementation of specific, realistic projects in the AZRF. Russia's political leadership appears to understand the need for constructive dialogue and deeper political engagement with all of Russia's Arctic regions, municipalities, indigenous people and non-governmental organisations (e.g. the Russian Association of Indigenous Peoples of the North, as well as environmental groups and human rights activists). Moscow generally encourages these actors to work with international partners—unless, of course, such engagement assumes a separatist character or involves attempts to challenge Moscow's foreign policy prerogatives. And yet, in practice, the federal bureaucracy's policies and approaches will often militate against the projects of subnational actors and civil society groups. Instead of using the resources of these players in a creative way, Moscow tries to control them. In so doing, the state undermines their initiative, making them passive, both domestically and internationally.

Environmentally, Russia has supported all international initiatives on the Arctic, ranging from the activities of the Arctic Council and the BEAC to the signing of the 2015 Paris climate agreement. Russia has pledged to implement the Polar Code, including Part II on protection of the marine environment. Moscow plans to expand protected land and marine areas in the AZRF. It also continues its programmes on cleaning Arctic islands and nuclear waste utilisation. We should hope that this will eventuate in a more systematic approach to Russian environmental policies in the region, backed by serious financial support, better coordination across projects and a credible regime of environmental monitoring.

Russia's military ambitions in the North may in principle be high, but they are still far from being realised. As such, Moscow at present neither signals an intention to confront rivals in the Arctic nor possesses the proper capabilities to do so by military means. *Bref*, Russia may be keen to develop powerful armed forces in the North, but its plans to modernise its air force, recreate a strong navy, refurbish its fleet of strategic submarines, build new icebreakers and replace the old ones, create an Arctic Group

of Forces, and establish new border control and search and rescue units, will be very difficult to implement—that is, Russia likely will not have the financial, technical and managerial capabilities to meet these objectives in the foreseeable future. As a consequence, the country's military modernisation programmes have in recent years become less ambitious and more pragmatic. Russia's military aim is therefore, increasingly, to defend its economic interests in the region and consolidate its control over the huge AZRF territory but not to expand its sphere of influence.

What should a long-term cooperative agenda among Arctic nations include? First and foremost, it should see the lifting of economic sanctions against Russia, as well as a strategy for attracting investment and technology to Russia's Arctic economy—including in the extractive and high-tech sectors. In addition, all Arctic countries should work together to properly implement the Polar Code (which entered into force on January 1, 2017) for the Northern Sea Route and, potentially, for the Northwest Passage. Work on the preservation of the way of life of northern indigenous peoples should be intensified. And, to be sure, in the push to mitigate the impact of climate change in the Arctic, regional states should be actively promoting joint scientific research on the Arctic. The Arctic Council will continue to play a key role in all these dynamics, and its capacity—institutionally and financially—should be strengthened.

Confrontation over the demarcation of maritime spaces and on the definition of the limits of the continental shelf in the Arctic should be avoided at all costs. To this end, confidence-building measures should include data-sharing on the limits of continental shelf, joint research expeditions and even joint applications on the division of the Arctic continental shelf to the United Nations Commission on the Limits of the Continental Shelf.

Let us note, with concern, that the Arctic theatre currently has no confidence- and security-building measures (CSBM) regime—a gap that should be filled with great urgency because CSBM development is a crucial element of any regional security system. Arctic CSBMs—regional and bilateral alike—should cover not only land but also naval military activities. (Contacts between the military structures of Arctic, and especially coastal, states are at present patently inadequate.) Spatial and temporal limitations alike could be established on Russian, NATO and EU military activities in the region. Military-to-military contacts, joint exercises, exchanges and visits should be encouraged further. The countries of the region should intensify information exchanges in respect of their military

doctrines, defence budgets, as well as major arms export and import programmes.

To conclude, in contrast with the widespread stereotype of Russia as a revisionist power in the Arctic, there are grounds to believe that, for the foreseeable future, Moscow will pursue fairly pragmatic and responsible policies in the region. On the one hand, such an approach will aim to protect Russia's legitimate economic and political interests in the High North. On the other hand, Moscow insists that it is open to mutually beneficial cooperation with foreign partners in exploiting the Arctic's natural resources, developing its sea routes and advancing environmental research and protection in the region. Russia clearly has a preference for soft power—or, more precisely, non-hard power—instruments (diplomatic, economic and cultural) in the Arctic theatre. This preference includes a conspicuous disposition towards, and comfort level with, dialogue and engagement through the relevant international organisations and fora. This preference should be taken seriously by Russia's partners, as reciprocation will be decisive in determining both the future of the Arctic and Russia's prospects in the region.

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National Security

Dmitry Baluev

A BRIEF HISTORY OF RUSSIAN SECURITY

Russia's approach to national security has changed many times over the centuries. What remains constant is that national security has been principally—even exclusively—seen as identical to the security of the Russian state. Can this default posture be updated for the country's realities in the twenty-first century?

Evidently, the nature of the Russian state has changed over time, as have the country's external environment and internal political processes. The first period of Russian statehood—the Kievan Rus—saw strategic interactions with the political formations of the south, west and Byzantium, and also with the Finno-Ugric peoples of the northeast. The next period—that of feudal disunity—was marked by the collapse of the Kievan state and a split between Western and Eastern Rus (the Great Schism) in 1054. The ensuing period saw the medieval Rus absorbed into the Mongolian empire, which naturally had a strong contemporaneous influence on Russian society and politics. Indeed, this was when “national security” began to be associated primarily with the security of the ruling elite.

There followed a period during which Russia evolved from a peripheral actor to a first-order player in world politics, increasingly able to

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advance its own terms, programme and mission. At the end of the fifteenth century, when Russian lands were liberated from the Tatar yoke, the Muscovy state began to expand eastward. The territories of the Kazan and Astrakhan khanates were annexed. Siberia and a large part of the Far East came into the fold of the country. Indeed, the borders of Russia at the end of the seventeenth century were very similar to its borders at the end of the twentieth century. Russia became an empire, controlling huge natural resources, centralised in administration and equipped with a strong army.

Empire and politico-administrative centralisation came with their own set of security problems. First, Russia developed powerful enemies, including the Ottoman empire to the south and the Chinese empire in the Far East, which halted Russian claims to the Amur region. Second, the country's massive territory was poorly controlled and administered, especially in the east. And third, of course, Russia still did not have strategic access to the sea.

Russia's external security changed again in the period stretching from the eighteenth century into the mid-nineteenth century. The country found a maritime exit to the Baltic and Black Seas. Its borders expanded westward and southward. The Baltic territories, Finland, Poland, the Southern Black Sea coast, the Caucasus and Kazakhstan all became part of the Russian state. *Bref*, by the start of the nineteenth century, Russia was at the zenith of its imperial power.

After its defeat in the Crimean War (1853–1856) and through to the start of the twentieth century, Russia fell behind the leading Western countries in military and economic importance and influence. It could not play a first-order role in European politics. In the east and the south, however, it continued to expand its borders. Central Asia and the southern Far East entered the Russian empire. In 1860, Vladivostok was founded—the first bona fide port on the Russian Pacific coast.

Russia's security position at this stage had its advantages and disadvantages. On the plus side of the ledger, Russia had significant territory (i.e. a buffer zone), access to 3 oceans and the ability to enter into alliances with different neighbouring countries (mostly in Central Asia). On the minus side, the country had significant cultural and natural heterogeneity across its territory, not to mention weak economic development. Russia was a world power, but its economic and military influence on world politics lagged behind that of European countries like Germany, France and the UK.

The territorial nucleus of the Russian empire was preserved after the 1917 revolution. In 1922, a brand new state—the Soviet Union—was formed. It inherited some of the geopolitical traditions of the Russian empire—in particular, the tendency to territorial expansion. Nevertheless, the USSR’s socialist political system blocked the creation of strong political relations with the countries of the West. As such, before the Second World War, the country was politically isolated. Of course, by the end of the war, Soviet borders approximated those of the Russian empire at the start of the twentieth century. Eastern Europe and parts of Central Europe came decisively into its sphere of influence.

In the first half of the twentieth century, there were 7 great powers in the world (the UK, France, the USA, Germany, the USSR, Italy and Japan). The development of international relations after the First World War was driven by the Versailles-Washington framework. The defeat of Germany and its allies in the Second World War (for Russia, the Great Patriotic War) issued in a bipolar global order. The USSR dominated in Eastern Europe, while the USA dominated in Western Europe. The USSR not only came out of international isolation but also acquired the status of a leading world power with global reach—eventually supporting the advent to power of communist parties in multiple countries in Europe, Asia and the Americas.

TOWARDS A RUSSIAN DEFINITION OF SECURITY

While Russian thinking about security over the course of its entire history until the breakup of the Soviet Union focused on the security of the state, systematic reflection on “national security” and “national interests” was largely foreign to Russian security discourses. There was no academic subject properly called “security”, and no research agenda on the topic. Indeed, in the Soviet period, study of national security and national interests was spread across such topics as scientific communism and dialectical and historical materialism. To be sure, there was some academic research on the foreign policies of other states or for the purpose of national preparations for weapons control negotiations, but national security and national interests were, strictly speaking, seen as bourgeois concepts used to justify the imperialistic strategies of other states.

Of course, post-Soviet Russia does not enjoy the same influence as the USSR did in Eastern and Central Europe, or even in the post-Soviet space. And yet the number of countries bordering Russia, by land and sea,

has not changed. Today, Russia has bilateral agreements with the countries of the Commonwealth of Independent States (CIS), and supplies troops to defend many of the borders of the former USSR (most notably in Tajikistan). Moreover, Russia still has foreign military bases in such CIS countries as Armenia, Kyrgyzstan and Kazakhstan.

The transformation of Russia's geopolitical position had several negative consequences for the country. External economic relations with the countries of the western and southern hemispheres suddenly had to be conducted through the territories of Belarus and Ukraine. This evidently complicated trade and transport operations, not to mention national and international fuel and energy systems. Russia's role as a transit node was undermined, with existing international shipping and travel routes—European and Asian routes and networks alike—bypassing Russia altogether. Indeed, today, trade relations between Europe and the Asia-Pacific region are conducted largely by sea, bypassing Russian territory altogether.

What are the key security challenges for Russia this century? In the first half of the 1990s, having lost its superpower status, there was a sharp change in the country's external relations—particularly with the West. Russia's international activities and ambitions shrank against a backdrop of internal economic crises and the general instability of its new political regime. The “renaissance” of Russian foreign policy begins only in the 2000s.

And yet, despite its recent geopolitical extroversion, Russia is today at best still a Eurasian power—not a proper global power. It has “left” Africa and significantly diminished its activities in Latin America and certain parts of Asia (West Asia excluded). Its influence on world events has shrunk considerably. Nevertheless, Russia continues to make claims to a global role, stressing the country's permanent seat on the United Nations Security Council, its nuclear weapons and, until 2014, its membership in the G8.

What is the Russian understanding of the term “security”? Russia first formally introduced the concept of “national security” into its legal and political discourse through the 1992 law on security. It borrowed the terminology from Western political science in order to frame the country's external security and the security of state structures. If the lead role in security was predictably assigned to the Russian state, then contrary to the dominant contemporary view in Russia, the fundamental “*objects*” of security were, *in law*, the person (including his or her rights and freedoms),

society (its material and spiritual values) and the state (its constitutional order, sovereignty and territorial integrity). Legality and the observance of a balance among the existentially important interests of individuals, Russian society and the Russian state, their mutual responsibilities and the integration of the national system of security into international security systems were commended by the law as key principles of Russian security. Of course, this vague wording set the stage for multiple possible future interpretations of national security, often influenced by short-term political considerations and bureaucratic dynamics.

The Russian conception of “national security” was given more colour and detail in the Presidential Address to the Federal Assembly in 1996.¹ National security, said then President Yeltsin in his address, “cannot be reduced to defence. The idea of national security is closely tied to the concept of sustainable democratic development, is an integral part of, and, at the same time, a condition for its realisation [...]”. Security, in other words, aims not only to prevent threats but also to fulfill measures related to the development and strengthening of the rights and freedoms of the person, the material and spiritual values of society, the constitutional order, national sovereignty and the territorial integrity of the state.

What of national interests? In fact, in the mid-1990s, through interventions in the official journal of the Ministry of Foreign Affairs² and in a number of leading Russian academic journals of political science,³ I was one of the first specialists in Russia to introduce a conception of national interests into mainstream Russian analysis and into the process of foreign policy development. In emphasising Russian “national interests”, I was accused by contemporary liberal writers of conspicuous nationalism—something that at the time was understood in absolutely negative terms. Gradually, however, the concept of “national interests” changed in Russia from that of an “instrument of bourgeois science, serving an imperialist politics”, to that of a generally recognised reference for the determination of foreign and national security policy.

To this end, the National Security Concept of the Russian Federation was adopted in 1997. It was amended in 2007, replaced in 2009 by the National Security Strategy of the Russian Federation to 2020 and updated by the 2015 National Security Strategy. The National Security Concept stressed national interests, grouping them in three substantive blocs: the flourishing of the Russian people, defence of the territory and the country, and development of national culture.

RUSSIA'S CONTEMPORARY SECURITY MENTALITY: SEVEN CONSTANTS

Let us note the 7 essential principles that underpin Russia's approach to national security in the early twenty-first century. The first is the fundamental emphasis in Russian security policy less on the advancement of Russia's national interests per se than on blocking or frustrating the activities of other players. Over many years, Russia has invested a great deal, financially and organisationally, in resisting and counteracting American "unilateralism", undermining NATO, splitting the European Union over energy security and also attempting to minimise the prospects of closer relations between the states of the post-Soviet space and the West.

The second principle is the absolute belief in the primacy of hard power. Military force remains central to the conception of Russian great powerdom. Most of the political elite believes that military force provides the greatest chance of generating respect for Russia in the world. The insistence on a large regular army against the backdrop of growing demographic problems, the preservation of a huge atomic arsenal, the preoccupation with "strategic parity" and the significant spending on regular and atomic arms even in the context of economic hardship together reflect a security culture rooted in a classical and conventional understanding of force.

The third particularity of the worldview of the Russian leadership relates to the dominance of great powers in the international system. Although multilateral institutions play an incomparably larger role today in Europe and internationally than in past centuries, Russia sees modern politics as decided fundamentally by the relations—sometimes cooperative but more commonly competitive—between fully sovereign states. "Sovereign" in this context refers to the few countries—the USA, China and Russia—that, in the view of the Russian political leadership, can truly make independent choices, plus other players that enjoy significant influence in specific theatres (as with leading European countries like Germany and France, or perhaps India and Brazil).

The fourth, related constant is the insistence that Russia be seen as a permanent great power, independently of its achievements in domestic and external affairs. This demand for respect from others, which is tied to the existential legitimacy of today's Kremlin, manifests itself through Russian membership in exclusive, elite clubs like the Permanent Five of the Security Council, BRICS, the Middle East Quartet, the six-party

process on North Korea, the Minsk Group (for Nagorno-Karabakh) and Minsk process (for Ukraine), and also, until 2014, the G8.

The fifth principle is that, while Russia has lost many battles, it has been defeated in very few wars. Indeed, the Russian elite has, over the centuries, been able to completely transform the meaning of the majority of its defeats. The country was occupied by the Mongols, but then expanded its empire to the farthest reaches of Asia. It suffered from its retreat before Napoleon's forces, but then captured Paris. It was nearly destroyed by Hitler, but ultimately raised the Soviet flag over the Reichstag. This streak of final (strategic) victories gave successive generations of rulers the belief that Russia typically finds itself on the right side of history, even if it will have to endure terrible suffering in the process.

With such a “victor's psychology”, the leadership of the country is hypersensitive to any intimation of inferiority. It was insulted by the post-Cold War “declaration” that the West had won and Russia had lost, and also by the insufficient trust invested in Russia in return for having led itself and most of the Soviet successor states through a relatively calm post-Soviet transition.

Sixth, over the last decade, Russia has modified its conception of sovereignty and independence. Independence is today defined as the defence of national sovereignty from those who wish to destroy or limit it. This goal has come to be identified with the government's incessant quest for legitimacy (or legitimation) both within and outside the country. *Bref*, the interest of the governing regime has become inseparable from the interests of Russia itself. On this logic, external criticism of the policies of President Putin—especially on matters internal, such as the observance of human rights norms or democracy—continues to be seen as an infringement on the country's sovereignty. A continuity has been formed between domestic and foreign policy, and there has been an acute and, for the most part, “constructed” securitisation of the majority of political problems and questions in Russia.

Seventh, the hardening of Russian foreign policy over the last decade can be seen as a logical reaction to imagined and real threats alike: the loss of Ukraine as a strategic buffer and sphere of influence, the incursion of the West into the post-Soviet space in order to expand the European Union and NATO, and American defence or military strategies for the post-Soviet space. As such, when President Putin repeats the words of Joseph Stalin about the weak and backward being beaten and enslaved, he reflects properly the view of many Russians, lay and elite alike, to the effect

that Russia cannot trust the good intentions of other countries and must instead focus on strengthening its own forces.

WHAT'S TO BE DONE?

President Putin approved a new National Security Strategy in December 2015. The document states that Russia is a great power that will challenge what it perceives to be American “dominance in world affairs”, which stands in stark opposition to “the conduct of the Russian Federation’s independent foreign and domestic policies”. The strategy states that Russia is unhappy with its current place in the world but pleased with its progress to date in remedying this state of affairs.

While the national security strategy is not devoid of foreign policy goals, it is heavily focused on Russia itself. It is divided into sections, according to the various components of Russian security: national defence; state and social security; the quality of life of Russian citizens; economic growth; science, technology and education; health; culture; and ecology and the environment. For national defence, the strategy describes the existing military doctrine as covering Russian goals and plans, then goes on to discuss whole-of-government approaches to deterrence and also societal mobilisation.

To be sure, there are several indications that the current political regime still cannot adapt to the new international security environment. It continues to formulate security policy within the framework of an arguably artificial multipolar (polycentric) paradigm, prioritising the security of the state at the expense of other types of security. It uses old instruments that have not changed substantially from the period of imperial Russia or the USSR—and this in stark juxtaposition with Russia’s potential adversaries, most of which have considerably greater resources for such security systems. *Bref*, the present approach overestimates the capabilities of Russia as a regional or world player that is capable of playing according to its own rules.

Russia’s posture requires consolidation of political power in Moscow, strengthening of state control over the “commanding heights of the economy” and, increasingly, national military preparedness. For all practical intents and purposes, this entails and requires securitisation of the entire spectrum of political and non-political issues in the country. And on this logic, any talk of moderation in politics and economics is viewed as selling off sovereignty.⁴

What is needed now in Russia is not a refinement of old approaches to security based on an all-encompassing emphasis on state (and elite) security, but instead the introduction of new theoretical models that can credibly become analytical and policy-making frameworks for Russia in its fast-changing security environment. Official state support for such new theoretical frameworks should be the first step in adapting Russian security policy to new threats and challenges. Indeed, some elements of this new, broader approach to national security should be developed not under the auspices of the Ministry of Defence or other security agencies but rather by, say, the Ministry of Education and Science. Regional governments should also play a role—again, without the necessary lead of the traditional security agencies—in order that this revised conception of national security have an all-of-Russia character.

Development of a new national security definition and doctrine for Russia will doubtless also require investment in theory and analysis at the level of the Russian academy. At present, in curricular terms, Russia officially has only one academic study area dealing with national security—to wit, “Political problems of international relations, global and regional development”. (This problem repeats itself in most post-Soviet states.) Russia should therefore immediately introduce a dedicated national security specialisation under Russian political science in order to foster sustained professional research on the topic. Only then can the country develop new and innovative approaches to security—ones not limited by ideological pathologies and that are appropriate to the country’s emerging security environment.

Such reconceptualisation of Russian national security—its ends and its means alike—will require that the state move beyond a predominantly negative or defensive posture—that is, beyond pure prohibitions like the “foreign agents” law, restrictions on foreign involvement in Russian education and science (and strategic sectors), and restrictions on scholarly works that could be regarded as “unpatriotic” (or insufficiently patriotic)—in order to properly encourage and stimulate Russian social sciences in the context of a revamp of the national system of education that can improve the intellectual culture from which national security thinking and future national security professionals emerge.

To be sure, this path would be far less costly than that of ever-rising military expenditures. It may also not be as saleable in electoral campaigns as the promotion of patriotism through mass media campaigns. But it would ultimately result in a Russian national security definition, complex and

disposition that are arguably better (or at least more elegantly) suited to the country's challenges—for state and citizens alike—in the twenty-first century.

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International Economic Policy

Natalya Volchkova

THE PROBLÉMATIQUE

The international economic policy of Russia over the last 15 years has been inconsistent and unpredictable. The country's lengthy accession process into the World Trade Organization (WTO) first saw Moscow assume tough negotiating positions, followed by near-total official disinterest in the WTO after accession. Russia has also actively pushed for regional integration across the former Soviet space, including a full-fledged economic union for several post-Soviet states—a project that has required Moscow to overcome the distrust and apathy of these same post-Soviet states. At the same time, Russia has plainly disregarded many of its obligations vis-à-vis its trading partners in the context of the counter-sanctions regime it created in 2014 when the Ukraine crisis erupted.

Russia's approach to attracting foreign investments has also been contradictory: the state has tried, with little success, to make Moscow an international financial centre, and the top officials in the land actively participate in international investment fora. Still, significant legal restrictions remain on investments in the strategic sectors of the national economy. These restrictions are so broadly defined that foreign investors are disproportionately susceptible to legal risks.

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Constant swings between liberal and protectionist policy decisions and the absence of an identifiable constituency at the highest levels of decision-making favouring a consistent posture of economic openness are key characteristics of the external economic policy settings and posture of contemporary Russia. Indeed, we might argue that, all rhetorical or formal professions of liberal economic openness aside, Russia's official understanding of international trade remains insufficiently sophisticated and deep, and that the historically conditioned, default national instinct is still towards a species of protectionism.

Russian international trade policy inherited many of the traits of Soviet international economic policy, including excessive reliance of the national economy on the state and inadequate attention to market mechanisms for purposes of distributing resources efficiently among firms and also economic sectors. Having said this, the influence of liberal economic thought championed by the late Yegor Gaidar should not be underestimated, as his team was able to form a certain basic apprehension in Russia of the importance of international trade and the need for the country to participate in the creation of international trade policy on a global scale.

The structure of the Russian economy and the sectoral interest groups—in mining, natural resources and raw materials—formed during the mass privatisations and loans-for-share schemes of the mid-1990s, and then over the course of the return of the state to the economy in the first decade of the 2000s, are also important in understanding why, against the general background of what was still the fairly liberal rhetoric of the Russian government, protectionist and import substitution policies came to benefit specific sectors, while export-oriented business interests capable of defending a liberal economic agenda at the highest levels became increasingly scarce. At the same time, the economic sectors competing with imports have been represented either by industrial giants inherited from the Soviet period or by mid-sized and large companies consolidated into large holding companies through state participation and supported by state funds and various tariff and non-tariff trade barriers.

Of course, the unpredictability of Russian tariffs, customs and investment policies leads to significant risks for economic actors—Russian and non-Russian alike. Consider Russia's 2006 embargo on imports of Georgian and Moldovan wines, the prohibition on grain exports in 2010, the embargo on the import of Turkish fruits and vegetables in 2015 and, of course, the import substitution campaign launched in 2014 in the aforementioned context of counter-sanctions. Indeed, independent

monitoring of trade policies by Global Trade Alert ranks Russia as a world leader in terms of policies that harm foreign traders, investors, workers or owners of intellectual property.¹ Not surprisingly, very few cross-border projects are initiated by the Russian private sector, with private firms requiring extremely high revenue prospects, supplemented by non-trivial state guarantees, in order to take such economic risks.

DOES RUSSIA NEED IMPORT SUBSTITUTION?

Russia's reply to sectoral and company-specific sanctions imposed by Western countries in response to the 2014 Crimean annexation and the general Ukraine crisis was in part expressed through trade policy. The Russian embargo on a number of Western goods (agricultural and food products from Europe, the USA, Canada, Australia and Norway) benefited specific sectoral interest groups and created the basis for a widespread national import substitution campaign during a period of considerable economic hardship for the country. After 2 years, the campaign had failed to deliver the desired results: growth in a few sectors, including agriculture, was better explained by the twofold devaluation of the ruble than by any particular policy measures taken by the Russian government,² while devaluation did not bring any benefits to Russian manufacturing, as this sector typically depends heavily on imported equipment and inputs, and was negatively affected by the shock to domestic demand.³ And yet, at the time of this writing, the popularity of import substitution in Russian society and with the authorities remains fairly high.

Since 1990, Russia's trade balance has never been negative. Moreover, for a quarter century, the annual trade surplus has typically not been less than 5 per cent of GDP. The import substitution policy will, by definition, only further increase the trade surplus—something that does not quite fit into the country's strategy of seeking to accelerate the growth rate (which requires more resources and investment goods than the country currently produces).

For its part, the present structure of Russian imports is not materially differentiable from the average world import basket. As such, it is not apparent which goals should be advanced by the import substitution policy, which sectors in the import structure should shrink and which ones should grow. *Bref*, neither macroeconomic considerations of external trade balance nor the structural composition of imports call for import substitution policies—that is, there is little basis to expect that such a

policy will bring any real benefits to the national economy, even as it creates multiple distortions. Indeed, one of the most distortive results of import substitution is the fact that, on my calculations, the intermediate goods used as inputs by Russian producers constitute, at over 60 per cent, the largest part of Russian imports. Their price increase due to import substitution evidently only hurts domestic producers and undermines their competitiveness in international markets.

THE CHALLENGE OF RUSSIAN EXPORT DIVERSIFICATION

The fundamental problem of Russian trade is that the extractive sectors provide nearly 80 per cent of the country's export volume (see Chap. 19 on Energy and Natural Resources). As such, diversification of the economy in general and of exports in particular has been a key challenge in Russian economic policy for the last 15 years. Progress has to date been limited. Official rhetoric aside, as demonstrated by Fig. 15.1, the share of oil and gas in commodity exports has not changed over the last decade and a half, while revenues from these energy exports comprise approximately

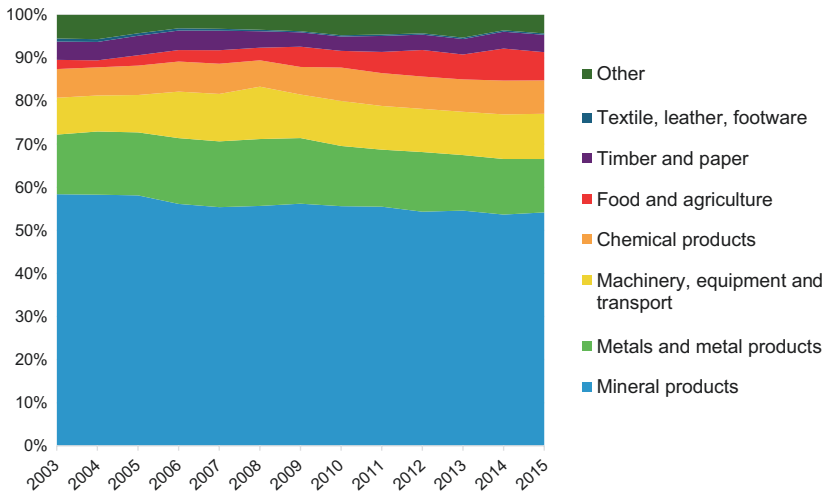


Fig. 15.1 The structure of Russian exports, 2003–2015 (at constant 2003 prices) (Source: 2003–2015 data from Rosstat and the Federal Customs Service, as well as the author's own calculations)

half of the federal budget. In the MSCI Russia index, non-raw materials sectors comprise less than a quarter of total market capitalisation.⁴

Relatively few Russian firms participate in international trade, and very few of them compete in high value-added production. Indeed, a comparison of the distribution of Russian and American manufacturing exports by number of destination countries points to an insufficient number of large Russian exporters in terms of diversification by geography and product line. The proportion of Russian exporters placing 5 or more goods in 5 or more foreign markets is only 6 per cent, compared to 11 per cent in the USA. The smallest exporters—those selling 1 good to 1 foreign country—provide nearly 4 per cent of Russian exports, compared to 0.2 per cent in the USA. And the largest Russian exporters—those selling 5 or more goods to 5 or more foreign countries—provide 53 per cent of exports, compared to 92 per cent in the USA. *Bref*, either the small exporters in Russia are too big or the big ones too small. There is little reason to think that Russia's small manufacturing exporters are too successful, and yet there is good reason to believe that there are too few large manufacturing exporters (while those that do export are insufficiently large). As such, a twofold increase in the proportion of large manufacturing exporters would significantly increase the volume of manufacturing goods exports as well as overall export diversity, thereby lowering the vulnerability of the national economy to oil price shocks.

The need to support non-resource exports has led, in recent years, to the establishment of new institutions like the Russian Bank for Small and Medium Enterprises Support (SME Bank) and the Russian Agency for Export Credit and Investment Insurance (EXIAR), both aimed at export promotion for small and medium-sized firms. Of course, if the essential problem is a shortage of large exporters, then measures aimed at small and medium-sized businesses cannot significantly improve export diversification. Instead, the creation and promotion of large manufacturing exporters require other economic policy instruments and come with other challenges altogether.

RUSSIA'S TWO GLOBALISATION VECTORS: THE WTO AND THE EURASIAN ECONOMIC UNION

For the last 15 years, two large integration projects have been realised by Russia: WTO accession and the creation of the Eurasian Economic Union. In the coming decade, the global strategy of Russia will have to

concentrate principally on these two files, while allowing the country to create openings to, or otherwise develop strong positions in, China- or Asia-led economic blocs.

Russia's accession to the WTO in 2012 took longer than that of any other country. To be sure, the WTO working group negotiating with Russia included a record number of countries, which lengthened the process. And yet the dominant factor in drawing out the process was the tough position assumed by Russia on a series of fundamental questions, including dual gas pricing, agricultural subsidies and the legal status of foreign banks. This meant that more time was required to find compromises and concessions, with Russian negotiators today quite proud of the fact that their original "red lines" on all these questions were respected.

WTO entry also required of Russia the adoption of dozens of new federal laws and amendments to existing laws and regulations—large and small—touching international trade in particular and the economic life inside the country more generally. As such, the WTO accession process began to play a significant role in the economy long before its formal conclusion, just as the ongoing adaptation of Russia's economic legislation to meet international standards should continue to gradually improve the efficiency of the economy over time. Since accession, Russia has made significant progress in respect of the Trade Facilitation Agreement, Information Technology Agreement, and in intellectual property legislation. However, Russia still lags, as against WTO expectations, in areas like government procurement involving significant local content requirements, as well as in the role of the state in the national economy (which remains heavy, including through state-owned enterprise).

Russia's WTO entry process resulted in 30 bilateral agreements on service market access and 57 agreements on market access for goods. At the end of the transition period in 2020, the simple average final bound tariff rate will be 8.4 per cent, as compared with the average most-favoured nation rate of 11 per cent that was applied around the time of accession. The average final bound levels will be 13.6 per cent for agricultural goods and 7.1 per cent for non-agricultural goods. (As of 2016, the average applied most-favoured nation rate was 14.6 per cent for agricultural goods and 6.5 per cent for non-agricultural goods.)

To liberalise service market access, Russia made concessions in 11 service sectors and 116 subsectors. In telecommunications, for instance, Russia agreed to eliminate its foreign equity limit of 49 per cent level. Russia also agreed to apply the terms of the WTO's Basic Telecommunications

Agreement. Foreign insurance companies will be able to open branches in Russia 9 years after entry into the WTO. Foreign banks are presently allowed to establish subsidiaries. There is no limit to foreign equity in individual Russian banks, although overall foreign capital participation in the Russian banking system is limited to 50 per cent. In the wholesale, retail and franchise sectors, Russia allowed entirely foreign-owned companies to engage. It made some concessions on export duties and also agreed to fix over 700 tariff lines, including on certain products in the fish and crustacean sector, mineral fuels and oils, raw hides and skins, pulp and paper, and base metals.

Assessments of the impacts of WTO entry for Russia, based on studies by the World Bank, the Higher School of Economics and the Centre for Economic and Financial Research in Moscow, show that there has to date been a small positive effect from tariff liberalisation and improved market access for the Russian economy as a whole.⁵ In particular, Jesper Jensen, Thomas Rutherford and David Tarr, using the Computable General Equilibrium model, found the positive effect of accession to be approximately 3.3 per cent per annum of Russia's GDP (or about US\$53 billion per annum, based on 2008 GDP at market prices).⁶ In the long run, these gains should increase to about 11 per cent per annum of Russian GDP (or about \$177 billion per year at market prices).

A significantly larger potential effect of entry turns on the liberalisation of the Russian service market, beginning with business services. Many studies point to the low productivity of this sector of the Russian economy, and its liberalisation is supposed to be an important factor in attracting foreign investment.⁷ The World Bank shows there are huge potential gains (up to tens of percentage points of GDP) in the long term from such investments, as the increased productivity of these sectors will have a systemic effect on the overall economy in virtue of the fact that telecommunications, logistics, insurance, retail and wholesale services account for a significant part of the costs borne by Russian producers.

Given the considerable work invested by Russia's negotiating team in the WTO accession process, the total absence of interest from Russian representatives in subsequent discussions on global trade issues at the WTO was unexpected. And yet this accords with the aforementioned hypothesis about the liberal agenda of the Russian government being fairly superficial, and the understanding of the importance of globalisation not having deep roots—whereas protectionism does. In fact, soon after the conclusion of WTO entry, the term “smart protectionism” became du jour in

the economic bloc of the Russian government. By “smart protectionism”, what was understood was a set of defensive measures for different sectors and different producers that could be taken without the threat of punishment under WTO rules. These measures included different treatment of subsidies by each of Russia and the WTO, non-tariff barriers and also procurement. Several of these measures (e.g. those concerning geographic origin) were quite neutral in terms of WTO rules, while others (e.g. reclassification of domestic support measures) were at the margins of what is permitted by those rules. Of course, in the context of the current sanctions and counter-sanctions regimes, it is difficult to say how activist the Russian government will be in deploying such measures. And while there is no urgent imperative for especially sophisticated defensive measures, national security arguments can well be manipulated to allow for the introduction of the most direct measures.

Still, resolving Russia’s various internal political contradictions will not in itself address the problem of the country’s strange passivity at the WTO after having opened up its market to an unprecedented degree. Only a posture of long-term activism in this international organisation can be propitious to the various forces in the country seeking more favourable conditions of access to the international market. And yet given the specific structure of Russia’s economy, there is at present no support from the strongest interest groups—not to mention government—for such activism. More generally, there appears little government interest in Russia becoming a strong player in international trade in the foreseeable future.

THE EURASIAN ECONOMIC UNION

The other major integration project for Russia after the breakup of the Soviet Union targeted the post-Soviet space. Several attempts at regional integration were made after 1991. Eventually, a free trade zone was formed in 2011 under the aegis of the Commonwealth of Independent States (CIS), of which Russia and 8 other Soviet republics were members. There was constant parallel work towards the next level of integration—to wit, a full customs union. The principal obstacle to a customs union was the significant asymmetry between the customs regimes of Russia and the other CIS countries. Reliance on import substitution policies among the countries of the region varied considerably. Russia, to a far greater degree than the others, has used tariff lists as an instrument of industrial policy, while its CIS partners have, on average, lower tariffs. Given the strong import substitution lobby in Russia, one should not expect that

Moscow would agree to any significant lowering of tariffs in the context of a customs union. This would mean that Russia's partners would have to increase their own tariffs. Indeed, the absence of strong sectoral interests in the partner countries would make this uncomplicated. However, tariff increases would evidently lead to price rises, which means that Russia would, in the context of integration, have to make compensatory transfers to countries agreeing to increase their respective shares in joint tariff revenues under a customs union regime.

In 2001, as deep integration began to take shape in what would eventually become the Eurasian Economic Union, Russia did not have enough financial resources to pay these transfers. With the advent of high oil prices at the start of the 2000s, such resources at last appeared, and could in principle have been used for such transfers. (We do not know the extent to which these enhanced resources were in fact used for these transfers.) In 2010, the creation of a customs union between Russia, Kazakhstan and Belarus was announced. Five years later, Armenia and Kyrgyzstan also joined, and the target standard of integration was raised to that of a common economic space. To be sure, the key common interest driving regional countries to strengthen integration was to ease access to the Russian market. (In 2010, 5 per cent of Kazakhstan's exports went to Russia, while up to 40 per cent of Belarus' exports went to Russia.⁸) For its part, Russian interest in regional integration was less explicable from the economic perspective but manifestly more significant in terms of geopolitical strategy. In other words, Russia's ability to be the pivotal strategic player in the Eurasian space is directly tied to the success of this integration project.

The Eurasian Economic Commission looks primarily to the experience of the European Union for various elements of the organisation of a common economic space. Of course, the existence of the European example does not guarantee that there will be better practices in place, but there is broad recognition of the fact that EU regulatory standards are manifestly higher than the present various national standards across the post-Soviet space—so there is room to hope that the quality of future decision-making will be raised significantly. Businesses in Eurasian Economic Union member states will also become important stakeholders in the reforms undertaken on the territory of any country in the common market. Moreover, the deterioration of relations between Russia and the West has increased Russia's interest in regional integration, making Moscow particularly sensitive to the requirements of member country capitals in the context of accelerated harmonisation and the lowering of barriers to market access. (To be sure, the counter-sanctions policies unilaterally undertaken by

Russia in 2014 in reaction to Western sanctions damaged, to some extent, the functionality of a common economic space.) The smaller countries in the Eurasian Economic Union, in turn, believe that their bargaining power, in global integration processes both eastward and westward, will be increased through membership in the common market.

Bref, there are significant pluses from the creation of the Eurasian Economic Union for all participating countries—bearing in mind, of course, the non-negligible challenge of linking the Eurasian Union to other existing and emerging blocs, as discussed by Fyodor Lukyanov in Chap. 5 on Foreign and Defence Policy. However, realising these benefits in the near or medium term will depend on the political will of the leaders of the relevant countries, which evidently makes the outcome less predictable. For one thing, the work of the Eurasian Economic Commission will be regularly confronted by national authorities and national economic lobbies seeking various protections from imports. This means that the political leaders of member countries will need to invest greater efforts, as a matter of strategic urgency, into securing the supranational authority and legitimacy of the Commission in trade-related matters.

While the Commission is working actively on many issues relating to deepening integration within a common space and outward integration of the Eurasian Economic Union with third countries—including Vietnam and Israel—there remain several important integration vectors that are less developed. Two critical trade partners for the Eurasian Economic Union are the EU (westward) and China (eastward). These partnerships are underdeveloped (the Ukraine crisis having massively hobbled Eurasian-EU efforts), and their growth will need to be carefully managed by the Eurasian Economic Union in order to avoid strong trade diversion effects (common to customs unions), on one hand, and trade deflection effects (common to free trade agreements), on the other.

WHAT'S TO BE DONE?

The oft-discussed Russian choice between East and West is, in my view, invented. The significant territory of the country and the presence of major economic interests in both the East and West make integration in both directions inevitable. Moreover, successful development of territories in Siberia and in the Far East is possible only through integration projects in the eastward direction (and perhaps also northward).

Trade flows today consist, to a large extent, of intermediate goods rather than final ones. The components of complex technological goods cross the borders of dozens of countries before reaching a final consumer. This means that logistical, transport and customs-related expenses comprise a substantial part of the cost of final goods. At present, Russian implication in these global value chain processes is very limited both in the eastern and western directions—most obviously because of underdeveloped transport and logistical infrastructure, the high cost of border crossing and unpredictable changes in trade policy. Unfortunately, the requisite understanding of the possibilities provided by the incorporation of the country into value-added chains is still absent in the federal and regional centres of Russian decision-making. Development plans for the Far East, for instance, have focused principally on state-dominated industrial projects and not on facilitating flexible and effective infrastructure that creates the necessary conditions for realising multiple private integration projects that may result in more intensive participation by Russian producers in global value chains at different stages.

In addition, in the current paradigm of trade policy, excessive importance is accorded to energy integration. Energy integration is important for strategic cooperation and provides the preconditions for integration in other economic sectors, but it does not displace these sectors. The same applies to the potential participation of Russia in the development of an East-West transportation corridor in the context of the integration potential of other policy spheres. Still, to realise this potential, it is essential that strategic projects be implemented with the participation not only of state companies but indeed of a wide array of independent interests capable of assessing the advantages created by such strategic projects for other economic spheres and attracting resources for their capitalisation.

The Ukraine crisis has clearly impacted, and will continue to negatively impact, Russia's integration prospects in the westward direction. The considerable weight of the political and military lobby, and the absence in Russia of large stakeholders with exclusively economic interests, have become a key factor in the evolution of the conflict and explains the present pessimism in respect of the possibility of solving it in the near future. In the long run, much will be determined by the collective will of those responsible for the escalation of the conflict. Meanwhile, Russia's short- and long-term economic losses from this situation are considerable and include loss of investment attractiveness for integration projects in the direction of Europe.

Russian exports cannot diversify naturally.⁹ The Russian government must review the tariff and general economic policy affecting the

production costs of Russian firms. To this end, an audit of existing legislation and normative legal acts in respect of export firms would help to determine the cost differential between access for Russian firms to international markets and access for foreign firms serving their own domestic markets. All excess Russian regulatory burden applied to Russian firms, in these relative terms, should be reconsidered in order to improve the competitiveness of Russian firms in international markets.

Access to foreign investment and imported intermediate goods is a major factor in the diversification of Russian exports. Russian manufacturing firms importing intermediate goods are on average 20 per cent more productive than their non-importing counterparts.¹⁰ This productivity advantage or gap is highly instructive in explaining the relative competitiveness of these firms in international markets. And if trade and economic policy aimed at increasing obstacles for imported goods only impedes export diversification, then the present import substitution regime collaterally harms many sectors of the economy, increasing the value of imported goods for subsequent production in the value chain, and mitigating the effect of any currency depreciation on export development.

Russian trade policy must begin to place greater emphasis on export promotion for large, medium-sized and small firms alike. For now, the interests of future exporters are absent in the political decision-making landscape, which complicates the potential for any balanced approach to economic integration. The creation of logistical and transport infrastructure both in the westward and eastward directions aimed at easing access for Russian producers to foreign markets, as well as active attraction of foreign investment aimed not only at serving the internal market but also at accessing third countries, must become the bases of Russian trade policy more globally. In short, import substitution rhetoric must before long be eradicated and exchanged for a bone fide export promotion strategy.

To be sure, there is a broad consensus in Russia to the effect that a critical national strategic resource is the country's skilled human capital. In the post-Soviet context, this resource remains highly underdeveloped. To make this resource a principal driver of national development, we must clearly understand its relative position in the world. If labour in Russia is more skilled and more expensive than in most Eastern partner countries, we might conclude that Russia benefits naturally from buying cheaper labour-intensive goods from the East. On the other hand, Russian labour is cheaper than in many Western partner countries. This means that there is an opportunity for Russian companies to be competitive in Western markets. Yet for

this to be operationalised, Russia must have many modern technologies to match modern Russian labour. These technologies, on any reasonable scale, can be brought into the country only by foreign investors. This, then, illustrates a potential role for Russia in global value chains and in diversifying exports: importing components from the East, upgrading them in Russia and exporting them subsequently to more developed markets.

For now, this all seems fairly unachievable. And yet without reviewing the basic principles and instruments of its international economic policy, sustainable economic growth for Russia in the modern world will be impossible.

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Fiscal and Monetary Policy

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THE PROBLÉMATIQUE

For 25 years since the start of market reforms, Russian progress in budgetary, fiscal and monetary policy in the direction of developed countries has been undeniable. Russia has created a modern tax system, institutional mechanisms for administering revenues from the export of oil, an expenditure management system and a system of fiscal federalism. It has provided a high degree of independence to its central bank (the Bank of Russia), transitioning to an inflation-targeting regime and a floating exchange rate. In this chapter, we aim to explain how fiscal policy and monetary policy have evolved over the course of the post-Soviet history of Russia, which problems have been addressed by the Russian government

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through fiscal and monetary instruments, and which ones remain and how they should be tackled. Among the remaining challenges, perhaps the most important one is the continued lack of “coordination” or, more precisely, the *lack of mutual regard* between fiscal and monetary policies in Russia. This lack of mutual regard has militated against macroeconomic stability and led to recurring economic crises (or otherwise complicated the economy’s exit from these crises).

Let us also note that while Russia is formally a federal state, regional and local governments still have limited budgetary autonomy—that is, they have negligible practical ability to determine their own expenditure levels or even, in many cases, regional spending priorities. As such, we will look principally at the federal budget of the Russian Federation, which is the “lender of last resort” for regional budgets and for the national pension and social insurance funds.

THE MACROECONOMIC STABILISATION OF THE 1990s

Between 1992 and 1995, the Russian government was largely successful in consolidating the federal budget. The budget shrank from 18.9 to 3 per cent of GDP. Nevertheless, the rate of inflation was over 100 per cent per annum, even if in most Eastern and Central European countries inflation had by that time shrunk to single digits.¹

The IMF credit programme of 1995 was the first major attempt to achieve macroeconomic stability in the post-Soviet context. The Bank of Russia stopped giving direct credit to the federal government. In the summer of 1995, a currency corridor was created, which helped to stabilise the ruble and lower inflationary expectations. As a consequence, consumer price growth fell from 131.6 per cent in 1995 to 11 per cent in 1997. Still, strict monetary policy was conducted in the context of highly unbalanced state finances, which led to growth in state debt and debt service costs.²

The decrease in government expenditures was at once extremely slow and insufficient to return Russia to a balanced budget position. The stabilisation push was therefore not sustainable and did not succeed in laying the foundations for healthy economic growth. In August 1998, there began a sharp fall in real production, driven by the devaluation of the ruble and rising inflation (largely due to excessive expansion of the money supply). Of course, the fundamental reasons for the crisis went back a few years. (The contagion from the Southeast Asian crisis was more of a trigger

than a direct cause.) The rapid ramp-up of domestic state debt started in the spring of 1996, when budgetary expenditures were increased in anticipation of the presidential elections. By the middle of 1998, domestic debt had grown to 25.6 per cent of GDP. Debt service costs grew from 2.6 per cent of GDP in 1995 to 3.9 per cent in the first half of 1998. Between 1996 and 1998, the country's external debt more than doubled, from US\$24 to \$55 billion. Annual expenditures on servicing this external debt reached 1.2 per cent of GDP. The total debt burden on the national economy was 49.8 per cent of GDP (on January 1, 1998)—relatively low compared with developed countries. However, Russia's internal (ruble-denominated) debt at the time was disproportionately short term (the average duration being less than 1 year, given that Russia was still of limited attractiveness to most lenders), with much of this debt held by non-residents. Monthly debt payments were equivalent to 10–15 per cent of monthly GDP in the first half of 1998.

In August and September of that year, a balance of payments crisis, coming on the heels of the Asian financial crisis, enveloped the entire Russian banking system. Interbank lending became more difficult. Corporate tax payments were frozen in problem banks and did not make it into the national budget. The population began to withdraw savings from banking institutions.

Serious changes in macroeconomic policy were expected in 1998 from the pro-communist Primakov government. Indeed, the inflationary turn in the economy could have been foreseen through the speeches of multiple members of the government, calling on strengthened state intervention in the economy, compensation for the losses of the population from the crisis and otherwise for support of the banking system. And yet the Primakov-Stephashin-Putin government showed considerable prudence, adopting a strict budget in 1999. Moscow launched a policy aimed at increasing the collectability of taxes. Meanwhile, the monetary policy of the Russian central bank remained very conservative. By the start of 1999, consumer prices grew at only 36.6 per cent, as against 84 per cent the year prior.

The main consequence of the government's actions in 1999 was that, for the first time in 10 years, there was a national budgetary surplus. In terms of policy delivery, strictly speaking, this achievement was comparable to the 1992 price liberalisation under Yegor Gaidar and the tight monetary policy under Anatoly Chubais in 1997. *Bref*, only after the crisis of 1998 were the fundamental elements of macroeconomic stability—that is, a balanced budget and strict monetary policy—in place.

THE BOOMING 2000s: DEPENDENCE ON EXTERNAL CONDITIONS

The period between 2000 and 2008 saw extremely favourable external economic conditions for the Russian economy. The average yearly price on Urals crude oil grew 3.5 times during this interval. With over half of federal budget revenues directly dependent on oil prices, this dynamic issued in a budget surplus of 7.4 per cent of GDP in 2005–06.

In the context of sustained budget revenue growth, total expenditures, as a proportion of GDP, continued to rise until 2002, after which they fell consistently until 2007. The key reason for the absence of budgetary expansion was the perception by Russian society and the state alike that the growth of oil prices was a temporary phenomenon. Renewed economic growth also allowed for nominal expenditure growth in all directions, which met the expectations of the public. Another non-negligible factor in the diminished expenditures was the underestimation of inflation in Russia's budget forecasting and planning. Expenditures therefore fell both in real terms and as a percentage of GDP.

In 2001–02, a period of stabilisation began in the monetary sphere. To a significant extent, the Bank of Russia had inflation and the situation in the currency and money markets—now far less turbulent—under control. Growth in the money supply followed the influx of currency into the country, the diminishing velocity of money and the de-dollarisation of the economy. Still, there were several observable positive changes in the banking sector, including increased capitalisation, a broader spectrum of credit operations (starting with consumer credit) and lower interest rates. And yet, from 2003, the ruble again began to strengthen against leading currencies: if by the end of 2002 it had fallen to 31.8–32 rubles to the dollar, then by the start of 2008 it was over 24.5.³

In the first decade of the 2000s, numerous attempts were made to increase the stability of the budgetary system and the efficiency of the distribution and use of state resources. The Budget Code of the Russian Federation entered into force on January 1, 2000. It established the legal foundations for the federal budget, fiscal federalism and the overall budgetary process. In 2004, the Stabilisation Fund was created as an instrument for accumulating revenues from customs duties on oil as well as taxes on mineral extraction in the context of high oil prices (see Chap. 19 on Energy and Natural Resources), thereby introducing countercyclical potential into the budgetary policy of 2004–07.

In 2003–04, the federal government began to implement best international practices in the administration of budgetary resources—in particular, results-based budgeting and programme planning. However, the introduction of complex administrative procedures and processes into Russian budgetary planning took place at a time when fundamental budgetary issues—including reform of the country’s numerous budget-receiving public entities and the efficiency of resource use at lower levels of government—were still unaddressed. The low quality of the institutional sphere therefore significantly undermined the results-based reform push.

The situation in the monetary sphere began to change markedly in 2004. Rising oil prices led to increased inflows of foreign exchange into the country. Inflation soon broke the upper bound of 10 per cent per annum, set by the central bank and the federal government. From 2004 to the first half of 2007, the key challenge for the central bank was not to allow excessive nominal appreciation of the ruble—a goal it pursued by purchasing foreign currency entering the country through increases in the money supply.

From 2004, the Bank of Russia began to use a new benchmark for its currency policy—the weighted arithmetic average of the dollar and the Euro against the ruble. (The bank targeted only the ruble exchange rate until 2012.) The weight of the Euro in the basket was first set at 10 per cent. From February 8, 2007, the structure of the basket was set at 0.55 for the dollar and 0.45 for the Euro. The ruble exchange rate floated within a narrow corridor: from 2006 to the first half of 2008, the bi-currency basket did not oscillate in value by more than 4 per cent. Between 2002 and 2007, the international reserves of the Bank of Russia grew tenfold, from US\$48 billion to US\$479 billion. In the first half of 2008, the ratcheting-up of reserves continued, peaking at US\$597 billion on August 1, 2008. Still, despite the efforts of the central bank, the real effective exchange rate rose by 73 per cent between 2000 and 2007.

By the middle of 2006, all obstacles to cross-border movement of capital were fully removed. The stable exchange rate and high domestic interest rates made the ruble attractive to speculators, resulting in an influx of capital from 2006 to the first half of 2008 in the amount of over US\$145 billion. In practice, of course, the Bank of Russia bumped up against the impossibility of conducting independent monetary policy under a fixed exchange rate and with free movement of capital (the so-called impossible trinity). Monetary policy during this period was endogenous—that

is, the growth of the money supply followed the inflow of currency into the country through the current account and, from 2006, through the capital account as well. The role of the Bank of Russia reduced to conducting permanent ruble interventions with the objective of preventing rapid strengthening of the nominal ruble exchange rate. (The interest rate mechanism was still not working well in Russia at that point.) The rapid growth in money supply through these operations militated against any sustained decrease in Russian inflation levels to the average level of the countries of Central and Eastern Europe (3–5 per cent per annum).

The most important instrument for containing inflation in these conditions became fiscal policy—namely, the Stabilisation Fund, which shifted its resources into the international reserves of the Bank of Russia. The total volume of rubles withdrawn from the economy and accumulated in the government's accounts in the central bank, as of January 1, 2009, was approximately 120 per cent of the contemporaneous monetary base. In the absence of such “sterilisation” against the central bank's operations in the foreign exchange market between 2004 and 2008, some 15–20 percentage points would have been added to the annual growth rate of the money supply.

From 2006 to the first half of 2008, the Stabilisation Fund accumulated 35–40 per cent of Russia's overall balance of payments surplus. Otherwise (as our modelling shows), due to the higher supply of foreign currency in the domestic foreign exchange market, the nominal exchange rate could have risen to 13–15 rubles to the dollar by August 2008, instead of the actual 23.5–24 rubles. As such, by the start of the crisis in the fall of 2008, the real effective exchange rate of the ruble grew by 180–200 per cent, as compared with July 1998 (the previous peak real exchange rate), which would have meant a significant loss in competitiveness for Russian firms.⁴

The process of creating so-called institutions of development began in 2005. Over the course of several years, these would include the Investment Fund of the Russian Federation, the open joint stock company Special Economic Zones, the Bank for Development and Foreign Economic Affairs (VEB), the Russian Venture Company and, *inter alia*, the Russian Nanotechnology Corporation. Each of these institutions received financial support from the federal budget. However, these institutions have not, to this day, catalysed investment growth in the Russian economy—first and foremost because of the worsening investment

climate since their creation (given growing state interference in the economy) and, in parallel with this, the ineffectiveness of investment decisions made by the state.

The “national priority projects” programme was implemented in 2006–10 as an alternative form of results-based budgeting. National priority projects were developed in 4 areas: education, health care, housing and agriculture. The performance indicators for the implementation of the projects were all met or exceeded. However, not having been supported by institutional reforms, the projects amounted simply to slightly increased budgetary spending in each of the 4 priority areas. Moreover, as these 4 priority policy areas fell largely to regional authorities, the national projects also created additional expenditures and fiscal pressures for regional governments.

Russia began its transition to medium-term budgetary planning from 2007, when the federal budget was, for the first time in the post-Soviet period, framed for a 3-year period. This was intended to increase the predictability of federal taxation policy. However, as early as 2009, as a result of the emergence of crises in the global and Russian economies, the government was unable to deliver the 3-year budget. The 3-year budget practice resumed in 2010 and lasted until 2015, when in the context of a new crisis (the present economic crisis) the 2016 budget was set for that year alone. Now, at the time of this writing, the Russian government has returned to 3-year budget planning for the 2017–19 period.

FISCAL POLICY AFTER THE 2008–09 CRISIS

During the global financial and economic crisis, the course of the Russian economy and Russian fiscal policy changed fundamentally. As a result of a rapid deterioration in the terms of trade—caused by the fall in world oil and commodity prices—the Russian economy had, by the start of 2009, fallen into recession, accompanied by depreciation of the ruble. The worsening economic situation was reflected in the condition of the national budgetary system: in 2009, the drop in budget revenues and rise in expenditures at all levels of government led to the combined public sector budget for the country (combined federal budget, regional budgets and social funds) becoming deficitary for the first time in a decade.

From November 2008, the Russian government was quick to deploy a wide range of anti-crisis measures, including unemployment benefits,

support for pensioners, assistance to strategic firms in various sectors of the economy, financial recovery for banks and help for small and medium-sized businesses. More broadly, the government succeeded in partially mitigating macroeconomic risks through the accumulated reserves in the commodity sovereign wealth funds—that is, some 7.7 per cent of GDP went to budget expenditures from the Reserve Fund.

The anti-crisis measures in the budget had several key impacts on the policy and administrative system. First and foremost, in the public consciousness, the majority of these measures were identified with political campaigning—especially in pension reform and the introduction of normative per capita funding in the social sphere, where the rules changed many times over. *Bref*, the anti-crisis measures signalled growing inconsistency and unpredictability in state budgeting and policy.

Second, the overall size of state expenditures used for countercyclical economic stimulus grew markedly. The increased expenditures resulted in the diversion of resources from the private sector, where resource use was more efficient. (We estimate the multiplier for state spending in Russia to be no greater than 0.5.)

Third, the structure of state expenditures deteriorated due to the high share of unproductive expenditures—to wit, on state administration and law enforcement and defence, in lieu of comparatively productive expenditures on human capital development (education and health care), science and infrastructure.

Fourth, there has been no material improvement in Russia's budgetary institutions since 2008. That was when the organisation of budget-dependent state institutions was frozen, significantly distorting market conditions. In the meantime, the government has permanently postponed assessments of budgetary expenditures (i.e. assessment of the economic impact of tax benefits and preferential fiscal regimes).

Fifth, there has been a significant increase in the number of secret articles in the budget. The anti-crisis package saw a large amount of financial support received by firms in the military-industrial complex. As a result, if in 2006–12 some 10–12 per cent of total expenditures in the federal budget were secret, then by 2015 this proportion was approximately 25 per cent.

Finally, in fulfilling the presidential decrees issued after the election of Vladimir Putin in May 2012, prescribing a sharp increase in public sector wages, considerable fiscal risks and pressures were created for Russia's

regions, which suddenly had to absorb these wage increases with reduced revenues.

Bref, given the lack of political will at the time, the window of opportunity for improvement of budgetary policy in 2008–09 was missed. For all practical intents and purposes, the Russian economy emerged from the dangerous phase of the international crisis largely unchanged in virtue of the countercyclical spending from the Reserve Fund, but with a marked decrease in the transparency of budgetary policy, with the level of state expenditures frustrating economic growth, with a high proportion of unproductive public expenditures as a percentage of GDP and with the long-term sustainability of the budgetary system compromised.

At present, the Reserve Fund, the ruble equivalent of which has grown significantly since the end of 2016 (due to investment in foreign securities after the devaluation of the ruble), is the principal source of funding for the federal budget deficit. However, by the start of 2017, the remaining volume of the Fund did not allow for even 6 months' worth of continued financing of the federal deficit—under existing oil price levels.

In 2012, working from President Putin's economic programme coming out of the presidential election, the central bank began to gradually transition to a full regime of inflation targeting and a floating exchange rate, *sans* interference in the currency market. Of course, this transition was dealt a body blow, in the fall of 2014, by the dramatic fall in oil prices, the economic sanctions levelled against Russia and the overall deterioration of the Russian economy. As a result, in 2015—the first year of the inflation-targeting policy—inflation, at 12.4 per cent, significantly exceeded the 8–10 per cent level set by the Bank of Russia.

The start of the free float of the ruble coincided with the currency market crisis in November–December 2014. The nominal rate of the ruble in US dollars fell twofold in 2014–15, from 30 to 60 rubles per US dollar, and the real exchange rate by approximately 25 per cent. In 2016, tight monetary policy brought inflation back down to 5.4 per cent per annum, while the ruble strengthened against the US dollar by 16.1 per cent.

What of the present strengths of the Russian fiscal system? The tax burden in Russia (excluding royalties in the oil and gas sector) is, at 23–24 per cent of GDP, comparable to that of the countries of the former socialist bloc but lower than the OECD average of approximately 34 per cent. In the monetary sphere, since 2008, the central bank has made significant progress. Inflation reached single digits in the 2011–13 period (6–6.5 per cent per annum)—a first for post-Soviet Russia. The nominal exchange

Table 16.1 Russian monetary and fiscal policy stances and economic outcomes (1991–2017)

<i>Fiscal/ budgetary policy</i>	<i>Monetary policy</i>	
	<i>Tight</i>	<i>Loose</i>
Tight	<i>1998–2002</i> : successful stabilisation of budget and inflation; start of economic growth after the 1998 crisis <i>2015–17</i> : bringing inflation down; controlling the budget deficit; economic stabilisation after the shocks of 2014	<i>2003–08</i> : accumulating budget reserves, which would come into play in the crisis of 2008–09; inflation remains high
Loose	<i>1995–98</i> : successful stabilisation of inflation and the exchange rate, but heading towards the public debt crisis of 1998	<i>1992–95</i> : postponing financial stabilisation for several years (similar to other post-communist countries) <i>2008–14</i> : macroeconomic stabilisation with prospect of budget deficit (oil prices drop) and inflation; economy goes into recession

rate, in a bi-currency basket, strengthened somewhat in 2009–10; however, it remained 20–25 per cent lower than its level between 2007 and the first half of 2008. The real effective exchange rate returned to its pre-crisis level only by the start of 2014.

The size of Russia’s debt continues to be low at less than 15 per cent of GDP. Moreover, the 2015 inflation-indexed state bond issued by the Ministry of Finance on the domestic market proved that there was fairly high demand for such financial instruments from Russian and foreign investors alike: for Russians, given the absence of other safe assets into which to invest; and for foreign investors, notwithstanding the current economic sanctions against Russia.

Table 16.1 summarises the historical track of Russian fiscal and monetary policies, demonstrating the overall lack of mutual regard between the two in the post-Soviet period. The table indicates that there were only 2 occasions over the last 3 decades (1995–98 and 1998–2002) when the two combined (both times in the “tight” stance) to stabilise the economy in practice. In most cases, lack of policy coordination resulted in turbulence in the economy or fragility in the context of external shocks.

WHAT'S TO BE DONE? TOWARDS A COORDINATED MACROECONOMIC POLICY

Reform of the fiscal-budgetary sphere is a critical medium-term challenge for the Russian state. As for monetary policy, there must be continuity in the current course and strict independence for the Bank of Russia in determining the operational goals and instruments of monetary policy. At the time of this writing, we advocate strongly for strict inflation targeting as the Bank's sole operational goal. In future, as inflation stabilises at a lower level, the central bank may set for itself goals beyond the inflation rate alone, including unemployment, real exchange rates and other macro-indicators.

For long-term stability in the budget system and for sustainable national economic development, Russia must, first, return to medium-term budget planning and adopt a new budget rule.⁵ Specifically, in the context of the diminishing oil and gas dependence of the federal budget over time, Russia should transition to a budget rule restricting the maximum size of federal budget expenditures, taking into account not only fluctuations in oil prices but also the country's internal business cycle. This new budget rule may include a new restriction on federal budget expenditure levels as a percentage of GDP or may tie expenditures to the average price of oil calculated over, say, 25 to 30 years. Budget policy, under such a rule, would not be countercyclical or proactive, but we argue for it precisely because the extant fiscal "cycle" in Russia is mostly associated with oil price volatility in the global markets rather than with the domestic business cycle.

Second, in order to ensure sustainable, balanced economic growth, the Russian government must speed up the implementation of structural reforms in the budgetary sphere—to wit, changing priorities in budgetary spending. There is little doubt that budgetary policy would give substantial support to sustained economic growth in the country through reductions in expenditures (as a percentage of GDP) on national defence, national security, direct economic subsidies, housing and state administration. At the same time, spending on health care education, infrastructure and science must be increased substantially.

Increasing the stability of revenues at all levels of the budget system and lowering dependence on fluctuations in external conditions together require a shift in the tax burden from direct taxes on businesses to indirect

taxes on businesses and direct taxes on individuals. To this end, Russia should, as in Germany, the United Kingdom and Japan after 2009, increase the national value-added tax by 2 to 3 percentage points (to 20–21 per cent) and reduce the corporate income tax rate from 20 to 15 per cent or the payroll tax rate from 30 to 25–27 per cent. At the same time, the flat personal income tax rate should be increased from the present 13 to 15–16 per cent. Greater progressivity in personal income taxation can be engineered through higher property taxes.

In the context of low but stable oil prices (not exceeding US\$60 per barrel), the transition to a new budget rule and implementation of structural budgetary reforms require that the budget deficit not exceed 1–2 per cent of GDP. Such a deficit can be financed principally through borrowing on the internal market and only partly, given the present financial sanctions, on external markets. State debt may uncontroversially increase to approximately 20 per cent of GDP by 2020. Of course, a second important source of deficit financing for Russian budgets (at all levels of government) should be revenues from the privatisation of state property and state corporations (see Chap. 33 on State Corporations).

Finally, in order to improve revenue collection in Russia, the administration of all compulsory budgetary payments—taxes, social insurance contributions and customs duties—should be transferred to the Federal Tax Service. (This process commenced at the start of 2017.)

The strategic challenges facing the Bank of Russia are determined by the current phase of development of the overall Russian economy. The monetary authorities must concentrate all efforts on providing sustained low and predictable rates of inflation in the context of a regime of inflation targeting under a floating exchange rate.

By all standards—those of developed and developing countries alike—Russia remains a country with high inflation. The Bank of Russia can lower inflation if economic actors expect low rates of price growth. In order to grow its reputational capital in support of such market-actor expectations, the monetary authorities must be very activist in increasing policy transparency. This will require them to remain steadfast and firm in inflation targeting and in the free float of the ruble, as well as in fostering greater informational openness, adjusting the key interest rate to the level of the federal budget deficit and the growth of regulated tariffs and prices. Specifically, we estimate that every GDP percentage point of federal budget deficit requires a 50 basis-point increase in the key interest rate in order for Russia to meet the national inflation target in a balanced budget scenario.

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Industrial and Innovation Policy

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THE PROBLÉMATIQUE: WHAT IS RUSSIAN INDUSTRIAL POLICY?

Industrial policy has always attracted significant attention among the political class, business people and technical specialists of Russia. Much of this interest, of course, is driven by the basic redistribution of rents driven by national industrial policy—that is, the very real prospect of different economic sectors and players receiving direct material and political advantages in the near and long term from the decisions of Russian policy-makers.

In periods of economic growth, industrial policy has historically been viewed by the Russian state as an instrument of economic diversification, pushing the country to reduce its dependence on oil and gas exports, and to accelerate the development of high-tech manufacturing and advanced services. In periods of crisis, however, industrial policy has typically been focused on supporting certain large and systemically important industries (e.g. the automotive industry in 2009; see Chap. 33 on State Corporations). And yet, paradoxically, in the context of the current economic crisis, the Russian government has been working hard to develop

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new economic sectors on the basis of disruptive innovation—notably under the so-called National Technology Initiative.

To be sure, industrial policy is conceptually accepted and understood by Russian society—not least because the paternalistic (especially Soviet) roots of state policy remain strong, resulting in a population at ease with dirigiste principles and/or ad hoc management. Having said this, compared to the more abstract strategic challenges of structural rebuilding, diversification and technological development, the present social problems in the country appear to the Russian public to be far more urgent and weighty. This is all the more true because, over the past three decades, a certain distrust of large-scale institutional reforms (the results of which are often difficult for lay citizens to assess) has set into the Russian *geist*. The state is therefore forced to appeal to the various interests of the population—including those associated with Soviet-era scientific and technological achievements as key elements of national pride—in order to strengthen and legitimate the positions of those who develop industrial policy. And such optical “bundling”, as it were, of industrial policy is possible largely because industrial policy does not actually have or “own” any of its own instruments, adopting and co-opting instead the various mechanisms—legal, regulatory, fiscal and other—of other policy areas.

THE PAST THREE DECADES OF RUSSIAN (AND SOVIET) INDUSTRIAL POLICY

Despite its considerable internal diversity, Russian industrial policy has certain core characteristics. The first and arguably dominant characteristic is its highly vertical (and consolidated) nature. This means that specific sectors and certain large and hyper-large companies—especially those deemed systemically significant—often enjoy considerable direct (usually financial) support from the state (as opposed to, say, being subject to indirect regulatory influence). Second, Russian industrial policy is highly inconsistent, often pursuing a large number of declared, sometimes mutually contradictory, priorities all at once. Until the 2008 global financial crisis, these priorities were typically determined by those parties and interests earning significant rents. Third, to this day, the principal drivers of industrial policy initiatives in Russia remain the country’s large business concerns (and also, to a lesser degree, Russian science), which also means that the processes of industrial policy development are scarcely transparent and highly personalised.

The history of industrial policy can be divided into several phases, according to the budgetary terms in play, the nature of the interaction between state and business, the power of various interest groups, and also the role of innovation. In the centralised, planned economy of the USSR, industrial policy was inseparable from the main elements of state economic policy. Naturally, it had an exceedingly vertical character. The foundational instrument of Soviet industrial policy was the redistribution (“manoeuvring”) of state capital investments for specific sectors and complexes—and often for large-scale projects—in order to accelerate national development (or catching up development). Formally, the conceptual bases for industrial policy in the Soviet period were the strategic interests of the state, including national security and, more broadly, socioeconomic development. In practice, however, the measures deployed often sought to fill very basic deficits in national product and production—especially in consumer goods. As such, in the USSR, even with the high qualifications of specialists and technocrats in the area of state planning and economic administration and despite the full effective control of the state over enterprise, the daily activities and development plans of industrial policy were highly situational and even reactive.

In the last decade and a half of the twentieth century, the Soviet state’s capacity to realise any large-scale industrial policy was constrained by a number of objective and subjective factors. First, in the context of the deep economic crisis in the second half of the 1980s and early 1990s, the state was exercised by other pressures—most importantly, the social problems arising from the significant deterioration in the national quality of life. Second, in the context of the strict budgetary restrictions and highly uncertain development prospects during the last decades of the twentieth century, the state preferred not to concentrate its resources on “breakthrough” vectors but rather to spread them across a large number of businesses and organisations with the goal of assuring their survival under fast-changing economic conditions. Third, the change in the political elite over the course of the transition between the Soviet and Russian periods, with significant preservation of Soviet-era ministerial and departmental structures, led to a systemic crisis in the management of the economy. Fourth, any attempts to initiate activist policy in the form of state stimulus in the first decade of the post-Soviet period were quickly identified with resuscitation of the defunct planned-administrative system of the USSR. As a consequence, the only deliberate

(“unforced”) manifestation of state activism in the Russian economic space in the 1990s was the policy of large-scale privatisation.

Renewed growth in the Russian economy at the end of the twentieth and early twenty-first centuries, coinciding with the end of the adaptation period for the state administrative system to the new post-Soviet political and economic realities, provided opportunities (and greater public acceptance) for more activist state policy, including in policy areas that were previously viewed as secondary in importance. At the same time, until about 2002, the state, faced with fairly severe budgetary constraints, refrained from using instruments of “surgical” support for future projects requiring significant amounts of budgetary expenditures.

In view of the powerful positions, at the upper levels of state power, held by the proponents of liberalisation and market development, structural reforms, support for the development of market institutions, as well as “soft” state regulation of natural monopolies and the exchange rate became key elements of state policy during this period. Of course, for much of the 1990s, the highest echelons of public power in Russia associated closely with the narrow circle of high Russian business, thereby giving state measures and public policy a considerable degree of “personification”.

Interestingly, in the context of a generally negative view of industrial policy in the power circles of the Russian state until about 2004, there was at least one attempt to deliver such policy in practice and at scale. In 2002, the 9-year “Electronic Russia (e-Russia)” federal programme for the period 2002–10 was adopted by the government, with the express goals of creating the conditions for national economic development; increased operational efficiency in the economy and also in state administration through the introduction and mass dissemination of information and communications technologies; the provision of the right to free search, access, transmission, production and distribution of information; and the expansion of specialist training and national information and communication technology (ICT) capacity.

Initial implementation of the “e-Russia” programme saw a rare episode of Russian horizontal industrial policy aimed at developing the ICT sector primarily through the reduction and removal of irrational administrative barriers, as well as the creation of conditions for additional demand. However, as early as 2004, the programme was refocused to address the contemporaneous problems and pressures of the state. This shift was, to a large degree, due to the fact that the Ministry of Economic Development and Trade, which had originally provided the horizontal “ideology” of the

programme, turned to other larger and more urgent challenges, while the Ministry of Communications and Mass Media, the successor ministry in terms of carriage of the programme, used the programme to solve its own more “local” problems. All the while, no interest group was sufficiently strong and consolidated to break away from the prior ideology of the programme—not least because the particularities of the Russian ICT market make it such that this sector is, as a rule, represented by smaller companies.

The 2003–04 period became a “watershed” in state industrial-innovation policy in post-Soviet Russia. If previously the state was, to a large degree, inclined to use market instruments for regulation, then from about 2003, in the context of stable economic growth and a significant influx of resources into the budgetary system, the state turned to the use of large-scale and “expensive” measures of support—above all, of a financial nature. Together with the standing up of the “power vertical” and the lessening of the influence of large business on the system of public administration (at least at the highest levels), this led to a significant strengthening of the role of the state in the economy. The 2006–08 period (not infrequently called the “fat years”) was marked by intensified state involvement in almost all spheres of economic activity, manifested in the insinuation of a significant number of new, often resource-intensive instruments, and also in the expanded funding of certain federal programmes (e.g. the national technology base programme for the period 2007–11).

Perhaps the key move for the state in this period was the creation of 6 state corporations, which were to be accountable for the implementation of various important vectors of state policy (see Chap. 33 on State Corporations). Two state corporations—Vnesheconombank and Rusnano—were created as financial institutions of development in order to compensate for market failures. Two others—Rosatom and Rostec—were designed as instruments and agents for the restructuring of state property, consolidation of state assets and enhancement of the competitiveness of specific industrial sectors, such as defence and the nuclear sector. Finally, Olympstroy and also the Fund for Promoting Housing and Utilities Reform were, for all practical intents and purposes, vehicles for the implementation of major state programmes.

Such large-scale processes to launch new state corporations are explained by the inability or even unwillingness of the Russian state to find appropriate public-private partnerships, alongside an institutional readiness to attach very significant state resources to various priority goals (in many cases in the belief that the goals are so critical that they should be funded

sans public-private partnerships). Of course, only one of these goals—the development of Russian nanotechnologies and, more generally, a strong Russian nanoindustry, under the aegis of the state corporation Rusnano—was actually tied to the development of long-term sources of economic growth, while the other goals, such as the building of Olympic venues, the development of the city of Sochi and, inter alia, the reform of defence companies, were to a considerable extent oriented towards current or short-term (at best, tactical) challenges.

The policy on supporting a national nanoindustry, initiated in 2007, merits particular attention and comment in these pages. This policy, in which Rusnano is a pivotal actor, seeks to form a new high-technology sector that will be significant in size for the national economy and competitive on a global scale. Its foundational imperatives involve the creation of the necessary infrastructure (soft and hard alike)—including special venture capital and investment funds—to ensure priority development of research and development and, at the same time, to rapidly increase the national output of nanotechnology products. Despite the marked contradictions between the short-term (production growth, from the earliest years of implementation) and the long-term (R&D and infrastructure) challenges, the nanoindustry policy push can still be characterised as proactive, aiming to create a “bridge” to the future economy on the basis of conducting and commercialising advanced R&D.

At the nucleus of policy development for the Russian nanoindustry has been the famous Kurchatov Institute, one of Russia’s leading scientific and interdisciplinary research centres. Policy has therefore been based, somewhat naturally, on the “science-technology-innovation” or linear innovation model,¹ with state support at all stages of the innovation cycle: basic research (Kurchatov Institute and various institutes of the Russian Academy of Sciences), applied research and development (direct state budgetary funding, or at least support from state institutions of development and foundations like the Foundation for Assistance to Small Innovative Enterprises), and commercialisation (primarily Rusnano). The nanotech policy has emphasised new business development, advanced infrastructure and support for exports. It has also turned out, in practice, to be fairly horizontal, though not without significant vertical intrusions and impurities, such as the primacy of state financial support.

It is true that the nanoindustry policy has to date led to a few notable results and successes, among which has been the development of new instruments of state support, including a specialised institution

of development (Rusnano), as well as increased research activity in nanotechnology and the multiplication of nanotech-related goods and services. No less important, of course, has been the stable attention brought to bear, from Russian society and the state alike, on the general challenge of developing Russian nanoindustry.

Having said this, given the significant volumes of state funding allocated in support of the policy (approximately US\$10 billion since 2007²), the growth in R&D expenditures and the aggregate output of nanotech-related goods and services are markedly lower than what had been planned by the government. Indeed, this gap between the true state of nanoindustrial development in Russia and the objectives set by the state speaks plainly to the ineffectiveness of policy implementation, if not the excessive ambition of the objectives themselves.

More alarming still is the very limited circle of beneficiaries of state support—that is, the success stories to date (new production plants, research institutes and laboratories, etc.) have been highly ad hoc in nature, with little demonstration or signalling effect, and with private resources accounting for only 30–35 per cent.³ Finally, Russian public policy on the nanoindustry has, over time, become increasingly “occupied” by traditional interest groups connected with a few large research centres, universities and businesses seeking, predictably, to advance their immediate imperatives and projects.

During the 2008–09 financial-economic crisis, a large-scale programme of anti-crisis measures was implemented by the state. Many of these measures were enacted in a patently unsystematic fashion, even as they targeted hundreds of large and systemically important companies in sectors like auto manufacturing, metallurgy and, inter alia, defence. The companies receiving support or compensation were in all cases required to demonstrate “correct behaviour”, expressed primarily through the preservation of jobs for Russians. In multiple cases, the anti-crisis measures departed considerably from market principles: private demand was displaced by state demand, protectionist barriers were erected in a number of sectors, administrative control of prices was strengthened and the reciprocal obligations of the state and the owners of large companies were agreed under conditions of low transparency. *Bref*, the strategic objective of increasing the country’s competitiveness and ensuring innovative economic development was to a large degree supplanted by tactical imperatives associated primarily with maintaining the social stability of the country.

With the return of economic growth at the end of 2009 and the start of 2010, the attention of the state returned to long-term development (at least for a period of time). If anything, the crisis taught the policy elites that new sources of growth had to be found for the country. To this end, significant emphasis was placed on the development of new high-technology branches, support of science-business cooperation and the stimulation of networked collaboration in the science, technology and innovation spheres. A number of fundamentally new policy and fiscal instruments were introduced to advance these goals, including matching grants, technology platforms and technology roadmaps. These instruments were captured by traditional interest groups with some rapidity, and the priorities of state policy were eventually identified with the present and pressing problems of these groups in place of long-term national development.

Finally, the present stage of Russian industrial policy, begun around 2013, against a backdrop of slowing economic growth, is characterised by high uncertainty in respect of the precise identity and nature of Russia's development "drivers". From 2014, this uncertainty was compounded by a highly unfavourable foreign policy and international economic context for Russia. This led to the present-day policy priority of import substitution—a policy vector that has some declaratory qualities but that is animated and underwritten increasingly by a number of very serious state measures and resources. Meanwhile, in general, the implementation of this policy has a conspicuous "conjunctural" character and has come with significant risks, including wasteful atomisation of a number of sectors (particularly those identified by the state as fulfilling strategic tasks), as well as continued technological backwardness in a number of sectors that are heavily dependent on imports (e.g. automotive, pharmaceuticals and electronics). Naturally, it is the high-tech, export-oriented companies (exporting at least within the former Soviet space) that tend to have especially high degrees of import dependence.⁴

The fact of helping Russian producers create or expand the supply of import-substituting products, technologies and services should not translate into discrimination against consumer companies, particularly since it is the successful high-technology firms of Russia that would be most exposed to such discrimination. In other words, attempts to thrust Russian products and technologies onto companies—using administrative methods, customs and tariff regulations, or other means—would result inevitably in diminished competitiveness, starting among industry leaders.⁵

In fairness, the National Technology Initiative (NTI), presented to the President in 2015 and adopted by government resolution in 2016, is significantly different in ideology from all prior Russian industrial policy initiatives in the post-Soviet era. First, the NTI is oriented towards the creation of the technology markets of the future (expected to exceed US\$100 billion in size by 2035). Second, the NTI seeks to develop future Russian leaders in these markets, emphasising collaboration among present generations of Russian students and specialists-in-training in order to foster new, future-oriented technological teams. Having said this, the initial steps to implement the NTI already testify to the risks of rapid bureaucratisation of this initiative and its consequent conversion, *de facto*, into a conventional state programme.

WHAT'S TO BE DONE?

Russian industrial policy has turned mostly on the redistribution of resources among sectors, companies and various interests (many of them rent-seeking), all generally compensating for deep institutional inadequacies and the weakness of the national business environment, far more than actually creating new sources of sustainable growth. Indeed, it is more profitable for certain players to focus on profits or rents that may be earned from the very “process” of industrial policy than the actual results of this policy. And within this industrial policy dynamic, where fairly large resources are in play for purposes of redistribution or reallocation, it is the capital-intensive infrastructure sectors that typically prevail. In this operational context, companies are scarcely motivated to innovate, given that a far less risky path for investment exists, and expansion of their activities can occur without fundamental modernisation.

This fundamental logic is sharpened in the present-day context of significant budgetary constraints, with state support of large-scale or systemically important companies moving to the fore in the interest of assuring social stability, particularly for purposes of preserving or providing employment. An impression is formed in society to the effect that industrial policy in Russia is especially useful for the state in periods of ideological crisis—that is, in the search for orientations and legitimation for the government and its overall agenda. *Bref*, the Russian state has no consistent long-term motivation to do real industrial policy and is therefore typically disposed to deploy measures that deliver the nearest-term impacts. This dynamic is compounded by a private sector led by constantly changing business elites,

operating according to short-term planning horizons, always anticipating the impermanence of state industrial policy and regular changes in the “rules of the game”, as it were.

Are any sustainable achievements possible in Russian industrial policy, in practice, in light of all these problems and constraints? In general, yes. We offer several recommendations below by way of conceptually framing some of the relevant decision-making.

First, the variegated character of the Russian economy means that industrial policy must be highly flexible, using a broad array of instruments, and building on and tailoring to the particularities of different sectors and regions. Nonetheless, there are considerable risks involved in strengthening the differences in the motivations and incentive structures in even a single sector—something that could engender powerful internal contradictions and conflicts. For example, in the Russian automotive manufacturing sector, where competitive segments coexist with uncompetitive segments (supported by state subsidies), the strengthening of market stimuli (for both segments) would manifestly require compensatory financial measures.

Second, notwithstanding the major bureaucratic and procedural problems in Russia public administration in respect of horizontal or inter-departmental cooperation, there is to this day no practice in Russian administration of regular independent assessment of policies implemented by the state. Of course, in the absence of an objective picture of the results and effects of industrial policy, the state is invariably inclined to rely on the fragmented and mixed data and impressions immediately available to it, as well as on the signals sent by interest groups tied to or affected by the industrial policy instruments and vectors in question (see Chap. 30 on the Bureaucracy).

Third, if we concede in principle that innovation is a critical prerequisite for diversifying and increasing the competitiveness of the Russian economy, then we must note that Russia suffers from a chronic insufficiency of motivation for private entrepreneurship within its population. A decidedly cautious relationship to business endures: for young people, the preferred career path remains employment in large state corporations and companies rather than creating one’s own business, mainly due to the high risks of entrepreneurial failure (or difficulty) and the generally unfriendly business environment in the country. Nevertheless, there has in recent years been a “fashion” of innovative entrepreneurship, involving

startups and the very early pangs of a proper entrepreneurial culture. It is critically important for the state to support this process, assuring its sustainability and eventual self-development, but avoiding pushing it into any stringent frameworks or formats. For example, the state can contribute to student business incubators as well as various business competitions for young Russian professionals. And evidently, the overall national institutional context is apposite here as well.

Let us note that Russia has, in the post-Soviet period, seen some successes in terms of innovation and breakthroughs among medium-sized firms at the mezzo- and micro-levels. However, at the macro level, there have been no notable successes. This is explained in part by the presence of ineffective local equilibria, especially in the public sector (in the natural monopolies). Bottom-up innovations cannot alone overcome these poor equilibria. What is needed, instead, is the consolidation of interest groups, the development of new coalitions, new rules and standards, and “soft” coordination between the interests and efforts of different actors. This approach can, over time, ensure sustainable structural and behavioural changes and reduce the dependence of industrial policy and industrial policy outcomes on state funding.

Fourth, Russian successes in industrial policy and innovation have often depended on the presence of a charismatic public leader who is able to champion the necessary measures and make key decisions. Strong leadership is essential to overcome the bureaucratic inertia in the system of public administration, and support from various interest groups and the population is essential in order to ensure that changes are sustained. For example, the automotive industry development policy was spearheaded by the talented and energetic German Gref, then minister of economic development and trade, and was supported by some of the country’s largest business groups (led by Sollers), not to mention the population, which understood and appreciated the need for affordable, quality automobiles in Russia.

To be sure, Russia cannot simply sit idly in anticipation of the eventual, organic emergence of such leaders—that is, leaders capable of driving results through “soft power” and also technical and intellectual excellence. There is therefore an urgent need for the state to carefully cultivate the formation and development of new leaders, including through a changing of the guard in the technocracy overseeing industrial and innovation policy, as well as through increased access for new interest groups to decision-making and evaluation in this pivotal area of Russian public policy.

NOTES

1. Aghion, P. et al. (2009) “Science, Technology and Innovation for Economic Growth: Linking Policy Research and Practice in ‘STIG Systems’.” *Research Policy*. 38(4), 681–93.
2. Simachev Y. et al. (2014) “Russia on the Path Towards a New Technology Industrial Policy: Exciting Prospects and Fatal Traps.” *Foresight-Russia*. 8(4), 19.
3. *Ibid.*, 20.
4. Simachev Y. et al. (2016) “Import Dependence and Import Substitution in Russian Manufacturing: A Business Viewpoint.” *Foresight and STI Governance*. 10(4), 42.
5. *Ibid.*, 44.

Infrastructure and Transportation

Mikhail Blinkin

SITUATION ANALYSIS AND KEY CHALLENGES

The Russian banker, Andrey Kostin, speaking at the Sochi International Investment Forum in February 2017, argued that the key problem with the Russian transport system was that “[t]here is very little money. The state spends very little money on infrastructure—insanely little [...]. [W]e still do not have a proper regulatory framework—a legislative basis for public-private partnerships. The result is that, in terms of the development of transport infrastructure, we are somewhere near the level of Gabon”.¹

Of course, while Kostin is, as discussed below, correct to identify chronic underinvestment as a signal problem for Russian transport in particular (and Russian infrastructure in general), he is plainly wrong to compare Russia’s transportation infrastructure with that of Gabon. Table 18.1 compares Russia and Gabon based on the World Economic Forum’s 2016–17 Global Competitiveness Report.²

Having said that, in terms of the spatial development of its road network, as measured by the Engel coefficient (k_{en}),³ Russia ($k_{\text{en}} = 2.8$) sits firmly in the lowest cluster of countries in the world ($k_{\text{en}} \leq 3$)—together with Gabon ($k_{\text{en}} = 1.4$) (see Fig. 18.1). Naturally, the highest Engel coefficients ($k_{\text{en}} \geq 12$)

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Table 18.1 Transportation infrastructure: Russia versus Gabon (2016–17)

<i>Second Global Competitiveness Index (GCI) Pillar—Infrastructure</i>	<i>Russia</i>		<i>Gabon</i>	
	<i>Score (1–7)</i>	<i>Rank (out of 138 countries)</i>	<i>Score (1–7)</i>	<i>Rank (out of 138 countries)</i>
Quality of overall infrastructure	4.0	74	2.9	119
Quality of roads	2.8	123	2.8	121
Quality of railroad infrastructure	4.4	25	2.8	64
Quality of port infrastructure	4.0	72	3.2	101
Quality of air transport infrastructure	4.4	65	3.6	108

Source: World Economic Forum Global Competitiveness Report, 2016–2017

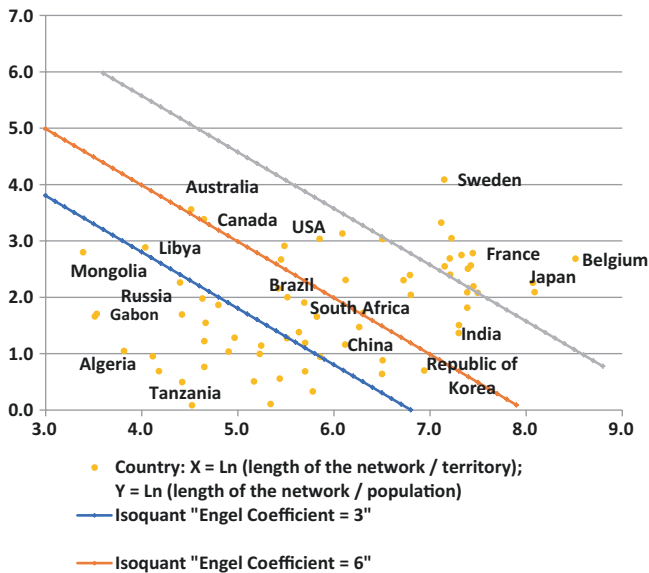


Fig. 18.1 The density of national road networks around the world (2016) (Source: International Road Federation (2016). Data plotted by the author)

can be found among developed countries with relatively small territories, high population density, and dense and well-developed road networks. Countries such as the USA, Canada and Australia, with large territories and fairly dense road networks, have Engel coefficients of $6 \leq k_{en} \leq 12$. More modestly, the

BRICS countries, with the exception of Russia, have Engel coefficients of $3 \leq k_{\text{en}} \leq 6$ (i.e. India -7.32 , South Africa -4.46 , Brazil -4.42 , China -3.8). Of all these countries, China, unsurprisingly, has been the most successful in increasing the total length of its road networks. Consider that, in 2016 alone, China built 11,050 kilometres of freeways and expressways⁴—that is, more than twice the total length (stock) of such roads in Russia today.

In terms of the relationship between GDP per capita and the quality of the country's "general transport infrastructure", Russia does not sit far below the world trend line. In other words, the country's combined transport indicators correspond roughly to what should be expected given national economic output, with the conspicuous shortcomings of the country's roads compensated by the relative strength of the national system of railways, water and air transport.

To be sure, this does not mean that Russia has no major problems in the rail, water and air modes of transport. Even in periods of high oil prices, post-Soviet Russian budgetary investments in the development of the transport complex have never exceeded 2.2 per cent of GDP. As a consequence, the country continues to maintain and rely on an archaic centripetal transport infrastructure configuration and the same configuration of routes for cargo and passenger traffic.

Low capacity and low speeds on the Trans-Siberian Railway and the Baikal-Amur Mainline make Russia's railways uncompetitive for purposes of international transit: in 2015, total turnover of transit containers across all Russian railways amounted to 150,000 TEU, while container turnover in international transport corridors between the Asia-Pacific region and Europe totalled approximately 100 million TEU.⁵

Even less competitive is the national system of inland waterways. Once upon a time, this system was unified and deep-watered. At present, however, it faces serious challenges in terms of guaranteed depths, with the gap in the Nizhny Novgorod node on the Volga River presenting a particular vexing problem.

Meanwhile, the transportation problems in the majority of Russia's large cities—congestion driven by the extreme motorisation of the Russian population (as in most of the former Soviet states after the fall of the USSR), unsupported by corresponding investments in infrastructure—have remained stable or worsened over the last 3 decades. And yet all these problems are, as exhibited in Fig. 18.2, generally consistent with Russian economic output, in purchasing power terms.

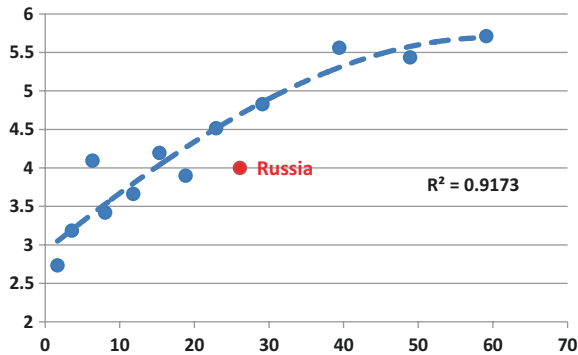


Fig. 18.2 Quality of overall infrastructure versus GDP per capita (at purchasing power parity) (2016–17). x-axis: GDP per capita (PPP), in thousands of US\$; y-axis: score for quality of overall infrastructure, as per the Global Competitiveness Index for 2016–17. The “world trend” lines are constructed from the points aggregating country data by per capita GDP value ranges (Source: Global Competitiveness Report 2016–2017. <http://statisticstimes.com/economy/countries-by-projected-gdp-capita.php>. Data plotted by the author)

The situation is different, however, for Russia’s highways, with the country sitting radically below the world line in terms of the relationship between per capita GDP and the quality of its roads (Fig. 18.3). Recall Kostin’s assertion about fiscal underspending—for roads, a Russian constant dating back to the age of the horse and buggy, through to the age of the automobile; in other words, from the 1910s through to the Soviet period and the post-Soviet present.

There is a solid expert consensus to the effect there are no international precedents of successful country development, in economic or social terms, in the absence of a well-developed and consistently growing national network of freeways and expressways.⁶ Consider, on this logic, the American Interstate Highway System or China’s National Trunk Highway System (Fig. 18.4). The Interstate Highway System delivered on the historic task set for the American economy by President Dwight D. Eisenhower, who famously said in 1955: “Together, the uniting forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts”.⁷ And in China, it was, of course, Deng Xiaoping

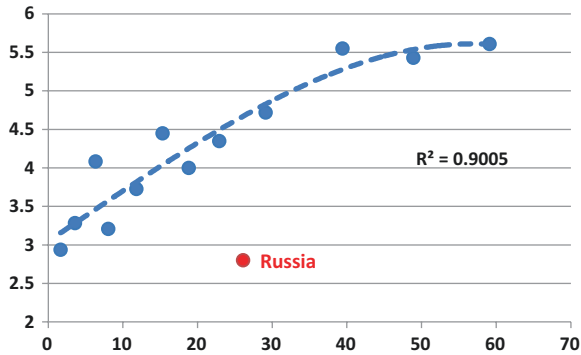


Fig. 18.3 Quality of roads versus GDP per capita (at purchasing power parity) (2016–17). x-axis: GDP per capita (PPP), in thousands of US\$; y-axis: score for quality of roads, as per the Global Competitiveness Index 2016–17. The “world trend” lines are constructed from the points aggregating country data by per capita GDP value ranges (Source: Global Competitiveness Report 2016–2017. <http://statisticstimes.com/economy/countries-by-projected-gdp-capita.php>. Data plotted by the author)

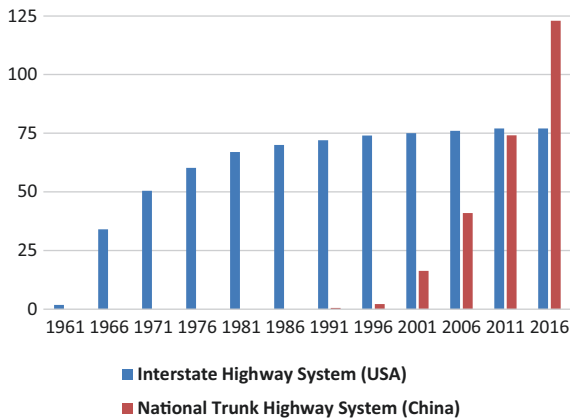


Fig. 18.4 The length of the highway systems of the USA and China (in thousands of kilometres) (1961–2016). y-axis: length of highway systems (in thousands of kilometres) (Source: International Road Federation 2016)

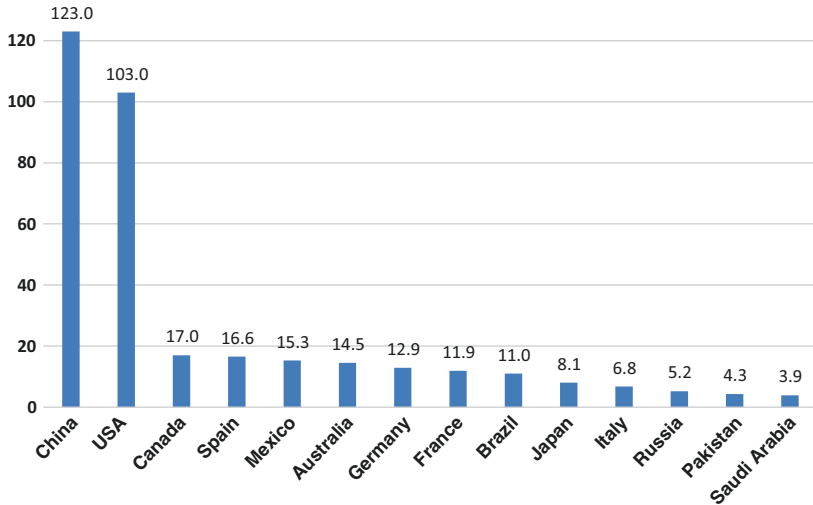


Fig. 18.5 The length of freeways and expressways around the world in 2016 (in thousands of kilometres). y-axis: length of freeway and expressway systems (in thousands of kilometres) (Source: International Road Federation 2016)

who initiated the National Trunk Highway System, which has become one of the main catalysts for Chinese economic growth and regional development over the past three decades.

Bref, the general extent of the freeways and expressways of Russia is growing extremely and indeed unacceptably slowly, presently totalling 5200 kilometres (Fig. 18.5), which corresponds to US metrics for 1962 and Chinese metrics for 1997.

The long-term lack of growth in the main and local road networks of the country leads to a variety of severe negative consequences for the national and regional economies alike. In most cases, as suggested by Table 18.2, Russia's regions remain "a mere alliance of many separate parts". Consider that, among Russia's macro-regions, only the Central Federal District has a relatively high Engel coefficient ($k_{en} > 7$). Moreover, Russia remains outside the most popular international transport corridors, including the critical twenty-first century corridors connecting the Asia-Pacific region and Europe.⁸

Average individual transport mobility within the Russian population also remains exceedingly low—approximately 7500 passenger-kilometres

Table 18.2 The density of the road networks in Russia's macro-regions (2015)

<i>Federal districts of the Russian Federation</i>	<i>Engel coefficient</i>
Central Federal District (<i>sans</i> Moscow)	7.02
Volga Federal District	5.24
North Caucasian Federal District	4.19
Southern Federal District	4.15
Northwestern Federal District (<i>sans</i> St. Petersburg)	3.28
Northern Federal District	2.37
Ural Federal District	2.10
Far Eastern Federal District	1.27

Source: Based on the author's calculations, using 2016 data from Rosstat

per year, which is 3 to 4 times lower than in developed countries.⁹ The low transport mobility and the near-zero residential mobility of the population (grosso modo, the ability to change residences within a town or city or between cities) are critical obstacles to the homogenisation of the national and even regional labour markets. Finally, there is a chronic shortage of transport-accessible territory for purposes of housing construction, as manifested in the practice of building dense, multi-story housing developments in the suburbs of Moscow, St. Petersburg and other large Russian cities. This practice is at odds with the zoning and land use norms generally accepted in the cities of developed countries, which require mainly single-family dwellings for suburban development.

WHAT'S TO BE DONE?

Proposals to increase budgetary allocations for the road sector through an item-by-item redistribution of budgetary resources have been discussed at the official and expert levels, in both Russia and in the Soviet Union, since at least the 1960s. Of course, the essential futility of such proposals was noted in the 1950s during the policy debates surrounding the Federal Aid Highway Act in the USA, which suggested that no government in the world would, on a regular basis, other things being equal, privilege budgetary expenditures for road construction over defence or social expenditures. And this "*constat*", as it were, must lend itself to the

conclusion—at least in the case of Russia—that road or highway users must themselves pay.

To be sure, this conclusion, which has led to fairly common user fee approaches in multiple advanced countries, remains extremely unpopular in Russia: the absolute majority of Russian car owners believe roads to be a *sui generis* public good, for which there are payments by citizens outside the traditional budgetary system. And yet “freeriding” (or rent-seeking behaviour) by Russia’s motorists is, in my view, the key sociopolitical (and socio-psychological) obstacle to the proper development of a national road network. As such, any user-pay-related innovations, including paid parking, congestion charges or a heavy goods vehicle (HGV) road user levy, will undoubtedly cause angry public protests.

In modern international practice, the ratio of user fees to road costs—that is, the aggregate targeted or designated payments or fees from motorists as a function of state budgetary expenditures on the road sector and the urban road network—ranges from 0.8 to unity (or more) in most developed countries and cities.¹⁰ These budgetary expenditures on roads are, in all developed countries, generally sufficient, in engineering terms, for purposes of keeping these roads in satisfactory condition. And yet in Russia, this ratio is in the order of 0.6–0.65, despite the fact that Russian budgetary expenditures on roads are, with the exception of the country’s 5 or 6 most prosperous regions, by no means sufficient (adequate) in engineering terms. In Moscow, for instance, while municipal budgetary spending on the road sector is sufficient in engineering terms, the city budget for the street and road network is 5 times higher than the aggregate payments made by motorists.¹¹

Returning once more to Andrey Kostin, the present Russian legal framework for public-private partnerships is indeed still imperfect—both for roads and infrastructure more generally. However, given the significant resistance among Russian motorists to paying for road use, it remains and will continue to remain difficult for Russia to attract road infrastructure investments even in the theoretical scenario of a best-in-class PPP regulatory framework and far more favourable external economic and geopolitical circumstances.

Evidently, radical reform of the national system of payments and fees for the use of roads is needed. This reform should be based plainly on a model of pay-as-you-go road taxes—a model already tested successfully in Singapore,¹² Australia¹³ and, *inter alia*, a number of American states, including Oregon¹⁴ and California.¹⁵ The model requires every motorist

to pay for each kilometre driven according to a rate determined by the specific category of road used (e.g. freeway vs. rural road), location (e.g. suburbia vs. central business district) and time of travel (e.g. rush hours vs. weekend).

This model, which should be rolled out across the country over the next 5 to 10 years, would allow for the phased withdrawal of at least highways with high and stable traffic from the budget system, with the eventual prospect of privatisation or PPP structures laying the groundwork for their assimilation into the real economy. Pilot projects could be launched in the very near future for federal roads in the higher technical categories (some 5000 kilometres of freeways and expressways), as well as the main street network of Moscow. In all of this, of course, rural roads in certain sparsely populated regions must remain part of the state budgetary system—for reasons entirely divorced from formal economics.

Under the proposed approach, total funding of the Russian road sector (user plus budget sources) would increase to approximately 3 per cent of GDP over the next 10 years. According to my calculations, such funding would bring the entire national road network, including regional, local and urban roads, up to national regulatory standards. In addition, in the long term, by 2035, it would be possible to create a Russian analogue to the “Highway Interstate System”, linking the European part of Russia to Western Siberia.

Within the framework of this reform, user fees for various categories of car owners would increase many times over; for instance, user fees for Moscow motorists and also HGV owners would rise by a factor of 4. It follows that the proposed reform would be quite unpopular but would have to be implemented gradually and would require significant political and administrative capital and resources in order to succeed in practice.

Still, the country should be under no illusions: without this reform, Russia will have to reconcile itself to suffering, for the foreseeable future, a national road quality that is consistent with that of the least developed countries of the world.

NOTES

1. <http://www.rbc.ru/business/27/02/2017/58b3f4859a7947cf8b2b37d9>
2. http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

3. The Engel coefficient is determined according to the following formula:

$$k_{en} = \alpha * L / \sqrt{P * S}$$

where L is the length of the road network in thousands of kilometres, P is the population in thousands of people, S is the area in thousands of square-kilometres and α is the calibration coefficient (in this case, exactly 100).

4. https://www.revoly.com/topic/Expressways%20of%20China&item_type=topic
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10. http://siteresources.worldbank.org/INTURBANTRANSPORT/Resources/Road_Funds_User_Charges_and_Taxes.pdf
11. Budget Law of the City of Moscow for 2017–19.
12. <https://vrl.lta.gov.sg/lta/vrl/action/pubfunc?ID=RoadTaxEnquiry>
13. <http://www.drive.com.au/motor-news/government-to-consider-payasyougo-road-tax-20160217-gmx114.html>
14. <https://www.oregon.gov/ODOT/HWY/RUFPP/Pages/index.aspx>
15. http://www.dot.ca.gov/road_charge/news/

Energy and Natural Resources

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THE CENTRALITY OF RAW MATERIALS IN RUSSIAN ECONOMICS AND ADMINISTRATION

Minerals and raw materials¹ today play, have historically played and, for the foreseeable future, will continue to play a huge role in the economy of Russia. They will also continue to structure Russian society and influence political and policy decisions on many social and economic problems, and indeed shape the country's overall system of public administration. The central role of energy and raw materials is explained not only by their exceptional size and concentration within the geographical boundaries of a single country—oil and gas, gold, platinum, polymetallic ores, diamonds and rare earth elements—but also by the history of Russian state formation, which evolved in parallel with the exploration of new sources of raw materials in increasingly distant territories.

On the significance of minerals, raw materials and the energy sectors in today's Russian economy, let us consider the following: as of 2015, these represented 25–30 per cent of GDP and 60 per cent of federal budget revenues, 78 per cent of export revenues (see Table 19.1) and 60 per cent

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Table 19.1 Russian energy and natural resource exports (1997–2015)

	1997	2000	2007	2013	2014	2015
Total exports (in billions of US\$)	85.1	103.1	351.1	527.3	497.8	343.4
Energy resources	41.1	55.5	228.4	375.8	350.8	219.2
Metals (including raw materials)	20.4	22.4	56.0	55.1	52.1	40.9
Chemicals	7.1	7.4	20.8	30.8	29.2	25.2
Agricultural products	1.6	1.6	9.1	16.3	19.0	16.2
<i>Energy resources:</i>						
Oil (millions of tonnes)	127	144	112	152	165	172
Refinery products (millions of tonnes)	61	63	112	152	165	172
Gas (billions of cubic metres)	201	194	192	196	174	185
Coal (millions of tonnes)	23	44	98	139	153	153
Oil and gas tax share of federal budget revenues, in %	10.4	9.0	37.2	50.2	51.3	43

Source: Rosstat and Ministry of Finance data (1997–2015)

of total investment in fixed assets.² The greatest role here, of course, is played by the oil and gas sector, which accounts for up to 80 per cent of total natural resource contributions to the federal budget.

Table 19.1 demonstrates that the significance of the minerals, raw materials and energy sectors in the Russian economy grew considerably between the late 1990s and the present. This growth was due not only to rising commodity prices but also to key structural changes in the economy—notably the diminished role of manufacturing (processing), including the high-tech sector—as well as in the Russian model of budgetary administration and taxation, which began to privilege taxation of gross income over taxation of profits.

Strangely enough, Russia's system of resource administration has been extremely stable since the eighteenth century. Neither the revolutionary changes in the political system in 1917 nor the market economy introduced in 1991 had any profound effect on the macro-level dynamics of Russian resource administration—even if the overall operating environment, including in terms of the sophistication of the sector's technological chains, has changed considerably over time. At the macro level, raw materials and energy resource administration in Russia continues to be characterised by very close traditional ties and considerable interdependence between companies, the state system and the overall political order of the country. State administration processes in this sphere tend to focus principally

on regulatory simplification in lieu of increasing economic efficiency. Moreover, this administration is premised on a strict “vertical” and rigid hierarchical rules, with scant attention paid to horizontal coordination among actors in the sector or with actors in complementary sectors.

In Imperial Russia, raw material exploration (mining) was originally regulated by the Ministry of Finance and later by various other ministries. Even after 1917, with the emerging Soviet state having nationalised all sectors of the economy, the goals of the national mining industry remained unchanged—to wit, to fill the coffers (budget) of a highly centralised state through the sale of raw materials. And yet today, in the twenty-first century, many of the defining features of Russian resource administration—for all the stages of exploration and exploitation of minerals, raw materials and energy resources—have become clear obstacles to efficient economic growth. The result is massive, untrammelled growth in the modern minerals, natural resource and energy sectors, diminishing sectoral capacity to adapt flexibly to changing conditions (such as the rising importance of hard-to-develop fields and unconventional sources of natural resources), and depleted natural resource fields.

THE SOVIET SYSTEM OF RESOURCE ADMINISTRATION

The system of administration in late-nineteenth and early twentieth-century Imperial Russia was clear about the source of authority for mining activities. Wrote Vladimir Strukgov in his classic 1907 text on Russian mining law: “From the time of the creation of the first Russian [government] ministries, the Ministry of Finance controlled nearly all raw material extraction processes. From 1873, stewardship of mining was transferred to the Ministry of State Properties. From 1894, this Ministry was transformed into the Ministry of Agriculture and State Properties, and from May 6, 1905, stewardship [...] passed to the Ministry of Finance. For the period just prior to the Revolution (1905), these activities were regulated by the Ministry of Trade and Industry. However, the process of mining was never subject to the regulation of any special ministry responsible for only mining.”³

As mentioned, the goals and principles of administration in mineral affairs did not change much at all under Soviet rule. The difference with the tsarist period consisted only in the fact that the nationalisation of all sectors of the Soviet economy made state regulation the only source of authority over the mining industry. Nevertheless, “for 217 pre-revolutionary

years, there were at least 20 reorganisations within the mineral-geological service; and over the 70 years of Soviet power, exactly 70 such reorganisations".⁴ Wrote Maya Mahlina, with regret: "[The last] 15 years of contemporary history [...] represent a never-ending process of administrative restructuring [...]."⁵

In the Soviet period, the growing administrative complexity in the natural resources space—above all in respect of the constantly changing characteristics of natural resource reserves and the increasingly complex conditions for project execution—drove the need to streamline the agencies responsible for the regulation and control of mining activities. In 1986, for instance, the Bureau of the Council of Ministers of the USSR for the fuel-energy complex was formed in order to reckon with the growing importance of cross-boundary coordination for the fuel and energy sector. On the whole, the Soviet regulatory framework for energy, minerals and raw materials reflected the intention of the Soviet authorities to drive an economies of scale approach to the search and exploration of resource deposits and to the execution of nation-wide resource projects.

The effects of this system of administration are present and felt in Russia today. For example, in the second half of the 1960s and the start of the 1970s, unique oil and gas fields were discovered in the USSR—Samotlor, Fedorov, Medvezhye, Urengoy, Yamburg and Zapolyarny. These fields were world-beaters in resource potential and in terms of resource potential and the size of extractable hydrocarbons. In periods of high energy prices, the revenues generated from these deposits on foreign markets were enough to cover nearly all the transport costs for delivery to far-off markets, with significant additional revenues left over. The revenues went into the state budget and, from the 1990s, into the accounts of newly formed joint stock companies like Yukos, Surgutneftegas, Sidanco, Gazprom and others that had obtained legal access to Russian raw materials and mineral wealth. Only afterward, through budget channels and links with different equipment suppliers and service providers, did these revenues “diffuse” or “trickle over” to other sectors of the economy.⁶

THE POST-SOVIET SYSTEM OF RESOURCE ADMINISTRATION

Between 1992 and 2012, the administration of minerals, raw materials and energy resources underwent major changes: the establishment—via reorganisation and privatisation—of new vertically integrated companies

specialising in oil, energy and coal; the creation of a new management and administrative system comprising various resource ministries, as well as new federal agencies and committees; and the assignment of administrative powers for resource management to regional authorities based on the so-called principle of two keys (a constitutional norm from chapter 72 of the Russian Constitution), with both the federal and regional governments playing an essential role in the issuing of licences.

For all practical intents and purposes, the post-Soviet resource management system of Russia has evolved in two phases: first, the active transformation phase, involving liberalisation and deep decentralisation (“principle of two keys”) of the system of administration for minerals, raw material and energy; second, the strengthening of the means of direct state influence and a concomitant recentralisation process, including the return of controlling shares in a number of energy companies (notably Gazprom and what was then called Sibneft or is today called Gazprom Neft, a subsidiary of Gazprom) to the Russian state. In this second phase, which was characterised by very significant growth in oil and gas prices, the “principle of two keys”, requiring that any permission to explore or develop subsoil not be granted without regional government approval, was no longer applied. Instead, more deposits were given “strategic” status, resulting in their complete transfer to federal responsibility. (Strategic status, as determined by federal legislation, is ascribed to oil fields with reserves exceeding 70 million tonnes of extractable resources, gas fields with reserves exceeding 50 billion cubic metres and, among others, for gold fields exceeding 50 tonnes.) All offshore areas were deemed strategic, further to amendments to the 2008 subsoil law. Limitations were imposed on the use of civil legislation for disputes between mineral licence-holders (or companies) and the government over subsoil use. (Legislation on production-sharing agreements between the government and investors has not been applied since 1997. No new production-sharing agreements have been signed since 1997.)

THE OIL SECTOR

In 1993, the Russian oil juggernaut Rosneft was assigned the status of national oil company. That was when the basic legislation on transformation of Russia’s post-Soviet oil sector was adopted, articulating the principles of the transformation that was to take place through the creation of vertically integrated companies alongside the privatisation of

industry assets. However, this ascription of status for Rosneft was not *de jure* and therefore did not come with any of the formal legal obligations and responsibilities that one would think appropriate for such status. Indeed, Rosneft's informal status as national oil company has endured to this day. It is based on a 75 per cent state stake in the shares of the company and allows Rosneft to explore and develop, without competition, oil shelves and deposits, including those deemed strategic. (State-owned companies like Rosneft, Gazprom and Gazprom Neft all have privileged access to these strategic fields.)

THE GAS SECTOR

In December 2005, the law on amendments to article 15 of the federal law on the supply of gas in the Russian Federation was adopted. The law stated that the federal government must own at least 50 per cent plus one share of Gazprom, the operating company principally responsible for the administration of the shares and other activities of the state in the gas sector. Among Gazprom's main functions is the administration of a unified gas supply system (owned by Gazprom), the export of natural gas, the exploration of shelf (offshore) deposits and deposits deemed strategic, not to mention *de facto* approval of all development projects for gas fields in Russia.

THE COAL SECTOR

The system of administration for coal enjoys the greatest transparency and the fewest contradictions of all Russia's resource sectors. This is due to the deep reforms of the 1990s, which included complete privatisation of the sector and closure of many outdated and unsafe mines—in part a function of the diminished economic importance of coal by the end of the 1980s, as compared with oil and gas and precious metals. At the start of 2010, Russia had 91 coal mines and 137 open-pit coal mines, with total productive capacity of over 370 million tonnes. Today, the entire output of Russian coal is provided by private enterprise. Nearly one-third of Russian coal production remains unprofitable, and coal exports are subsidised through railroad tariffs. Consider that Kemerovo oblast, Russia's principal coal-producing region, provides up to 60 per cent of Russian coal and is

located over 4000 kilometres from the nearest seaport. Indeed, in 2016, just under a third of Russian coal had to be transported a distance of more than 5700 kilometres, while just over a third had to be transported a total distance of between 4000 and 4200 kilometres.⁷

HARD (NON-ENERGY) MINERALS

Regulation of the exploration of hard minerals, including diamonds, gold and polymetallic ore, turns largely on relations between the government and the large companies privatised under the 1992 law on subsoil, including Norilsk Nickel, one of the world's largest mining companies, and Almaz Rossii-Sakha (Alrosa), one of the world's largest diamond producers. These two companies have full decision-making power in respect of the deposits they control. Administration of subsoil use is, in their case, done via a notification process whereby the companies inform the authorities about their decisions rather than ask for licences or permits beforehand. This, predictably, has led to increased and largely uncontrolled pollution in areas being explored and to a more general conflict between the public interest and the profits pursued by the companies.

RUSSIAN ELECTRICITY

The system of administration for electrical power is more coherent and logical than the administrative system for the oil and gas sector. More importantly, administration in this area has supported a competitive operating environment for major companies, with limited state interference and regulation of production and other types of activity. The 2003 law on electrical energy clearly defines the major players—producers and distributors—in the field. It also leaves room for other companies to enter the market by signing agreements to join the wholesale electricity market as self-regulating entities. To some extent, such self-regulating entities, whose status and role are determined by law, continue the tradition of Russian mining law dating back to the nineteenth century—that is, as the statutory reflection of the role played by the professional community (including the professional associations of different industries) in the processes of administering mineral resources.

FEDERAL DOMINATION AND LARGE QUASI-STATE MONOPOLIES

Article 72 of the Constitution addresses matters of joint competence between the federal and regional levels—the aforementioned “principle of two keys”. Among the areas of joint competence are those concerning the ownership, use and disposition of lands, mineral resources, water and other natural resources, as well as environmental management and environmental security.

To be sure, the most important particularity of the Russian system of mineral use is the delimitation of powers and subjects (domains) of competence between the federal and regional governments. Article 1 of the 1992 law on subsoil states: “The division of authority and responsibility among the organs of state power [...] and the regional organs of power in subsoil regulation is directed by the Constitution [...] and by the federal laws adopted in line with the Constitution.” This article was removed in 2004 due to active lobbying by regional leaders and in favour of the interests of large raw materials and energy companies.⁸ Of particular note, in this regard, was the conflict between Vladimir Butov, head of the Yamalo-Nenets autonomous okrug, and the oil companies. In the context of this conflict, the Arkhangelsk oblast assembly sent to the State Duma specific amendments to be made to the law on mineral resources. These amendments were prepared by specialists within the regional company “Arkhangelskgeoldobycha”, a subsidiary of Lukoil, and involved removing from regional governments the decisive right to grant permission for subsoil access on their respective territories.

Of course, there was a strong reaction from the regions to the cancellation of their decision-making on mineral resource use. The then governor of Tomsk oblast, Viktor Kress, protested that the move would restrict the constitutional rights of the regions. What’s more, the move coincided with the growing importance in Russia of small and less conventional deposits—deposits that can be developed through a larger and more diverse array of options and practices. And such increased variety cannot be managed from the centre for the country.

Despite very large recent projects like the Taymyr Peninsula (Norilsk Nickel) and the Yamal Peninsula (Gazprom), the number of newly explored smaller deposits is growing rapidly, and these projects are becoming increasingly varied in size and character. If the average size of oil deposits explored in the 1980s in Western Siberia (the oil base of the country)

was approximately 70–80 million tonnes of reserves (with Samotlor alone larger than 3 billion tonnes), then the average size today is in the order of 2–3 million tonnes.⁹ There are several thousand deposits of this size in Russia. The number of licences issued to date for the right to use subsoil material currently exceeds 3300. Given a longer-term increase in the number of smaller deposits, the number of licences issued may eventually exceed 10,000. Public administration of such a large quantum of projects—most of which are highly distinct among themselves—cannot be done efficiently and effectively at the federal level alone. *Bref*, new mineral realities will require Russia to urgently consider new frameworks for mineral governance.

WHAT'S TO BE DONE?

If the role of the minerals, raw materials and energy sectors in the economy of the Soviet Union was significant, then it is even more significant in today's Russian economy. However, the growing list of problems associated with the efficiency of resource exploration and use requires a change in the system of administration as a matter of national priority, taking into account modern processes in Russia and globally. Consider that from the moment of the creation in 2008 of the independent legal institution covering federal reserves and federally important areas, to this very day, less than a dozen licences have been issued for the development of deposits containing gold, ore and diamond sites.

And yet the subsoil containing such minerals is characterised, as a rule, by small reserves, partially developed in years past, and not of conspicuous interest to large investors. When these plots are no longer deemed to be of strategic importance, the procedures for their use will be significantly simplified, and alluvial deposits will be developed by junior companies. This, for all practical intents and purposes, in the context of a resource sphere suffering from growing inefficiency, lack of investment and outdated technology, is the fundamental policy argument for increased flexibility and shared responsibility between federal and regional levels of government in respect of resource administration in Russia this century.

To create a modern system of administration for the development and use of minerals, raw materials and energy resources in Russia, it is essential to take into account the particularities and characteristics of exploration of minerals, raw materials and energy resources in the country's different regions. Article 72 of the Constitution (on joint competence, or the

“principle of two keys”) must be implemented and protected credibly, moving the overall administrative system to a “centre of gravity” that better reflects the relationships between the regulatory bodies and market actors. (As discussed in Chap. 11, Russia’s civil society actors, including the associations of mineral and energy producers, should play a far larger role here in providing feedback and refinement or corrections to policy and administration in the natural and energy space.) Finally, there must be coherent and non-contradictory definitions of responsibility and separation of powers among the various regulatory bodies at the federal and regional levels.

To this end, the Ministry of Natural Resources and Environment should not issue licences without taking into account the various technical issues pertinent to the energy sector, which is the proper responsibility of the Ministry of Energy. Responsibility for natural and energy resources management should be devolved appropriately to regional bodies for all fields in the country, with the significant exception of strategic fields. There should be implementation of license transfers among real and potential users, and this should be reflected in subsoil legislation. All regulatory schemes for unconventional resources and hard-to-extract minerals should be simplified. Application of civil legislation for subsoil access should be broadened. Taxation in the mineral sector, as in energy, should be transformed, with particular emphasis on expanded use of taxes on profits in lieu of gross income (given that gross income taxation, in the absence of competition, leads to cost escalation). And finally, resource-based tax revenues should be distributed far more effectively between the federal and regional levels (as was done in the 1990s)—all for the basic purpose of better connecting policy outcomes in the natural and energy resources space to the general socioeconomic development of resources-based areas of the country, near and far.

NOTES

1. We understand minerals to be substances formed naturally in the earth. Raw materials or ores containing minerals that will be used for further industrial processing. Energy resources are minerals used in energy production.
2. Rosstat (2016).
3. Strukgov V. (1907) *A Course in Mining Law*. St. Petersburg: Typographiya I.N. Skorokhodova, 103–5.

4. Mahlina M. (2000) *Problems of Management: Subjects and Objects*. Moscow: Nestor, 26.
5. *Ibid.*, 118.
6. Sagers M. et al. (1995) “Resource Rents from the Oil and Gas Sector and the Russian Economy.” *Post-Soviet Geography*, 36(7), 389–425.
7. <http://primamedia.ru/news/542138/>
8. Kryukov V. and Moe A. (1998) “Two Keys and Many Locks: Joint Management of Oil and Gas Resources in Russia.” *Post-Soviet Geography and Economics*. 39(7), 588–605.
9. Khramov D.G. (2013) “Major Public Policy Ideas and Challenges in the Area of Mineral Resource Use.” *Economy and Administration*, 1, 6–10.

Education

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FROM SOVIET TO POST-SOVIET EDUCATION

In the final years of the USSR, the prevailing official and public view of Soviet higher education was that it was the best in the world. In science, in particular, the belief was that the Soviet preparation of scientific cadres allowed the USSR to see itself as the leading scientific power on the planet (see Chap. 25 on Science).

Russia's modern educational reforms were born in the late Soviet period. However, over the course of the past three post-Soviet decades, many of these reforms were not taken to their anticipated conclusion or otherwise underwent significant changes during their implementation. In many cases, specific reform goals were declared, while in practice others were achieved—sometimes directly contradicting the original goals. This state of affairs resulted largely from the fact that in the development of the reforms, the considerable diversity of interests among key stakeholders—directors of regional and municipal educational administrations, schools directors, university rectors, students and parents—was not properly considered.

The failures of Russia's post-Soviet education reforms and their non-acceptance by the population led to several reformulations of erstwhile or

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extant reforms, leading to the impression within Russian society and in the Russian commentariat that there was no strategy whatever in the state's modernising efforts. Indeed, many of these reforms looked like reforms for their own sake.

By contrast, the Soviet educational reforms of the 1980s were viewed favourably by society. The only major problem that alarmed the pedagogical community at the time was the shrinking of budgetary funding for education, which was not a state priority as the USSR approached disintegration. Schools, as among the most massive of state institutions, were first in line to feel the fiscal constriction.

To be sure, the uniformity and coherence of the Soviet school—founded in the 1930s as a unified labour school—eroded over time. By the end of the 1950s, language schools appeared—principally English-language schools, but also German-, French- and even Spanish-language schools. The 1960s saw the emergence of schools with specialised study of specific subjects—physics-mathematics, chemistry-biology and also humanities—including Moscow's famous "Second School" for physics and mathematics and the Kolmogorov mathematics internat in Novosibirsk and Moscow, which took in talented children from across the country for study. Strong schools with physics and mathematics orientations were also created in Leningrad, Gorky, Sverdlovsk, Tomsk, Krasnoyarsk and many other cities. In fact, Russia has, since the 1990s, tried, with limited success, to recreate the Soviet prototype of special education. Of course, the Soviet specialised schools and classes were not large or particularly representative. Moreover, over the course of the 1984 reforms, the government attempted to reorient the system towards the preparation of workers. In turn, the education system quickly learned to imitate—that is, professional-technical institutes with a mathematical focus began to appear.

The size and scope of the Soviet school network obliged, schools in the USSR were constant targets of reforms. The 1984 reform—effectively the last school reform of the Soviet period—attempted to provide training in schools for working cadres in industry and construction, coinciding with the dramatic fall in the popularity of the professions in the final years of the USSR. But in 1986, in the context of perestroika, a team of researchers under the leadership of Stanislav Shatalin presented to the Politburo of the Central Committee of the Communist Party a report on the state of the social sphere—that is, education, health care and culture—in the USSR. The report demonstrated that the Soviet system of mass education had been in crisis for some time and was in serious need of reform, as the

education of students was not meeting the demands of modern Soviet and international life.

In 1988, the VNIK (“Temporary Scientific Research Collective”) School was created under the leadership of Edward Dneprov. Dneprov would become the first minister of education of Russia after the breakup of the USSR. Among the VNIK’s organisational-economic reform ideas were the introduction of normative individual funding (voucher funding), de-governmentalisation of the education system—that is, development of non-state (private) educational institutes—the use of co-payments by parents for school education, the establishment of supplementary paid educational services and also specialised education at the high school level.

Proposals for reform of the content or curricula of Russian education included the de-ideologisation of education, increased diversity in educational programmes and in the types of schools across the country, individualisation of education, the establishment of national educational standards and the transition to a 12-year pre-university education regime (from the traditional 11 years). The majority of these reform vectors were to some degree realised between 1992 and 2015 in the context of Russia’s educational modernisation.

From 2012, normative individual funding was ushered in for all levels of education from kindergarten to university. The results to date have been far from uniform. Parental co-payments for school education were not implemented. As mentioned, by the late 1980s, the insufficiency of budgetary funding was already seriously felt in Soviet schools, and teachers’ salaries began to diverge materially from the average salaries in industry (at the time the highest in the country). Over half the graduates of pedagogical institutes did not end up working in schools—a trend even more pronounced in rural communities. In 1988, therefore, the VNIK School proposed that parents make additional monthly payments, depending on their material circumstances, of 5 to 20 rubles to schools for the teaching of their children. This, according to VNIK experts, should have offset the deficit in state funding of schools, including through increased pay for teachers, and also by attracting an influx of young teachers into the schools.

Of course, the Soviet Constitution required, as with the Russian Constitution today, that school education be universally accessible and free. And yet the trend of schools receiving non-budgetary resources endured—all the more so because parents in many cases either paid informally or otherwise directly purchased various small assets, including

pencils, drawing albums and teaching supplies, for the schools themselves. As a rule, fundraising was led by parents' committees, with school administrations largely uninvolved. Still, the crucial problem of ever-decreasing teachers' wages (by the end of the 1980s, teachers earned some 70–120 rubles per month, as compared to 220 rubles on average in the national economy)¹ was not addressed.

In 1989, a group of writers and members of the VNIK, under the leadership of Yevgeny Saburov, published a brochure entitled “New Economic Mechanisms for Schools”,² proposing, first, that the concept of “human capital” be recognised, in policy terms, as Russia's most important development resource; and second, that there be a transition to normative individual funding of schools as a mechanism to increase the quality of education and restructure the national network of educational institutes. The authors argued that strong schools would attract many more students in order to receive supplementary budgetary funding and develop rapidly, while weak schools would lose students and would therefore find their funding reduced. For the first time, then, a new principle of budgetary funding of schools emerged for the entire educational system: “the money follows the student”.

At the same time, in Tomsk, the country's first private schools were established under the direction of the very innovative Tatiana Kovaleva—even if private education never generalised across the country, and if, to this day, private schools represent less than 1.7 per cent of all schools in Russia.³

YELTSIN AND THE TURNING POINT

The first decree of Boris Yeltsin after his election as president of the Russian Soviet Federative Socialist Republic (still within the Soviet fold) was on education. The order declared that the average pay of Russian teachers must be comparable to the average industrial salary in the country, and that the average pay of the professorial teaching class in the postsecondary sector must be at least twice the average in the industrial sector.

There was a return to this idea in post-Soviet Russia in 2012—to wit, that the average salary of teachers and daycare workers should not be lower than the average salary in the economy of any given region, and that the average pay of the professoriate in postsecondary institutions should be at least twice the average pay in the economy of any given region.

The second major move of the Yeltsin government in respect of the educational system was the adoption of the 1992 law on education. The law enshrined the principle of normative per capita funding of schools as well as the need to establish general educational standards (for curriculum, pedagogy, etc.). It also allowed for schools to bring in additional revenues through paid educational services on a cost-recovery basis. In practice, of course, the normative per capita funding principle for schools, which endures to this day, was not implemented until 2003.

While many of the legislative norms it introduced were not ultimately realised, the 1992 law on education remains the most important and effective reformist act of the entire period of post-Soviet education in Russia. The norms it articulated had a significant impact on the general developmental directions of Russia's educational system: the private educational sector was viewed as equivalent to the state educational sector; the economic independence of all levels of federal and municipal educational institutions was expanded; the accrual to educational institutions of resources from various sources outside the state budget was legalised (allowing many parts of the educational system to survive and even progress during the transformational crisis of the 1990s); and various non-governmental and also commercial organisations (private firms, including foreign ones, foundations and other groups that were not strictly educational in nature) were given the right to establish schools (a right since reversed).

However, the 1992 law also had multiple negative consequences. In particular, the expanded right of various institutions to create schools was used not infrequently to minimise and evade taxes via various corruption schemes. Moreover, this became a legal mechanism for converting federal or municipal property to private property. This "multi-institutionality" of schools was therefore duly prohibited in 1995 (a prohibition in force to this day), depriving educational institutions of the support of business and blocking many developmental opportunities for these same educational institutions—especially in the area of professional training. (There have also, since then, been prohibitions created against the establishment of educational institutions or schools by different levels of government working jointly.)

Critically, the 1992 law failed to explain precisely what was understood by normative per capita funding, which was variously interpreted as, first, a standard of need, whose size must be such that it provides all the "rational" needs (with "rational" ill-defined) of a given educational institution (school, postsecondary institution, etc.) or, second, the prevailing norm—

that is, the extant level of funding for educational institutions or, third, the absolute minimum possible level of funding for an educational institution. The second interpretation was largely rejected by the pedagogical community and the leaders of educational institutions, as it would have set in law the inadequate funding levels for Russian education as a whole and for each educational institution in particular. The third interpretation also met with criticism, as it would have starved the educational system, for all practical intents and purposes.

This, then, was the theoretical baggage with which the educational system and the specialist and policy community approached the 1997 educational reforms—reforms that should have been part of a larger package of institutional reforms that the government of “young reformers” was planning to implement. In 1997–98, the concept document on organisational and economic reform of education—the basis of which was the principle of normative per capita funding—was developed by the national government. On top of normative per capita funding, the document also emphasised organisational-economic mechanisms of education funding, efficiency in budgetary spending, parental choice of schools and funding standards as an instrument for assessing the quality of different schools (where “money follows the student” and, in principle, the student enrolls there where the teaching is best).

And yet the concept was not realised in practice, in large part because of the advent of the 1998 financial crisis, but also, critically, because there were very few people in government able to precisely explain to teachers and directors of schools, rectors of postsecondary institutions and indeed the population at large exactly what the educational reform in question was about. *Bref*, the “grassroots” level of the educational system and the general public simply did not understand and therefore did not accept the reform outlined in the concept document—all the more so because, by 1998, lay Russians looked askance not only at these specific reforms but even at the word “reform”. In the event, the more abstract or philosophical aspects of the educational reforms interested parents and workers in the educational system very little. They were exercised only by very practical questions, for which the concept had few answers: whether a graduate of a given school, who had studied well, could be admitted without prejudice into a prestigious postsecondary institution; whether a student in a given school would have strong foreign language skills; and which supplementary classes a student could take in order to get ahead and at what cost.

For their part, professors and instructors were primarily interested in the size of their salary, opportunities to improve their qualifications, supplementary income they could earn for teaching additional courses, their teaching load more generally and indeed broader career advancement prospects in the educational system. Moreover, as the student population in the country began to shrink for demographic reasons, teachers worried about the extent to which their positions in the schools were secure—especially in the context of the restructuring of the national scholastic network (including the closing of many rural schools). No less important for instructors was the preservation of social status, to which were attached many material benefits like housing, free public transport (when transporting students on excursions), free visits to museums and a pension upon retirement.

With the change in government in Moscow, all social reforms were marginalised. Financial crisis oblige, the state had no resources to advance them. It seemed as if the modernisation of the Russian system of education had been removed from the policy agenda altogether.

THE SECOND WORLD BANK EDUCATION LOAN

The first educational loan from the World Bank, in 1995, had a fairly narrow scope. It was given to postsecondary institutions for modernisation of programmes in social and economic disciplines and had negligible public resonance.

The second educational loan from the World Bank, in 2001, targeted reform of the regional educational systems, capturing only schools and institutions of vocational learning. At first, 3 regions were included—Samara and Yaroslavl oblasts, as well as the Republic of Chuvashia, with Yaroslavl ultimately replaced by Voronezh oblast. Yaroslavl, nevertheless, proceeded on its own to implement the educational reform programme developed for it in the context of the original loan framework.

The following key measures comprised the reform of regional educational systems under the second World Bank loan: first, assuring the economic independence of educational institutions; second, funding schools on the basis of per capita standards (schools could independently allocate funds received according to specific targeted expenditures); third, having schools assume and organise their own accounting (as opposed to the erstwhile regime of centralised bookkeeping); fourth, raising the qualifications of school administrators and accountants, directors and specialists in

the administrative agencies of the educational system; fifth, implementing the rural “School Bus” programme (arguably the most successful of all the measures, leading to many repaired and refurbished roads); sixth, enabling schools to provide additional paid educational services (independently of government budgets); and seventh, introducing financial transparency for school activities, including independent audits of the economic activities of schools.

For the system of vocational education, emphasis was placed on increasing the qualifications of instructors and administrators, creating resource centres equipped with new scholastic and laboratory equipment, and establishing new training programmes for cadres, as well as income-generating activities, given that many vocational institutions were able to produce various services and goods (from food to cosmetic products and services).

Two fundamental decisions were made by the Russian government in the context of the second World Bank loan: first, to calculate the per capita funding standard (accounting for teacher salaries and, *inter alia*, expenditures on the maintenance of buildings and equipment, where the material base of educational institutions in the regions was highly varied, meaning that bringing all institutions up to a general standard was not possible); and second, to introduce correction coefficients to account for the presence in the regions of small or rural schools, remedial schools and other particularities of the educational system in a given Russian region.

THE GREF PROGRAMME

In 2000, work began on the so-called Gref programme, or “Strategy 2010”, for the long-term socioeconomic development of the country. The programme purported to develop an entirely new strategy for Russian education, addressing all levels of the system. For general education, it proposed to modernise school curricula, including the following: establishing federal educational standards; creating specialised high schools; supporting innovative schools (using new pedagogical approaches and technologies); introducing the unified state exam in order to bridge the gap between knowledge requirements at high school graduation and university admission and also to overcome corruption in higher education admissions; transitioning to normative per capita funding of schools, providing resources based on this formula directly to schools; restructuring or rationalising the school network (by closing various smaller or uneconomical schools and consolidating

student populations into larger, more economical schools); computerising schools and incorporating all schools, especially rural schools, into internet networks; setting conditions for legal, off-budget activities of schools, and at the same time removing inflows of “grey” money (e.g. bribes, extortion); raising the qualifications of school administrators and teachers; and, *inter alia*, increasing the pay and social status of school teachers while modernising the system of teacher education and training.

For its part, the 2000 “Strategy for Russia—Education” document (part of the Gref programme) comprised the triad of access, quality and effectiveness in education. The strategy proposed so-called governmental individual funding obligations (GIFO) based on the principle of normative per capita funding. These were funding norms for postsecondary students, differentiated according to results obtained on the unified state exam—that is, the higher the exam score, the higher the category of GIFO funding received by a high school graduate for his or her postsecondary studies. In 2005, the GIFO experiment, which was not supported by the majority of postsecondary institutions, was ended.

The strategy was fully approved by the Russian government and was part of the operational plan for 2000–01. Because of political half-measures in Russian economic and social reform, implementation of much of what was proposed in the strategy began in the form of experiments and pilot projects, which also served to emphasise the contested nature of the content of the strategy. The focus of public attention was therefore not education reform in toto, but rather the reform of discrete elements of the educational system. As such, the unified state exam experiment, which became a symbol for the entire national educational reform, commanded disproportionate attention.

In 2009, the unified state exam became a mainstay of the Russian system of education. Every graduate of the general school regime (comprising 11 years of learning) must pass this exam, which includes exams on mathematics, the Russian language and, among other subjects, Russian literature. However, there are, with a few exceptions, no university entrance exams in Russia today, although students who pass the unified state exam with high scores will be admitted to university on the strength of their score.

There are, to be sure, ongoing debates in Russian society about the necessity of such exams, with many teachers and public actors believing that they conduce to coaching for subjects, rather than helping students understand the fundamentals of different disciplines. Moreover,

until 2014, when very strict measures were enacted by the Ministry of Education and Science (specifically, the Federal Service for Supervision in Education and Science), administration of the uniform exam was undermined by multiple corruption scandals.

In higher education, Russia entered the Bologna Process in 2003 and prepared to transition to a two-level system of higher education (with bachelor's and master's levels) from 2004. Systematic implementation of this transition commenced in 2008. The number of bachelor's students grew consistently, while the number of students on the erstwhile regime of 5 years fell. And with the adoption in 2012 of the federal law on education, the classical "aspirantura" was integrated, strictly speaking, into the system of higher education. Before then, it was treated, strictly speaking, as part of post-university (post-graduate) education in Russia.

FEDERAL LAW 83-FZ (2010)

On May 8, 2010, the federal law 83-FZ on amendments to certain legislative acts of the Russian Federation in connection with the improvement of the legal status of state (municipal) institutions was adopted. It specified the legal status of state and municipal organisations and amended several legislative acts. More specifically, it sought to advance and promote the economic self-sufficiency of state budget-dependent educational institutions. The legal status of budgetary institutions was brought closer to that of autonomous institutions (making the two institutional types, for all intents and purposes, juridically indistinguishable), while the funding of the budget-dependent institutions was to be provided by single-sum annual subsidies. Thenceforth, these institutions would be largely independent in their economic decision-making but otherwise responsible, in economic and policy terms, for the consequences of these economic decisions.

In the national system of vocational training, the transition to a system of normative expenditures per user commenced in 2012. And yet, to this day, there is no definitive model for allocating normative expenditures, given the extreme variety among professional education and vocational training programmes and the regional specificities in delivering educational services—primarily in universities (which are federally regulated and physically spread throughout the country).

Of course, any presumption of service uniformity across Russia's many universities contradicts the process, begun in 2008, of creating "elite" universities as a counterweight to ordinary universities. The government created federal universities and then selected, on a competitive basis, the so-called national research universities. Moreover, certain universities were allowed to establish their own educational standards, which should in principle exceed the educational standards set by the federal government. All these universities are today funded according to higher norms. In 2015, the Ministry of Education and Science added select regional universities (chosen competitively) to this list, making them eligible for supplementary funding. This list of universities is constantly upgraded, and all the universities on the list receive additional budgetary funding, which at core breaks the erstwhile approach to funding higher educational institutions on the basis of state obligations to deliver state services (e.g. teaching a given number of, say, bachelor's and master's students and also fulfilling research requirements).

WHAT'S TO BE DONE?

From 2012, at the macro level, a state-led process was launched with the goal of ensuring that no less than 5 Russian universities figured among the 100 leading international universities by 2020. More granularly, though, in the immediate future, a key move must involve the transformation of the system of funding for Russian universities. Funding of "elite" universities must be guided by far higher norms and standards, according to the quality of teaching and education received by students. Moreover, the teaching function of the professoriate must be properly separated in these elite universities from the research function—that is, top teachers should not necessarily be assessed based on research and publications in leading journals.

Upstream, Russia must close the specialised programmes in high schools, as they have plainly not succeeded, to this very day, in developing to a respectable standard. As for the unified state exam, it must be further improved, including through expansion of its subject-matter coverage from the current 3 disciplinary areas (mathematics, Russian language and one optional topic) to 7, 8 or even 9 areas (with possible additional emphases on foreign languages and history).

NOTES

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Health Care

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THE HEALTH OF TODAY'S RUSSIANS

Russian health care policy turns on a number of significant tensions between three vectors—all evolving at different speeds: first, the extent and nature of substantive state health care guarantees for Russian citizens; second, the extent or size of state versus non-state funding of health care; and, third, organisational challenges in the national health care system, including due to the advent of new health care technologies. Russia's ability (or inability) to negotiate these tensions will determine the future health of the country's population. Moreover, the country's ability to reconcile the considerable and growing *informality* of its health care policies and practices with formal requirements and norms will determine the degree of public trust in the national health care system.

What is the state of the health of the Russian population? Mortality, which was especially high in the 1990s, began to drop from 2006—a trend that continued through to the end of 2016. During this period, the mortality rate fell from 16.1 to 12.8 per 1000 (a 22 per cent reduction), even if it remains very high today by comparison with European Union countries (see Fig. 21.1). Working-age Russian men have a particularly high mortality rate—that is, the probability of Russian men between 15 and 60 years of age dying in 2015 was, at 325 per 1000, almost twice the world average.¹

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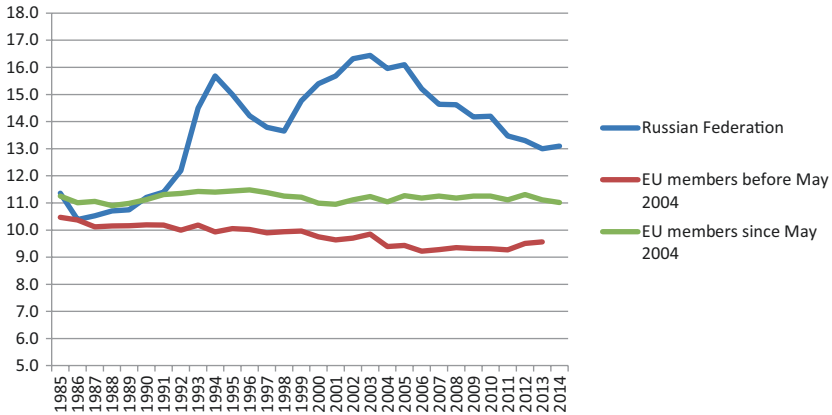


Fig. 21.1 Crude death rate, all causes and ages, 1985–2014 (per 100,000 people) (Source: European Health for All Database, Rosstat data)

Average life expectancy at birth for Russians fell to 64.5 years in 1995—a 50-year low. It increased by 7 years in 2015, reaching 71.4 years (76.7 for women and 65.9 for men).² Yet it remains 9 years lower than in the EU.³ It comes as no surprise, then, that less than half of adult Russian citizens assess their health as very good (44.8 per cent in 2017),⁴ while the average among EU citizens is over two-thirds (66.9 per cent in 2011).⁵

STATE HEALTH CARE GUARANTEES

In the Soviet period, all health care provided in state medical facilities was free for the population. Of course, informal payments by patients to medical workers were not uncommon, but these were ad hoc rather than universal. Immediately following the breakup of the USSR, the substance or content of health care guarantees for Russians changed little. Guarantees developed along the logic of greater precision in the size or expanse of health care and the means of delivering care, all the while preserving, in law and as a principle of public policy, the right of all citizens to free care for practically all descriptions of illness.

Of course, the Russian Civil Code, enacted in 1994, allowed public institutions to engage in income-generating activities. This set the stage for a break with Soviet policy on health care guarantees. In 1996, the federal government issued an act regulating the provision of paid medical services

to the population by public health care institutions—a move necessitated by the reductions in state health care funding during the transformational crisis of the 1990s.

Having emerged from the crisis, the government was faced with the task of calculating the appropriate (“rational”) size of state health care funding. A programme of state guarantees of free health care provision for citizens was therefore developed and adopted in 1998. This programme is updated annually and includes a general list of illnesses for which free health care is provided. The list of health care that is *not* covered is fairly small: pharmaceuticals for outpatients (with some exceptions), cosmetic surgery, homeopathic or alternative therapies offered by practitioners with no medical qualifications, adult dental services (except for military veterans and other special groups; children are covered) and medical prostheses, including dentures (except for veterans and other special groups).

The programme also contains indicators for the normative size of health care that should be provided through state resources (measured by the number of doctor visits, the number of emergency calls and the number of days in hospital). And yet there remains, to this very day, some uncertainty in the public about which diagnoses and which treatments are captured by the state guarantees.

The 2011 federal law on the fundamentals of health protection for citizens of the Russian Federation introduced a new instrument to substantiate state funding requirements—to wit, standards of health care provision for various illnesses. These standards detail medical services and the frequency of their use, drugs and dosages, as well as the medical products that must be given to patients in treating specific illnesses. Since 2012, the Ministry of Health has approved 806 such standards.

Of course, the true economic capacity of the Russian state to meet these standards was not fully appreciated when they were developed, even if the content of the standards reflected the ambitions of policy-makers to press for significant increases in state health care funding. Ultimately, these ambitions proved to be too optimistic—that is, the size of the expenditures required to meet the standards exceeded the total volume of state health care funding. In other words, there were insufficient public funds to meet articulated state guarantees.

The government also tried to distinguish those conditions that would receive free health care from those that would not by specifying the rules for the provision of paid medical services. As such, medical organisations funded by the state are allowed to provide paid medical services at the

request of the customer (patient), on conditions other than those stipulated by the programme of state guarantees for free health care provision. To be sure, the ongoing imprecision in respect of state guarantees means that there remains no single-meaning or single-understanding differentiation between free and paid health care.

HEALTH CARE FUNDING

The size of health care funding by the Russian state in the 1990s fell more than 1.5 times in real terms. Between 2000 and 2012—years of high oil prices and economic growth—it grew 2.3 times. From 2013, as the rate of economic growth fell, fiscal priorities changed once again. Expenditures on health care in 2015 fell in real terms by 3.5 per cent, as compared to 2012 levels.

In 2014, the proportion of state expenditures on health care was 3.7 per cent of GDP—slightly higher than the 3.4 per cent average for upper middle-income countries.⁶ As mentioned, Russian state guarantees of free health care provision remain very broad in terms of the capture of both the population and types of health care.⁷ Indeed, these guarantees are *prima facie* comparable with those of EU countries, even if the level of health care funding in EU countries is significantly higher (7.2 per cent of GDP in 2014).⁸ Of course, the size of state funding guarantees for free health care manifestly does not correspond to the health care needs of Russian citizens in practice, which explains the displacement of free health treatment by the personal (private) resources of patients (primarily in the form of out-of-pocket payments for medical services) or those of their employers (principally in the form of voluntary employee health insurance). Indeed, private health care funding currently represents about a third of total Russian health funding,⁹ while in EU countries this proportion does not on, on average, exceed a quarter.¹⁰

According to the Russia Longitudinal Monitoring Survey (RLMS), the percentage of Russian patients paying for outpatient care was 4.5 per cent in 1994, reaching 9 per cent in 2001 and 13.4 per cent in 2015. Of course, special attention should be paid to statistics on patients who pay for treatment at the time of their sojourn in hospital. According to Russian state health care guarantees, medicine given to patients in hospital should be provided free of charge. However, in the 1990s, as a result of insufficient state funding, many patients were forced to pay for medicine from their own pockets—52.8 per cent of patients in 2001, falling to 19.7 per cent

in 2015 due improved public funding of health care. Moreover, roughly a sixth of those who paid for outpatient care in 2015, and roughly two-thirds of those who paid for hospital treatment, did so informally. In 2011, according to my estimates, the general magnitude of informal payments by the population for health care was approximately 30 per cent of the overall legal (formal) payments for medical services.

The most significant change in the health care system in the post-Soviet period concerned the sources and mechanisms of health care funding. In 1993, mandatory health insurance was introduced. It ushered in a supplementary source of resources for health care funding—to wit, employer insurance contributions to the mandatory health insurance of employees.¹¹ Medical institutions began receiving resources not on the erstwhile basis of budget-line expenditures but through payments from mandatory health insurers for health care services provided. Still, today's system of health care funding remains mixed: in 2015, for instance, mandatory health insurance represented some 54 per cent of public resources going to health care, while 46 per cent came from traditional state budgetary funding.

To be sure, liberal economic ideas about efficient, competitive models of health insurance, underpinned by the participation of multiple private insurers, had considerable influence on Russia's mandatory health insurance system.¹² However, the inclusion of scores of private insurance organisations in the mandatory health insurance system did not automatically lead to competition among them in the interests of the insured. Instead, health insurance companies were assigned the role of passive intermediaries in the transfer of financial resources from region-level mandatory health insurance funds to frontline health care providers.

Bref, the practical influence of insurers on the allocative efficiency of mandatory health insurance resources and on the efficiency of health care provision more generally turned out to be minimal.¹³ Insurers, carrying no financial risks, were fully content with their situation. Indeed, with the passage of time, it is clear that this mandatory health insurance system, as it was developed, was above all consistent with the interests of rent-seeking civil servants, the directors of mandatory medical insurance funds, and also the owners of health insurance organisations, rather than the patients themselves.

The most serious flaw in the mandatory health insurance system was the absence of precise regulation of the size of insurance contributions for the non-working population, which regional authorities are obligated to

pay. In practice, regional authorities had significant autonomy to determine the size of these contributions, to authorise (or not) health insurance companies to operate in a given region and, more generally, to regulate their operations.¹⁴ As a result, there were insufficient resources in the system to fund health care for insured citizens, and the mandatory health insurance system became highly varied across the regions of the country.¹⁵

For their part, several “advanced” regional authorities—including the Kaliningrad, Kaluga, Kemerovo, Samara and Tver oblasts, as well as Perm krai—began to reform certain elements of the health care funding system principally through the development of sophisticated methods of planning for regional health care service pressures and payment methods to health care providers—for instance, the funding of inpatient care, by several regions, through polyclinics.

In 2010, the new federal law on mandatory health insurance changed the design of Russia’s mandatory health insurance system. To this day, Russia’s regions have specific financial obligations in respect of insurance contributions for the non-working population—obligations that come with strict financial sanctions in the event of failure to provide the required amount. All the mandatory health insurance contributions are centralised in a federal fund that distributes resources among the regions on a per capita basis, differentiated according to the age and gender structure of the population.

Despite demands from Russia’s doctors to take insurance organisations out of the country’s mandatory medical insurance system, the significant role played by insurance companies in this system has changed little, although the number of organisations fell to 57 in 2016.¹⁶ Many of the small insurance companies turned out to be unprofitable, and the overall market was gradually captured by large companies, with state policy generally supportive of this trend towards an oligopolistic insurance market. Twice, in 2010 and 2016, the largest insurance companies in the land lobbied for an increase in the minimal capital requirements required by law for insurance companies to be able to participate in the health insurance system.

The changes over the last 3 decades in the funding mechanisms for health care have not led to the formation of sufficient motivation among the key players in the system (health administration agencies and ministries, mandatory health insurance foundations, insurance companies and state medical institutions) to increase allocative and technical efficiency. Changes in health worker wages have not raised the quality of health care provision. Instead, for some of the medical workers, a more significant

motivating factor for providing quality health care, updating their credentials or mastering new medical technologies is the income earned from the provision of paid medical services as well as rents obtained from under-the-table payments. Of course, this species of motivation among doctors increases the risk of non-provision of necessary health care for patients who do not pay (or can ill-afford to pay) for treatment. Still, unless there is extortive behaviour by physicians, directors of medical institutions do not typically punish doctors for accepting such informal payments from patients. Indeed, it is far more likely that there is, in practice, a splitting or sharing of such informal payments or rents between doctors and directors.

In 2012, to strengthen the motivation among workers of state institutions in the social sphere, the federal government took the unprecedented step of planning to increase salaries over the next 5 years. If the average salary of doctors in 2012 was 125 per cent of the average salary in the broader Russian economy, then it would, on this plan, grow to 200 per cent by 2018—an increase that would be accompanied by new pay-for-performance remuneration. Of course, shortly after the approval of this programme, the macroeconomic situation in the country changed dramatically—and with it, the fiscal policy of the federal government. In real terms, then, public funding levels for health care were frozen. And in this context, in order to find resources to increase the salaries of medical personnel, the number of physicians was cut by 1 per cent between 2013 and 2015, nursing staff by 3 per cent and medical assistants by 13 per cent. The quantum of hospital beds in the country was also cut by 4.5 per cent in 2013–14.¹⁷ These cuts introduced serious new risks, including the paradox of rising pay for medical professionals coming at the cost of diminished access to (free) health care, if not diminished quality in the care provided.

CHANGES IN THE ORGANISATION OF HEALTH CARE

The largest change in the organisation of health care in post-Soviet Russia has been the closure of many small outpatient care units and hospitals, especially in rural Russia. Between 1991 and 2014, the number of hospitals fell by a factor of 2.3 (in rural Russia, by a factor of more than 5), the number of beds by a factor of 1.6 and the number of outpatient facilities by a factor of 1.3.¹⁸ These cuts have, to be sure, decreased access to health care facilities for rural Russians, even if this has been partly compensated by increased access to modern specialised care through multiple inter-district medical centres and the expansion of outpatient care.

Another major change has been the emergence of a substantial private sector footprint in the Russian health care space. In 2014 (the most recent year for which data are available), private outpatient clinics represented 22.5 per cent of all clinics in the country, even if their capacity (by estimated number of visits) was much smaller—that is, private clinics accounted for only 6.3 per cent of the overall capacity of all outpatient care institutions. Moreover, the proportion of private hospitals and the number of private beds remains, to this day, small overall—respectively, at 2.9 per cent and 0.9 per cent.

We should also note the considerable expansion of choice for patients in terms of medical organisations and doctors, which is primarily due to the development of paid medical services and private sector participation in the health care space. While this expanded choice is still plagued by barriers created by regional and local authorities and has created some perverse incentives and distortions in terms of patient referrals by doctors and medical organisations, the regime contrasts sharply with the erstwhile Soviet system, where a strict algorithm for patient referrals was followed, with patients having negligible choice of doctor and medical organisation.

And yet the main problem of health care policy in present-day Russia, inherited from the Soviet idiom of health care, is the enduring primacy of inpatient care at the expense of disease prevention and primary care.¹⁹ In addition, Russian health care diverges significantly from that of the countries of the developed market economies in its inferior use of new medicines and new medical and information technology. Now, in the context of broad and imprecisely articulated guarantees of free health care, patients are disposed to develop expectations to the effect that the state ought to guarantee free access to modern or cutting-edge treatment methods. Of course, the high cost of new medical technologies requires that there be extremely precise selection of the most effective technologies, as well as co-financing by the state and patients of new-technology-intensive medical services. In the meantime, the policy on funding guarantees neither emphasises such technologies nor assures co-financing in order to expand access to them. Patients must therefore lobby hard to advance their right to free care or otherwise seek to obtain such care as a paid service.

GREY ZONES IN RUSSIAN HEALTH CARE

Russian health care, as with many other Russian policy spheres, is characterised by the fact that formal institutions of organisation and funding are supplemented by very developed and sophisticated *informal relations*

among its actors, including relations that involve the extraction of “shadow” or “grey” rents. For instance, the practice of raising prices on medical equipment, medicines and other goods provided to state institutions (as compared with prices on the same goods for private clinics), in order that the price differential be kicked back to civil servants and directors of medical institutions, is not uncommon. A not-insignificant proportion of health care civil servants and hospital directors have their own health care-related businesses (pharmacies, suppliers of expendable materials and, *inter alia*, food suppliers for patients). We may also safely presume that some civil servants use their official positions to provide stable revenue flows to firms they control. Moreover, the informal relations between directors of mandatory medical insurance funds and managers of large medical insurance organisations are well established.

As a general rule, to date, all Russian health care policy involving change to formal institutions, including those with declared goals for increased access, quality of care and efficiency of resource use, has not materially affected the deeply embedded and culturally codified system of informal relations in the national health care space. In Russia, as in other post-Soviet countries, doctors may on occasion even block new initiatives or innovations that could improve health care, but could otherwise threaten the rent-seeking behaviour and practices of these same doctors. *Bref*, there remains a system-wide implicit preference for the status quo among those who earn “grey” rents within the system. And this deep system-wide preference is generally able to withstand—or, more precisely, absorb and integrate—even strong pressure from the authorities for formal systemic changes.

This informality provides the foundational backdrop against which Russia’s health care policies must address the aforementioned tensions between health care guarantees, health care funding and the broader organisation or architecture of the health care system—all with the manifest goal of closing the gap in mortality and morbidity levels with leading European countries.

WHAT’S TO BE DONE?

The key developmental vector for Russian health care in terms of reducing morbidity and mortality is, as mentioned, disease prevention and enforcement of primary care. Massive investments should be made, in the immediate future, in human capital and equipment for primary care units. The old Soviet form of primary care providers (catchment therapists) should be replaced by proper general practitioners.

Improving primary care would reduce the need for other, more expensive types of care (e.g. inpatient or emergency care) and would set the stage for structural changes in health care provision that would lead to more efficient allocation of resources in the delivery system.

Of course, increased competition among health care providers is another critical tool for increasing the efficiency of health care provision in the country. The establishment of competitive procedures for distributing contracts among medical organisations for the provision of medical services, proper funding from mandatory health insurance resources and the removal of major barriers to participation by non-governmental clinics in mandatory health insurance would together create conditions over time for efficient reallocation of resources and arguably the strongest possible incentives for health care providers to improve the quality of service.

For its part, the policy on state health care guarantees must be made far more precise in terms of the specific package of benefits on offer to citizens, all the while ensuring that the specific health care services that citizens expect to receive free of charge are underwritten properly by the public funding in place. Specification of the benefits package may proceed according to normative standards of care for different diseases. However, a policy of review of these standards and development of more economically realistic variants is necessary in the coming years in order to mitigate the collision between the guarantees of free care and the accelerating emergence of paid medicine in Russia.

The policy on state guarantees of health care provision should also evolve to better incorporate new treatments into the benefits package for citizens. The various types of care, based on new medical technologies that have not been made widely available in Russia, should be provided to citizens on the basis of co-payment between state and patients (with the proviso of additional state support for the most impecunious parts of the population). Indeed, the rising cost of new medical technologies will require a combination of features from the state mandatory health insurance funds and the market for voluntary health insurance. And the use of market regulation together with public funding will be the most effective and fair way to ensure rapid, mass adoption of new medical technologies.

Finally, in order to reduce the grey zones in Russian health care, there is a need to radically increase the transparency of public administration, starting with transparent decision-making in respect of state procurement and the distribution of resources. The state must introduce precise requirements for informing Russian society about the criteria by which the

activities included in programmes of health care development are selected, as well as about public funding and the results (failures and achievements alike) of the activities and work of medical organisations. Such moves would, over time, lead to a substantial decrease in corruption and public resource waste in the health care sphere.

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Food and Agriculture

Svetlana Barsukova

RUSSIAN AGRICULTURE AS CAPTIVE TO HIGH POLITICS

Agriculture policy has, since the fall of the Soviet Union, arguably never been as important in Russian life as it is today. Having taken the path of import substitution in 2014, Russia now faces the very complex challenge of providing food products for its population through predominantly national production. And yet the Russian agricultural sector is, notoriously, an extremely inertial part of the national economy. Successes in this sector have resulted only from gradual efforts accumulating over time. And still the fundamental problem of Russian agricultural policy remains, in the early twenty-first century as in many periods past, its inconsistency and excessive dependence on and exposure to high politics, as driven by geopolitical collisions and transformations in Russia's internal development model.

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AGRICULTURAL REFORMS IN THE 1990s: INCOMPLETE PRIVATISATION OF LAND AND ATTEMPTS TO DEVELOP FARMING

Agricultural policy in the Soviet period was somewhat absurd from an economic standpoint: the centre allocated resources independently of the results or efficacy of operations, the losses of state and collective farms were regularly written off, and centralised withdrawal of agricultural product destroyed incentives for development and efficiency. As an obvious consequence, the agricultural sector in the USSR had low efficiency and exceedingly low labour productivity.

The sharp change in overall national political direction in the 1980s, beginning with Gorbachev's perestroika and actively reinforced by the Yeltsin government, heralded the end of Soviet agricultural policy. The liberal project begun in the 1990s demanded the introduction of market principles in agriculture. To this end, the privatisation of agricultural lands and the creation of farm ownership were the most important elements of the development of capitalist agriculture. However, such privatisation revealed not only the decisiveness but also the naïveté of Russia's reformers in respect of market capitalism.

Privatisation of lands was seen as a necessary element of the reforms, despite the fact that some international experience—starting in Europe—testified to the legitimate possibility of developing advanced market agriculture in the absence of private ownership of land. Of course, the Russian privatisation of lands led to multiple problems that remain unresolved to this day. At the end of 1991, President Yeltsin set about rapidly dividing lands—an “emergency privatisation”, as it were—among former collective farmers. Because surveying and registering millions of new tracts of land was technically impossible, it was decided that a share certificate system should be introduced, under which land shares, in the form of special certificates, would be issued to erstwhile members of collective and state farms. Granting “land certificates” rather than the land itself—where the certificates allowed for holders to buy, sell, exchange and perform other transactions on the underlying land—meant that this was, for all practical intents and purposes, a regime of “semi-privatisation”. At the time of this writing, some 9 million land shares, representing about 90 million hectares, have not been converted into real plots of land—that is, they remain, in legal terms, in so-called shared ownership, leading to considerable confusion in land use across the country.

Table 22.1 Agricultural production in Russia (1990–2014)

	1990	2000	2010	2014
<i>Structure of agricultural production, %</i>				
Agricultural companies	73.7	45.2	44.5	49.5
Household plots	26.3	51.6	48.3	40.5
Farmers	n/a	3.2	7.2	10.0
<i>Principal agricultural products</i>				
Meat production: livestock and poultry (thousands of tonnes)	10,111.6	4445.8	7166.8	9070.3
Milk production (thousands of tonnes)	55,715.3	32,259.0	31,847.3	30,790.9
Grain production (millions of tonnes)	116.7	65.5	61.0	105.3

Source: Rosstat (2015) (http://www.gks.ru/free_doc/doc_2015/selhoz15.pdf), pp. 52, 80, 97

To be sure, the overwhelming majority of former collective farmers from the Soviet period did not wish to become market-based farmers in post-Soviet Russia—for reasons of fear and risk, but also to avoid paying taxes. They simply wished to remain hired labourers in collective farms, working on orders and earning wages. However, through massive state propaganda and forced abolition of collective and state farms, post-Soviet Russian farming began to gain momentum. And yet it quickly became evident that the country's new farmers were unable to maintain the volume of production that the collective and state farms were able to assure in the past. Farmers went bankrupt en masse or were forced to work strictly for family subsistence in lieu of selling their products on the market. A catastrophic drop in national agricultural output ensued: in 2000, national output, at constant prices, was 62.8 per cent of the 1990 level (Table 22.1).

The regression in agricultural production during this period was compensated by food imports that were effectively untouched by quotas or duties. In the 1990s, Russia became the leading importer of American meat: in 1997, Russian food imports reached US\$13.3 billion—over 8 times the food exports from Russia (US\$1.6 billion).

Bref, the agricultural reforms of the 1990s had tragic consequences for Russian agriculture, betraying a form of “reverse Bolshevism”, as it were, marked by an obsession with ideas (in the event, the lofty ideas of the post-Soviet liberal project) at the expense of common sense and pragmatism. The irony of fate is that the fight with socialism continued the Soviet logic of subordinating the economy to the political project.

AGRICULTURAL POLICY IN THE 2000s: RETURN OF THE STATE

Disappointment with the results of the “self-organising” market, growing national dependence on food imports and the manifest degradation of Russian agriculture in toto led to a strengthening of state regulation in the 2000s. The policy posture of President Putin—supported by a population exhausted by the convulsions of the 1990s—consisted in a gradual strengthening of the role of the state in the economy as a means of “bringing order” back to the country. Tariff rate quotas were introduced on food imports, and the national priority project “Development of the Agro-Industrial Complex” was announced in 2006–07. The state’s agricultural policy framework in the 2000s progressed according to two vectors: first, support of agriculture brought the state political dividends, demonstrating its “popular character” and signalling a return to Russia’s roots through the spirit of national conservative values; second, the collapse of the ruble in the 1998 default made food imports expensive—and very rapidly so—creating incentives for investment into national agriculture. As a consequence, the activism of the agricultural lobby grew, as it advocated for protection of the food market from imports.

Still, the state continued, inertially, to implement the liberal project in fragments—particularly through the fight for membership in the World Trade Organization (see Chap. 15 on International Economic Policy). The long campaign for membership saw opposition between two forces—on the one hand, the agricultural lobby, which advocated for protectionist measures and was supported by the Ministry of Agriculture, and, on the other, the liberally oriented Ministry of Economic Development and also Ministry of Finance. The first group called for patriotism and national self-sufficiency in food, while the second invoked the post-Soviet concepts of free markets and the international division of labour.

The victory of the agricultural lobby manifested itself in the establishment of tariff quotas on the import of a number of foodstuffs. For the first time in post-Soviet Russia, in 2003, tariff quotas on meat imports were introduced as a counterweight to the prior “open door” import policy. Meat imports were organised according to the “country principle”, which set strict import volumes among specific source countries. Of course, Russian firms fought to remove the “country” element of the quotas in order to buy from where it was cheapest. However, “political necessity” ruled the day: the government maintained the “country” schedule of quotas, stressing that the distribution of quotas among countries was critical to Russia’s political relations with other states.

The national priority project “Development of the Agro-Industrial Complex” focused on livestock. Besides its economic importance, the project had clear political content. An upcoming State Duma election and change in the presidency (the return of Putin was being prepared) dictated a strategy of “covering your bases”—that is, improving the country’s least developed policy spheres, with due respect to the mood of the electorate. Agriculture played a special role in this regard.

The federal budget allocated some 35 billion rubles for the implementation of the “Development of the Agro-Industrial Complex” national project (with the 35 billion eventually, through sectoral lobbying, rising to 47 billion rubles for 2006–07). The project had a market character—that is, its parameters did not envision non-repayable loans. The principal instrument for supporting agriculture was to be subsidised credit, meaning that companies, farmers or household plots could take credit from any commercial bank and then receive partial refunds from the state for interest paid to the bank. Farmers and household plots could use subsidised credits for any product specialisation. For their part, agricultural companies would receive the same credit only for purposes of building and modernising cattle-breeding complexes (given the significant drop in cattle in the post-Soviet period).

The economic case for state support of household plots was highly questionable. *Bref*, the approach was manifestly more social than purely economic in its aims. As such, liberal-minded economists actively opposed support for household plots, believing it necessary to concentrate on advanced forms of ownership, rather than spreading assistance too thinly. However, the country’s internal politics increasingly turned to the national conservative brief, which clearly included paternalism vis-à-vis the population.

Livestock support, too, was symptomatic of the policy subordination of purely economic considerations. The contemporary alternative to livestock support would have been support for Russian crop production, which was enjoying the country’s most promising exports, including corn, soybeans and oil crops. Russia had entered the world grain market in 2002, ramping up its presence year over year. Grain exporters therefore hoped to become favourites of state agricultural policy on the strength of their indisputable achievements. Still, the industry as such was neglected in the aforementioned national project. Instead, the livestock lobby was the clear winner, having argued that the country’s dependence on imports was an “unacceptable state of affairs”.

The national project sealed the victory of a bureaucracy that started patronising the market, consistent with the general vector of Russian transformations. Large subsidised credits were given only with the support of regional governments, according to regional political interests. In the event of insufficient financial pledges, regional governments acted as guarantors before the banks. Other borrowers, when not supported by regional governments, could get credit from the banks in general terms—that is, without a subsidised interest rate. *Bref*, proximity to power became a fundamental factor in determining the economic prospects of agricultural sectors and players.

The website of the Ministry of Agriculture included weekly ratings of each region according to its success in implementing the national project. The completion of the project was followed by triumphant reports: all the deliverable targets were fulfilled, and the majority were overdelivered. The “paper” targets that were exceeded included the number of cooperatives created, which after the completion of the national project were successfully forgotten. And yet in all the grotesque complexity of post-Soviet accountabilities, the “Development of the Agro-Industrial Complex” national project had profound significance. Business began to think seriously that agriculture could become a profitable sector. Between 2005 and 2010, investments in agricultural production capacity grew almost threefold, from 79 to 202 billion rubles.¹ During this period, livestock and poultry production grew from 5.0 to 7.2 billion tonnes.

Having said this, the fall in livestock production after the breakup of the USSR was of such force that the 1990 level (10.1 billion tonnes) has not been reached to this very day.² Indeed, not believing that state support for livestock was serious and long term in nature, business investments in this sector were made strictly on a short-term basis, privileging quick-return projects. Investors were exercised exclusively by “fast payback” meat—to wit, poultry and pork, where turnover was favoured by the political winds. Beef production, on this logic, was approached with extreme caution.

PARTICULARITIES IN RUSSIAN FOOD SECURITY

The partial successes of the agricultural economy and the growing national conservative disposition of the state and also Russian society laid the groundwork for the signature in 2010 by President Medvedev of the doctrine on food security.

What is the Russian understanding of food security? The liberal interpretation dates back to the resolutions of the Food and Agriculture Organisation and the international tradition that associates security with the availability of food for the Russian population in the quality and quantity necessary for an active and healthy life. In Russia, this interpretation emphasises the accessibility of specific foods or food imports, corresponding to the interests of importers and also local officials who may be frightened by the prospect of “hunger riots”. Experts in international organisations advising the Russian government have long supported this interpretation.

A protectionist interpretation, on the other hand, associates food security with food self-sufficiency for the country—a policy vision coinciding with the interest of national food producers in their calls for increased government support to defend the domestic food market against imports.

In his first term in power, President Putin leaned towards the liberal scenario of national development as well as food security, albeit with an imperial tinge. (The theme of food security was a major one for the communist opposition at the time.) However, as the situation in the agro-industrial complex improved with the general rise in the patriotism of the Russian population, attention to the food market began to pay political dividends for the ruling elite. This was the essential context in which the doctrine on food security was adopted by presidential decree in January 2010. The doctrine had less practical import than symbolic importance. For the first time, there was a policy articulation at the highest levels to the effect that the import of basic food products threatened the national security of the country. Russia suddenly deviated from the global discourse, tying food security to independence from imports and stressing the path of national self-provision in basic food products. According to the doctrine, by 2020, the percentage of national, Russian-produced food in the internal market should be as follows: grain (95 per cent); sugar (80 per cent); vegetable oil (80 per cent); meat and meat products (85 per cent); milk and dairy products (90 per cent); fish products (80 per cent); potatoes (95 per cent); and table salt (85 per cent). The doctrine also addressed the quality of food in Russia and its physical and economic accessibility by the population. Nevertheless, the real consequences of the new agricultural policy were national delivery targets for national self-sufficiency in food.

As reducing food imports through price competition proved problematic, restrictions on imports were implemented through non-transparent measures. A propaganda campaign about national food products being ecologically clean, as distinct from “dirty” imports, was launched to

coincide with a general rise in nationalist moods in the country. (As a cultural point, Russians will sooner believe that domestic meat is better than imported meat than in the comparative advantages of, say, Russian cars or computers.) Market protection mechanisms were introduced in response to grievances from various government departments about the quality of imported products. A clear example of such a mechanism was the prohibition on American chicken from January 1, 2010—formally justified as a ban on chlorinated meat (which, incidentally, was common for Soviet poultry). Through the “Development of the Agro-Industrial Complex” national project, the power of the Russian poultry sector rose dramatically, while cheap US chicken became a nuisance. Russia maintained the restriction for 8 months until the Americans, having exhausted all avenues of pressure, agreed to stop using chlorine.

Attempts to protect the country from low-quality imports from any given country intensified in direct proportion to political tensions with that exporter country. For instance, sharp statements by Polish politicians against Russia led to a freeze on a number of imports from Poland for putatively sanitary-epidemiological reasons. And, notoriously, a 2009 disagreement with Alexander Lukashenko led to the “milk war”, in which hundreds of milk products from Belarus were banned in Russia.

Against this background, ordinary Russians and businesses alike, together with the agricultural lobby, believed—wrongly, as it turned out—that the question of Russian membership in the WTO had been removed from the national policy agenda—a belief bolstered by President Putin’s assessment that the weak integration of Russia into the global economy was a key reason for the country having being spared the worst effects of the global financial crisis of 2008–09. Said Putin, in February 2009, to Jose Manuel Barroso, then President of the European Commission: “We tried [...] to join the WTO [...]. Fortunately, you did not allow us in”.

RUSSIA JOINS THE WTO: THE REACTION OF THE FARMERS

In 2012, the Kremlin’s policy pendulum swung once more to the liberal side. The upper echelons of Russian power pressed ahead with the negotiations on the country’s entry into the WTO. Of course, the most ardent opponents of this move were the representatives of the agricultural sector, who argued that the obligations that Russia undertook in joining the WTO threatened the country’s food security.

The resistance mounted by Russian agribusiness was serious. Their lobby saw a clear threat in the future reduction of import duties, the reduction of state support for agricultural producers and the severe limits that would be imposed on the government's ability to use domestic phytosanitary standards to ban food imports. Indeed, a more radical Russian interpretation of the country's entry into the WTO saw the move as treasonous, leading to the collapse of national agricultural business and injuring the health of the nation.

Representatives of the producers of agricultural vehicles led the public protest, becoming leaders of the "Stop WTO" movement. They created an analytical centre called "WTO-Inform" in order to provide "patriotic expertise" in respect of the country's entry into the WTO. They even tried to bring the question of WTO membership to a nation-wide referendum—a request denied by the government. The opposition's argument found resonance in the population: in the summer of 2012, those favouring membership (30 per cent) were scarcely more numerous than those opposed (25 per cent). Ten years earlier, at the peak of liberal moods in Russia, more than half the population (56 per cent) supported WTO membership, while only 17 per cent were opposed.³

Of course, not all representatives of agricultural business protested publicly. A significant number of agricultural businesses favoured a strategy of negotiating with the state in respect of the specific conditions envisaged for different sectors in the context of WTO membership. Positioning themselves as "constructive critics", they posited that "protectionism is, in principle, bad, but our case is an exception to the rule". And yet the government firmly blocked this sectoral lobbying, making it plain to all that the path to international integration was not up for debate.

The sharp, unexpected liberal pivot of the Kremlin provoked protests among legislators as well. The protocol on Russia's entry into the WTO was ratified only thanks to United Russia; all the other parties in the Duma nearly unanimously voted against it. After marathon WTO talks lasting 18 years, the Duma results were 238 for and 209 against. As such, in August 2012, despite the protests of the agricultural lobby, Russia became a member of the WTO. The term "food security" became a symbol strictly of the opposition and was expunged completely from the rhetoric of state officials and political actors. For a brief moment, food security was consigned to the archives of Russian history as yet another gaffe of the Medvedev government. But not for long.

IMPORT SUBSTITUTION AS REINCARNATION OF THE IDEA OF FOOD SAFETY

The events in Ukraine, including the annexation of Crimea, led to economic and trade sanctions against Russia by the USA, the EU, Canada and several other countries. In response, in August 2014, the Russian government imposed import bans on numerous food products, signalling a path towards import substitution. Food security not only returned to the official political and policy discourse but indeed became a central tenet of Russian domestic policy. Farmers whose interests were violated by the WTO entry conditions at last got a chance at moral and material satisfaction. Agricultural policy was once again derivative of the national political situation.

The present economic policy views the Russian agricultural sector as a new area of export specialisation for the country. Of course, these hopes are not without basis: exports of food and agricultural raw materials rose from 1.6 per cent of all Russian exports in 2000 to 3.8 per cent in 2014, reaching US\$19 billion dollars (which is larger than even arms exports). Russia is a “net exporter” of wheat, barley, corn, sunflower oil and, *inter alia*, fish. Over the same period, the share of food and agricultural raw materials in Russian imports fell from 21.8 per cent to 13.9 per cent.⁴ Import substitution in the food market is supported by a substantial part of the Russian population. At the time of this writing, nearly 70 per cent of the population has a positive view of import bans on food from the USA and the EU.⁵ This seems paradoxical, as the obvious consequences of this policy have been diminished consumer choice, growth in prices on food products and, doubtless, a reduction in the quality of food in Russia.

The fall in the quality of food is attributable to the decline in personal incomes among Russians, resulting in Russian food producers marketing cheaper products, including food products containing varying degrees of artificial or substitute elements. As a result of the milk shortage, for instance, approximately 70 per cent of Russian cheeses today contain vegetable fat, which is a vulgar falsification. To be sure, the Federal Service for Veterinary and Phytosanitary Surveillance regularly cites such infringements, yet no remedial or punitive measures are taken—not least because the authorities understand perfectly well that there is no policy alternative to import substitution in the present political circumstances.

The popular support for import substitution is explained by the ideological climate in the country. Pro-government media form the

narrative of a united people girded for deprivation in defence of their national interests. Of course, the costs transferred to consumers are typically not treated in this narrative, as patriotism is supposed to prepare its victims. For its part, the agricultural lobby skilfully exploits the patriotic disposition of Russians—that is, a mood of “nostalgic revanchism”, harkening back to the country’s lost great-power vocation. As such, it is no accident that the marketing of mass food products in Russia has conjured up the Soviet past through the choices of name, packaging and advertising for these same products.

In opting for import substitution under strict budgetary restrictions (reduced oil prices and sanctions), the state was forced to establish new priorities in agricultural policy. Not having obtained the desired results from the farming reforms of the 1990s, the government bet instead on large and super-large companies as drivers of rapid growth in agricultural production. These were gigantic agro-holdings that effectively reproduced the collective and state farms of the Soviet period—albeit in the capitalist variant—where the giant mania is accompanied by a corporate bureaucracy and industrial discipline. Originating in the wake of the 1998 crisis, such agricultural holding companies quickly concentrated enormous resources: in 2006, 0.113 per cent of Russia’s agricultural companies controlled 81.5 per cent of cultivated land, owned 48 per cent of all cattle, 47 per cent of all pigs and 63 per cent of all birds in the country.⁶

The preoccupation with scale and size is explained by Russia’s peculiar institutional context: weak protection of contract rights led to efforts by business to be maximally self-sufficient, resulting in not only colossal administrative costs but also relative independence from unscrupulous contractors and an ineffective judicial system. *Bref*, horizontal and vertical integration of enterprises was a compensatory reaction to the poor quality and risky nature of the institutional context. In 2014 (the latest figures available), the net profits of the largest agro-holdings in Russia (Miratorg, Cherkizovo and Rusargo) totalled nearly 50 billion rubles.⁷

Having become favourites of Russian agricultural policy, agro-holdings once again became strong lobbyists. The state became hostage to its policy choice, having assumed the role of the “engine” without which the train does not independently move. As such, if the original “Development of the Agro-Industrial Complex” national project supported farmers, household plots and cooperatives, then all this is forgotten today. Farmers have been pushed to the margins of agricultural policy, even if they contribute to approximately 10 per cent of gross agricultural output. In short, the state

has lost interest in farmers as a source of economic growth (in 2016, there were only some 215,000 farmers left in Russia)—something that runs contrary to global experience: family-owned farms remain foundations of agriculture in the USA and the countries of the EU, despite growing specialisation of production and ongoing increases in farm sizes.

Household plots, too, have been forgotten. A common criticism levelled at household plots has been that they are “archaic”, as apparently evidenced by their low productivity (even if they contribute significantly to overall national agricultural output). However, as the present crisis deepens in Russia, there is, as a basic survival strategy, a manifest need for growth among these household plots. In other words, as the common challenge of self-sufficiency acquires a commercial or trade character, it is essential that there be institutional capacity for broad participation by the population in the agricultural market—inter alia, through cooperation and contracting with large businesses.

WHAT’S TO BE DONE? TOWARDS A DEPOLITICISATION OF RUSSIAN AGRICULTURE

The fundamental problem of Russian agricultural policy in the post-Soviet period remains the clear absence of a unified, long-term development plan. The dramatic transformation of the national political context over the last three decades and regular oscillations in the reform vector between liberal and national conservative ideologies have been directly reflected in agricultural policy, depriving it of unidirectional stability.

Indeed, many reform efforts in the recent past have been frustrated by subsequent steps: massive support for farmers was displaced in favour of mega-holding agricultural companies, and the opening of international food markets was displaced by protectionism, justified in terms of national food security. Changes in the international context, the instability of the domestic political path and the demands of the national electoral cycle have all influenced agricultural policy, turning it into a barometer of the political winds in the country.

The agricultural lobby, for its part, consistently aims to “catch the wave”, as it were, which inevitably leads to short-term strategies prioritising off-the-shelf projects. Of course, this approach contradicts the very nature of agricultural commerce, which is perhaps the most inertial sector of the Russian economy—that is, short-term motives in the agricultural sector lead to negative consequences, especially in economic terms.

It follows that the development of the agricultural sphere must be given stability in terms of set long-term priorities and rules of the game in order to return Russian agricultural policy to a logic of apolitical pragmatism. Russia must push towards the long-term institutional construction of a multilayered agricultural economy—all the while marginalising any illusions about rapid growth on the strength of a small number of giants that have become aggressive lobbyists and recipients of endless state support. Evidently, it is perfectly reasonable to limit the long-term development of agro-holdings to those sectors where “scale effects” are possible—in grain and oilseed production, industrial cattle breeding, poultry farming, pig farming and raw materials for biofuels. Production from agro-holdings should become the basis for the country’s food exports, just as local markets can, to a significant degree, be filled by production from farmers and small- and medium-sized farming organisations. Support for farmers should have a utilitarian basis in the context of the national and international division of labour and, *grosso modo*, the relative advantages of their economic activity.

The Russian state must tame the general onslaught of the agricultural lobby, for whom import substitution has proven manna from heaven. Economic history tells us that protectionism is effective only when it is focused on those vectors where there are prospects for global competitiveness through some species of initial protectionist support or fillip—that is, protectionism cannot be all-encompassing and permanent but rather only targeted and temporary.

To be sure, the shrinking of the real income of the Russian population, caused by the current crisis, should become a driver for restructuring state support to agriculture. The present model is in serious need of change because the lion’s share of resources is being allocated among the country’s financial structures through subsidised credit. An alternative and nearly unused channel of support would be consumer subsidies for food products as a means of stimulating demand. In this context, Russia must correct some of the basic principles of its social policy, transitioning from support for social groups (pensioners and multichildren families, for instance) to targeted support for families with few resources. In parallel with this, tax discipline must be strengthened, without which those whose earnings originate on the black market may well fall into the category of low-income families. Finally, it is essential, through the media, to popularise the experience of developed countries that successfully use different types of instruments to subsidise poor families in acquiring food products,

all the while destroying, again through the media, any erroneous association of such subsidies with food coupons or similar instruments used in the Soviet period.

As a WTO member, Russia committed to fairly severe restrictions on support for farmers. Accordingly, the focus of future government support must be on non-market-distorting measures, none of which is prohibited by Russia's WTO membership, including the construction of industrial infrastructure (ports, elevators, etc.), revitalisation of scientific institutions (e.g. in genetics), growth in the quality of specialist training in agricultural institutions, development of rural infrastructure and upgrading and modernisation of livestock complexes in the context of environmental threats.

Certainly, as the crisis in Russia deepens and budget revenues and personal incomes fall, the outcome of the "duel between refrigerator and television" may change: real products will become more important than virtual ones for the population. Emotional overheating may well cause a pendulum swing in the direction of national protest. Let us recall that the Bolsheviks came to power after the exhaustion of patriotic exaltation associated with the country's entry into the First World War. *Bref*, patriotic escalation can help the country and the government to realise a particular economic manoeuvre, but it cannot be used as a foundation for long-term agricultural policy.

Lastly, it is necessary to define the main goal of long-term agricultural policy. Is Russia attempting to become, over the long run, largely independent of external markets in the provision of food to its population—that is, by minimising imports of food products? Or is Russia, just as ambitiously, trying to ramp up exports of high-quality food products—that is, to become one of the leading players in the world food market? These strategies are evidently not mutually exclusive. But they are different strategies, requiring different regimes of practical measures. And it would be a major mistake to presume that Russia can, without incurring major costs, first solve the challenge of food autonomy, only to deal later with that of increasing exports.

The first strategy involves the activation of an entire complement of measures to support national producers in the domestic market, including discrimination against foreign companies in terms of access to land resources. In this case, the powers of the Ministry of Agriculture do not require significant correction. Still, the second strategy is likely the more promising one for Russia. It would certainly require critical corrections to agricultural policy, including stimulation of foreign direct investment, establishment

of market mechanisms for land use, creation of scientific-training centres for the country's cadres and development of world-class science, including through the attraction of foreign specialists.

Technological development is a cornerstone for a successful export-oriented strategy. Independently of domestic or international events, liberalisation of land rights is an unconditional starting point. To this end, it is necessary to complete registration of all land lots in the national cadastre. Presently, some 80 per cent of agricultural lands in the country are not registered in the cadastre—that is, they do not have established borders, making it difficult to bring them to market. It is also important to reconcile cadastral valuation of land plots with their market value—something that requires that the presence of infrastructure, the state of the lands and the state of local markets all be taken into account.

Support of exports requires the creation of information and consulting centres to help with the search for markets and certification of products. Preference should be given to exports of high-value-added products, which would help to create new jobs in the Russian economy. Mass entry into the global food market also requires removal of the existing legislative ban on genetically modified products, intensified study of gene engineering and harmonisation of national phytosanitary norms with global standards. To this end, the powers of the Ministry of Agriculture should be broadened through the creation of specialised structures of support for exports and intensification of technological innovation.

These measures should not be implemented all at the same time. Instead, the “opening” of the Russian market should occur gradually, as the competitive position of national production strengthens.

NOTES

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3. <http://gtmarket.ru/news/2012/08/27/4916>
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Population and Migration

Vladimir Malakhov and Mark Simon

RUSSIA'S DEMOGRAPHIC PROBLÉMATIQUE IN THE EARLY TWENTY-FIRST CENTURY

At the heart of Russian immigration and demographic policy is a collision between two historical approaches to “population administration”—the first liberal, and the second conservative. The liberal approach works from the premise that Russian society is a self-organising whole, with policy-makers having to work only in support of this self-organisation by incentivising desirable trends and frustrating undesirable ones. The conservative approach, on the other hand, holds that Russian society requires strong restrictions in order to ensure its stability.

At the end of the twentieth century, Russia faced mass depopulation—in particular in its working-age population. Looking ahead, by the year 2030, according to a recent forecast by Evgeny Andreev and Alexander Vishnevsky,¹ Russia's population will shrink by 11 million. It may be possible to compensate partially for the fall in the working-age population by increasing labour productivity and the overall economic activity of the remaining population, including by raising the pension age. However,

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as the experience of all developed countries demonstrates, the essential instrument for such compensation remains immigration. In the Russian case, net migration—and more precisely, migration for settlement purposes rather than temporary migration—must be no less than 340,000 people per annum over the course of the next 10 years and 400,000 per annum after 2025.²

Why is current Russian migration policy inadequate to meet this challenge? First, the Russian political class inhabits an illusion in respect of the size of Russia's existing demographic resources and the country's capacity to compensate for its shrinking population. Second, anti-migration biases, as with the attendant national moods that privilege temporary (non-permanent) migration, block the integration process for migrants. Third, the over-bureaucratisation and corruption of immigration regulation in Russia blunts the potential positive impacts of immigration. Indeed, migration regulation in Russia today has pushed a significant proportion of migrants into the grey or underground sphere. The country is, as a result, losing the global competition for qualified foreign workers—not just by virtue of the lesser attractiveness of Russia for migrants compared to that of more developed countries, but also because of a general preponderance of administrative mistakes.

Let us propose that the process of Eurasian integration, launched at the start of the 2000s, with a new impulse at the start of the 2010s, could well be an effective vehicle for addressing many Russian policy problems, including in their economic-demographic and politico-administrative dimensions. In deepening and developing the Eurasian Economic Union, Russia has a significant opportunity to advance a fundamentally new model of multilevel governance for the post-Soviet and Eurasian space that could replace the ageing extant national model of centralised state administration.

To be sure, a key part of this integration agenda must include subordination of the present policy logic of security to one of modernisation and development. This will evidently require a substantial increase in the competence and professionalism of the national organs of power and the establishment of transparent mechanisms for legalising the labour of foreign citizens in Russia—something that would radically decrease the present levels of bureaucratic capriciousness and corruption.

RUSSIAN DEMOGRAPHIC AND MIGRATION HISTORY: THE IMPERIAL PERIOD

“Population” became a topic of interest for the Russian state at the start of the eighteenth century, slightly later than in Western Europe. In 1717, Peter the Great initiated the first general Revision Lists, comprising all taxable imperial subjects. This precursor to the modern census was the first event in which Russian authorities began to administer subjects as a “population”.

Administrative efforts in that period did not address natural reproduction but instead focused on the question of territorial mobility for the population. Mobility was highly restricted by feudal law: peasants did not enjoy the right to leave “their” landowners (“state peasants” were not allowed to leave the businesses to which they were assigned, and the lower urban classes, too, did not have freedom of movement). On the other hand, the task of claiming territories at the peripheries of the empire—those uninhabited in the east and those in the south inhabited by non-Russians—necessitated non-trivial decisions from the authorities. The result consisted less in repressive practices (i.e. the use of “exiled” and hard-labour prisoners, who would become the first Russian settlers in Siberia) than in the relative tolerance of the state for voluntary (or “self-starter”) resettlement among the lower social strata of Russian imperial society. Of course, in many cases, the state provided financial support (incentives) to peasants for resettlement to particular regions as well as temporary exemption from taxes and military service.

Economic motives, including the development and exploitation of land, were manifestly not unimportant to the Russian state as it incentivised migrant claims on the far-eastern reaches of the empire. In 1763, the Chancellery of Guardianship for Foreign Settlers was created, with the goal of assisting Europeans who wished to resettle in Russia—mostly Germans in the Lower Volga territories, and Serbs, Moldovans and Hungarians at the southern borders. In the final third of the nineteenth century—an era of intense industrialisation—immigration from Eastern and Western Europe (and especially Germany) was encouraged. In this same period, there was fairly significant emigration from Russia due to discrimination against ethnic and religious minorities. The reign of Alexander III, whose government led a campaign of Russification of the border territories at the start of the 1880s, coincided with a massive outflow of ethnic non-Russians to other countries.

In the imperial period, there were, in stylised terms, 2 approaches to population administration: the centralised-police (conservative) approach and the decentralised-liberal approach. If the proponents of the conservative approach privileged repressive methods, then the ability of the proponents of the liberal approach to advance state objectives turned on the will and decision-making of the Russian people themselves. Of course, neither approach was ever practiced in its purest form. As such, Pyotr Stolypin, Minister of the Interior from 1906 to 1911, charted a largely “liberal” path in allowing peasants to be fully independent economic subjects, encouraging them to resettle willingly in the east of the country in the goal of reclaiming Siberia. However, Stolypin also publicly relied on the “police” approach to administration—particularly in the severity with which revolts and uprisings were crushed.

THE SOVIET PERIOD

After 1917, external migration was minimised. And in the Stalin period voluntary emigration became near impossible. Even with the “liberalisation” of the subsequent Khrushchev and Brezhnev periods, emigration remained extremely difficult, with exit opportunities from the country only afforded to certain ethnic minorities—notably Jews and Germans, but also Greeks and Armenians.

There was no significant immigration as such during the entire Soviet period. When the USSR was created, permanent residency was obtained by those entering the country as victims or as persecuted activists of the communist movement in the West (including, for example, children of Spanish republicans after 1936). Of course, towards the end of the communist period, labour migration appeared: in the 1980s, for example, textile factories in Ivanovo invited guest workers from Vietnam.

The police approach to demographic and migration issues dominated in the Soviet period and was the lone approach in the Stalin period. In the initial post-revolutionary decades, the Soviet authorities were convinced of the limitless possibilities of population administration, seeing the national population as an entirely passive object of administrative decision-making—a logic that underlay the Soviet preoccupation with repressive practices, including forced resettlement of huge masses of people. The victims of the deportations included the “*kazachestvo*” in the 1920s (complex and fragmented ethnic and social groupings formed from military settlements at the borders of the Russian empire), the “*kulaki*” (wealthy

peasants) in the collectivisation period between 1929 and 1932, and also various ethnic groups subject to “preventative” resettlement in the pre-war (late 1930s) and intra-war periods. To be sure, the Bolshevik use of prison labour in the gulag can also be considered a form of forced migration. Similarly, the NKVD regularly employed an indentured workforce at the country’s largest constructions sites.

After Stalin’s death, the police logic of “population management” was subordinated to an administrative-command approach, supplemented by economic considerations. From the mid-1950s, there was a shift away from forced migration to voluntary and qualified migration. The “productive use and development of unused territories”, as with the construction of new industrial objects and transport highways, placed a premium on large-scale organisation and the material motivation of people and workers. There was a gradual move by the state away from strict limits on freedom of movement to slightly enhanced freedom in employment choices—albeit always requiring approval by the authorities.

For its part, the famous “*propiska*” system, created in 1932, was not dismantled in the post-Stalin period. The system was based on the registration of individuals based on place of residence, which effectively physically fixed the person in question to that particular place. After Stalin, the state continued to use this system to register the moves of the population. Cities like Moscow, Leningrad, Sverdlovsk, Chelyabinsk, Krasnodar and Stavropol remained relatively closed to migrants and settlers (employees in these cities were regulated on the basis of “*propiska*” quotas). In addition, the system blocked voluntary movement by people from peripheral to central regions.

Despite the artificial restrictions on internal mobility, people found ways to implement their life strategies. For the entire Soviet period, for instance, Moscow, which had always been a major migration magnet for Russians, enjoyed the same migration growth as it did before 1917—on average some 100,000 people a year, with the exception of the war or revolution years.

MIGRATION POLICY AND PROCESSES IN POST-SOVIET RUSSIA

Two facts are noteworthy here. First, at the start of the 1990s, there was an unprecedented inflow into Russia of migrants from the peripheries of the now-dissolved Soviet empire—mainly refugees or people forced to move to Russia due to poor economic conditions. The Russian state

assumed its humanitarian obligations but was evidently unprepared, financially and organisationally, to absorb such a wave of people. Second, from the late 1990s, labour migration became the dominant form of migration issuing from the collapse of the USSR. The source countries for workers were post-Soviet countries like Ukraine, Moldova, Uzbekistan, Tajikistan, Kyrgyzstan, Georgia, Armenia and Azerbaijan as well as some states from the so-called far abroad, including China, Vietnam and Turkey.

Between 1990 and 2000, in the political and expert discourses, two schools of thought—the “*siloviki*” or “conservatives”, on one hand, and the “liberals” or “reformers”, on the other—duelled over the question of external migration. The conservatives presumed that immigration represented a threat to national security, where security, very broadly, was concerned with criminality, competition for employment, cultural identity and even political-constitutional loyalty (see Chap. 14 on National Security). By contrast, the liberals presumed immigration to be a bona fide resource for the country—in economic, demographic and cultural terms alike. Allies of the liberal camp stressed that the Russian labour market—not least because of its informality—was much more flexible and capacious than suggested by formal bureaucratic reports or statistics.³ The implication was that the efforts of the state should focus not on restricting immigrant inflows but rather on minimising the illegal elements of such flows. (Note that those who in Russia today are typically called “illegal” actually enter the country entirely legally, according to extant non-visa regimes with nearly all the post-Soviet countries, but may still be working illegally in the country.)

At the time, the allies of the liberal position were well represented in bureaucratic and expert circles. The conservatives, however, ultimately won the day: the migration legislation (on citizenship and also on the legal status of foreign citizens) adopted in 2002 was highly restrictive, affirming the security logic. However, this restrictive posture not only failed to reduce but actually significantly increased the number of illegal workers in Russia, all the while unnecessarily narrowing the legal channels for labour migration.

In 2006, as it became increasingly apparent that the 2002 legal framework and quota regime had only resulted in growing numbers of undocumented workers, and given expert forecasts of a rapid decline in Russia’s able-bodied population, Moscow began to move decisively according to the liberal logic. Amendments were made to the migration legislation in order to ease the legal entry of migrants into the Russian labour market.

In 2007, the quota for foreign labour was increased radically to more than 6 million people, which would theoretically have allowed the state to register practically everyone who wanted permission to work in Russia. However, after a year, as the conservatives won back their positions, diametrically opposite measures were taken.

This dynamic was repeated many times over. In 2010, a system of “patents” (documents confirming the right of a foreign citizen to temporary employment in Russia) was introduced. A patent, for all practical intents and purposes, meant that a patent-holder no longer had to receive permission for work if the employer was a private individual. The quota regime was replaced by the new patent regime in 2014: permission for work (for a company or an employer as private individual) was to be obtained on acquisition by the migrant of the aforementioned document. However, these measures were not systematic as to reflect a consistent path in the liberalisation of the regulation. First, the procedure for receiving permission to work after the introduction of patents was complicated appreciably by the introduction of compulsory examinations on the Russian language, Russian history and legal civics. Second, laws were passed that significantly complicated the lives of migrants—in particular, the so-called law on rubber apartments, adopted in December 2013, requiring people to live at the same address for which they were registered (a condition that could not be met by most migrants) and tightening the rules prohibiting entry into the country for individuals who breach administrative rules more than twice, regardless of the severity of the breach. As a result, at the start of 2016, there were more than 1.3 million people on the national “no-entry” list—among them people who had committed arguably trivial violations but who otherwise often did not even suspect that they would appear on these lists until they had reached the Russian border.

Over the past two decades, the clash between two imperatives—Eurasian integration and national sovereignty—has been increasingly central to Russian migration policy. Eurasian integration requires administrative diversification, transparent decision-making and independent arbitration by supranational organs.⁴ Having agreed upon the course of creating a new political and economic union—the Eurasian Economic Union—Russia has, in principle, demonstrated its readiness to allow free movement on its territory for capital, goods, services and people from participating foreign countries. However, this integrationist logic has, in practice, been contradicted by the logic of national sovereignty—a de facto security logic. The political and public discourse betrays widespread

dissatisfaction about the Russian border being excessively penetrable to flows from post-Soviet Central Asia. In this vein, for instance, there is political and public opinion to the effect that the border between Russia and Kazakhstan, a key member of the Eurasian Economic Union, must be more “systematically” managed and that a first step in this direction would be for Moscow to introduce a visa regime for all Central Asian states. Evidently, such measures would mean the complete crash of the Eurasian project.

Administratively, unobstructed movement or mobility across the Russian territory remains problematic for citizens of Kyrgyzstan, Kazakhstan and other Eurasian Economic Union member states. Although citizens of these states do get certain advantages vis-à-vis those of other states, they often still face refusal of registration for place of residence (without which it is impossible to obtain permission for temporary stay in Russia), refusal for registration for work activity and also refusal for registration for small or medium-sized businesses. Bureaucracies that create such obstacles may, of course, do this purely out of self-interest, but no less important is the general belief of some bureaucrats in Russia that there are too many migrants in the country.⁵

For the citizens of post-Soviet states, membership in the Eurasian Economic Union is, in principle, a guarantee of privileged access to employment in Russia. Still, Kazakhstan, Armenia and Belarus—all current members of the union—are not critical sources of workers for the Russian labour market, as compared with non-member countries like Uzbekistan and Tajikistan. Of course, to compensate for population loss, annual immigration intake for Russia must outpace the current rate by several tens of thousands of people. Such growth cannot be provided by recently joined member states of the Eurasian Economic Union like Kyrgyzstan (due to its small size). Meanwhile, the chances of Uzbekistan entering the union are, for the foreseeable future, close to zero, given Tashkent’s present emphasis on national sovereignty. As for Tajikistan, the legal obstacles to it joining are, for now, significant. (Since January 2015, citizens of that country may only enter Russia with international passports.) And given the low present attractiveness of Russia as a destination country for immigrants from far-off countries, the search for resources to overcome Russia’s demographic crisis continues, with no obvious resolution in sight.

WHAT'S TO BE DONE?

Migration remains one of the important ways of preserving generally stable relationships among the erstwhile Soviet republics, even in the context of worsening relations among some of them. Traditional pathways within the former USSR and cultural memory still bind residents of these republics. However, in the absence of an inclusive immigration strategy—starting with, or led by, Russia—these strings will inevitably unravel. Russia is, as such, fast losing its former status as an immigration magnet for Moldova, Ukraine and Georgia, not least for geopolitical reasons.

Of course, we should not view the process of Eurasian integration solely through the prism of addressing the deficit of working-age labour in Russia. In the long run, the widening and deepening of the union means free movement of labour within its considerable boundaries. This means diversification of people flows (rather than one-way flow from Central Asia to Russia). This will happen if the member states of Eurasian Economic Union are able to overcome the current imbalances in standards of living. *Bref*, a model of free movement and long-term settlement, in which economics (and not bureaucratic) factors dominate, should before long become the alternative to short-term or highly tactical migration.

If priority is to be given to economic (market) regulation of migrant processes over extant administrative-bureaucratic approaches, then the centre of gravity in migrant regulation must move from state-migrant relations to employer-migrant relations. The role of the state should evolve to that of a fair arbiter and impartial regulator, ensuring that these relations do not breach legislation—particularly in respect of taxation and employment laws.

From here comes the need to simplify migration legislation. The current legislative framework is extremely confused and confusing, obstructing the integration of foreign workers into the Russian labour market. Endless amendments make the legislation exceedingly difficult to implement. Radical review of the existing legislative framework is therefore essential in order to purge it of all articles that constitute objective obstacles to transparent and non-corrupt labour market relations.

The black labour markets (which primarily attract migrants) can be countered by creating and emphasising economic incentives rather than bureaucratic and legal prohibitions, especially for small and medium-sized business development. Developed countries' experience shows that there is widespread self-employment among migrants. And in creating

small enterprises, migrants create new jobs for the Russian economy. The Russian state, primarily via tax policy, should assist in this dynamic—helping to develop migrant businesses in order to create jobs.

As Russia seeks to diminish its economic dependence on energy revenues and exposure to commodity price swings, manufacturing in the country today suffers from a lack of talent in middle management and, even more pressingly, qualified mid-level specialists. This talent gap will only grow in the foreseeable future, as fewer Russian youth are being trained in engineering and technical specialisations. For recruitment and migration purposes, then, Russia should emphasise talent among young people from the near abroad—that is, young people from post-Soviet countries who could, with minimal cultural and linguistic friction, assume places in Russian universities in order to train for in-demand professions. Of course, to accomplish this, non-standard decisions in migration policy are required, starting with material and non-material incentives, such as opportunities to obtain Russian citizenship—consistent with the creation, more globally, of a favourable and friendly environment for migrants in the country. For now, such an environment does not exist: daily xenophobia and the risk of racist attacks remain part of the reality of people who are visually different from those accepted by the population.

Of course, even at the level of non-specialist or lay migrants, too few efforts are made to integrate newcomers into Russian society, both in terms of symbolic policy or politics (including political rhetoric) and practical policies of assimilation (including, say, Russian-language classes). To this end, the state must enlarge the channels of access to formal education for migrants in order to get new workers, avoiding the potential emergence of an army of marginalised teenagers.

And still the core of the problem appears to lie in the excessively complicated, non-transparent and highly bureaucratised rules of registration for foreign workers—not to mention the corruption that accompanies their implementation. It is possible that this state of affairs has more to do with entrenched material (and rent-seeking) interests than with the conservative “*siloviki*”. But in order to reform its role as the engine of integration or reintegration in the post-Soviet space, Russia must, first and foremost, remove obstacles in the way of movement and employment in Russia for residents of the member states of the Eurasian Economic Union, and second, avoid pushing away the citizens of those states that have not yet joined this union.

The creation of transparent and stable rules of the game, and a healthy, productive climate for foreign workers and business people, is critical for productive relations with international partners (and, beyond that, for purposes of acquiring new international allies). By investing in the integration of newcomers, Russia has a chance, for the first time in its history, not to depend on the political oscillations between its conservative and liberal camps or between the logic of security and that of development. To this end, a system of multilevel public administration, incorporating new Eurasian Economic Union structures, would allow Russia to root out corruption over time (not least because of the prospect of regular audits by supranational organs). Moreover, such a system could significantly increase the effectiveness of policy and administrative decision-making, as it would require the creation of platforms for open discussion among all interested sides—national governments, businesses, migrant organisations, unions and NGOs—thereby enriching the feedback mechanisms to power that are currently underdeveloped in Russia (as in almost all post-Soviet states).

To be sure, the Russian political class has still not, at the time of this writing, reconciled itself with the idea that a supranational union requires supranational institutions of administration and, as a consequence, that some parts of the regulation of migration will, in the context of Russian membership in the Eurasian Economic Union, have to be delegated to the organs of that union. But this reconciliation will have to come soon, and the country will have to abandon—politically, ideologically and administratively—the contradictions inherent in its approaches to the Eurasian Economic Union. For the migration and demographic question, there is no reasonable alternative to the path of Eurasian integration.

NOTES

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Environment

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THE ENVIRONMENTAL CONSEQUENCES OF RUSSIA'S ECONOMIC MODEL

Environmental policy has never been central to Russian politics and power. Indeed, after the fall of the Soviet Union, the implicit and explicit operating principle of Russian governance was “economy first, then environment”—a posture largely supported by the population, for which the most important problems were income, employment and the general need to increase the standard of living. (Of course, as Fyodor Lukyanov observes in Chap. 12, if in Russia the economy is prior to the environment, then politics is prior to the economy.)

The deep socioeconomic crisis that hit Russia in the 1990s led to a significant fall in national production—famously characterised by President Putin as “massive de-industrialisation”.¹ This production collapse had a paradoxically positive effect on the environment, with diminished natural resource exploitation and industrial activity lessening the overall environmental footprint of the Russian economy, including through decreased emissions and discharges into the air and water.

Indeed, the little contemporary official and societal attention paid to the environment is explained in part by the emergence in Russia, through

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the nature-intensive reconstruction of the economy after the decade-long post-Soviet crisis, of an export-raw materials economic model—one consolidated by the huge growth in oil and commodity prices in the first decade of the 2000s (see Chap. 19 on Energy and Natural Resources). This model left little space for discussion of, and debate on, environmental sustainability. Moreover, this economic model has issued, over the last quarter century, in manifestly “anti-sustainable” trends for the country, including systemic economic dependence on commodity prices, the depletion of natural capital as a dominant factor of economic growth, a massive footprint for nature-exploiting and polluting economic sectors (particularly energy and mining), environmentally unbalanced investment policy, significant pollution impacts on the health of Russians and heightened environmental risks related to the acute physical wear and tear of equipment and infrastructure.

These unsustainable trends are especially apposite in Russia’s large cities, with environmental degradation infringing on the biospheric equilibrium and damaging population health and long-term human capital development. In 40 Russian regions, more than 54 per cent of the population is affected by high or very high air pollution.² In many regions—perhaps especially in the Ural regions—the health care costs due to environmental factors can be up to 10 per cent of gross regional product. And the economic costs to the life of the Russian population, based on water and air pollution risks, represent 4–6 per cent of GDP.³

Today, energy and mining—the sectors with the greatest environmental impact, but which otherwise have profited significantly from conspicuous state support because of their export potential—comprise more than half of Russian industry. The footprint of sectors having smaller environmental impact—in particular, automobile manufacturing—has fallen markedly. And if natural resources dominate Russian exports, then non-renewable natural resources are dominant among these exports. Fuel-energy resources alone represent nearly 64 per cent of all Russian exports.⁴ If we include exports of ore, concentrates and metals, forest materials, refinery products, fertilisers, chemical products and other nature-rich products, the figure grows to nearly 90 per cent of all exports.⁵ At the same time, high-tech manufacturing products (machinery and equipment) account for only 7 per cent of all exports.⁶

Bref, the principal environmental danger in Russia today is the consolidation of the self-exhausting export-raw materials economic model of development. This means that to achieve long-term sustainability, an altogether new Russian economic model must be developed. This new model

must stress “green” priorities, restrict extreme use of natural capital, drive growth in the well-being of the population, and deliver, through radical technological innovation, economic results on the strength of dramatic increases in the efficiency of natural resource use (increasing the value-added per unit of natural resources used). Let us stress that Moscow need not necessarily look at Western countries for examples of such transformations but instead at the seriousness with which Beijing is presently investing in environmental policy and green economics.

Without such changes, the Russian economy is threatened by long-term backwardness and marginalisation in international production and value chains. The country could, on this trend line, eventually become a raw materials appendage to the global economy, dependent on price fluctuations and exceedingly vulnerable to the likely shrinkage in demand for hydrocarbons in the not-too-distant future—not to mention growing international and national pressures for environmental accountability. All of this bodes ill for the well-being of the population and the general vitality of the country.

ENVIRONMENTAL SUSTAINABILITY AND THE NEW ECONOMY

In Russia, sustainable development is associated principally (if not strictly) with economic development and growth. This is articulated in official government documents and in the speeches of leading politicians. Outside of Russia, of course, sustainable development has a far broader interpretation—to wit, as a unified system of social, economic and environmental processes—based on conceptual documents prepared over the past 20 years by the United Nations, the World Bank, the OECD and the European Union. This was emphasised at the UN conference in Rio de Janeiro in 2012, at the heart of which was the idea of humanity transitioning to sustainable development. There is, as such, a near-global consensus to the effect that economic sustainability cannot be achieved without addressing social and environmental problems.

Still, for Russia, the very concepts of sustainable development, green economy, green growth and low-carbon economy are fairly new and seldom used or referenced in official documents—with the conspicuous exception of the 1996 concept for the transition of the Russian Federation to sustainable development. Having said this, there are some signs of embryonic official acknowledgement of, if not apprehension of, the need for, and the benefits of, a “green” economy for Russia. Then Prime

Minister Dmitry Medvedev, at the aforementioned UN conference in Rio de Janeiro, said that “[s]ociety, the economy, and nature are inseparable. This is exactly why we need a new paradigm of development that can ensure society’s prosperity without excessive burdens on nature. We must balance the interests of the economy with conservation in the long term. That said, we must achieve innovative, energy-efficient and green economic growth that will benefit all countries”.⁷

Notwithstanding the minimal use of environmental terminology in official Russian strategic documents, the country’s implied goals for the next 10–20 years—as reflected in the present configuration of legal and fiscal instruments, including taxes, duties, credits, fines and licenses—in many ways suggest an eventual transition to sustainable development in the context of a green economy. Now, as mentioned, the principal challenge for the country is to exit from the governing raw materials economic model or paradigm. In order to do this, Russian energy efficiency must increase substantially—an imperative described in the 2010 Energy Strategy of Russia for the period up to 2030, the 2008 presidential decree on measures to increase the energy and environmental efficiency of the Russian Federation, as well as the 2009 law on energy conservation and efficiency. Key environmental priorities have been articulated in long-term programmes for different resources: for energy, including renewables, in the aforementioned Energy Strategy; water, in the 2010 Water Strategy of the Russian Federation for the period up to 2020; land resources, in the state programme for development of agriculture and regulation of agricultural commodity markets for the period 2013–2020; and, among others, for fish, in the 2008 concept of the federal programme “Improving the use and development of the resource potential of the fishery industry for the period 2009–2013”. Two medium-term state programmes, both launched in 2012 and running until 2020, are also perhaps noteworthy: the state programme on the reproduction and use of natural resources, and the state programme on environmental protection. For the long term, the most important state environmental document is the 2012 one on the principles of state policy in respect of the environmental development of the Russian Federation for the period up to 2030. This document, approved by the President, declares the strategic goal of state policy in environmental development through to 2030 to be “the resolution of socioeconomic problems, providing environmentally oriented growth in the economy”.⁸

FUNDAMENTAL DIRECTIONS IN THE GREENING OF THE RUSSIAN ECONOMY

For the transition to sustainable development, Russia must break or reverse the current “anti-sustainable” trends in the national economy. In future, its economic strategies and programmes must include the orientations articulated in UN and OECD documents on sustainable development, with special emphasis on a “green” and low-carbon economy and growth. Due importance must be accorded to the environmental conditions in the lives of the Russian population. There must be priority development of science-rich, high-tech manufacturing and infrastructure sectors with minimal environmental impact. The economic weight of the raw materials sector must be decreased, while the efficiency of natural resource use in the economy must be increased (decreasing wasted natural resources and the amount of pollution per unit of final product). Lastly, but manifestly, the overall pollution of the environment must be reduced.

Russia must develop its own sustainable development strategy, balancing the country’s forward-looking economic, social and environmental challenges. The strategy must feed into the development of new economic models and any general conception of national development for the twenty-first century. On this logic, it makes eminent sense for the country to adopt the Sustainable Development Goals, as articulated at the UN Sustainable Development Summit in September 2015.

Also essential is state support for the greening of the economy, en route to implementing win-win policies linked to economic efficiency, decreasing harmful emissions, minimising waste and advancing sustainable use of natural resources. Indeed, through relatively simple energy-saving and environmentally friendly technologies, Russia can eliminate huge waste in natural resources and excessive pollution.

Of course, many developed countries do not have the natural resources and ecosystem reserves still enjoyed by Russia. However, in not growing the volume of its natural resource use—through more efficient use of natural capital—Russia can increase the material well-being of its population. Globally, such processes are driven increasingly by conceptually and administratively decoupling economic growth, on one hand, and natural resource use and pollution volumes, on the other. In Russia, then, the vectors of a transition to a new economy and to environmentally sustainable development in the coming years effectively coincide: note the example of the imperative (driven by presidential decree) for a radical increase in the

energy efficiency of the Russian economy (by 40 per cent by 2020), which would have an enormous environmental impact by reducing national aggregate demand for energy resources and decreasing energy production on untouched or virgin land.

In the transition to sustainable development, the national tax system can play a significant role in advancing energy efficiency. At present, there are, for all practical intents and purposes, 6 types of taxes in Russia touching natural exploitation and environmental protection. These include payments for pollution of the environment, payments for mineral resource use, payments for use of forests, a water tax and water use fees, charges for the use of wildlife and water life, and land taxes. Clearly, Russia should review separately the various taxes for environmental pollution and payments for natural resource use in order to identify opportunities to incentivise and maximise energy efficiency.

Taxes on natural resource use in Russia are, for now, more robust than environmental taxes. Tax collection on natural resource use improved after 2010 (as compared to the 1990s). In 2015, revenues in the consolidated national budget from taxes, charges and regular payments or fees for natural resource use were 3.5 trillion rubles, or 4.2 per cent of total revenues.⁹ However, the tax rates for negative environmental impacts remain inadequate, and in most cases these payments serve no particular regulatory function—that is, it remains more profitable for businesses to simply pay for pollution (symbolically) than to introduce nature-protecting technologies or reduce emissions into the atmosphere and discharges of untreated sewage or solid waste.

In future, Russian business will also have to undertake measures to increase environmental transparency. Implementation of environmental management and strengthened environmental accountability through ISO 14001 certification for environmental management standards will be particularly important. Over the past several years, Russian companies—especially export-oriented companies—have made significant progress to this end: 20 of the leading 28 oil and gas companies have ISO 14001 certificates. By comparison, in the energy sector, for companies dealing largely with energy production for the domestic market, only 4 of 15 have such certification.¹⁰

As with environmental certification, global mechanisms for corporate social and environmental accountability should become the norm in Russia, particularly in Russian accounting practices vis-à-vis the environment and sustainable development. The state ought to participate in the development of market-oriented mechanisms for environmental and

socially responsible (state and private) businesses. An important step in this regard would be to introduce a regime of mandatory regular publication of independent, third party-audited non-financial accounts in respect of sustainable development for all Russian companies.

PRIORITY TASKS

In the coming years, in order to “green” the economy, Russia must proceed along 2 vectors: first, undertake massive technological modernisation of the national economy on the basis of environmentally adaptive technologies (best available techniques); and second, implement a national programme of adaptation to global climate change for the Russian economy.

Radical technological modernisation can have special significance for the “greening” of the country’s economy: see, for instance, the 2014 amendments to the federal law on environmental protection (and several other legislative acts). The law containing those amendments could well become the legal foundation for the modernisation, structural-technological transformation, and the general greening of the Russian economy. Notably, the law introduces the concept of “best available techniques”—that is, reasonably priced technologies that help to lessen emissions and environmental impacts.

In point of fact, Russia has adopted the best available technique (BAT) concept as developed by the European Union. This concept was included and affirmed in the EU’s 2010 Industrial Emissions Directive (which defers to the so-called BAT reference documents of the EU). At present, there are dozens of European manuals on best available techniques. These manuals are regularly renewed. For Russia, implementation of the law on BAT means adapting to the European legislation, and that national information and technical manuals on best available techniques should be developed for the various sectors of the economy. At the time of this writing, there are over 10 such BAT-related manuals in Russia. *Bref*, the BAT concept can become the basis of environmentally balanced modernisation, associated with radical technological renewal of the entire material basis of the Russian economy.

In Russia, half of the fixed assets of industry are physically worn out.¹¹ Massive ageing of productive assets results in exceedingly high rates of environmental accidents and overall pollution. Moreover, inadequate investment means that old fixed assets are replaced with difficulty—evidently at the expense of efficient use of natural resources.

In the context, then, of the imperative for the technological modernisation of the Russian economy, let us formulate the following working principle: *There is no need to use additional natural resources, as these are limited, and their additional exploitation will only lead to additional burdens on the ecosystem, depletion of natural capital, and general pollution of the environment.* According to my estimates, the full technological rationalisation of the Russian economy and its structures would diminish natural resource use by 30–50 per cent of the total volume of natural resources currently used. The resulting decrease in pollution would evidently be significant. Production and development levels for energy resources could be stabilised, as with minerals, cultivation of agricultural land, and also deforestation—all through improved use and improved processing of Russian natural resources and raw materials. This would substantially increase the level of well-being of the population and the speed of economic growth. (Indeed, such environmental-economic modernisation would increase Russia's GDP by a factor of 2 or 3, under extant levels of raw materials extraction and natural capital exploitation—all the while decreasing the level of environmental pollution.)

This approach commends itself especially to Russia's energy sector, for which the problem of huge reserves and energy losses and inefficiencies was highlighted in the Energy Strategy for the period up to 2030, as well as in the research of organisations like the World Bank and McKinsey & Company.¹² The economic logic here is quite clear, and was anticipated by Soviet economists in decades leading up to the breakup of the USSR. With the help of fairly simple technologies, Russia could save nearly half the energy it presently consumes.¹³ This would require 3 times less investment than the gross increase in energy production—that is, US\$320 million versus more than US\$1 trillion on the expansion of production. Investments in energy efficiency would increase GDP by US\$120–150 million per annum and could be paid off in 2–4 years. To this end, providing economic support for best available techniques and increasing the efficiency of natural capital use—including through taxes, credits, subsidies, tariffs, duties and insurance—will be key policy challenges for Russia in the years to come.

Of course, an altogether new challenge for the world and for Russia is the need to adapt economically to global climate change. The 2015 UN Climate Summit in Paris affirmed that the most important characteristic of the new economy is a low-carbon economy, requiring sharp decreases in greenhouse gas emissions. In Paris, despite continuing discus-

sions in Russia's scientific, political and civil society circles about the weak scientific basis for the multiple problems attributed to climate change, President Putin recognised these problems as serious for both humanity and Russia.¹⁴ The country supported the long-term vision of a new climate agreement involving restrictions on the growth of global temperatures by the end of the twenty-first century to within 2°C. According to the statements of Russian officials, Russia will ratify the Paris climate agreement in the near future.

Russia is evidently among the largest global emitters of greenhouse gases, producing between 4 and 5 per cent of the world total. Nevertheless, Russia over-delivered on its commitments from the 1997 Kyoto Protocol, significantly reducing greenhouse gas emissions based on 1990 levels. This was achieved, above all (and paradoxically), thanks to the country's massive economic deterioration and deindustrialisation in the 1990s. By 2030, Russia expects to decrease greenhouse gas emissions by up to 70 per cent vis-à-vis the 1990 baseline levels. Given the weak economic forecasts for the country at the time of this writing, this seems perfectly realistic.

There is credible research—in particular, by the Russian Federal Service for Hydrometeorology and Environmental Monitoring (Roshydromet), the Intergovernmental Panel on Climate Change and the World Bank—to the effect that Russia may soon face serious problems due to global climate change. A 2014 Roshydromet report noted that, since the mid-1970s, the average surface air temperature in the country has grown at an average rate of 0.43°C per decade, exceeding the rate of global warming by a factor of 2.5.¹⁵ Indeed, some World Bank experts believe that Russia may well be the most vulnerable country to climate change in all of Eastern Europe and Central Asia¹⁶—that is, in several decades, the cost of climate change to the Russian economy may reach US\$10 billion per year, largely due to a dramatic rise in the number of natural disasters and catastrophes in the country.

The adoption by the Russian government of its climate doctrine in 2009 is, in this vein, not unimportant. In it, Russia envisages increases in energy efficiency for all sectors of the national economy, including energy savings in infrastructure, transportation (e.g. growing fuel efficiency) and also buildings. The doctrine stresses the importance of recycling and the need to develop alternative energy sources.

In 2011, the government plan for implementing the climate doctrine for the period up to 2020 was adopted. And the 2015 concept to form the system of monitoring, reporting and verifying greenhouse gas emission volumes in Russia was significant for the implementation of measures

to adapt to, and combat, climate change. In the coming years, in order to decrease greenhouse gas emissions, the Ministry of Natural Resources and Environment has proposed that economic mechanisms like a carbon tax or carbon trading be introduced. These mechanisms, as with legal mechanisms that compel companies to improve environmental efficiency, are increasingly common around the world, including in Kazakhstan and China, Russia's largest economic partners.

Despite the manifest need to develop a new economy to solve the country's technological and climatic challenges, implementation can in practice bump up against non-negligible difficulties due to Russia's developmental inertia and crisis conditions. For one thing, the greening of the economy requires major investments, which may elicit protests from big business. The Russian Union of Industrialists and Entrepreneurs (the so-called oligarchs' club), for instance, has on more than one occasion spoken out against excessively rapid movement to implement best available techniques and carbon pricing facilities, explaining its position in terms of the precarious economic situation in the country in general and the private sector in particular. Under such conditions, the Russian government will almost certainly be inclined to put off large-scale reforms in the environmental sphere for 2 to 3 years.

Bref, the extant export-raw materials model of Russia is not environmentally sustainable and leads to the consolidation of "anti-sustainable" trends. Russia must shift to a new economic model and set priorities consistent with the development of a green economy. The articulated goals of the country outlined for the next 10–20 years in many ways correspond to the goals of a transition to such an economy.

Still, for the greening of Russian economic policy, there is absolutely no need to increase the use of natural resources. Instead, investments in radical changes to the country's technological base and the implementation of the policy concept of best available techniques will, on current levels of raw materials extraction and natural capital exploitation, increase Russian GDP by a factor of 2 or 3—all the while decreasing the overall level of environmental pollution.

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Science

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WHO NEEDS RUSSIAN SCIENCE?

Russian science has been in perpetual reform mode since the breakup of the Soviet Union. As in Soviet times, government participation in the regulation and funding of science remains very high. The federal budget today funds nearly 70 per cent of national science. However, unlike during the Soviet period, demand for modern Russian science is low—that is, neither Russian business nor Russian society sets particular tasks for science.

In the USSR, science operated very differently than in the capitalist countries—hence, to a great extent, the complexity of the post-Soviet transformation processes in Russian science. The most important socio-economic characteristics of science in the USSR were that it was entirely nationalised, highly opaque and had limited integration with the global scientific community. Soviet science also placed conspicuous emphasis on the country's own resources as well as on the so-called mobilisational development and the imperatives of military security (nearly 75 per cent of Soviet science served the Soviet military complex).¹ Finally, of course, Soviet science bathed in the supremacy of communist ideology.² The goals of scientific development were linked to contemporary Soviet political

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ideas, which stressed the need to build a self-sufficient economy based on a powerful military-industrial complex—including programmes for space exploration—all in the context of a closed economy. Access to foreign high technology was highly restricted. And funding for the priority areas of Soviet science was provided on a larger scale than would have otherwise been suggested by the country's actual level of economic development.

After the disintegration of the USSR, reforms in Russian science were conditioned by three goals: first, the preservation of the best scientific institutions and cadres (or talent); second, the creation of new institutions, as well as the enhancement, through restructuring, of the quality and results of Russian science, especially in pure science; and, third, growing the national demand for science. Such demand, of course, could in principle be formed by government, business or society (the latter, for example, through the educational system). If anything, then, Russian science is in demand today by government on behalf of the military complex, even if the results of Russian military research seldom spill over into the civilian sector—while the reverse dynamic, unlike in developed industrialised countries, is virtually non-existent.

The Russian state is both the chief buyer and “curator” of Russian science. Key government measures to increase the effectiveness of the national scientific complex have included organisational changes, starting with the strengthening of the universities as centres of science, and including reform of the system of state academies of science, simplification of the process of knowledge transfer, commercialisation of research and development (including through support of small innovative companies and by incentivising research mobility) and, finally, from 1996, the setting of priorities for science and technology in the context of limited resources.

Russian business spends little on research and development. Indeed, the expenses of the business sector on applied research since the fall of the USSR have never exceeded 30 per cent of total expenditures from all sources (including government and private sector funding as well as foreign investments). Moreover, the proportion of innovative enterprises in Russia remains small, nary exceeding 10 per cent of total enterprises (see Chap. 17 on Industrial and Innovation Policy). Technology imports continue to outstrip technology exports—a difference of US\$0.6 billion in 2015.³

Despite growing official recognition of the lack of demand for Russian science, there is at present little that resembles an attempt at a serious, credible policy solution to the problem. Official documents typically frame the key challenge in Russian science as consisting in the so-called effectiveness

of science, variously interpreted. For instance, in the 2015 annual report “Russia—The Path to Innovation”, which analysed the implementation of the Strategy for Innovative Development of the Russian Federation for the period up to 2020,⁴ effective science was defined (perhaps somewhat circuitously) as science that was in demand by Russian and international industry. That same year, the “National Report on Innovation in Russia”,⁵ which treated the current state and future of Russian innovation, also raised the issue of “effectiveness”, suggesting that it be addressed through a set of large-scale and smaller measures, such as attracting émigré researchers back to Russia, accelerating the transition between fundamental and applied research, reallocating the federal budget to support 8 priority directions (e.g. nanosystems, life sciences and, inter alia, information and communications technologies) and establishing new legal norms to allow professors to consult for companies. In point of fact, all the proposed policy instruments may well increase the “effectiveness” of Russian science, but they would only indirectly promote the growth of national demand for science.

To be sure, the aforementioned reports do not offer a strategic vision for the challenges facing Russian science. At the same time, the reforms already under way deserve a closer look—to wit, reforms in the universities and in the academic sector, as well as the launch of the National Technology Initiative, which sets as a goal for Russia the identification and development of niches in several new high-tech markets by the year 2035. We look at some of these reform vectors and their history below.

UNIVERSITY SCIENCE

The current government policy on university science dates back to the middle of the first decade of the 2000s. Universities selected in open competition began to receive significant supplementary budgetary funding to increase the quality of scientific research, with the long-term—albeit imprecisely articulated—goal of developing an Anglo-Saxon-type model of universities in Russia, stressing fundamental research in postsecondary institutions and higher education. At the same time, universities were tasked to become “entrepreneurial” and strengthen the emphasis on applied research and development (see Chap. 20 on Education).

Funding of university science grew especially strongly over the course of the last presidential term of Vladimir Putin, starting in 2012. (International sanctions levelled against Russia have had little effect on

Russian university science funding to date.) If, between 2001 and 2009, intramural expenditures on research and development in the higher education sector ranged between 5 and 7 per cent of total national intramural expenditures on research and development, they reached 9.8 per cent by 2014,⁶ with the Ministry of Education and Science planning to increase them to 15 per cent by 2020. Judging by the number of researchers in the universities, the Russian higher education sector grew nearly twofold over the past 15 years—from 6.6 per cent of total researchers in the country in 2000 to 11.9 per cent in 2014.⁷ In other words, Russian universities began to create bona fide research divisions.

Still, the significant growth of budgetary allocations to university science is thus far unmatched by the actual qualitative changes in this sector. In the federal and national research universities receiving the most significant funding, change is occurring extremely slowly. Evaluations of the scientific potential of leading Russian universities demonstrate that while professorial publishing is growing, the universities themselves continue to be underrepresented, compared to their international opposite numbers, in highly cited publications and the h-index.⁸

In 2013, in the context of a new project called “5-100”, the Russian government set a new quantitative goal for science in universities.⁹ The project sought to maximise the competitiveness of Russian universities, declaring that at least 5 Russian universities should figure among the 100 leading universities in the world in internationally recognised rankings. To date, 21 Russian universities have been selected for participation in this project. A 2015 assessment of the research achievements of the Russian universities presently in Project 5-100 showed that none of them would reach the stated target by 2020. The goals of the project, for all practical intents and purposes, have therefore been reformulated to stress disciplinary rankings (as opposed to overall rankings). As such, according to the Times Higher Education World University rankings, at least 2 Russian universities from Project 5-100 were included in the list of the top 100 universities for physics in 2015.¹⁰

The fight for rankings, on the one hand, encouraged university professors to publish more articles. On the other hand, the pursuit of quantitative over qualitative progress gave birth to various species of “behavioural innovation” and “creative adjustment”, including the exaggeration of numbers of published articles—something accomplished by splitting articles into smaller pieces, self-citation and cross-referencing, and, among

other ruses, publishing in less prestigious journals. This, predictably, lowered the net quality of scientific research in Russia and, evidently, the overall demand and effectiveness of science. *Bref*, the accumulated experience to date clearly demonstrates how carefully Russia must deal with formal quantitative indicators for purposes of measuring results—not allowing them to be reduced to a fetish.

REFORM OF ACADEMIC SCIENCE

The Russian Academy of Sciences (RAS) was founded under Peter the Great in 1724. It is the oldest scientific institution in Russia, although in the Soviet period its status, organisational form and responsibilities changed several times. Post-Soviet reform of the RAS refers to the changes made to the Academy as it existed from the end of the 1990s. That RAS was a quasi-ministry, administering federal property and controlling a network for scientific organisations that conducted a critically large amount of basic research in the country.

The Academy was criticised for inefficiency in 2 respects. First, the productivity of its researchers was low in terms of the number of papers published and cited by comparison with international standards. Second, decision-making in the RAS was non-transparent. Indeed, a well-established conflict of interest was built into the RAS managerial mechanism, as the same people who ran the Academy distributed funds among the sub-departmental institutes and also chaired many of these same institutes.

Serious reform of the Academy and the scientific-academic complex did not start until 2013—in large part because the RAS was able to repel the attacks levelled against it. In June 2013, 3 state academies—the RAS, the Russian Academy of Medical Sciences and the Russian Academy of Agricultural Sciences—were merged. A new federal agency—the Federal Agency for Scientific Organisations (FASO)—was created to administer the property of the 3 academies. This reorganisation removed conflicts of interest within the Academy, and the FASO began to resolve many key issues in respect of the activities of the various scientific organisations, such as inventorying property and merging institutes into centres in order to advance modern research programmes. For its part, the RAS was eventually transformed into an advisory body.

In 2014, the FASO publicly tabled options for restructuring the research institutes of the Academy. It proposed 4 new forms of institutes, differentiated according to their general goals and the nature of their work¹¹—to wit, a federal research centre, national research institutes and federal and regional scientific centres. Of these, only the national research institutes would focus on purely theoretical research. The major vector of transformation was to make the institutes more oriented towards practical and industrial needs—including needs significant to the regions in which these institutes are located. At the same time, the reorganisation reduced the number of institutes conducting exclusively fundamental or pure research.

The leadership of the RAS adjusted rapidly to the idea of consolidation. In order to survive the reforms, various organisations and branches within the RAS began proposing the creation of new organisations on the basis of the former academic institutes.¹² In 2015, the FASO confirmed the creation of the first 15 merged institutes—a major reorganisation that took place in the absence of obvious criteria for the classification of organisations.

The general assessment of the reform of the academic sector today by scientists and experts in science and innovation policy alike has been negative.¹³ For their part, however, government officials view it positively, given the resolution of certain organisational dimensions in Russian science relating to property, general research directions and also the workforce. In fact, there is no evidence yet that the merger of institutes has been indubitably bad for the scientific complex.

INFLOW AND OUTFLOW OF SCIENTIFIC TALENT

Russian policies in respect of the scientific workforce are critical, as the quality of this workforce informs the results of scientific work as well as the level of demand for science in the economy and society. In the immediate post-Soviet period, the number of researchers in the country decreased sharply due to severe budgetary cuts and the absence of other sources of support. These were, in many cases, irreversible losses, the consequences of which are felt to this day. There is, for instance, a dearth of “middle-aged” Russian scientists (40–60 years of age) due to emigration or moves to other economic sectors. There have been several waves of outflow of scientists since the breakup of the USSR: most intense until the end of the 1990s, milder in the subsequent decade, and growing again from

the 2010s to this very day. Indeed, the scientific brain drain from Russia remains an important problem in Russia today, as these outflows were never counterbalanced with comparable inflows of scientists from abroad. The result has been diminished productivity in Russian science and compromised processes of knowledge transfer. And this brain drain has been exacerbated by the steep fall in the quality of science education and the preparation and training of new generations of scientists.

At the end of the first decade of the new century, the Russian government developed initiatives aiming to engineer a “reverse influx” of talent—that is, to attract Russian-speaking scientists from other countries, all with a view to framing the research diaspora as a potential source of “soft power” capable of better presenting Russian science in the global scientific community.¹⁴ The approach involved, first, the creation of a special programme to attract members of the Russian scientific diaspora to participate and/or lead research conducted in or by Russian universities. Under this programme, 160 laboratories were created in Russian universities, with approximately half of these laboratories today being chaired by diaspora scientists. Second, the Russian-speaking diaspora was invited to peer-review Russian government projects and programmes.

Alongside the external movement of researchers, internal, inter-sectoral mobility—that is, scientists moving from the academy to industry, and vice versa—is also important both for knowledge transfer and the creation of demand for science. Russian inter-sectoral mobility has 2 particularities: first, its intensity is extremely low, even by comparison with countries where the size of the scientific sector is much smaller; and second, Russian researchers tend to leave research institutes at the same rate as these institutes take in people from the private sector—a dynamic stemming from the enduring relationships between the research institutes and the Soviet-era companies.¹⁵ (In other countries, the most mobile researchers operate in the universities, which regularly attract professionals from the private sector.)

Measures to incentivise mobility have to date not been a priority for the Russian government, even if some Russian state funds do some work in this regard with Russian researchers. Of course, in countries with developed scientific complexes, professional mobility is promoted and stimulated primarily through measures aimed at linking universities and business.¹⁶ In these countries, there has been a gradual transition from the use of direct measures (for instance, targeted grants or other instruments used to influence mobility) to indirect ones related to the regulation of the consulting

and entrepreneurial activities of professors, various types of joint initiatives and, among other things, training.

TECHNOLOGY TRANSFER AS A SIGN OF THE DEMAND FOR SCIENCE

The practical application of scientific knowledge occurs through various mechanisms in Russia. An important role is played not only by large businesses, which invest the largest resources into research and development, but also by smaller innovative firms. Of course, the largest Russian companies are almost exclusively state-owned (see Chap. 33 on State Corporations). Over the last 5 years, the government has tried to push these companies to innovate through so-called programmes of innovative development for companies in which government participates. These programmes have led to improvements in a number of indicators; for example, business expenditures on research and development grew nearly threefold between 2010 and 2013.¹⁷

To be sure, increased allocations for research and development do not necessarily lead to innovation. The majority of Russia's state corporations and companies invest in the improvement or adoption of existing technologies, while only 34 per cent fund research and development that is new to the market.¹⁸ State corporations and companies cooperate with universities mostly in education, but not in science, and seldom outsource research tasks to small companies—all betraying a fundamental lack of demand from state-owned companies for new scientific ideas.

Another vector of state support concerns small innovative companies. Since 1994, the Foundation for Assistance to Small Innovative Enterprises, modelled on the American Small Business Innovation Research (SBIR) and the French Oséo (ex-ANVAR) programmes, has provided support to teams and companies at the pre-seed, seed, startup and expansion stages. Other institutions for such development appeared later, including the Russian Venture Company (PVK) in 2006, the Skolkovo Foundation in 2010 and Innopolis in 2015. From the start of the 1990s, business incubators and technoparks—that is, infrastructure essential to the development of small, innovative companies—has been built. Financial and other instruments of support for small innovative firms have evolved considerably. And yet the volume of revenues from small innovative companies still

remains far smaller than in developed industrial countries, largely because the established elements of the said infrastructure remain fragmented. Moreover, in helping small innovative firms, the state has, concurrently, created barriers. A 2015 survey of the fastest-growing innovative Russian companies showed that they consider administrative barriers created by the state to be the most serious obstacles to their success—far more so than the inefficacy of state support. In particular, the absence of a normative basis for the adoption and use of new technologies slows down development, just as do the excessive and complicated audit procedures set by the government.

The net result of all this is that the transfer or practical application of technologies in Russia remains weak. Innovation has not yet become a competitive advantage among Russian companies, and, consequently, demand for Russian research and development is not high. Having said this, Russia has almost all the necessary elements of technical infrastructure for twenty-first century innovation, but these elements remain disconnected and non-systematic, which means that state measures to simulate knowledge are, in the aggregate, non-potent. For instance, Russian venture funds today seldom work hand in hand with Russian companies in the technoparks. *Bref*, major stakeholders are not linked horizontally, and most of the push and energy still come from the state itself.

THE NATIONAL TECHNOLOGY INITIATIVE

The National Technology Initiative (NTI) is a programme introduced by the federal government in 2014 to link Russian science, education and development of technologies within a single process. The goal of NTI is to make Russia one of the world's top 3 technology powers by 2035, based on dominance in prospective technology markets that are expected to exceed US\$100 billion in size by that year.¹⁹

In May 2015, 9 such markets were identified by leading Russian technical experts, based on 2 key criteria: the potential for development in the global context, and the presence of companies (people) in the country prepared to become leaders and take responsibility for such development. For each market, a “roadmap” is being developed by working groups that include specialists from Russian companies, universities and various research organisations.²⁰ The new markets are thematically affiliated with the security of the country and the supply of resources, the development

of the national transport system and also those areas in which revolutionary changes are currently taking place (e.g. digital health, new finance and neuro-communications).

As a new initiative, the NTI has several positive elements. First, it appeals to personal responsibility—that is, a specific person or organisation is directly responsible for the outcomes of a given research programme. Second, emphasis is put on horizontal links among stakeholders, in lieu of the Soviet-style hierarchical, command structure. Third, the system is open—that is, the discussion of future or potential markets among NTI participants and, by extension, in the Russian policy, scientific and business communities, is meant to be continuous and evolutionary. Fourth, the NTI helps to define research and technological priorities for the country—a task that was poorly performed in the Soviet period.

While it has its sceptics, the NTI may well lead to institutional transformation, including decomposition of the current institutions of national development, and may assist in the formation of new instruments to support the entire innovation cycle. To this end, a key first step was the creation, in 2016, of the non-profit Agency for Technological Development. This agency will transfer foreign technologies to Russia—those critically needed by Russian companies—through the conclusion of licensing agreements and the creation of joint enterprises with foreign stakeholders and players.²¹ (Of course, the import of technologies does raise some questions about the role of Russian science in the NTI, including the core issue of demand.)

HOW TO BOOST DEMAND FOR RUSSIAN SCIENCE?

For now, the task of raising demand for Russian science is not being addressed adequately in official Russian documents and strategies. Instead, Russian policy discussions to date have typically attempted to address the effectiveness or impact of science, which is only indirectly linked to demand and which, in my judgement, is secondary to the demand question in its centrality to the future of Russian science.

The demand for Russian science can grow along 2 key vectors: first, by increasing the quality of basic research through international cooperation, thereby raising the visibility of Russian scientists; and second, by strengthening links with the users of scientific knowledge—in particular, industry.

In many of the scientifically advanced countries with which Russia will need to establish collaboration for purposes of raising the profile of its scientists, there are already many Russian-speaking scientists working in situ. A first step for Russia should be the development of ties with these Russian-speaking scientists, followed by discussion of possible opportunities, vehicles and platforms for collaboration. Also important is the building of networks of research laboratories in Russia chaired by world-leading scholars. Finally, it is crucial that the country expand international exchange programmes for doctoral candidates and postdoctoral students in order to enhance the quality, confidence and reach of Russian researchers.

The strengthening of inter-sectoral mobility would certainly help with knowledge transfer and application. This requires the introduction of legislative norms for labour, which would allow scientists, professors and teaching professionals in the universities to use their time more flexibly, thereby creating more relationships with private companies and, in turn, simplifying procedures for attracting the specialists in the scientific departments of companies to teach, lecture and conduct research in the universities. These labour norms should go hand in hand with substantial government and private sector grants in support of the establishment and deepening of relationships between universities, research organisations and companies.

It may well be that the practical applications of scientific results will be more effective through consortia that bring together large groups of university scientists and company specialists to promote joint research at the pre-competitive stages of the innovation cycle. To this end, it would be important to have agreements in place between the developers (small companies and universities) and the consumers (large companies) of technologies produced within the consortia in order to assure demand for the resulting science.

Infrastructural support of small companies can be improved through the participation of local and regional authorities on non-financial questions like land allocation for technoparks or business incubators. Of course, regional governments in Russia typically have small budgets for innovation, but they also are able to support research and development through indirect measures, including tax privileges and customs regulations. In addition, regional agencies must play a significant on-the-ground role in linking all actors within the innovation ecosystem.

Finally, let us keep a watching brief on the new Russian strategy on scientific and technological development, signed by President Putin

on December 1, 2016. This strategy notes that Russian science should aim to tackle the “grand challenges” facing Russia today and into the future, including environmental, demographic and energy-efficiency pressures. But if this strategy would appear to commend to Russian science new priorities, there is no indication that it imagines that this would be accomplished outside of the existing policy and technical toolkit. As such, by contradistinction, the various policy measures discussed and recommended in this chapter, while far from comprehensive, do suggest some key policy directions that can move Russian science towards greater international competitiveness and enhanced domestic prestige—all in the context of greater demand for its production and for those (scientists) who produce it.

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Sport

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RUSSIAN SPORT AS AN INSTRUMENT (AND THEATRE) OF POLITICAL BATTLE

During the Soviet period, political orders from up high gave rise to institutions of sport designed to carry out these orders. As Yuri Vlasov, the former Soviet weightlifter, wrote, “the constructed system of Soviet sport” saw itself as a bureaucratic apparatus with inherent rules of conduct, underpinned by a system of grassroots organisations, such as sports clubs.¹ This “constructed system” had a general ideology of total record-getting from top to bottom and across all forms of sporting competition. The ideology spread to mass and children’s sport, which were soon viewed as *de facto* reserves (talent pools) for elite sport—even as the mass sport segment was resource-constrained within the general system of physical education and sport.

How did this come to be? In 1947, the head of the Soviet state committee on physical education and sport, Nikolai Romanov, sent an official letter to Politburo member Andrei Zhdanov, stating that the 1948 Winter Olympics would take place in San Moritz, and the Summer Games in

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London. Romanov wrote: “At the Olympics, there will be official country rankings by medals and points. It appears most expedient that Soviet athletes be fully represented in every event of the Olympic programme”.² This was a watershed in Soviet sports policy: isolationist strategy was to be replaced by a warrior one, and international sporting competitions were to become a major arena for international (political) battle.

The Soviet system of physical education and sport was created in the 1920s as a subset of health policy (see Chap. 21 on Health Care). The system’s original goals were to promote health by means of mass participation in sport. By the 1930s, however, the system was given another goal—one not envisioned by its creators, including Vladimir Gorinevsky and Nikolai Semashko: the production of elite athletes. This goal drove overall state resource allocation, such that it was no longer necessary to develop mass competitions but rather to focus strictly on the preparation of the most promising athletes. This logic is reproduced to this day—that is, the federal and regional budgets in post-Soviet Russia are the principal “sponsors” of sport, and sport development means, for all practical intents and purposes, the preparation of elite or professional athletes.

The values of elite sport gradually penetrated the entire Soviet system of physical education and sport after the creation of the USSR. In the 1930s and 1940s, Soviet physical education witnessed the merger of labour and recreation. Sport was inculcated into the masses through ceremonial and theatrical practices of physical education and culture—most notably through football (soccer) tournaments and sports parades.

The 1950s and 1960s were marked by efforts to strengthen the country’s competitive positions in the world, with sporting victory seen as a means of affirming communist ideology. Emphasis was placed on the development of high-achievement sport as a counterweight to the pre-war cultivation of the ideals of physical activity. Soviet athletes set world records, with each new record becoming a weapon in the Cold War with the West. It was during this period that the foundations of the contemporary sports system of Russia were laid.

The 1970s and 1980s—the last 2 full decades of the USSR—were the most productive for Soviet athletes. The “race for records” that was launched in the 1950s began to yield considerable fruit. Soviet athletes scored increasing numbers of international victories and set an exceedingly wide array of major records—all the while representing a colossal machinery consisting of coaches, doctors and even fashion designers. The high ideals of representing communism and the USSR were gradually replaced

by the raw pursuit of records, and the professionalisation of sport led to its commercialisation, which in turn (and ultimately) led to the mass emigration of athletes out of the Soviet space.

THE GOALS OF RUSSIAN SPORT POLICY

In 1968, Leonid Brezhnev said: “We must continue to raise the international class of our sport. But most important of all is the massiveness of the sporting movement, and the development of grassroots sport and physical culture”.³ Brezhnev’s words anticipated those of Russian leaders in the post-Soviet era. Said Vladimir Putin in a 2008 meeting with the then Minister of Sport, Vitaly Mutko: “[The Beijing] Olympics [...] and the preparation after that for the Sochi Olympics are for us, of course, self-sufficient processes. But they are also, as I have said many times, a means of giving increased attention to the health of the nation, the health of the people, and to propaganda in the service of a healthy lifestyle”.⁴

Dmitry Medvedev articulated a similar thesis in 2008, stating that “the development of high-achievement sport would lead automatically to the development of physical culture, and that people would become healthier. What else does a state need?”⁵ But what of this “automatic” relationship or correlation between people’s health and high-achievement sport? A number of authors have declared that elite (Olympic, professional or high-achievement) sport is a means of, or an instrument for, the development of mass (grassroots or recreational) sport. They adduce the “pyramid” model and quote Pierre de Coubertin, the father of the modern Olympic Games: “In order for 100 people to develop their bodies, it is necessary for 50 to practice a sport, and in order for 50 to practice a sport, it is necessary for 20 to specialise; but in order for 20 to specialise it is necessary for 5 to be capable of outstanding achievement”.⁶

And yet the pyramid model, which openly declares the primacy of elite sport over mass sport, is, in our view, counterproductive to any declared policy interest in mass sport. The contradictions between elite and mass sport under the pyramid model exist not only in resource terms but also in terms of a fundamental misunderstanding of the motivations of participants in mass sport—indeed in a wholesale rejection of mass sport. If the pyramid model holds that high-performance sport—a staple of the Soviet period—should issue in high participation levels in mass sport, then it was commonly said in Soviet expert circles that the declared harmony between high-performance sport and mass sport was betrayed by facts on

the ground—facts that were disclosed to the general public during the “glasnost” period. It followed that the problem of mass sport was one of the key reform areas discussed in the perestroika period.

According to Yuri Vlasov, the zenith of Soviet sporting glory, between 1959 and 1964, when Soviet statistics suggested that there were 70–80 million Soviet citizens partaking in physical activities, should today be regarded as the “highest achievement in cheating and fraud.” Vlasov wrote that from the end of the 1940s, the chief consequence of the total politicisation of sport was that the entire sphere of Soviet sport—in policy and administration—was oriented exclusively towards Olympic victory and world records. “From top to bottom, it was dominated by a single goal—to be first in all competitions.”⁷

THE PRESENT STATE OF RUSSIAN SPORT

The primacy of high-performance sport (and sports entertainment) in the context of a unified sphere of physical education and sport continues to this day. This is plain from analysis of the Russian federal programme on physical education and sport development for 2013–2020. Table 26.1 compares the original version of the programme and the subsequent adjusted version (following budget cuts), both divided according to their 4 sub-programmes. The distribution of resources among the sub-programmes clearly demonstrates the priority given to high-performance sport, the training system for sports reserves, and spectator sports or sports entertainment. Moreover, in the adjusted version of the programme, the largest loss was suffered by the sub-programme on mass sport (Sub-programme 1).

THE PROBLEM OF ACCESS IN MASS SPORT

What about access to sport in Russia? That there is great variety in the costs of different sports goes without saying. In a simplified model of spending on sport (in multiple countries), we may classify sporting practices as “elite” or “democratic” (in economic terms) and, consequently, potentially massive (in terms of numbers of participants). In particular, we can identify the cost of the infrastructure or facilities used in a given sport, the capacity of the infrastructure or facilities for a given sport, and the potential use of such infrastructure or facilities by amateur athletes or citizens more broadly. For example, in swimming, spending on equipment is not especially high (starting from the initial or startup cost or investment

Table 26.1 The state programme “Development of physical education and sport” (2013–20)

	<i>Original programme</i>	<i>Share (%)</i>	<i>Adjusted programme</i>	<i>Share (%)</i>	<i>% Change in funding</i>
Federal programme on development of physical education and sport (2013–2020)	1,716,924,205.76 thousand rubles	100	450,943,945.20 thousand rubles	100	–74
Sub-programme 1: Development of physical education and mass sport	341,571,506.80 thousand rubles	19.9	20,899,910.30 thousand rubles	4.6	–94
Sub-programme 2: Development of high-performance sport and the sports reserve system	995,920,272.46 thousand rubles	58.0	163,938,311.80 thousand rubles	36.4	–84
Sub-programme 3: Preparation and execution of the 2018 FIFA World Cup and the 2017 Confederations Cup	150,095,500.00 thousand rubles	8.7	166,778,697.40 thousand rubles	37.0	+11
Sub-programme 4: Sectoral development in physical education and sport	10,441,843.30 thousand rubles	0.6	10,261,843.00 thousand rubles	2.3	–2

Source: Adelfinsky A. (2017) *Despite the Records*. Moscow: Delo

of approximately 350 rubles per athlete). For running, a slightly larger investment is needed (starting from 1500 rubles per athlete)—even if staging or organising competitions for long-distance running does not typically require the creation of special equipment or facilities. By contrast, organising modern competitive swimming meets requires specialised pools, which in turn require significant spending on upkeep. Of course,

these pools may be used not just by competitive swimmers but also by recreational swimmers representing wide swaths of the population. This is not so with, say, a modern ramp used to hold competitions in ski-jumping or Nordic combined—infrastructure that really can only serve the internal purposes of these sports as spectacle or entertainment.

The data demonstrate that participation in the “democratic” and relatively inexpensive sports is fairly high. For example, in Germany today, the 3 most popular (practiced) sports are cycling, swimming and running, which are practiced by 20 per cent, 14 per cent and 13 per cent of the German population, respectively.⁸ If we look at the data for sports competitions that occur in a specific place and at a specific time, we must conclude that sports practices in the form of mass events (for all who wish to participate) can take only a limited number of forms. For example, different types of cycling races—simultaneous mass-start and multistage competitions alike—often use existing public infrastructure like road networks, forests and parks. Mass competitions can be organised efficiently only for such disciplines as cycling, distance running, open-water swimming, cross-country skiing, roller-skating, triathlon and orienteering. These are so-called participatory sports.

The hypothesis of our research comes from observation of official triathlon competitions. (Triathlon is one of the fastest developing participatory sports in Russia and many developed countries alike.) Table 26.2 examines 2 major triathlon events that took place in 2007—the Russian Championship in Penza, and the International Triathlon Union (ITU) World Championship in Hamburg. The Penza region sports authority has run the Russian championship in Olympic-distance triathlon every year from 2005 to the present. For its part, the Hamburg-hosted ITU World Championship of 2007 became the model or benchmark event for all subsequent ITU World Championship Series events—to this day.

What do we see in official Russian sports events? At Penza 2007, the average age of the participating athletes was 18 years. Sport for these participants was, as a rule, a professional or full-time activity. The average result among men over the Olympic distance was 2 hours and 2 minutes, with a standard deviation of 11 minutes—*bref*, only the strongest athletes took part. This was evidently a “pyramid” event, the structure of which was 132 participants under 20 years of age, 31 between the ages of 20 and 24, and only 13 aged over 25. The youth competition comprised the lowest tier of the pyramid, followed by the junior category, and then under-23, with the pyramid capped by “elite” competitors.

Table 26.2 Key Russian Triathlon Federation and International Triathlon Union events

<i>Parameter/event</i>	<i>Russian Championship: Penza 2007</i>	<i>World Championship: Hamburg 2007</i>
Average age	18 years	41 years
Average time \pm standard deviation [min; max] for Olympic distance	02:02 \pm 0:09 [01:51; 02:35]	02:57 \pm 0:21 [01:46; 06:11]
Number of participants	176	6402 = 358 elite; 6044 amateurs
Athletes' relationship to the sport	Professional	Recreational (for 6044 participants)
Nature of entry	Selective	Open (for 6044 participants)
Event objective	To identify the best	Mass participation (for 6044 of 6402 participants)

Source: Adelfinsky A. (2017) *Despite the Records*. Moscow: Delo

What do we see in official sports events in developed countries? Races among the strongest runners are not goals in themselves, but rather take place only in the context of a programme of events open to all participants. At Hamburg 2007, the average result for participants over the Olympic distance was about 3 hours—an hour faster than the time limit but an hour slower than the winning time. The average participant, at 40 years of age, was someone for whom sport was only a recreational activity rather than a profession. Admission or entry was non-selective—that is, anyone willing could register and, with the right equipment, take part. At Penza, by contrast, entry into the race was selective—that is, a regular enthusiast or amateur could not take part. The goal of official triathlon competitions in Russia, then, has clearly been to showcase the strongest athletes for purposes of long-term representation of the country at international standards, while triathlon competitions in developed countries aim for mass participation by the population together with the showcasing of the strongest athletes. In short, there are two different models of sports organisation at play here.

To describe participatory sport in developed countries, we propose the “iceberg” model, focusing on the interrelationship between “mass” and “elite” sport. We posit that this model is a credible alternative to the “pyramid” model. We see sport as a unified field in which there are 2 roles or

vocations for participants in practice: “enthusiasts” or “amateurs” (non-elite athletes, or the mass segment of sport) and “elites” (professional athletes, or the professional segment). We assume that enthusiasts do sport as a hobby, voluntarily and through self-financing. Elite athletes, on the other hand, seek to make sport their profession and will often seek external funding.

In the iceberg model, the primary “product” of sport is participation (i.e. competitions, events and sporting lifestyle), and the ordinary amateur athlete is its primary consumer. Along the way, as a secondary element, amateurs interested in sport constitute a consumer market for equipment, coaching and tourist services, as well as a spectator audience and fan base for a given sport. The professional athlete is a tertiary element in this model—that is, the sports business is interested in him or her as a marketing tool. The social effects of elite or professional sport and spectacle are fourth-order products. Moreover, spectacle is needed not in general but specifically in the context of the sport in question.

Our model includes an economic mechanism for supporting elite sport as a consequence of the development of mass sport—that is, large numbers of sports enthusiasts create the economic basis for those training professionally (i.e. for earnings through prizes and promotional contracts from equipment manufacturers). Governments or state sporting authorities, on this model, are not required to maintain or form a professional reserve army of athletic talent. Instead, the role of the state as a participant in economic activity can be focused on influencing the mass sport segment of society or entirely devoted to the regulation of access to public infrastructure and funding.

SPORTING MOTIVATION AND ITS MANAGEMENT IN POLICY

The motivations of participants in sports and the effective administration of this participation is a critical theme in the policy discourse on participatory sports. The “pyramid” theory and the practice of high-performance sport treat sport as the pursuit of an optimal result—that is, to “be first”, “set a record” and “win”. Of course, concern for health is another motivation that is typical not of sport but of physical education proper (even if ski marathons, multiday trails and long cycling races are typically not advisable for health reasons and purposes.)

The logic of the pyramid model is that the strongest athletes motivate ordinary people to do sport. The thesis is controversial: is the average 40-year-old sports amateur-enthusiast motivated by an 18-year-old elite

athlete with lower human capital (in terms of age, life experience and education), whose main claim to worth is, say, the ability to run faster? Let us instead offer the the alternative hypothesis of seeing elite (professional) athletes as an advertising model and also as testers for sports equipment.

The phenomenon of distance running was studied by the Briton Stuart Smith. He showed that the core of the practice is comprised not of people who run for health but rather those who run for prizes, winning and records. Smith divided sporting participants into 3 categories: “athletes”, “runners” and “joggers”. “Athletes” comprise the small group of sportsmen and sportswomen who have the potential to win races or otherwise score good times. In this group, there is a manifest desire to win or obtain a high result. “Joggers”, for their part, are those who run for health and appearance. However, these 2 groups are deemed by Smith to be peripheral to the practice of sport. The largest group is the “runners” group—that is, the majority in cross-country competitions, who do not have any real chance of winning but whose training and attraction to running go beyond what is required purely for health outcomes. Smith holds that “runners” may be motivated partly by competition with familiar faces—those they regularly meet in local races in their region—as well as by the idea of “overcoming oneself”. In his view, modern distance running may even be a form of masculine affirmation for middle-class men on the “wrong” side of 30.⁹

What is the role of a professional athlete? Do elite athletes, as per the Coubertin thesis (repeated by current Olympic chief Jacques Rogge), “motivate others to do sports”? If this is true, then sports stars would be used actively in the advertising of sports goods and services. We therefore looked into the use of top athletes for the advertising of specific categories of products (using all the 2011 issues of the now-defunct *Inside Triathlon* magazine). We found that the 2 principal types of advertising content dealt with cycling equipment (60 per cent of all advertising) and triathlon events (16 per cent). By all appearances, then, “sport stars” in triathlon are used to test sports equipment and create perceived associations with being “the best”—but probably not for purposes of motivating most ordinary mortals to participate in sport.

For conceptual and also policy purposes, then, we argue that unity of practice combined with a normative role separation between “elites” and “amateurs” should be fundamental to the national approach to participatory sport in Russia. While distribution of resources (prizes, sponsorship and scholarships) is necessarily highly selective for elites, official attitudes towards

“amateurs” must promote and support equality and encourage every ordinary athlete (i.e. no money or resources, small awards for everyone, democratic time limits, etc.). This “double-standard” will allow for the coexistence of 2 different ethical standards or logics—the first competitive, and the second expressive.

As such, we think it possible to formulate recommendations in respect of a national advertising-cum-marketing strategy for promoting participation in sport in Russia. As the target market would be regular adults (regular in the athletic sense), the advertising message should appeal to the internal motivations of the average participant—that is, one who never actually wins competitions. The key target motivation, in this sense, should be that of individual striving as well as the fight against the forces of nature (or against distance itself).

The use of elite athletes (“champions”) as role models is manifestly inappropriate here. “Stars” of culture, politics and show business could certainly make for good advertising models to promote mass participation in sport. But “sports stars” should be used only in the event that they are retired (former) professional athletes (whose results have over time evidently become more average and ordinary).

WHAT’S TO BE DONE? DEVELOPING MASS SPORT IN RUSSIA

The modern national system of physical education and sport in Russia has largely preserved the erstwhile Soviet model and policy logic, operating principally with the aim of “producing” elite athletes. This model evolved historically in the context of a planned economy. An alternative participatory model of sport, common to developed European countries (although less so for the USA, where for-profit organisations and institutions dominate, narrowing the scope for pure participatory dynamics in the population), has been successful in advancing competitive sporting practices through the participation of amateur athletes, with significant advantages for the development of mass participation in sport as well as in terms of the development of high-performance sport.

How to move Russia in this direction? First, a successful reform of the national sports system in Russia should not be uniform across all sports. It should instead be differentiated according to the nature and needs of each sport. However, an *a priori* division between “mass sport” and “high-performance” sport is unnecessary in the reform. It is clear that mass competitive practices built on a foundation of several sporting disciplines

(triathlon, distance running, cycling, cross-country, ski-racing, open-water swimming), given the lower capital-intensiveness of these specific sports, have greater potential to generate the mass participation by the population in sport that is still consistent with the development of elite sport. A different narrative about sport must be developed in state communications and in the Russian media (see Chap. 9 on Russian Media), with potential participants seeing mass participation sport—including youth sport—as something in which they can and should themselves participate.

If the goal is expansion of mass participation by the Russian population in sport, then practical measures will include holding prices constant on access to sports facilities as well as entry or registration costs for participation in competitions. If the state should set the general framework, essential to success on the ground will be the administration of sports by non-profit, non-governmental, volunteer-based organisations advancing the interests of regular enthusiasts. To be sure, the national and regional governments have a key role to play in this regard in incentivising the creation and support of volunteer clubs as well as the unification of such clubs into region- and country-wide associations. It follows that the role and accountability (administrative and financial) of non-profit voluntary sports organisations representing the specific interests of the mass (amateur) segment in the participatory sports must be strengthened considerably.

The transformation of national federations for specific sports into bona fide public organisations (unions, as it were) representing, de facto, the interests of athlete-enthusiasts will be critical to the future of mass participation in sport for the Russian population. Such a transformation is likely not possible without political will at the highest levels of Russian government and within the leadership of the sports federations themselves. Moreover, “bottom-up reform” is less probable to the extent that there is an absence of internal interest among stakeholders in the federations—focused as they are, at present, on elite sport, which also serves as something of a social stabiliser against various external influences and shocks on Russian society and policy life.

NOTES

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Culture

Vitaly Kurennoy and Rouslan Khestanov

BETWEEN PRAGMATISM AND NEOTRADITIONAL RHETORIC

Cultural policy has not generally been viewed as central to the activities and instruments of the modern Russian state. As such, Moscow's sudden interest, several years ago, in culture was perceived with ambivalence by many commentators. In April 2013, Vladimir Putin signed a decree on implementing Years of Culture in Russia, where 2014 was to be a Year of Culture.

Putin used the expression “cultural policy” for the first time on October 2, 2013, at the meeting of the Council for Culture and Art under the President of the Russian Federation. Within 2 months, in the Presidential Address to the Federal Assembly, the values orientation of state cultural policy was articulated. It was described as a “conservative position”, aimed at the defence of “traditional values”—not inconsistent with some of the writings of the Minister of Culture, Vladimir Medinsky, who has scandalised certain liberal quarters in Russia by arguing for a “patriotic orientation” in Russian cultural policy (see Chap. 3 on Russian Political Ideology).

If we were to summarise the speeches of Vladimir Putin on culture, the following key aspects of the “conservative position” could be distilled: first, culture and the Russian language are seen as integrating elements of

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the “multinational nation” of Russia; second, the cultural diversity of the world is understood to be one of the factors favouring the national sovereignty and self-sufficiency of Russia; third, “traditional” cultural values include, above all, support for multichild traditional (heterosexual) families (see Chap. 28 on Families) and a commitment to “Christian values, which are the basis of Western civilisation” (even if this Western orientation does not necessarily prevent clashes between Russia and Western countries); and fourth, the emphasis on “traditional values” is seen as an element of Russia’s foreign policy (see Chap. 12 on Foreign and Defence Policy). Consistent with this foreign policy positioning, in June 2014, Constantine Kosachev, head of the Russian Cooperation Agency, said that the agency planned a comprehensive strategy to expand the humanitarian influence of Russia in the world, and to open, by 2016, 11 international centres of science and culture, including 9 centres within the former Soviet space.

The “pivot to culture”, as it were, was consolidated with the approval by President Putin, at the end of 2014, of the “Foundations of State Cultural Policy” policy document, which stated that “state cultural policy is called on to provide priority cultural and humanitarian development as a basis of economic enlightenment, state sovereignty and the civilisational identity of the country”.¹ The designation of culture as a field of priority interest for the first time in post-Soviet history was interpreted by the Russian public as a logical continuation of the path to sovereignty and a rejection of strategic integration into the European community and several other supranational structures—intentions that had been widely declared by Vladimir Putin at the start of the 2000s. In that early Putin period, the dominance of central government organs of power over culture could have been described as neutral-technocratic. The state refrained from privileging any particular values or moral or ideological orientations, emphasising instead the primacy of socioeconomic development and the challenge of modernisation, including “doubling GDP” (see Chap. 2 on The Objectives and Principles of the Russian State in the Twenty-First Century). This posture was still apposite in the Presidential Address to the Federal Assembly in 2007, where Russia’s “search for a national idea”—an age-old Russian quest, even if the modern Russian state is young—was evoked in the context of the apparent need for the country to “stress the essential moral-ethical values developed by the Russian nation over its more than thousand-year history”.

The current system of cultural administration in Russia often turns on direct decisions from the President to use large or mega-events like the 2014 Sochi Olympics and the 2018 World Cup as an instrument for the development of different regions of the country. The (2014) Year of Culture in Russia was part of this logic. However, the policy pivot to culture, while significant, has not to date been bolstered by any notable changes in the budget of the state cultural sector. “The state cultural sphere is significantly and chronically underfinanced: state support of culture in Russia, in per capita terms, is on average 3.5 times lower than in the developed countries of the world”.²

Is this “pivot to culture” (perhaps so-called) a return to Soviet-style cultural policy? And was the neutral-technocratic approach to cultural policy of the early post-Soviet years but a temporary deviation from the historical norm in Soviet and Russian statecraft?

SOVIET CULTURAL POLICY

Cultural construction in Soviet Russia was considered the most important part of the development of the state immediately following the establishment of Soviet power. The term “culture” occupied a conspicuous place in the slang of the Bolsheviks, starting from 1919, when the Eighth Congress of the Russian Communist Party approved the Party Programme.

The Bolsheviks believed that after the resolution of the central political question—that is, the conquest of power in Russia—political work must generally cede pride of place to cultural work. On this logic, the regulatory functions provided in a “bourgeois society” by law and bureaucratic administration would in the new communist society envisioned by the Bolsheviks be played by culture. In other words, culture would substitute for repressive state bureaucracy.³ This Leninist doctrine of cultural revolution was reflected at the 15th Congress of the Communist Party, which stressed that “simplification of the functions of administration by raising the cultural level [and motivations] of the working people leads to the destruction of state power”.⁴

For the Party, the *problématique* of culture was always closely affiliated with administration and leadership. Party functions in the earliest years of Soviet power could not precisely differentiate between the organisation of cultural work and party propaganda and agitation. In the Stalin period, such a distinction was on offer: the organisational and theoretical work, and also the development of cultural meanings, belonged to the Party, while the cultural-enlightenment work that could be “mechanised” and

widely replicated was delegated to the state, which administered the large network of Soviet cultural institutions (clubs, cinematography, societies, etc.).

As for the utopian vision of the Soviet project and the practical measures undertaken to implement a focused cultural policy, including the national-cultural construction of a “family of nations” in the USSR, the Soviet pivot to culture and Lenin’s New Economic Policy should be seen as 2 interconnected steps in the context of Soviet “strategic retreat”—forced concessions to the existing non-socialist economic order and the actual state of culture in society—which in time should have given way to a strictly “communist republic”. This understanding of “cultural revolution” was represented in the language of Lenin in his 1923 essay “On Cooperation”, where the challenges of cultural construction were given primary importance. But if the dénouement of the New Economic Policy had already begun by the end of the 1920s, then the end of “cultural revolution” was announced by Stalin in his summary report for the 17th Congress of the Communist Party in 1939.

The Leninist understanding of cultural revolution envisioned not only the “moulding” of a new person but also the destruction of the remnants of the prior bourgeois culture, including among the older Bolsheviks raised in a still-bourgeois context. The Great Terror of 1937–38 should therefore be seen as a constituent part of the Leninist project of “cultural revolution”, advanced by Stalin through collectivisation and industrialisation, and requiring the liquidation of what remained of the market economy permitted in the period of the New Economic Policy.

If it is in the Stalin period that the foundations of the cultural institutions and the operational algorithms of mass Soviet culture were created, then an important break in the understanding of the place of culture in state policy occurred in the Khrushchev period. First, in 1953, 2 months after the death of Stalin, the Soviet Ministry of Culture was created and the entire design of party-state cultural administration was changed. Second, at the 20th Congress of the Communist Party, at the start of the report from Khrushchev, there was a notable rhetorical shift: cultural work was distinguished, in strictly positive terms, from the darker arts of propaganda, and cultural policy was to be emancipated, the new Ministry of Culture oblige, from ideology. Politico-ideological language in the cultural sphere was replaced by administrative-bureaucratic language. And where political rhetoric once dominated, foreign policy and resistance to the capitalist bloc took over. Indeed, until Gorbachev’s perestroika, a

large variety of the social and international contradictions presented by the USSR were interpreted by the policy elite through the prisms of management, administration and culture.

RUSSIA'S CULTURAL POLICY PROBLÉMATIQUE

In the post-Soviet period, the cultural sphere, as distinct from other subsystems of Russian society, was the least affected by reform processes. The operations of public institutions of culture, and also the large network of artistic and cultural associations (artists' unions, composers and others), underwent partial spontaneous transformation with the breakup of the USSR, losing much of their previous influence and social prestige. Houses of culture and stadiums adapted to the new national reality of chronic underfunding and the sudden disappearance of rigid state control. Paradoxically, for better or worse, many of these cultural spaces were used as retail space. Institutions of culture created to address specific cultural-anthropological and ideological challenges of Soviet civilisation, now devoid of mission and liquidity, became disoriented. For a decade and a half, they fell off the radars of central and regional authorities, which did not always know what to do with such legacy infrastructure.

In our view, the development of a serious and proper cultural strategy for contemporary Russia must consist primarily in a policy push to return culture to its historically central and fundamental role in shaping the political order. After all, modern Russia continues to undergo processes that polarise its society: first, intense urbanisation, resulting in inequality among the country's many regions; second, religious renaissance in all the fundamental confessions of the country—Orthodox, Islam, Buddhism and also Hinduism; third, decentralisation of education and culture, side by side with the strengthened pursuit of cultural autonomy in the national republics; and fourth, market reforms, which have intensified the growth of income inequality among the citizens and residents of the country. All these processes have created a demand for cultural policy as an instrument that can provide increased homogeneity, unity and coherence to the country, where culture, as stated in the "Foundations of State Cultural Policy" document, is the "guarantor of the preservation of the single cultural space and the territorial integrity of Russia".

At first blush, the return of culture to priority status in Russian state policy and the revitalisation of Russian cultural diplomacy internationally seem to amount to the resuscitation of the Soviet model of cultural

administration. Indeed, the institutions inherited from the USSR are pre-disposed, path dependence oblige, to reproduce their prior functions—in particular, their ideological and propagandistic functions. It would appear, at least among the cultural intelligentsias of Russia’s different regions, based on interviews we have conducted over the past 10 years, that there is an expectation of a return to a system in which demand for culture is principally state-driven, in the Soviet idiom.⁵ Having said this, a return to total control over culture through censors, a monolithic bureaucracy and a well-trained army of cultural workers is not at play, at the time of this writing, in contemporary Russia. First, there is no formal political intention or will in the country to revive anything that is merely nominally different from the Soviet apparatus of absolute control over culture. Second, even if such an intention existed, its realisation would bump up against an entire series of objective obstacles in terms of resources and due to the irreversible changes in the structure of Russian society since the dissolution of the Soviet Union.

The economic bloc in the Russian government is represented by professional economists promoting liberal market reforms. They have worked to date, and continue to work, to rid the Russia state of the global socialist mission that was practiced by the Soviet state. Even in the major social policy spheres—education and health care—market reforms are being conducted, copying and reproducing Western models. Culture is no exception. Despite the fact that representatives of the Ministry of Culture regularly shock the public with sharp “conservative” statements, the substantive organisational transformations in the cultural sphere are aimed primarily at the simulation of market behaviour among the cultural organisations. And of course, market reformatting of the social sector requires that the administrative model itself be reformatting—to wit, through the decentralisation and delegation of numerous erstwhile state responsibilities (powers) and the endowment of commercial functions to new quasi-state agencies and autonomous enterprises.

The ongoing liberalisation of the social sector makes the past Soviet mechanisms of bureaucratic control impossible because the Russian state refuses increasingly to fund them. Of course, one of the consequences of such liberal reforms has been the formation of a large, parallel “shadow” sector not only in Russian economic relations and social practices but also in the cultural space more broadly. To be sure, some of the development of this “grey sphere” has roots in specific Russian experiences of societal alienation from a state that has been seen as

repressive during many periods of Russian and Soviet history. And a significant portion of the activity in this sphere is evidently not subject to any formal assessment in the official national cultural statistics and accounting and is not, therefore, part of any serious public discussion or academic research. The absence of reliable indicators to assess the size and efficacy of this “grey sector” in Russian culture clearly and significantly restricts the possibilities of state control over the ideological and cultural practices of the population, which means that the federal centre is often forced to behave pragmatically, with ideological rhetoric playing a subordinate, instrumental role.

Which arguments most often resonate in justifying the prohibition on homosexual propaganda or the defence of traditional marriage by the Russian state? Here traditional Russian values are emphasised. However, the ultimate policy argument is demographic in nature. Families and familial foundations are stressed in order to overcome the country’s demographic failure—that is, to normalise the reproduction of the population (see Chap. 28 on Families). As such, contemporary cultural policy in Russia is rhetorically conservative, but this conservatism—or more readily, in our view, neotraditionalism—has a primarily compensatory character: the federal government uses the rhetoric to try to compensate for the growing speed of changes in the cultural and demographic spheres and, to some extent, soften the protest potential inevitably aroused by liberal reforms in Russian society and in the national economy.

Of course, such cultural policy is possible in Russia, as in most other countries, only insofar as it is able to form a moral majority based on cultural stereotypes dominant in the society, or otherwise confirming the self-identity of the society. Against the moral majority stands the interested “minority”—not just political opponents but also professional communities of culture (and journalists). As a rule, the oppositional cultural “minority” is concentrated in large cities (Moscow, St. Petersburg, Novosibirsk, Ekaterinburg and Nizhny Novgorod), which are able to produce innovation and concentrate financial resources, human capital and opportunities for cultural diversity. A total imposition of the neotraditionalistic position is not only impossible in such urban centres but indeed counterproductive to the very process of liberal reform. As such, the federal government does not pursue universalisation of its ideological message. Instead, it considers it sufficient to form a generally supportive or corresponding public opinion.

The main instrument for forming public opinion in modern Russia is information campaigns through mass media, and particularly television (see Chap. 9 on Russian Media). These mass media campaigns lead to incessant cultural wars—quite atypical in the Soviet period—between the neotraditionalist moral majority and the country's big-city liberal minorities. The substantive debates of these culture wars concern artistic freedom (from the strictures of the moral majority), homosexual rights, abortion and gender equality. Moreover, these debates have, over the years, acquired a growing religious colouring, consonant with the powerful processes of desecularisation in Russian society in the post-Soviet period.

However pragmatic the motivations behind many of the rhetorical neotraditionalist positions, they have on occasion had anti-modernisation effects in practice. Here we speak not only about the grievances expressed in some of the Russian press about a growing atmosphere of intolerance and clericalism in the country, but also about official excesses, as with the conviction of the members of the Pussy Riots musical group and analogous cases. Article 87 of the 2012 law on education, concerning the particularities of the study of the spiritual-moral culture of the peoples of the Russian Federation, as well as the particularities of theological and religious education in Russia, also ushered in deep institutional transformation in national education, opening the door to religious education—for all intents and purposes, a dramatic departure from the secular general and university education that dominated the Soviet period and the first 2 post-Soviet decades.

Among the many consequences of this law, those observed in the Muslim-majority North Caucasus, and especially in the republic of Dagestan, are arguably most noteworthy (see Chap. 6 on The North Caucasus). In all of Russia, a total of 7 Muslim educational organisations of higher education were opened after 2010, all funded indirectly by the state budget. In Dagestan, according to some sources (reliable statistics on this do not exist), there are between 114 and 199 registered institutions of learning: among them are 8 universities and between 39 and 60 madrasas. There are some 14,000 people officially studying Islam today in Dagestan: about 2500 in the universities, more than 700 in different branches of the universities, more than 300 in madrasas, and more than 6000 in primary schools. According to our research, approximately 30 per cent of these graduates go on to work as imams or assistants to imams in mosques, or as instructors in the Muslim universities, madrasas and mak-tabs of the republic.

Sociological surveys undertaken in the North Caucasus note that the level of religiosity among youth today is higher than among their parents, all of whom were educated in Soviet schools. Young people aged 15–18 believe that religious education is more valuable than secular education, and “[t]he proportion of youth choosing sharia as a core life regulator is significantly higher than the proportion in older generations”.⁶

Of course, the dominant policy presumption was that the established network of Islamic universities, controlled by the state, would strengthen the position of moderate Islam in Russia through the training of national cadres of Muslim spiritual leaders. And yet not every graduate of these established Islamic universities can work in the mosques or as an instructor in religious institutions; indeed, most graduates cannot. In order to employ these graduates, then, the state must create new work places. For local and regional authorities under pressure from the spiritual community, it is far easier to create such work places in the traditionally secular educational sector—to wit, in general education state schools. This penetration of Islamic clergy into secular educational institutions has helped to strengthen the positions of Sharia law, establish a pluri-judicial legal system (for all practical intents and purposes) and legitimise gender inequality and polygamy. In this context, in Dagestan and certain other parts of the North Caucasus, the “traditional family” is increasingly understood in terms of Islamic tradition, the representation of which is distilled increasingly from Islamic civilisation (in the global sense) rather than from local traditions.

During the yearly “Direct Line” broadcast of April 14, 2016, President Putin said, in respect of the statements of the Chechen head Ramzan Kadyrov about Russian opposition members constituting “enemies of the people”, that “extreme actions or radical statements regarding opponents do not lead to greater stability in the country”. The President also said that he holds partial responsibility for such public statements—something interpreted by many commentators as recognition of the negative consequences of culturally intolerant rhetoric (and intensification thereof). Indeed, such neotraditionalist rhetoric directly contradicts the recognition by the Russian state of the important role of culture as an integrating factor for a diverse, multinational and multiconfessional Russian society—a contradiction that gives rise to a split in the public consciousness and in certain institutional processes. *Bref*, not only does the rhetoric not correspond to the complexity of contemporary Russian society, which cannot be reduced to a handful of common “traditional values”, but it also serves

to disorient society and government elites, while doing little to help solve the cultural policy challenges articulated by the state.

WHAT'S TO BE DONE?

First, the values orientation of cultural policy, as articulated by President Putin in several speeches, including in his 2013 Valdai Club speech and his 2013 Address to the Federal Assembly, is not only controversial for a diverse and multinational Russian society but indeed runs contrary to article 13.1 of the Constitution, which recognises the “ideological diversity” of the country. This values-driven posture should be reversed. Having said this, a purely technocratic-neutral cultural policy and posture can also be very disorienting to workers of the cultural sector, creating a values vacuum. It is therefore appropriate to emphasise values that are actually common to all citizens—for instance, values related to, or rooted in, the Russian Constitution. And if the present course towards the “sovereignisation” of Russia must endure over the long term, then the recasting of the values orientation of cultural policy could more appropriately be called “constitutional patriotism”.

Second, the state’s interest in culture as one of its strategic priorities should be affirmed through genuine legal and institutional changes (including legislation to open the Russian cultural sphere to charitable activity), as well as through significant increases in funding aimed at the modernisation of state cultural policy and cultural life in the country in general.

Third, there is a need for institutional reorganisation of the cultural sector in order to make the infrastructure of the institutions of culture commensurate in form and content with the demand implicit in the massive cultural life of the country. If, as mentioned, the libraries, museums, houses of culture, theatres and other cultural institutions inherited from the USSR are predisposed to the reproduction of erstwhile (ideological and propagandistic) functions, then what is required is a fundamental reorganisation of the internal structure and administrative methods of these institutions and affiliated networks, including a review of the statistical representation of the Russian cultural sector and a general renewal of personnel and talent in the sphere.

Fourth, a qualitative renewal of expertise and research in respect of Russian culture and cultural policy more generally is required. This should include strong knowledge and appreciation of the considerable “grey area” processes and practices in the national cultural sphere.

Fifth and finally, the constitutional obligation to preserve the country's historical and cultural heritage should be met through institutional and legal measures that help to stimulate or incentivise public-private partnerships and volunteerism in Russian civil society.

NOTES

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5. Kurennoy V. et al. (2008) In Kurennoy V. (ed.) *Thinking Russia*. Moscow: Eurasia Heritage Foundation, 135.
6. From the 2015 Conference on "The Dynamics of the Development of Culture and Art of the Peoples of the North Caucasus and the Prevention of Xenophobia, Nationalism and Ethnoseparatism". Makhachkala (November 30), 92.

Family Policy

Sergei Zakharov

THE PROBLÉMATIQUE

Family policy in contemporary Russia has inherited many of the policy objectives and instruments of the former Soviet Union, while also preserving certain archaic aspects of pre-Soviet Russian family policy. Indeed, because Russian family policy has historically been contradictory in both its ideological underpinnings and its demographic and social consequences—often mythologising past social and demographic realities—post-Soviet family policy in Russia has no clear cementing ideology. It is instead woven together from poorly structured and disjointed elements.

As such, the fundamental problem of contemporary family policy lies not so much in particular policy instruments (although these too are poor) or in a lack of resources, as in the inadequacy of family ideology for the country's contemporary challenges; more precisely, it lies in the primacy given to ageing social institutions and the state's denial of the fact that the family and its role evolve. The Russian state views the family, first and foremost, as a resource for advancing high policy or geopolitical goals. Of course, this ideology emerged in completely different economic and demographic periods in Russian history—to wit, in the context of an agrarian economy, high mortality and a young population, with patently different gender, familial and parental identities and relations in the

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broader society. And this ideology is irreconcilable with a post-industrial, urban Russia that has comparatively low mortality and a rapidly ageing population.

FAMILY POLICY OVER THE LAST CENTURY: MORE OR LESS STATE?

In the post-imperial period, Russian family policy changed many times over, fundamentally along a “more state” versus “less state” axis. Every attempt at state interference in the family and in the processes of child-bearing or rearing was accompanied by a change in family ideology along a “liberal-conservative-traditional” axis.

The 1920s were a period of liberalisation in family ideology, set out in the Family Code of 1926. Russia was nearly half a century ahead of Western countries in recognising an individual’s right to choose his or her form of family life, no-fault divorce, as well as a woman’s control over childbirth, including medical abortions. Informal unions enjoyed various marriage-like rights, and all children enjoyed the same rights regardless of their parents’ relationship or legal status.

During this period, the state did not interfere in family life and supported the emancipation of women, all the while controlling only socialisation processes in the schools, public organisations and cultural institutions. As communist doctrine held that women had a right to maternity and to the protection of the health of both mother and child, fully paid maternity leave and family benefits for working women were introduced soon after the Bolshevik victory in 1922. Moreover, as classical Marxism held that bourgeois family and patriarchal Christian household management were incompatible with socialism, Soviet power promoted the rapid, widespread development of children’s preschool and extracurricular institutions—available for working and non-working women, with the goal of socialising children according to the “correct” ideological principles (to be provided only by non-familial, non-religious institutions). In order to combat hunger and mass poverty in the initial years after the Russian Revolution, a free nation-wide food programme was established in preschools, educational institutions and parental work places.

From the 1930s to the early 1950s, the state resumed control over family life. With intensifying class warfare and growing state repression and the need to address the challenges posed by accelerated economic mod-

ernisation, the family began to be treated as the basis of the national workforce and a decisive factor in the national defence capability. The famine of 1932–33 and its tragic demographic consequences—significant growth in mortality and decline in the birth rate¹—catalysed a fundamental transformation in family policy. Once again, as in the Imperial era, the family was declared to be an institutional cornerstone of the state. The shift to conservatism and neotraditionalism established strict state control over the moral character of men and women, the private lives of individuals in their roles as spouses, parents and grandparents, and the creation of a pronatalist ideology in family policy.

In the second half of the 1930s and 1940s, material and moral incentives for maternity increased. Benefits were introduced for multichild families, and honorary titles were created—all turning on the number of born and surviving children. Taxes were levied on bachelors and small families (in 1941, 1944 and 1949). Administrative and criminal punishments were established for deviant or antisocial behaviour. Same-sex unions were prohibited (1934), marriages with foreigners outlawed (1947), abortions significantly restricted and then prohibited outright (by 1936), divorces severely limited (1936 and 1944), and mothers denied rights to alimony for out-of-wedlock children (1944).

Family ideology was gradually liberalised in the 1960s and 1970s. Immediately after Stalin's death, doctors and women were no longer criminally liable for medical abortions. Abortion again became available on a woman's request (1954–55). New family legislation (1965–69) reinstated the right to regulate the size of one's family, the right to divorce, as well as a woman's right to raise children without a father and receive material support (alimony) from the recognised father. State interference in private family life was reduced to *de minimis* control over the socialisation of children and the punishment of parents in cases of improper child rearing.

Pronatalism emerged politically in only a vague, tepid form: it was neither declared nor encouraged. At the start of the 1970s, the development, production and purchase of hormonal contraceptives—which the Soviet state viewed as a serious threat to the birth rate and population growth—were prohibited. Other contraceptive methods were produced in the USSR, but in insufficient quantities and with poor quality.² Information about birth control was generally unavailable for youth and even married couples—that is, the state did not support education about sexual relations and modern family planning.

Although providing only limited economic support for poor families and mothers with children in crisis, the state viewed the continued decline in fertility and the anticipated “deficits” in the labour force and military as legitimate reasons for launching a national programme of demographic research. A strategy to develop effective demographic and family policy was announced at the 24th and 25th Congresses of the Communist Party of the Soviet Union, respectively in 1971 and 1976.

The state’s recognition of a demographic crisis and the need for research were accompanied by intensified ideological censorship in the media and in the scientific literature. The classification of a wide array of social and demographic data as secret betrayed negative national statistical trends in mortality and life expectancy.

In the 1980s, there was an unsuccessful attempt to revive conservative family ideology. Instead, the decade witnessed the “scientific approach” to family policy, including pragmatic interest in the family-policy experience of socially and economically comparable Eastern European and Scandinavian countries. The results of demographic and sociological surveys on the family and fertility were incorporated into policy, and the idea of introducing partially paid, extended maternity leave acquired government support.

The consolidation of the modern welfare state led to a new family ideology in Russia, in which the liberal relationship of the state to private family life was accompanied by “soft encouragement” of child-bearing. The 26th Congress of the Communist Party in 1981 declared a new stage in demographic policy, involving a modern family support system. First, maternity leave was extended from 77 to 112 days, and then to 126 days in 1990. Second, partially paid leave was introduced for mothers with children aged less than a year and a half, including fully paid leave in the case of a sick child. Third, unpaid maternity leave of up to 3 years was established. Fourth, amended labour legislation required employers to offer workers with children aged 14 or younger part-time employment, flexible schedules, as well as supplementary unpaid or partially paid leave and days off. Fifth, lump-sum payments were disbursed upon the birth of children, with payment quanta based on birth order. Sixth, the amount of monthly benefits for single mothers and mothers with many children was increased. And seventh, the bar was lowered—from 5 to 3 children—for determining who could be considered a “mother of many children”, significantly increasing the

number of claimants to entitlements like housing, transport and recreational services.

In the mid-1980s, there was an important ideological shift to recognise modern family planning as the only practical alternative to abortion. For the first time, the USSR imported intrauterine devices in large quantities. Official views on the pill warmed. Nonetheless, traditional pronatalism prevented family planning from becoming thoroughly institutionalised until the Soviet collapse.

In the 1990s, the pendulum swung back to minimal state regulation of family-marital relations. Liberal family ideology was shared by political reformers and the broader public. Russia began to experience trends in delayed childbirth and marriage, which, together with the economic challenges of the post-Soviet transition, spurred processes common to developed countries—to wit, the so-called Second Demographic Transition.³ The deinstitutionalisation of marriage followed, demonstrating the readiness of Russian society to recognise a woman's right to autonomy after divorce and widowhood, the right to cohabitation at various ages, fertility control through modern contraceptives, childbirth in unofficial unions, as well as the idea of unmarried daughters living separately from their parents, among other non-traditional behaviours. *Bref*, for the first time in Russian history, the young post-Soviet state, founded on a formally democratic ideology, supported the individual wishes of its citizens to plan pregnancy and build a family according to their preferred timelines. Russian federal and regional governments established a network of centres providing family planning and reproductive health services. A market for modern contraceptive methods emerged.

On May 14, 1996, President Yeltsin signed a presidential decree on the fundamental directions of state policy for the family.⁴ The decree stressed the need for the state to provide the conditions necessary for families to realise their quality of life goals. State family policy would not regulate familial behaviour through economic, legal and ideological measures but rather provide support for the choices of families, which were otherwise to be seen as independent and autonomous in decision-making in respect of their own development. Also emphasised in the decree was the principle of “equality between men and women in achieving a more just division of familial duties, as well as in the potential for self-realisation in the working world and in public life”.

Although various specialists argued for the incorporation of pronatal and patriotic ideology in the presidential decree, the majority of its drafters did not. This policy rejection of pronatalism reflected not only the country's political and ideological transformation but also the practical reality that the state did not, at that time, have the fiscal capacity to offer economic incentives for childbearing.

Policy-makers would have to wait until the early 2000s, when the economic situation had stabilised and the state coffers had filled through oil and gas revenues, to revive official commitments to pronatalism. Societal demand for state paternalism vis-à-vis the family, which intensified dramatically over the course of the Soviet era, grew even stronger during the economic crisis of the 1990s, when a substantial decline in the birth rate was blamed on the population's worsening standard of living. Widespread social expectations of state economic assistance were confirmed by the populist rhetoric of Russian leaders bent on the "national idea", the geopolitical identity of the nation and legitimation of the new state in its post-Soviet borders.

An activist demographic policy was formally signalled in the 2001 concept of demographic development of the Russian Federation for the period up to 2015. The concept document stated that Russia's demographic development goals would aim for the "stabilisation of population numbers and the establishment of conditions for future demographic growth".⁵ And yet, in the aggregate, Russian history to date confirms the experience of many countries around the world to the effect that all major attempts by governments to stop or reverse the modernising trends in population dynamics have failed.

As we see in Fig. 28.1, the phases of Russia's demographic modernisation (known among demographers as the First and Second Demographic Transitions⁶), as well as its periods of worsening social-demographic conditions, can be identified in both the Soviet and post-Soviet versions of modernisation.⁷ The Russian political elites of the Soviet and post-Soviet periods observed objective demographic changes in Russian society but reacted negatively to social innovations in familial life and maintained a conservative approach to family policy. Moreover, the public's unwillingness to adapt to expanding freedom of choice in shaping their private lives and intimate relations—key processes characterising demographic and socioeconomic modernisation—contributed to Russia's rejection of liberal family policy.

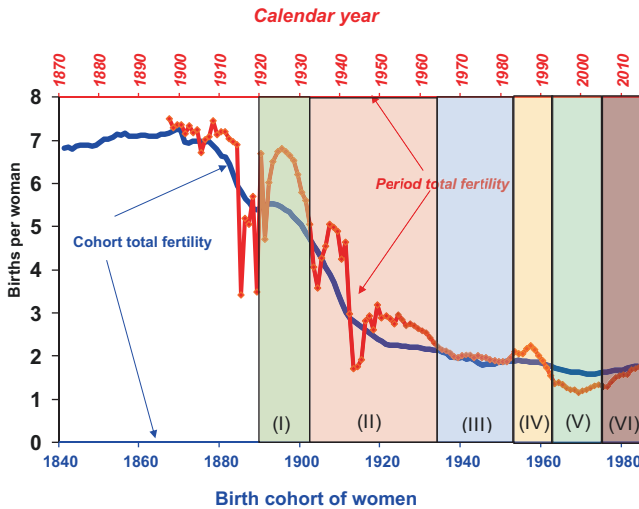


Fig. 28.1 Fertility in different periods of family-demographic policy in Russia (1870–2015) (Average number of children born to a woman by age 50 for the 1841–1985 birth cohorts). (I) policy period with the least state interference in family policy and no pronatalist ideology; (II) policy period with active state interference in private life under the slogan of creating a “new person”, in the context of pronatalist ideology; (III) period of “neutral” family policy, with increased elite political concern about demographic problems; (IV) period of “scientifically justified” family policy, with weak pronatalist ideology; (V) period of liberal family policy, expanding freedom of choice in behavioural practices and growing elite political concern about demographic problems; (VI) period of conservative policy, based on an ideology of national autarky, “traditional values” and aggressive pronatalism.

MODERN FAMILY POLICY IN RUSSIA AS A MEANS OF ACHIEVING DEMOGRAPHIC GOALS

The Russian political elite arguably resolved, to a great extent, its anxious search for a national idea in the first half of the first decade of the 2000s with the triumph of autarkic nationalism—that is, an “almighty” paternalistic state able to regulate all social relations, including familial relations (see

Chap. 3 on Russian Political Ideology). In family policy, this ideology has informed state efforts to engineer demographic processes through financial incentives and propaganda about ideal behaviours, often in the service of quantitative objectives. State propaganda focuses on strengthening narratives and ideas that favour the revitalisation of conservative family relations as the foundation of the Russian state. Moreover, for the first time since 1917, the Russian Orthodox Church is playing an important role in establishing family policy ideology (see Chap. 10 on Religion and the Russian Orthodox Church). Its pronatalist agenda has been explicitly invoked as a touchstone of social policy and is actively promoted through large state investments.

Building on foundational documents like the demographic policy concept of the Russian Federation up to 2025 (approved by presidential decree on October 9, 2007⁸), the May 7, 2012 presidential decree on measures for implementation of the demographic policy of the Russian Federation⁹ and the 2014 state family policy concept of the Russian Federation to 2025¹⁰, stimulating fertility has become a central element of socioeconomic policy in the country. In 2007, welfare payments for those on parental leave caring for children up to 1.5 years of age were increased considerably. Benefits were introduced for non-working women, and pre-school costs were reduced. An innovative incentive known as “maternity capital”—originally approximately US\$10,000 for those bearing a second child (or third and more, if the birth of the second child occurred before 2007)—was introduced. (Numerous specialists and politicians argued that this maternity capital had a non-negligible positive effect on Russian fertility rates.¹¹) All these financial measures were indexed annually for inflation, which is unprecedented in Russian history. The regions also added their own benefits, including monthly financial allowances for children and maternity capital for the third child.

The 2014 family policy concept states that “[t]he main priority in the successful development of the country must be the strengthening of the family as the foundation of the state”. On this logic, the Russian family requires an intensification of society’s paternalistic forms of care, returning the family to its erstwhile institutional status and functions. There is a general policy presumption that the modern Russian family is beset by a concentration of social ills affecting the reproduction and socialisation of younger generations. Moreover, the family serves as the main source of problems for all other social institutions and systems, including in the macroeconomic and political spheres. As such, state family policy becomes crisis policy, justified

by geopolitical, economic and social realities. The leitmotif of such an approach is the idea that social support for the family entails transformative payments for services related to the reproduction of human resources in order to advance demographic growth, the geopolitical security of the state and stable national economic and political development. And such social support is guaranteed increasingly only to those families that adequately fulfil the said reproduction and socialisation functions.

Human capital is not emphasised in the family policy concept. The “ideal” family is based on a married couple, officially wed, raising many children and sharing “traditional family values”. States the concept of family policy document: “The large, extended family in traditional Russian family culture was always based on [...] close interrelations between several generations of relatives”. Historically unfounded, this statement reflects an idealised vision from a mythical past that the authorities hope will be revived as the dominant societal idiom. To be sure, other types of families and marital-partner relations may also become targets of politics and potential recipients of state assistance, but the degree of support they would enjoy would depend on their conformity to normative criteria—that is, consistent with the family concept document’s emphasis on the need, as a matter of policy priority, “to affirm traditional family values, revive and preserve spiritual-moral traditions in family relations and childrearing, create the conditions for families’ prosperity and responsible parenting, increase parental authority in the family and society, and increase the social stability of each family”.

The Russian state’s approach to demographic and family policy is not new. Indeed, it was the dominant approach of developed countries from the end of the nineteenth century through to the middle of the twentieth century. Between the world wars, when questions of national identity were central to the policy challenges of European states, politicians and totalitarian regimes sought out similar policies, embedded in militant nationalism and traditionalism, as an answer to their demographic, socio-economic and geopolitical challenges. Pronatalism played a central role in these policies. In the Stalin period, as mentioned, the USSR also adopted a conservative ideology and pursued active state intervention in family life, essentially using the same slogans and pronatalist policy instruments as other European countries, Japan and many South American countries.

What distinguishes contemporary Russia from this global history is that the country has made a 180-degree turn by rejecting the ideological constructs of the Gorbachev, Brezhnev and Khrushchev periods.

Its current family policy moves along the vector of the Stalin period, reflecting elements of a religious worldview and regulating behavioural practices through slogans invoking the development of “traditional values” and “moral purity”.

To be sure, this approach to family policy has not been well received in Russian intellectual circles—particularly those exercised by gender studies, anthropological studies of family and reproduction, and also family law. Indeed, legal analysis of the basic articles of the family policy concept exposes its contradictions with several articles of the Russian Constitution, as well as with international legal norms and principles. Consider, as just one example, the official equation between the concept of “family” and official marriage, resulting in discrimination against other forms of families, which has been condemned by the European Court of Human Rights. Moreover, in promoting top-down changes to revive “traditional family values”, the Orthodox Church has introduced religious ideology into family politics and is eroding the secular character of the Russian state, as affirmed in article 14 of the Constitution.

WHAT'S TO BE DONE? FOCUS ON THE FUTURE

Globally, all historical attempts to redesign family structures have led to tragic consequences for the individuals and families involved, not to mention longer-term pathologies like public distrust of state institutions and citizen estrangement from political decision-making. Indeed, the substantial diversity shaping contemporary families anticipates the impossibility of reviving earlier norms of family life. Instead, successful family policy must aim to transform the institutional constraints shaping people's lives, creating favourable socioeconomic and moral conditions for prosperity in a fast-changing, post-industrial, globalising world. Such social policy aims to strengthen human capital development within the proper spheres of responsibility of most families, particularly in health and education.

As Russian families confront the challenges of an ageing population, shifting approaches to intergenerational interdependence, increasing ethnocultural diversity, and economic complexity, they would benefit from family policies that maximise their ability to advance and realise their self-defined interests. And given the unpredictable ways in which families will address their many roles and tasks, modern family policy is best when

it is designed to support people's individual choices in respect of marital-partner relations and childbearing.

The Russian state must respect the population's growing preference for an urban lifestyle with two-income, two-children households. Policies must stop conceiving of the population in general, and the family in particular, as resources for solving the state's economic, political and geopolitical problems and also must stop promoting the obsolete ideal of three- and four-children families. Does the Russian family exist for the Russian state or does the Russian state exist for the Russian family? Let us put this false dichotomy and debate to rest.

Russian family policy should be built on the principles of individual autonomy and the sovereignty of the family vis-à-vis the state. It should be based on the expectation that families take responsibility for their members' welfare and that social protection will be afforded to each individual and to various social partnerships between individuals, local communities, non-governmental organisations and the state. Moreover, historical and contemporary experience teaches us that Russian policy should take special care to recognise social and regional differentiation as well as the country's significant ethnocultural heterogeneity, all of which conduce to an array of often incompatible family ideologies.¹² The ultimate expression in public policy of these conflicting family ideologies should be determined only through continuous, open societal discussion.

In practical terms, Russian family policy should shift from financial incentives like baby bonuses to more complex, long-term, targeted and tailored measures of support for different types of families in various socio-economic circumstances. These include measures to facilitate a family-friendly environment that promotes gender equality in work and family responsibilities and long-term savings by all work-capable people in the interest of supporting children and ageing adults.

Finally, to the greatest extent possible, Russia should avoid setting numerical demographic and family policy goals. Methodological imperfections in statistics and inevitable biases in their interpretation make numerical precision in such statistical indicators elusive. *Bref*, it is, in principle, impossible to establish governmental objectives for the purpose of engineering a population's demographic behaviour. And yet, for now, Russia remains one of a very small number of highly ambitious countries that has set itself up to pursue such numerical demographic goals.

NOTES

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Criminal Justice

Leonid Kosals and Sergey Pavlenko

RUSSIAN CRIMINAL JUSTICE: LIMITED PREDATION AND IMPLIED ETHICS

In principle, Russia's criminal justice system must contribute to the country's social integrity and equilibrium as it transitions from its Soviet past and reckons with the challenges of the twenty-first century. And yet in Russia, as in most of the post-Soviet states, instead of being used as a means of producing public good, criminal justice has, in the main, become a vehicle of institutional overturn. In other words, in its overall logic, Russia's criminal justice system to this day generally subordinates the quotidian safety and security needs of the public to the overall (implied) objective of protecting the national political system and the political-economic elite.

Although there was an attempt to establish a system of bona fide checks and balances and build an independent judiciary at the start of the socioeconomic and political transformation in 1990s, the structure of Russian criminal justice was not radically reformed at the end of the Soviet

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project. The major government decrees of the early 1990s were largely silent on the fight against crime and on overall reform of the criminal justice system—save for passing references to fighting economic crimes like tax evasion and illegal currency operations. Indeed, criminal justice and law enforcement would not return to the national policy agenda until the middle of the first decade of the 2000s.

The police, the prosecutorial and the prison systems were not reformed and changed only marginally during the 1990s—changes that were typically spontaneous and bottom-up, in response to severe economic pressures. For their part, the various players in the criminal justice system—the police, prosecutors and, among others, judges—trapped between professional duty and the basic need to survive, over time shaped the “limited predatory system” that today characterises Russian criminal justice. This “predation” was limited or constrained by government sanctions and, perhaps just as potently, the extant informal (cultural) code of ethics observed by criminal justice actors.

THE STRUCTURE OF THE RUSSIAN CRIMINAL JUSTICE SYSTEM

The Russian criminal justice system comprises 8 major organisations: the Ministry of the Interior, the National Guard, the Ministry of Justice, the Office of the Prosecutor General, the Investigative Committee, the Judicial System (see Chap. 31), the Federal Security Service (FSB), and the Federal Protective Service (FSO).

In 2016, President Putin implemented a major reform of the criminal justice system by establishing the new National Guard (or the Federal National Guard Troops Service). Despite its scope, the reform was not at all discussed, in its prefatory phases, with the public or even with the law enforcement community, in contrast to far less important changes to the system, which are usually anticipated on the websites of the Ministry of Interior and other ministries. The principal goals of the National Guard, apart from supporting (together with the Ministry of the Interior) order and security in general, are to implement a state of emergency (if declared by the President) and to fight against terrorism and extremism. For all practical intents and purposes, then, the National Guard was created to counter public protests and riots. Viktor Zolotov, past head of the personal security service for the President and, until 2013, deputy director

of the Federal Protective Service, was appointed director of the National Guard, which is overseen directly by the Russian President.

To establish the National Guard, several departments (and some 400,000 personnel) were excised from the Ministry of Interior, including the Internal Troops, special forces (e.g. OMON and SOBR) and also the “Okhrana” Federal State Unitary Enterprise, a state company providing various security services to public and private clients. Meanwhile, for context, according to Ministry of Interior statistics, the total number of terrorist and extremist crimes in Russia in 2015 was 2839 (mostly in the North Caucasus), while the number of crimes connected to illegal arms was 26,900 in 2015. We might therefore infer, *prima facie*, that the new National Guard employs too many officers with too little work to do. Given the economic crisis in Russia at the time of this writing, one can conclude with some credibility that this key reform is manifestly not driven by considerations of economic policy.

For its part, the Ministry of Interior (905,000 people) is supervised by the President. It fulfils regular policing functions at the national, regional and municipal levels. During the creation of the National Guard, while some departments were removed from the ministry, others were added to it. These included the Migration Service (42,000 employees—to be reduced by 30 per cent, according to the presidential decree) and the Federal Drug Control Service. The Ministry of the Interior also includes a department of public safety, traffic police, criminal investigation, anti-extremism and, *inter alia*, anti-corruption functions.

The Ministry of Justice, also operating under the President’s supervision, includes the Federal Penitentiary Service (296,000 people) and the Federal Bailiff Service (76,000 people). As of May 2016, there were some 653,000 prisoners in the national prison system—a fall by a factor of 1.6 from 2000, when the amount of prisoners exceeded 1 million. Regardless of the various policy reasons underlying this trend, this net decrease is arguably one of the major achievements of the Russian criminal justice policy in the early twenty-first century.

The Office of the Prosecutor General includes the military, regional and municipal public prosecutor offices and a workforce totalling 48,000 employees. It oversees the implementation of laws, represents the state in the courts and coordinates the fight against crime with other players in the criminal justice system. A prosecutor can open and close a criminal case and can confirm the decision of an investigator to open a criminal case. Notably, the Office of the Prosecutor General does not report to any of

the branches of the Russian government (executive, legislative or judicial) and is not formally supervised by the President.

The Investigative Committee is supervised by the President and focuses on major crimes such as homicides, organised crime and elite corruption. (Lighter crimes, like small theft, are investigated by the investigative department of the Ministry of the Interior.) The Committee has some 21,000 employees. In spite of its small size, it is, in political terms, a very influential entity, as its head (at present, Alexander Bastrykin) has the prerogative to open or close investigations against even high-ranking executives and people in business, law enforcement and politics (subject to the confirmation or rejection of such decisions by a prosecutor).

The judicial system, which employs 34,000 judges, is composed of the Constitutional Court, the Supreme Court (which supervises courts of general jurisdiction), commercial courts and military courts (see Chap. 31). Each of these courts has a number of regional divisions. According to the Constitution, the judicial branch is independent of the legislative and executive authorities, including the President. However, in practice, there exists in Russia, as in most former Soviet states, a so-called telephone law, according to which powerful economic and political actors can exert an informal or implicit influence on the courts.

The Federal Security Service (FSB) employs between 150,000 and 350,000 people. The President supervises its overall operation. The FSB has almost boundless prerogatives, including in respect of intelligence, counterintelligence, anti-terrorist activity, fighting crime, information security and also border security, all under the broad aegis of providing security (with deliberate definitional vagueness) for Russia (see Chap. 14 on National Security). It can operate inside and outside the country and also duplicates the functions of many other law enforcement agencies. For example, the FSB houses a department of foreign intelligence that overlaps with the entire Foreign Intelligence Service. Anti-crime and anti-terrorist functions are also housed in the Ministry of the Interior. Moreover, the FSB's investigative department has a similar function to that of the Investigative Committee. Of course, the FSB's operations are, by definition and implication, far broader than regular law enforcement operations, all according to the general logic of subordinating criminal justice to, and embedding it within, a general security agenda.

The Federal Protective Service (FSO) is the special service for the protection of Russia's political elite. It was established on the basis of the Ninth KGB General Directorate, which protected the old Soviet political

elite. Supervised by the President, it provides direct protection services (physical, informational, protection of homes and offices, etc.).¹ The number of FSO employees is formally unknown, although some estimates have it at between 10,000 and 30,000 people.

All these closely interconnected players shape the unified system of criminal justice in Russia, even as they are all guided by different objectives. According to many studies, their behaviour is regulated by a so-called *palochnaya sistema*—that is, a system of quasi-central planning based on performance indicators. This system invariably creates distorted or perverse incentives, with all actors trying to deliver quasi-plans and meet the normative indicators, most of which relate to the percentage of criminal cases solved. As such, the actors in the Russian criminal justice system often collude to reject prima facie “difficult to solve crimes” and privilege “easy cases”.

Another closely related consequence of the *palochnaya sistema* is that the criminal justice system often turns a blind eye to the flaws of various criminal investigations, including those premised on ill-defined accusations. Russian criminal courts therefore produce a very low quantum of acquittals (only 0.3 per cent)—typically a function of the general “accusatory bias” embedded in the system, in which innocent but socially disadvantaged people are often convicted (or are more susceptible to conviction), not least because it is much faster and easier to convict people of low social status (i.e. the unemployed, ex-prisoners and the homeless) in order to meet higher performance indicators. At the same time, those who commit crimes in what the system may deem “hard to solve cases” often evade the criminal justice net, given that such cases tend to hurt performance indicators.

Bref, the criminal justice system is structurally disposed towards wrongful convictions, on the one hand, and often ignores many crimes (that are otherwise unregistered), on the other. And yet, according to Sergei Inshakov, the majority of crimes in Russia remain latent—that is, they are either unreported or are not properly processed by the police when reported. Indeed, by the end of the first decade of this century, only approximately 12 per cent of total crimes committed in the country had been registered by the police and included in the official statistics of the Ministry of Interior.² Inshakov suggests that less than 3 million crimes were registered in 2009, while 23 million were actually latent. Since 2009, according to official police statistics, the situation has only deteriorated, with the number of reported crimes constantly on the rise and the quantum of registered crimes falling (with police refusing increasingly to register crimes, performance indicators oblige).

Having said all this, the overall crime rate in Russia, as a country in transition, is neither extraordinarily low nor extraordinarily high: it is comparable to that of countries like Bulgaria, Romania, Latvia and others. In 2014, for instance, the Russian crime rate was 701 per 100,000 citizens, compared to 526 in Belarus, 1064 in Romania and 941 in Slovakia.³ And yet, for proper context, the huge Russian criminal justice system described in this chapter cares little, *de facto*, about “regular” crimes—a neglect that increases over time, with the number of reported crimes rising as the number of registered crimes decreases.

Why such neglect? It is certainly not because the Russian criminal justice system employs underpaid and poorly equipped officers: indeed, between 2008 and 2015,⁴ there was unprecedented growth in state funding of law enforcement. Federal budget spending during this period on all police forces and personnel in the country grew, in nominal terms, by a factor of 3.4, and twofold in purchasing power parity terms. It must follow, then, that much of the explanation for the system neglect must lie in the existence of the aforementioned undeclared, implied goals within the criminal justice system itself.

In fact, let us propose that though there are no formal laws that regulate the hierarchy and subordination of the various players in the Russian criminal justice system, there are, in practice, particular implied hierarchies and specific types of subordination that shape the formal and informal interactions between these players. These informal hierarchies are reflected in the legal culture of the public as well as in the professional subcultures of the other players in, and as part of, the criminal justice system. As such, the employees in the 8 organisations and numerous suborganisations of the criminal justice system have tacit knowledge of the real importance and true authority of each entity. Evidently, it is this tacit knowledge that allows these players to understand and appreciate the actual restrictions on their behaviour and the proper scope of their prerogatives. Consider, for example, that the FSB, which already enjoys an outsized role in the criminal justice system, can, on the strength of these informal understandings, investigate crimes committed by police officers; the reverse, of course, is impossible—and this is broadly understood and accepted within the system.

Between 2008 and 2015, there was an unexpectedly high level of federal spending on high policing (FSB, FSO, internal troops and special forces). This spending represented 88 per cent of total police expenditures for this 7-year period, whereas the number of high police

officers in the country is no greater than a third of total police effectives. In other words, two-thirds of the regular police officers—those involved in “low policing”—received slightly more than a tenth of the entire policing budget, betraying a near-total official neglect for the daily security of Russian citizens in favour of the protection of the political elite and the extant political-administrative system more generally.

WHAT’S TO BE DONE?

As stated at the outset of this chapter, the Russian criminal justice system, in its structure and logic, is little exercised by the daily safety and security needs of the Russian public, focusing instead—again, in structure and logic—on the protection of the political system and elite. Low policing accordingly suffers from a lack of funding, and “low” police officers are overwhelmed by paperwork, bureaucratic formalities and activities that are often far removed from, or peripheral to, the fight against crime (including rent-seeking and pursuit of the fruits of the perverse incentives described above). More generally, low policing is controlled by the security intelligence organisations, not least through implicit and informal understandings in the culture of the justice system. All these factors naturally lead to a Russian population that overwhelmingly does not trust the police, fails to report many crimes and often tries to solve crimes on its own (i.e. resorts to self-help and self-defence).

Needless to say, the Russian criminal justice system must be reformed. However, major reforms may not be entirely possible under the current political system—so entrenched is the symbiosis between its survival and the justice system in its present logic and structure. But if there were a serious reform push, the starting point surely must be to change the global goals of the system—to wit, to move from the protection of the political regime and elite to the daily security and safety of Russian citizens. This, in turn, would create the opportunity for critical organisational and financial changes. The subordination of the police to the FSB must end. The number of officers involved in high policing must be radically reduced, releasing much-needed funds for regular policing. Other key organisational innovations should include the decentralisation of national policing and, before long, the creation of proper municipal police forces. Indeed, in the context of the longer-term decentralisation of the entire justice system, the “senior” or main laws and most critical functions—national security, organised crime, inter-regional and international

crime—should remain in the hands of the central government in Moscow, while the remaining or residual functions should be delegated over time to the regions and municipalities.

For its part, judicial reform must aim to ensure and consolidate the independence of the courts. Penal reform should finally eliminate whatever remains of the Soviet Gulag legacy, including so-called carceral collectivism and numerous excessive restrictions on prisoners, in order to humanise the system and introduce modern best practices into Russian criminal justice, including restorative justice.

This is a strategy of transformation. Among the immediate changes feasible in the current conditions—that is, doable without radical systemic changes or substantial increases in funding—might be the development of deeper cooperation between the police and the public on the ground, at the level of beat cops and local communities.

Of course, any change in the nature and practices of the criminal justice system must be led or preceded by a change in the legal culture of the system's officers and employees. For now, police culture, penal culture and the other professional subcultures within Russia's criminal justice system continue to betray the accumulated shortcomings of earlier stages of systemic transformation—with conspicuous biases inherited from the recent Soviet past, when the value of individual human life was very low. *Bref*, the structural transformations and the change in legal culture must put humans and human rights at the centre of all criminal justice procedures and experiences. This will require comprehensive reformatting of the education regime for legal professions, including civilianising the police forces to a far greater degree. And this must evidently be supported by a reformed ethics code and modern recruitment and promotion practices. All of this—even the starting pangs of reform—may well take at least a decade or two, but it will at least begin to lay the foundations for a twenty-first century Russian criminal justice system that, at long last, has a human face.

NOTES

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3. <http://data.unodc.org>
4. Authors' calculations based on federal budget data between 2008 and 2015.

PART III

Russian Administration: State
Institutions, Structures and Processes

The Bureaucracy

Vladimir Yuzhakov and Elena Dobrolyubova

FROM SOVIET INHERITANCE TO RESULTS-BASED ADMINISTRATION

The complex state apparatus and administrative practices of modern Russia were inherited from the Soviet Union. To be sure, by the end of the Soviet Union, the Soviet leadership already saw state (public) administration as a major factor in that country's general economic slowdown (and growing crisis), low labour productivity and the general national lag in scientific-technical progress.

Between 1991 and 1998, as Russia—now in its post-Soviet integument—began to transition to a market economy and a multiparty political system, public administration was both the central instrument and object of the country's first-generation transformations—through large-scale privatisation of state assets and the creation of the various institutions, relationships and powers of state required by a new market economy and, more generally, by the new Russian Constitution of 1993.

By the end of the 1990s, there was already a frantic search for paths to improve national public administration, including through the study of new models of public administration and best international practices. The key reform vectors targeted the civil service, budgetary processes

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and administration more broadly. Within these reform efforts, those pushes that aimed consistently for well-defined outcomes, such as improving the quality of public administrative services (e.g. issuance of passports, tax filings, and property registration), ultimately proved more successful than reform efforts lacking performance orientations and expectations (e.g. functional optimisation and inspections reform).

In this chapter, we argue that, at the present stage of Russia's post-Soviet administrative evolution, there is a clear need for a transition to a new model of public administration—to wit, results-based administration. This model, which in the past has been seen as but one element of Russia's "new public management" reforms, would require systematic, constant focus on achieving results at all phases of the country's administrative cycle—planning, execution, monitoring and assessment.

THE PACKAGE OF RUSSIAN PUBLIC ADMINISTRATION REFORMS

In the second half of the 1990s, there was an apparent official understanding that, alongside the transformation of state administration, it was necessary to finetune the country's administrative mechanisms and instruments and discover modern technologies and systems—including, evidently, those used successfully in other countries. This work was accelerated by the 1998 financial crisis in Russia, resulting in a complex of measures focused on improving the national business climate and increasing the quality of state institutions. Some of those measures, including partial deregulation and legislative and tax changes for small business, were operational and tactical in nature, designed to help the country overcome the crisis with speed. Other measures were more strategic in nature. These included the push against excessive state regulation in the context of the transition to a market economy (e.g. property rights, fostering competition, and banking and financial regulations), as well as the tailoring of state administration to specific spheres of activity (e.g. education, health care and pension reform).

A package of public administration reform measures was also created. By the middle of the first decade of the 2000s, these measures were grouped into 3 species of reforms: civil service reform, administrative reform and budgetary reform. These reforms were meant to tackle *prima facie* problems, as diagnosed within Russia and also in various international assessments of administrative effectiveness and efficacy, which generally

determined that Russian public administration did not correspond to the pace and standard of economic development in the country.¹ Specifically, the 2004 data from the Governance Research Indicators Country Snapshot concluded that Russia was (and remains) significantly behind developed countries in terms of the ease of doing business, protection of property rights, favouritism among civil servants, independence of the courts, regulatory effectiveness, simplicity of administrative procedures, the presence of administrative barriers, corruption and the predictability of state regulation more generally.

According to sociological surveys, in 2004, only 14 per cent of Russian citizens were satisfied with the quality of public administrative services, while 70 per cent rated the activities of civil servants as ineffective.² These scores did not surprise: only 26 per cent of federal civil servants surveyed noted the existence of specific performance requirements,³ while the 2002 average wage in the federal executive branch exceeded per capita GDP only by a factor of 1.21. On this last metric, Russia was evidently well behind the countries of the OECD, Eastern Europe and Latin America,⁴ with low public remuneration restricting the potential of attracting highly qualified staff, while significantly depressing civil servant motivation.

The goals and content of the *civil service reform* push were set by the President in 2001. They included increasing the effectiveness and efficiency of the civil service and developing highly qualified public administration cadres. Its fundamental vectors were to raise the prestige of the civil service by improving compensation levels; reduce the (unnecessarily high) number of civil servants; regulate the work of civil servants by introducing position regulations (detailed job descriptions); develop effective technologies—including information and communication technology—to enhance the effectiveness and efficiency of civil service operations; improve the quality of public services; promote operational openness within the civil service; develop anti-corruption mechanisms; and introduce external accountability to citizens and civil society. Nearly all these vectors are, to this day, still part of the reform agenda of the country. And of these, the reform areas that have progressed most include the improvement of public service delivery, the implementation of e-government and the push to enhance the general prestige of the Russian civil service. Nevertheless, areas like anti-corruption and civil service effectiveness and efficiency continue to trail.

Administrative reform began in 2003. Its goals were to increase the quality of, and access to, public administrative services; limit state

interference in the activities of business, including by lowering administrative barriers; and increase government effectiveness in achieving performance outcomes. The fundamental vectors of administrative reform included the introduction of principles and procedures for results-based management; regulation, standardisation and improvement of the efficiency of public administrative services and functions; optimisation of the structure and functions of the executive branch, including cutting red tape and reducing administrative pressure on business; development and introduction of mechanisms to prevent corruption in public administration activities; enhancement of the effectiveness of government cooperation with citizens, business and civil society; and expansion of transparency in public administration and the modernisation of access to government information. Implementation of the administrative reform, in its multiple parts, has been extended several times over, and most of its vectors remain relevant to this day, at least for the medium term.

The *budgetary reform* was launched in 2004, when the conception of the reform of the budget process for the 2004–06 period was approved by the government. The goal of the reform, which was and continues to be rolled out through a number of programmes, was to create the conditions for effective administration of state (municipal) finances in accordance with the state’s policy priorities. The macro orientation was to change the emphasis of the budgetary process from the strict administration of budgetary resources to “results-oriented budgeting”. The fundamental vectors of the reform were: reform of fiscal classification and accounting; proper identification of fiscal commitments; improved medium-term fiscal planning; the streamlining of the procedures for preparing and reviewing the budget; introduction of performance budgeting in budgetary planning; and, from 2010, a transition to programme budgeting, in which budget expenditures are allocated to specific state programmes, rather than to traditional functional items not linked to any particular outputs or outcomes.

The 2012 presidential decree on the improvement of the system of public administration played an important role in determining the priorities for the implementation of some of the aforementioned reform vectors. For the civil service reform, for instance, timelines were established for the creation of objective, transparent mechanisms for selecting candidates for specific public service posts. For the administrative reform, stricter demands were set in respect of the quality of public administrative services. And while the decree did not have any specific targets of relevance

to the budget, the President, in his annual Address to the Federal Assembly, has continuously supported performance-based budgeting and state programmes.

The various reforms needed specific performance indicators. For the civil service reform, an index of citizen trust in civil servants was created to measure public perceptions of the civil service as a whole, based on sociological surveys. Administrative reform targeted an increase in the proportion of recipients of public administrative services who would be satisfied with the quality of these services (with a goal of up to 90 per cent satisfaction by 2018), a decrease in the average queueing time in applying for these services and a rise in the proportion of citizens receiving services in electronic form (with a goal of at least 70 per cent by 2018). Specific targets were also set to improve Russia's international rankings for the quality of state administration. For their part, most of the budget reform programmes were based on qualitative rather than quantitative indicators, with the few quantitative barometers aiming to grow the share of federal budget expenditures allocated to state programmes (to over 90 per cent) and to improve Russia's position in the international Open Budget Index.

In parallel with the three main public administration reforms (civil service reform, administrative reform and budget reform), some additional public sector reforms were carried out, including precise delineation of powers between the federal and regional levels of government (e.g. the delegation of federal power to the regions—in 2007–08, in forestry, water resources, labour market and other areas); local government reform, introducing two layers of local self-governance (municipal district level and settlement level); tax and customs administration reforms; and reform of the country's law enforcement agencies (see Chap. 29 on Criminal Justice). The success of these reforms has depended significantly on both the commitment of leadership and, to be sure, the capacity of the state to manage complexity. For instance, tax administration reform, which benefited from a committed team and was implemented entirely within one federal authority (the Ministry of Taxes and Duties, later transformed into the Federal Tax Service), has been among the most successful of these supplementary reforms: business process reengineering and the broad use of information and communication technologies, with continuous emphasis on improving performance, have made Russia's tax administration one of the most efficient executive bodies in the country. By comparison, the various decentralisation reforms have met with mixed results: indeed, the local

government reform has, at the time of this writing, been reversed due to a patent dearth of tax revenues at the municipal level.

ASSESSING THE PUBLIC ADMINISTRATION REFORMS

Russia's public administration reforms have now been in the implementation phase for over a decade. Most of the relevant laws have been passed, with the implementing regulations either adopted already or in the process of adoption. The prescribed institutions, instruments and mechanisms have been created or are being created. Decisions in respect of their strengthening, correction or elaboration are being made.

For the civil service reform, the key laws were adopted early on (i.e. the 2003 federal law on the system of state service, and the 2004 federal law on the civil service). In accordance with these laws, the practice of open competitions for filling civil service positions is being actively developed; regulations for positions (detailed job descriptions, in some cases with performance indicators) are commonly used; performance bonuses are being developed; ethics rules for civil service behaviour have been established and articulated (even if adherence to the rules remains a critical longer-term issue); a system of proscriptions, restrictions and obligations in respect of notices of corruption is being introduced, including for purposes of flagging and addressing conflicts of interest; and modern information technologies are being incorporated into civil service activities. In total, from 2003 to 2013, the implementation of the civil service reform included over 500 activities.⁵

For the administrative reform, instruments to plan and evaluate the performance of the executive bodies have been introduced and amended a number of times. The types of functions served by executive bodies have been specified, as have the conditions for introducing new functions—this in order to limit the potential for uncontrolled proliferation of such functions. A 3-level system of federal executive bodies has been established (federal ministries, federal services and federal agencies, with these categories somewhat blurred over time)—aimed at preventing conflicts of interest in the setting of regulations, in enforcement and in service delivery functions. Finally, there has been analysis of the entirety of the nearly 6000 functions of the federal organs of executive power, pursuant to which a large number of duplicative or superfluous functions were identified, with some of them subsequently removed.

To increase the quality of public administrative services, a law regulating their provision was adopted—to wit, the 2010 federal law on the

provision of state and municipal services. Standards and regulations were developed for the delivery of some 700 types of federal services as well as many services at the regional and municipal levels. Work on improving the quality of service delivery is underway, including limiting queueing times for service provision, and also rationalising or reducing the cost of certain services (e.g. reducing the number of fee-based services, removing requirements for the presentation of documents in applications for certain public services, introducing mechanisms for pre-trial pleadings and broadening the use of e-services).

Laws and regulations have been adopted to promote access to government information, increase government transparency and support citizen and business participation in policy development and implementation.⁶ An “open government” project is being implemented by the federal government to open up relations between the authorities and citizens and businesses. This initiative has helped to spur expert debates in various policy areas (such as inspections reform), even if its impact on the quality of government decision-making is thus far unclear.

To reduce administrative barriers, the practice of impact assessment for draft laws and regulations has been introduced both at the national and subnational levels. (Retrospective regulatory impact assessment is also being introduced.) In the fight against corruption, key federal laws have been adopted, including the 2008 federal law on combatting corruption, as well as the 2009 federal law on the anti-corruption assessment of draft legal acts. Anti-corruption prohibitions, restrictions and obligations for public servants are now formally in place, including the procedure for declaring and removing conflicts of interest and the procedure for declaring civil servant and other official incomes and expenses. Accountability for corrupt breaches has been strengthened. Finally, anti-corruption expertise is being brought to bear on the review and assessment of all draft legal acts.

In terms of the budgetary reform, the federal budget and most regional budgets are at present prepared for 3 years. Programme budgeting has been introduced in all regions and at the national level, where more than 50 per cent of expenditures are allocated among state programmes, with specific goals and performance indicators approved by the government.⁷

In reviewing the recent history and record of the public administration reforms, what is clear is that Russia has attempted to implement simultaneously reform activities that are based on different governance models. For instance, the strengthening of vertical hierarchical structures, the detailed

regulation of civil service roles and functions, and the introduction of meritocratic principles, are all characteristic of traditional rational-bureaucratic governance models. At the same time, the use of a client-based orientation, as well as aspects of performance management and programme budgeting, are evidently consonant with the new public management paradigm.

To be sure, a significant portion of the reform measures were not implemented consistently (for instance, only some recommendations of the 2002–03 functional review were implemented) or were otherwise adopted in simplified form. Various measures were insufficiently coordinated both at the planning and implementation stages. The outcomes of the reforms therefore vary *vis-à-vis* the performance indicators. Consider the improvements to the quality of public administrative services, which are well on track: in 2004, no more than 14 per cent of Russian citizens were satisfied with the quality of public administrative service delivery; in 2015, the rate of satisfaction reached 83.8 per cent; by 2018, then, the administrative reform target of 90 per cent satisfaction is likely to be met.

Progress on other vectors, such as optimising inspection and enforcement activities, and improving the business climate, has been less evident. The growth in Russia's scores in the ease-of-doing-business rankings (79th in 2006, and 40th in 2016) is to a large extent explained by the changes in the calculation methodology of the ranking. Some progress was made over the past decade on the various elements of the World Economic Forum ranking for global competitiveness: in 2015–16, Russia was ranked 45th, earning 4.44 points out of 7 (compared to 59th position and a score of 4.13 in 2006–07). At the same time, Russia's score for the quality of its institutions and the effectiveness of state administration, although increasing somewhat, remains material in depressing the country's overall score. Indeed, over the past 10 years, we note a direct relationship between Russia's position in the global competitiveness index and the quality of its institutions (correlation coefficient 0.885) and also for governance effectiveness (correlation coefficient 0.814). By comparison, we calculate a correlation between the overall score and the score for macroeconomic conditions and innovation that, at less than 0.25, is negligible.

Despite new legislation on inspections and regulatory enforcement activities and the concomitant decrease in the number of business inspections in the country, the challenge of optimising control and oversight functions and limiting their negative impacts on business has still not been adequately addressed. To this end, in April 2016, the government approved a “road map” for optimising inspection activities, which included

improvement of public control and oversight functions for its 11 priority projects. The initial measures, such as temporary exemption from planned inspections for small and medium-sized businesses in 2016–17, led to a clear reduction in overall administrative pressure on commerce—even if much remains to be done in order to introduce a risk-based, outcome-oriented system for the various inspection bodies. Still, the scant official attention paid to reducing the number and scope of government control functions, as well as to the potential use of regulatory alternatives, poses significant risks to the success of the “road map”.

The introduction of regulatory impact assessment (RIA) and the widening of channels for regulatory and administrative collaboration with business and civil society have for now not had any notable impact on the quality of regulation and the level of administrative barriers in the country. One could go so far as to declare that the quality of RIA in Russia remains unacceptably low. For instance, RIA in respect of road tolls for trucks failed to note any of the risks associated with this regulation. The implementation of the tolls saw multiple malfunctions and led to numerous protests by transport companies, and especially among small businesses. Having said this, a negative RIA is still not a serious barrier, in Russian public administration, to the growth of administrative barriers: consider that ministers who propose draft legal acts that would lead manifestly to increased administrative barriers often still act perfectly within the bounds of presidential and governmental decrees. Moreover, they carry no responsibility whatever for the outcomes of their decisions—that is, in terms of the administrative frictions they may go on to engender.

Measures to introduce performance-based management and budgeting, envisioned by the administrative and budget reforms, were meant to strengthen government accountability for results. There is, of course, a range of instruments available to plan such results (both whole-of-government and for line ministries). However, assessments of these instruments show that there is, on one hand, a gap between the normative requirements and the use of performance management instruments in practice. On the other hand, more effort is invested in performance planning than in evaluating outcomes and taking corrective measures based on such evaluation.⁸ Despite multiple attempts to introduce results-based budgeting, it is, at the coal-face, often the amount of funding available that determines or drives the result rather than the desired results providing the basis for determining the resources allocated. As such, assessing the results of any plan for a given period typically has little influence on future

funding. *Bref*, accountability for results, including the measures deployed in the reforms themselves, has still not become a dominant dimension of Russian public administration and the various reforms seeking to modernise it for this new century.

To be sure, expert assessments of the implementation of civil service reforms also show that the agenda has not yet been exhausted, and that, as we note below, most of the targets have yet to be reached.⁹ Consider that the number of civil servants in Russia grew from 6.7 million in 2003 to 7.5 million in 2015 (an increase of 12.5 per cent). While the more global problem of low pay for civil servants has been solved (at least in the central apparatus and in the regional executive branches), there remain significant differences in levels of pay for comparable work across the system. Indeed, the compensation regime remains extremely non-transparent and is nary reflective of individual and collective performance: for instance, in over 86 per cent of federal executive bodies, civil service bonuses depend on the subjective assessments of top officials, while performance levels account for only slightly over 30 per cent of civil service bonuses.¹⁰

PROSPECTS FOR REFORMING RUSSIAN PUBLIC ADMINISTRATION: WHAT'S TO BE DONE?

For now, there has, in our assessment, been insufficient attention paid to delivering the expected or targeted results of the various reforms. Instead, at the implementation stages, the variant typically privileged by the government authorities is the one that least disrupts the status quo. This, in turn, affects the efficacy of the overall reforms.

Analysis of the public administration reforms in Russia shows that the reform vectors for which performance management was used at the planning, implementation and assessment stages were relatively successful. This occurred, for instance, for the reform targeting increased quality for public administrative services. However, where attention to results was inadequate (or where targets could be evaluated formally), the results were more modest. *Bref*, if the results are not the product of constant attention—that is, if they are only “remembered” at the ex-post accounting stage—then achievement of the targeted outcomes is improbable.

In order to increase the quality of governance and deliver the necessary reforms, it is essential to transform the attitude of Russia's public leaders and bureaucrats vis-à-vis performance management. Performance management should be viewed not as one of many discrete elements

of a broader reform agenda (and a subject of formal reporting) but rather as central to daily Russian public administration activities, nationally and regionally, at all stages of the administrative cycle. On this logic, results-based governance would combine and strengthen the various advantages of the several existing public management models concurrently at play across Russia (i.e. rational bureaucracy, new public management, etc.). It could also be shielded to a far greater extent from political influence and instruments and may eventually be seen as a credible counterpoise to the idea of “the citizens for the state, and the administration for the administration”.

Of course, the transition from conspicuous spending and demonstration and trophy projects to results-based public administration requires uniform approaches to understanding governance effectiveness and outcomes. This includes the ability to differentiate among the results expected at different stages of administration—initial, intermediate and final. To do this, there is an obvious need to inventory the existing goals and performance indicators in Russia’s public administration system, as well as review and revise existing strategic documents.

As the country moves to results-based public administration, it must follow the “five balances” rule. First, it must observe the balance of interests among all interested parties (citizens, business, civil servants and others) in determining, planning, achieving and assessing results. Second, in setting the targeted results, there must also be a balance of interests in temporal terms, allowing parties to negotiate and establish strategic priorities and make tactical decisions. Third, the system must ensure a balance of accountabilities for achieving outcomes, while allowing for freedom to choose or *marge de manoeuvre* in the tactics deployed to advance particular outcomes. Fourth, there must be a balance (commensurability) between expected results and available resources, including human resources and cadres, financial and other assets. Fifth, there must be a balance between “reactive” policy (addressing problems encountered in-process) and “pro-active” policy (involving minimisation of risk).

Of course, national decision-making processes must also correspond to the deeper systems interest in achieving results. In particular, the introduction of matrix systems and expanded use of project management should be considered in Russian public administration. Similarly, incentives for achieving results should be calibrated to the desired results. This should include personal performance accountability for civil servants; consistent use of performance-related pay agreements and structures; expansion of

existing regimes of monitoring and results evaluation, not least through the use of a broader range of data sources in order to support objective assessment; and provision of timely information on results achieved and in respect of external factors affecting, for better or worse, the implementation of public policies.

To be sure, introducing results-based public administration requires overcoming narrow departmental approaches and reflexes and fostering a culture of teamwork. It requires a decisive move away from the common practice of advancing those reforms that least contradict the interests of top decision-makers and, consequently, have a negligible effect in advancing the objectives of the reforms. Whether this move—in its legal and logistical manifestations—can be engineered will determine the future look of Russian public administration. And such engineering will manifestly involve a huge mass of work in the coming years for the government and the country's expert and research communities all at once.

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The Judicial System

Sergey Pashin

THE SOVIET INHERITANCE

The judicial system of modern Russia is built on the inheritance of the Soviet system of justice. More precisely, the Russian system started with, and also borrowed from, the *fin de siècle* Soviet institutions (e.g. military courts and also state arbitration bodies-turned-commercial courts), adapted many of these, and added or invented new institutions—most notably the Constitutional Court—during the liberal transformation period in the 1990s. Nevertheless, the judicial system is still not fully formed or mature, and continues to serve, for all practical intents and purposes, as an integral part of the country’s power vertical.

Indeed, the structure of the Russian judicial community is highly reminiscent of the “Napoleonic” judicial system. It is organised according to a military-like vertical and populated principally by career judges whose career prospects are arbitrarily defined by top management. Independence is a fundamental value, but only formally so. In point of fact, the judicial system performs mainly pro forma or perfunctory functions, masking the true essence of the model, in which independent thought and action are, in practice, impossible. To enter service as a judge, a candidate passes through a strict selection process, which guarantees his or her political and

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cultural compliance with the ruling class and his or her general disposition to subordinate.

And yet, in order to become fully relevant, legitimate and effective this century, the judicial system must emerge credibly from this power vertical—not in one fell swoop, but gradually, with purpose. And it must, critically, over time, become populated to a far greater extent by judges and professionals selected from among free-thinking jurists anchored in Russian civil society.

THE STRUCTURE OF THE RUSSIAN JUDICIAL SYSTEM

As announced in the 1991 concept of judicial reform for Russia, in what was still the USSR, the Russian judicial system has 3 branches of courts: constitutional, general jurisdiction, and commercial. The courts of general jurisdiction and the commercial courts have corresponding divisions or analogues in the Supreme Court (Fig. 31.1).

The constitutional branch of the judicial system is represented by the Constitutional Court of the Russian Federation (comprising 19 judges, selected by the Federation Council, on the recommendation of the President), as well as the constitutional courts of the republics and the 20 or so regional courts.

For their part, the courts of general jurisdiction include the supreme courts of the republics, regional courts, courts in cities of federal significance, courts of the autonomous regions, district courts, city courts, inter-district courts and also magistrate courts. Military courts, too, are considered courts of general jurisdiction and carry equivalent powers—that is, they review all cases, save those reviewable by the commercial courts. The military courts include garrison and naval military courts.

In future, Russia may well create specialised courts of general jurisdiction. For now, however, discussions on the formation of administrative

PLENUM (does not review specific cases, but gives other courts advice on judicial practice)					
PRESIDIUM (supervisory-organisational body)					
APPEALS COLLEGIA (BOARDS or CHAMBERS or PANELS)					
Judicial Collegium for Administrative Cases	Judicial Collegium for Civil Cases	Judicial Collegium for Economic Cases	Disciplinary Collegium	Judicial Collegium for Military Affairs	Judicial Collegium for Criminal Cases

Fig. 31.1 The structure of the Supreme Court of the Russian Federation

and juvenile courts in particular have been without effect. At the start of 2016, there were 2390 federal courts of general jurisdiction in the country (including 2186 district courts), with some 22,851 judges, as opposed to the statutorily required 25,433 federal judges (a vacancy rate of over 10 per cent). There were also some 7652 justices of the peace—magistrates in courts of general jurisdiction, who review criminal and civil cases and cases involving administrative offences.

The commercial (arbitration) courts include 10 commercial courts of cassation in the okrugs; 21 commercial courts of appeal; and commercial courts of first instance in the republics, krais, oblasts, cities of federal significance, autonomous oblasts and autonomous okrugs. The court on intellectual property rights (founded in 2011) operates as a specialised commercial court. In total, at the start of 2016, there were 115 commercial courts in Russia, employing 3794 judges in lieu of the statutorily required 4142 judges (a vacancy rate of over 8 per cent).

All the judges of Russia are considered federal and are fully funded from the federal budget, with the exception of the constitutional (statutory) courts and the justices of the peace. The latter receive funding from the federal budget, but their material-technical activities are underwritten by the executive organs of the regions of the country, with the justice department of the Supreme Court, which generally oversees the activities of lower-level courts, also playing a key role in this regard.

THE JUDICIAL COMMUNITY OF RUSSIA

The 1992 law on the status of judges established a competitive selection regime for candidates for judgeships, instead of their “selection” by executive organs or, in the former Soviet idiom, by party committees. Any Russian citizen, aged 25 years or more, with higher legal education and at least 5 years of work experience in juridical processes, may write a special exam and then apply to the qualifications collegium (board or commission) in order to obtain a recommendation for a judgeship. Moral and medical considerations, while not mentioned in article 119 of the Constitution (on judges and judicial power), also play into the decision-making mix for judicial selection, while work experience and age considerations are more material for candidates seeking judgeships in higher courts.

The Russian President appoints federal judges, while, as mentioned, the Federation Council of the Federal Assembly appoints the judges of the Constitutional and Supreme Courts, on the recommendation of the

President. At the preliminary stages of a potential appointment, candidates are required to have a recommendation from the qualifications collegium and, informally, the blessing of the chairman of the Supreme Court.

Federal judges in Russia cannot, by law, be replaced or removed, except in exceptional cases of ethical breaches. (In practice, conflicts between a judge and a court chair can, at the margins, work against this *de jure* structure.) They may remain in their positions until the age of 70. Judges of regional courts, however, are appointed to specific terms, typically 3 to 10 years, as determined by the laws of the region in which they serve.

The backbone of the judicial system consists of the chairmen of the courts and their deputies, who translate state and departmental directives to lower-level colleagues. In 1996, these chairmen were granted lifelong tenure, thus becoming, *de jure*, irremovable bosses. However, in December 2001, this lifelong tenure was replaced by a 6-year term for chairs, for a maximum of 2 consecutive terms. In 2009, term and retirement strictures were removed for the chairman of the Constitutional Court, and similarly, in 2012, for the chairman of the Supreme Court and the chairs of the oblast and equivalent courts in the republics, krajs, cities of federal significance, autonomous oblasts and autonomous okrugs.

The power of the chairmen rests on 3 pillars: the power to assign cases among the courts; the right to commence disciplinary proceedings and inspections against judges; and a general influence on the career paths and privileges of judges. As intimated, criticism of court chairs is, for all practical intents and purposes, punishable through disciplinary sanctions and, in extreme cases, removal from duty.

To be sure, the judicial prerogatives of the chairmen of the courts constantly bump up against the delicate sphere of internal judicial procedures, which are driven by a bureaucratic logic. For instance, the order of the chairman of the central district court of Volgograd, on June 24, 2005, required judges to report, *ex ante*, to the chair of the district court on “criminal cases, where defendants are held in custody, [on] civil cases, where the parties are government bodies and officials, as well as on cases of public importance” in respect of the “correct application of legal norms of substantive and procedural law”. Having said this, it is still fair to say that judicial chairs do blunt—to some non-negligible degree, and, granted, non-systematically—the corrosive force of (unsanctioned) corruption on the Russian judicial system.

The chairmen of the regional-level courts exert a decisive influence on the overall composition and operations of the organs of the judicial

community of Russia, starting with the All-Russian Congress of Judges and the conferences of the judges of the regions. The main task of the organs of the judicial community is to select councils of judges and the qualifications collegia for judges. For its part, the All-Russian Congress passes normative acts: the code of judicial ethics, for instance, serves as the basis for the disciplinary prosecution of judges. Other forms of these central institutions of the judicial community include the Council of Judges of the Russian Federation, the Council of Judges of the Supreme Court and the councils of judges of the regions. These are all advisory bodies, although the Council of Judges of the Russian Federation is endowed by law with certain important rights and powers—notably, to consent to the appointment and dismissal of the director general of the judicial department of the Supreme Court, and also to participate in the federal budgetary process.

Let us also note, among the institutions of the judicial community, the higher examination commission, the examination commissions of the regions, as well as the general meetings of the judges of the federal courts. Of course, the most influential organs in the judicial community remain the supreme qualifications collegium of judges and the qualifications collegia of the judges in the regions. The qualifications collegia have broad powers: to render conclusions regarding the recommendations on a candidate for a judicial post; to decide matters relating to the suspension and termination of the powers of judges; to reverse the resignation or retirement of a judge; and, *inter alia*, to certify judges. The supreme qualifications collegium adopts various corporate normative acts and regulations. The qualifications collegia today comprise not only judges, as in the early post-Soviet years, but also a representative of the Russian President, with one-third of the collegia members made up of “representatives of the public” (jurists over the age of 35, who are not otherwise civil servants).

A CRITICAL LOOK AT THE RUSSIAN JUDICIAL SYSTEM

To be sure, the judicial system in Russia, as constructed, is facially impressive. An outside observer could be forgiven for concluding that the time for fundamental reform of the system had passed (or that all doable reforms had been achieved) and that what remains is only to correct or refine certain aspects of the system of judicial production and judicial behaviour and activities: equip the courts with computers, enlarge the smaller courts, carefully select and organise cadres, and provide judges with apartments and other privileges.

And yet the Constitutional Court itself has justifiably written about the “preservation of shortcomings in the sphere of legal proceedings”. Critically, national opinion surveys affirm that only 27 per cent of Russian citizens trust the organs of justice, while 38 per cent do not. Moreover, between 2001 and 2011, the number of citizen complaints against judges to the regional qualifications collegia grew by 112 per cent (from 19,000 to 40,500). In 2014, there were 37,490 such complaints, of which 36,594 were against judges of courts of general jurisdiction and 896 against commercial court judges. These numbers have remained fairly constant over the past 3 years. The Russian government has itself conceded: “At present, there exist a number of problems relating to the quality of justice, the length of judicial proceedings, the lack of awareness among citizens about the work of the judicial system, the unsatisfactory work of the courts, [and the] inefficient execution of judicial acts [...]”.

There can, of course, be a temptation to ascribe the persistence of these problems to work overload among Russia’s judges. In recent years, in the courts of general jurisdiction, at only the first instance stage, some 1 million criminal cases have been reviewed annually, as well as 17 million civil cases, 6.5 million cases involving administrative offences and 1.5 million cases in the commercial courts. The entire avalanche of cases has fallen on fewer than 35,000 judges nation-wide. As in other countries, “the judges of the communist era have not only been unprepared for the types of cases that appear in market conditions; their situation is further complicated by the fact that the volume of cases has increased significantly and sharply [...]”.¹

The extreme load on judges creates a systems demand not for intellectuals but for bureaucrats. In the judicial corps, there exists an “apparatus-bureaucratic subculture, the growth of which is explained predominantly by the recruitment of judicial cadres—in the main, young women from the court apparatus. These cadres have strengths in the workings and minutiae of an exceedingly bureaucratized judicial system, as they know how to prepare documents and are accustomed to a high workload, but [also] privilege qualities, like responsibility and discipline, that do not bear any especial relation to the judicial profession as such, but which are important for a subordinate in any large hierarchical organisation”.²

The load of judges has become one of the reasons for replacing the algorithm (*modus operandi*) for dealing with cases according to a

conveyor-belt, “sign-off” algorithm. At the same time, any sense or impression of meaningful justice is lost in the system, sacrificed to the speed of work and “smoothness” of paperwork. And yet, in nearly half the cases, the gears of the judicial machine spin idly, as the mechanisms linking justice to the executive structures (within the power vertical, still) are rendered unusable—in particular, through poor implementation of the decisions of the Constitutional Court: in 2014–15 alone, 17 of its decisions were not executed.³ Moreover, the “sign-off” (or “rubber stamp”) modus operandi is supplemented by a systemic “accusatory bias” in criminal cases and, to be sure, the default instinct of Russian courts to anticipate the desires and fulfil the orders of the authorities. In the latter scenario, judges “... do not decide. They execute”.⁴ As a result, legal proceedings are “a random, unreliable, inefficient instrument, failing to meet civilised standards”.⁵

PROBLEMS OF THE JUDICIAL SYSTEM

Of course, if the central issue is not workload, then many see the main problem of the judicial system as consisting in the fact that judges (or the overall judicial branch) have not acquired true independence. Said the former Moscow judge Olga Kudeshkina: “The state, as distinct from the public, is not interested in the establishment of a self-sufficient and independent judicial power. Because the state itself is often disrespectful of [the laws], and sometimes directly violates them. [...] The authorities always seek to subordinate the courts and law enforcement agencies, using them as tools to achieve their political, economic and personal goals [...]”.⁶ The stability of the Soviet model of justice in the post-Soviet period is tied, according to Vadim Volkov of the Institute for the Rule of Law (European University at St. Petersburg), to the fact that the “true operational logic of the law enforcement agencies, courts and other organisations entrusted with applying the law, is driven by forces lying beyond the definitions and prescriptions contained in the regulatory acts designed to frame their work”.⁷

Said Michel Foucault, to this end: “Power is tolerable only on the condition that it masks a substantial part of itself. Its success is proportional to its ability to hide its own mechanisms”. On this logic, any debate about the court’s lack of independence is belied by a far sadder truth: the main problem of the Russian judicial system is generated not by the volume of work for the courts or a general lack of resources but by the absence in Russia of a true separation of powers—that is, Russian judicial power and

justice are pure manifestations of this absence. This verity can be summarised in 3 theses.

First, the Russian courts are not so much a tool of executive power as an organic part—a joint or tendon, as it were—of the (executive) power vertical, differing little in composition and internal relations from the other blocs of the vertical. This is why the authorities, and especially the Presidential Administration, can so easily determine the fate of judges without opposition, even when deviating from constitutional norms. Perhaps this is only natural given the traumatic experience that shaped the original attitudes and values of the system in the aftermath of the dissolution of the USSR. Indeed, the most painful collective memory of Russia’s judges pertains to the period of “gradual constitutional reform”, when President Yeltsin suspended the activities of the Constitutional Court, bringing the country to the brink of civil war. The work of the Constitutional Court was only reinstated in February 1995.

Within the logic of the judicial community, judges who enjoy formally identical status are easily divided into bosses and subordinates, with the organs of justice often degenerating into punitive organisations. For instance, between 2001 and 2011, out of an average of 32,500 judges in Russia, 3408 were subject to disciplinary sanctions, 653 were terminated early and 2755 received warnings. In 2012, 12 judges were fired for defamatory reasons; in 2013, the number was 20 judges; in 2014, it was 24; and in recent years, about 20 per annum. In other words, every tenth judge in Russia has been penalised or disciplined in one form or another. Indeed, the pretext for vacating or constricting a judge’s powers is to this day exceedingly elastic—including, in one notorious case, for violating the rules of the road (driving), for which a fine of 100 rubles was issued. *Bref*, for judges, the erstwhile socialist system of distributing privileges (e.g. apartments and health care) has been preserved for the post-Soviet nomenclature, with sticks and carrots, in various combinations, securing the loyalty of judges to high-ranking officials and to the overall logic of the system.

Second, neither the judicial system nor the majority of Russia’s judges actually (truly) seek independence and the accountability that comes with it. In the culture of the system, it remains easier and more comfortable to judge according to patterns and directions than by intelligence and decency. An integral part of any organism, after all, cannot obtain “inde-

pendence” unless it is wholly amputated. In this sense, then, the success of the original efforts of the reformers to create a detached, self-regulating judicial corporation in Russia were more bitter than total defeat: the corporation was formed, but without the desire for freedom among its members (judges) it could not and did not become a guarantor of judicial independence. This corporation was cast according to a bureaucratic model and logic that are, for all practical intents and purposes, incompatible with the administration of genuine justice. As Evgeny Myslovsky, of the Presidential Council for Civil Society and Human Rights, rightly notes, “In Russia, a unique judicial system has been created, based on the corporate solidarity of the judicial community [...]. Over time, one gets the impression that practically all higher regional judicial instances operate according to the principles of the corporate ‘tribe’”.⁸

Third, in the hypothetical context of obtaining independence, the existing judicial system and its *de facto* servants would not necessarily be able to give Russian society true justice. Instead, the servants would likely continue to behave as bureaucrats. For judicial behaviour today is driven by the indirect or implicit demands of the security and executive structures and ministerial interests, substituting their legal consciousness for that of judges. As such, the chairman of the Moscow City Court conceded that “[w]hen it is the policeman’s word against that of the driver, we believe the policeman”. Her deputy also advised defence counsel, for the convenience of judges, to set out complaints on only 2.5 to 5 pages, as a more detailed complaint would be “meaningless, given that it usually cites the laws and past judicial decisions”. When assessing the progress of judicial reform, most of the 1402 judges surveyed in 2007–08 cited innovations that they fancied would protect human rights, but that were evidently motivated primarily by bureaucratic interests and sensibilities: the ban on relying on alibis (72.6 per cent of respondents), the abolition of collegiality in the judicial process (85.9 per cent), and, *inter alia*, the partial reading of verdicts (69.9 per cent).⁹

Indeed, the legal views of Russia’s judges today also bear the imprint of obsolete theories and literalism. Stated Vladimir Lukin, Russia’s Human Rights Commissioner: “There are constitutional principles of justice that have not affected the ‘mentality of significant segments of the judiciary’”. Moreover, particularly given the dearth of jury trials, judges do not express the legal consciousness and values of the people of Russia, something confirmed by sociological studies.¹⁰

NEW JUDICIAL REFORM

The rhythmic operations and reasonably adequate funding of the judicial system make it such that, in the eyes of the state and the judicial leadership, large-scale reform of the system is not particularly topical or pressing. As such, when the Council of Judges of the Russian Federation notes the “necessity of developing a state project for strategic transformation of the organisational-legal mechanism of national justice”, it is, in truth, referring to the optimisation of the work or operations of the courts, as well as improvement of the conditions of labour and pay for judges. *Bref*, the mechanics of the court continue to overshadow the perceived value of developing justice in Russia.

In the literature, of course, there are multiple views about the proper path to improving the judicial system. Restrictions on the powers of court chairs and even the introduction of elections for chairs are often mooted.¹¹ Some studies recommend the creation of a special service to deal with the courts, as well as the generalisation of jury trials. In my view, whatever the path, renewed judicial reform must come with 3 fundamental conditions: transparency of judicial activity, parallel structures for solving conflicts, and, to be sure, new blood in the system (underwritten by an honest personnel policy for the courts). Half-measures will only succeed in consolidating the role of the courts as conveyor-belt mechanisms or fora, solidifying the gap between the written and real constitutions in the context of a general authoritarian political logic. This situation certainly suits the authorities nicely but is patently unsatisfactory, if not altogether dangerous, for Russian civil society and for the freedom of the Russian people.

The ideological basis of any such judicial reform must confirm the proper understanding of the role of the court, articulated by the Russian jurist Pavel Lyublinsky over a century ago, as apart and even above the state, interested strictly in the law. Renewed judicial reform should return to the courts the idea of justice as a means of resolving cases, changing the technology of processing and passing off cases in favour of dispatching justice. Proper justice may not become the basic “technology” for solving millions of cases, but it must be accessible at first request to all sides, and no one should be able to replace it with proxies or surrogates. Critically, such transformations must be carried out *gradually and with care*, so as to ensure that the system is not pushed to collapse in virtue of the significant stresses of reform. While the appointment of Soviet-era judges to lifelong

positions at the start of the 1990s was clearly a missed opportunity to radically change judicial personnel in Russia, the logic of judicial reform today commends to the government not the dismantling or breaking of the system but rather its gradual improvement and reorientation or redirection, such that the judicial system becomes tolerable for judges and with the reforms not placing excessive burdens on the federal budget. This means that the current cadre of federal judges should remain in place.

The workload of today's judges must evidently be lessened, while at the same time giving them greater degrees of independence and the possibility of creativity in their work. To this end, the central thrust of any present reform, subject to the 3 aforementioned conditions, should be to supplement the extant corpus of career judges with "people's judges", who would deliver justice in turns, over 2 to 3 months a year, on a voluntary basis, with generous moral incentives from the state. To start, these people's judges or magistrates—the introduction of which would be entirely consistent with Russian legal traditions, given that they were used with some success in the tsarist period—could come from the ranks of Russian lawyers who are not members of the state and municipal service. Moreover, it would be sensible, in respect of the people's judges, to soften the educational stricture in article 119 of the Constitution.

People's judges must gradually assume similar responsibilities to those of federal judges and share the caseload with justices of the peace. They may, as such, play not only the role of honorary magistrates but could also sit in federal courts as assessors (advisers) in appellate instances. The introduction of people's judges should start at the level of justices of the peace, which would be noticed immediately—and in a positive light—by the population, given that a substantial percentage of the cases occur at the level of justices of the peace: in 2015, they examined 446,299 criminal cases (47.7 per cent of all criminal cases), 11,143,322 civil cases (70.5 per cent), and 5,768,226 administrative cases (87.3 per cent).

Federal courts, having cassation instances, could gradually refuse, in favour of regional courts, to review cases on the merits in the first and appellate instances. Of course, in various regions, the degree of penetration of federal principles into the judicial process is questionable: in some cases, district courts will continue to fulfil the functions of appellate instances, while in other cases their numbers will be reduced as they are displaced by justices of the peace.

In addition to introducing people's judges, it will be critical to ensure the possibility of jury trials for a far large number of criminal and civil

cases, such that representatives of the people may participate, as in tsarist Russia, in approximately 40,000 cases per year. If operationalized on a significant scale, jury trials could well influence the quality of preliminary investigations in criminal cases and also the conditions of plea bargains across the system and country. Indeed, federal judges could be rallied around jury trials as a major legal initiative that, in eventually becoming an everyday institution of the system, promises them professional development. Functionally, district or okrug-level courts could serve as the source or hub for this jury-trial innovation (something supported by the Constitutional Court), incorporating people's judges and alternative dispute resolution. Judges from different levels could come to the district courts to preside over jury trials.

Finally, additional funding should be secured for alternative dispute settlement mechanisms—in particular, mediation—under the aegis of the judicial system. Mediation between parties could be performed by both statutory and invited specialists as well as by retired judges.

We cannot anticipate in advance where and how, and with which intensity, these innovations will take root, and whether their impacts will be local or general. However, we can be certain that such reforms correspond to the constitutional foundations of a federal legal state and, to be sure, pre-Soviet Russian legal traditions. We can also be certain that with the support of the legal community, and without destroying the existing mechanisms the judicial system, these reforms can, in nudging Russian justice towards the ideals of truth and mercy, begin to address some (although indubitably not all) of the problems of the system while increasingly returning to judges the confidence and trust of their fellow citizens.

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Regional and Local Government

Natalia Zubarevich

DECORATIVE FEDERALISM AND POST-SOVIET RECENTRALISATION

According to its Constitution, Russia is a federal state—one of some 30 federations around the world. The nomenclature of the Soviet period—the Russian Soviet Federative Socialist Republic (RSFSR)—also characterised Russia as a federal system. In theory, federal regimes are meant to be more effective, in legal and administrative terms, in countries with large territories and high ethnic diversity—that is, federal institutional mechanisms can more flexibly broker conflicts and, more generally, manage relations among regional elites and populations. Moreover, federal constitutions enshrine in law the division of labour and resources between the levels of government in order to diminish the risk of intergovernmental conflict.

Of course, the built-in complexity of federal systems can only be fully appreciated in the context of real, rather than nominal, institutions. In this sense, even amid sincere intentions among certain camps to fundamentally restructure relations between the centre and the regions, Russia inherited much of its superficial—or “decorative”—federal structure from the Soviet Union. Under pressure from the regions, and especially

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from the republics, Russia began to create its own distinct federal institutions in 1993, including the upper house of parliament (the Federation Council)—intended to represent the interests of the regions—and, from 1994, a system of intergovernmental budgetary and fiscal relations with a reasonably precise division of responsibilities and resources between the centre and the regions.

In the early 2000s, there was a decisive political reversion to more superficial institutions, resulting in today's Russia being less of a real federation than was the case in the 1990s. Indeed, the 1990s are perhaps best understood less as a period of deliberate federalisation than one of *chaotic decentralisation*—a function of the contemporaneous weakness of the central government but otherwise critical to easing some of the multiple pressures of the socioeconomic crisis that befell the Russian territory after the collapse of the USSR. Bereft of the necessary political and financial resources, the “new” centre in Moscow held on to the regions by dint of ad hoc deal-making. In these ad hoc relations, there were no stable “rules of the game”. And yet, even without stable rules of the game, the game yielded clear winners—to wit, some republics, like Tatarstan and Chechnya, which received significant tax privileges and additional transfers from the federal budget; and also clear losers—to wit, most of Russia's regions.

The differences between Russian decentralisation in the 1990s and that of most developed countries are striking. In Russia, decentralisation was, as noted, necessary for the survival and preservation of central power rather than for purposes of increasing the effectiveness of public administration on principles of subsidiarity (the idea of giving powers and resources to levels of government that are closer to the people). The Russian regions, for their part, worked hard to obtain tailored privileges in their relations with the centre in lieu of fighting for optimal “rules of the game” in centre-region relations. This logic supported the advancement of short-term objectives (always dominant in Russian politics) but certainly not the promotion of the long-term stability of the country.

To be sure, this state of affairs was driven by the generally undeveloped or immature horizontal relations among the regions, between the regions and the centre, and also between governments and populations. All Russian intergovernmental coordination mechanisms—vertical and horizontal alike—were weak, in large part due to low trust, but also because of the very youth of the new country. Moreover, Russian decentralisation did not result in the development of internal market ties among the regions but rather in increased fragmentation of the national terri-

tory by dint of efforts to close off regional markets, restrictions on inter-regional exchanges, and increases in administrative rents—including the use of regional security services to block entry by outside businesses into particular regions.

At the end of the 1990s, renewed economic growth—on the strength of high oil prices—and advent of a new head of state set the stage for the reconcentration of central power. In the early years of the Putin presidency, regional barriers to business were lowered, while security forces were removed from the control of regional authorities. By the second half of the first decade of the new century, the country had fully re-established a hyper-centralised system of administration, which it has maintained to this day.

If this reconcentration of power was anticipated by the country's long-standing historical tradition of power centralisation and zero-sum politics, then the constant reproduction of a centralised model of government in Russia can also be explained by at least 2 essential factors: first, extreme inequality in the development of the national territory (across different regions)—itself due to huge variations in the size of the respective territories and populations of the Russian regions; and second, the location of key export-oriented natural resources, with leading oil and gas regions (e.g. Western Siberia) enjoying higher budget revenues and levels of development than other regions of the country. Let us add to this explanatory mix the low population density in the north and east of the country, the concentration of resources in a handful of Russian regions (Moscow, St. Petersburg and the said oil and gas regions), the small number of big cities in the country, underdeveloped infrastructure, the high cost of living in climatically inhospitable regions, the disproportionate rents enjoyed by Moscow (which hosts the Russian headquarters of all major companies), as well as the weak investment climate—especially in poorly developed republics like Chechnya and Ingushetia.

The level of economic development of Russia's richest regions (e.g. the Yamalo-Nenets autonomous okrug, population 43,000) is greater than that of the poorest regions (e.g. Chechnya or Ingushetia) by a factor of as much as 40–45 (or 22, if we control for price levels in the regions).¹ Evidently, these figures do not account for the considerable underground economic activity in the poorer regions. Moreover, inter-regional inequality is large only “in the extremes” (i.e. between the 4 or 5 richest regions and the dozen or so poorest regions), while in two-thirds of the regions the quanta for gross regional product do not diverge significantly.

Because large-scale regional inequality requires large-scale redistribution of resources (supported by redistributive policies), the central government is able to assert its dominance as the key national player in such inter-regional redistribution. Until fairly recently, the federal government believed that one way to address regional inequality was to enlarge or consolidate the regions. However, the several attempts over the years to reduce the number of regions through territorial consolidation have faced multiple obstacles, including resistance from regional elites and populations (particularly in the Russian republics); barriers of distance (with the administration of large territories requiring increased administrative resources); low connectivity among neighbouring regions (because of underdeveloped infrastructure); and the risk of certain large cities losing their rent-generating status as regional centres or capitals.

Russia's massive oil and gas rents are, in principle, centralised in the federal budget and thereafter redistributed. As mentioned, regional fiscal dependence on these rents has created a very large redistributive central state. In 2009, a year of economic crisis, transfers comprised up to 27 per cent of the consolidated revenues of the regions; in 2013–14, between 18 and 19 per cent; in 2016, 16.5 per cent. In 3 regions, the level of federal subsidisation in 2014 comprised over 80 per cent of budget revenues; in 4 regions, between 70 and 80 per cent; and in 6 regions, between 50 and 70 per cent.² In 2015, the level of federal subsidisation was over 80 per cent for 2 regions, between 70 and 80 per cent for 2 other regions, and between 50 and 70 per cent for 8 regions. *Bref*, the strengthening of central power in Russia has in part been “demand-driven”—a function of uneven development among multiple regions, significant differences in their taxes bases, and the need to support weaker regions. It has also been “supply-driven”, given the huge natural resource rents available for redistribution among the regions.

If the dependence of the federal budget on natural resources rents is well established, less appreciated is the gross inequality of contributions among the regions to federal budget tax revenues. Consider that, between 2012 and 2014, 28 per cent of all tax revenues in the federal budget originated from the country's leading oil region—the khanty-mansi autonomous okrug—10 per cent came from the yamalo-nenets autonomous okrug (the second most important oil and gas-producing region), 14 to 18 per cent from Moscow, and 5 per cent from St. Petersburg. *Bref*, taxes from these 4 regions—largely mineral extraction taxes and value-added taxes on consumption—comprised nearly 60 per cent of total federal tax

revenues. In 2016, with oil prices substantially diminished, contributions from Khanty-Mansi fell to 21 per cent, Yamalo-Nenets to 9 per cent, and Moscow to 15 per cent.

Administration of the regions themselves was also hyper-centralised: administrative powers and financial resources were concentrated in regional administrations in parallel with the general weakening of the economic and political roles of the municipalities. This clearly undermined the development of the country's big cities, which tend to concentrate human capital and, as mentioned, contribute disproportionately to national tax revenues. In the 2005 local government reforms, large or amalgamated cities acquired the status of "urban okrug". It was thought that this would make them more self-sufficient in budgetary terms. However, the result was just the opposite: control of tax revenues has been increasingly centralised. Only in 4 regions are urban okrugs still permitted to retain some portion of the corporate income tax collected on their territory; in all other cases, this money goes straight to the regional budget. Moreover, urban okrugs retain only 15 per cent of the personal incomes taxes they collect. The manifest consequence is that these okrugs have become increasingly fiscally dependent on regional budgets: transfers from the regions to the urban okrugs were as high as 57 per cent of total revenues in 2015, and 58 per cent in 2016.³ For the most part, these transfers are meant to supplement specific delegated powers in the regions, and also advance goals determined strictly by the regional authorities.

REGIONAL POLICY: HOW DID PRIORITIES CHANGE?

In the 1990s and at the start of the 2000s, equalisation was the leading regional policy priority in Russia. Of course, there were few resources in the federal budget to redistribute. The significant increase in federal revenues between 1999 and 2008, driven by rising oil prices, led to more robust redistributive policies and practices: the size of federal transfers to the regions rose from 387 billion rubles in 2004 to 1.8 trillion rubles in 2011. From the second part of first decade of the 2000s, redistributive policy ceased to be a pressing state issue in terms of public statements and pronouncements but effectively remained Russia's top priority because of rising oil rents.

The rapid increase in federal transfers to the regions in 2008 was driven by the implementation of national priority projects and in 2009 by regional assistance imperatives during the economic crisis (see Table 32.1).

Table 32.1 Consolidated revenues of Russia's regions, transfer size and share (2006–16)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 ^a	2015 ^a	2016 ^a
Revenues of the consolidated budgets of the regions, in trillions of rubles	3.80	4.08	6.20	5.92	6.54	7.64	8.06	8.16	8.72	9.19	9.78
Federal transfers, in trillions of rubles	0.60	0.64	1.20	1.62	1.51	1.77	1.68	1.58	1.60	1.60	1.55
Federal transfers as a proportion of regional budget revenues, in %	15.9	15.8	19.4	27.3	23.1	23.1	20.8	18.6	18.4	17.5	15.8

Source: Author's calculations based on 2006–16 data from the Federal Treasury

^aNot including Crimea

In 2011, transfers to the regions peaked. Only in 2012 did they begin to gradually decrease.

Another sign of the change in federal policy towards the regions was the implementation of the May 2012 presidential decrees on increasing salaries for public sector workers. In 2012 and 2013, 70 per cent of expenditures related to the implementation of these orders came from regional budgets. In 2014, the figure was 80 per cent—that is, the federal centre had effectively imposed the funding of very expensive measures on the regions. The result was an increase in regional budget deficits (and debt), which by the end of 2015 had reached 2.7 trillion rubles or a third of consolidated regional budget revenues (not including federal transfers).

With the fall in oil prices in 2014 and the start of the new economic crisis in Russia, it was no longer possible to maintain the prior equalisation amounts (which were based, for all practical intents and purposes, on the redistribution of natural resource rents). Pursuant to the 2015 federal budget law, transfers were to have decreased by some 13 per cent. However, according to Federal Treasury data for 2015, the federal government did not in fact reduce regional transfer amounts due to the difficult fiscal situation in the regions and the associated political risks.

Russia's equalisation policy has 2 key institutional defects: first, a patent lack of transparency; and second, extremely harsh dictation from the centre in respect of regional budgetary expenditures. The first defect is consistent with the general system of ad hoc or even extemporised (case-by-case) Russian governance, in which lobbying and the situational dynamics of the federal government play a decisive role. Consider that, from 2009, in the context of economic crisis, the share of transfers determined by the most non-transparent criteria (i.e. grants to balance regional budgets and also "other transfers") rose to up to 12–13 per cent of total transfers. In 2014, in the context of the Crimean action, the balancing grants rose to 19 per cent of all regional transfers.

The second defect—that of heavy-handed central dictation—is in part the legacy of rising resource rents: in the context of ever-increasing transfers, the federal government has sought to strengthen control over regional expenditures (consistent, of course, with the aforementioned long Russian history of administrative centralisation). Moscow believes that it knows better how, or to which end, the regions should spend their budgets. As such, of the 3 principal types of federal transfers—grants, subsidies and subventions—the regions may manage independently only the grants, which represented about a third of all transfers between 2008 and 2013.

Subsidies, the variety of which has multiplied over time, and the number of which presently exceeds one hundred, are given strictly for specific goals determined by the federal centre, with the requirement of co-funding by the regions. From 2008, subsidies have represented between 23 and 35 per cent of all federal transfers. Subventions account for 15–25 per cent of the transfers and are given to the regions in order for them to fulfil specific responsibilities delegated by the federal government.

Considering that transfers represent less than 10 per cent of all budget revenues in only 5 of Russia's regions, and 10–20 per cent in 29 regions, it is evident that the fiscal dependence of the remaining regions (more than 50 regions every year) is high to very high. In crisis periods, this fiscal dependence on the centre diminishes the flexibility of the regions in terms of the specific use of budgetary resources. The federal government also employs a system of “effectiveness” indicators to monitor and, de facto, control regional budgetary expenditures (most of which support various social policy objectives).

What of stimulus policy and Russia's regions? The country's short post-Soviet history of experiments with stimulus policy can be divided into 2 stages. The first stage, during the transitional crisis period of the 1990s through to the start of the 2000s, saw certain regions (e.g. Kaliningrad oblast and Ingushetia) receive the status of special economic zones, while so-called internal offshore zones were created in other regions. (Of course, Russian business did not hesitate in exploiting these regional “stimulus” initiatives for purposes of large-scale tax optimisation, leading to non-negligible losses in government tax revenues.) During the subsequent period of economic growth, the Ministry of Regional Development developed the concept of regions as “engines of growth”. Specific regions were chosen for this purpose according to precise administrative criteria, even if there was little implementation beyond the paper concept. The policy idea of creating territorial clusters was similarly fruitless in practice. In 2007–08, special zones, including industrial and production zones, technology and innovation zones, tourist and recreation zones, and port zones, were created. However, with the exception of 2 industrial zones (in Tatarstan and also Lipetsk oblast), these zones had little notable impact on regional development. *Bref*, the use of special zones, clusters and other territorial-use constructs had little practical effect on the development of the regions—not least because of the extent of the weakness and immaturity of the regional and national institutional settings.

From the middle of the first decade of this century, the *de facto* main orientations of regional stimulus policy became “megaprojects”, underwritten by large-scale funding from the federal budget—for example, the Universiade in Kazan, the APEC summit in Vladivostok and, of course, the Sochi Olympics. In Tatarstan, in preparation for the 1000-year anniversary of Kazan and after that the Universiade, the proportion of transfers from the federal budget reached 35–37 per cent of total budget revenues for this economically developed republic. For its part, Primorsky krai, in preparation for the APEC summit, received 12 per cent of all investments from the federal budget targeting the Russian regions in 2011, while Krasnodar krai received 13 per cent of all such investments from the federal budget in the lead-up to the Sochi Olympics. However, after the investment boom came the inevitable slump, affecting Primorsky krai with especial force. According to Rosstat, in 2013, investments in Primorsky krai fell by 45 per cent, by 21 per cent in 2015, and by a further 17 per cent in 2016. *Bref*, megaprojects, too, have not proved remarkable drivers of regional development in Russia, including in their ability to attract investment from the private sector.

From the second half of the first decade of the 2000s, alongside rising resource rents, the geopolitical prioritisation of regional policy became far more pronounced, particularly in respect of the Russian Far East, the North Caucasus and, from 2014, Crimea. These priorities were formed administratively, under the aegis of newly formed territorial ministries: the Ministry of the Development of the Far East (created in 2012) as well as the Ministries of North Caucasus Affairs and also for Crimean Affairs (both created in 2014)—although the latter was short-lived and dissolved at in July 2015. All 3 ministries were tasked to develop regional stimulus policy and to coordinate their work with private investors. *Pari passu*, in 2014, the federal Ministry of Regional Development, which had been responsible for the development of all the country’s regions, was liquidated.

For now, there have been no notable successes in stimulus policy for these geopolitically important regions. The Ministry for the Development of the Russian Far East proposed to create 15 territories of “advanced” development in 2015–18, having designated a few industrial parks for this purpose, albeit without any of the necessary infrastructure in place. Investors in the Far East Federal District are meant to receive tax incentives on land and property from the regional governments (which already face significant budgetary constraints), while infrastructure development

is meant to be financed by the Far East Development Fund (created in 2011). Of course, the Fund's resources, at 15 billion rubles, are not especially large, and most of the necessary investors for the advanced development territories have not yet been found, given that the potential returns are insufficient to compensate for the high cost of business and the poor investment climate (in legal-institutional terms). According to Rosstat, in 2013, investments in the Far East fell by 17 per cent; in 2014, by 6 per cent; and in 2015–16, by a further 3 per cent.

The attempt to stimulate development in the North Caucasus also failed to deliver notable results. For instance, the “Resorts of the North Caucasus” programme had planned to build 6 ski centres in the region, and yet only 1 was built. Indeed, over the past several years, the republics of the North Caucasus have accounted for less than 3 per cent of total investments into the country. As a consequence, the geopolitically important territories, while otherwise uneconomical, are supported fundamentally through equalisation policy—that is, priority earmarking of federal transfers to these territories. In 2013, the Far East received 15 per cent of all federal transfers to the regions (even if it has only 4 per cent of the national population), and in 2013–14, the republics of the North Caucasian Federal District received 11 per cent (even they collectively represent less than 4.5 per cent of the population). From 2014, Crimea was added to this list, with a subsidisation level that reached 65 per cent in 2015.

These geopolitical priorities come with obvious risks: they are extremely expensive, and the stimulus mechanisms typically work poorly due to the paucity of intrinsic competitive advantages and the considerable institutional, infrastructural and other barriers to development in these regions. In the post-Soviet period, then, Russia has followed a long and winding road in regional policy, from inter-regional equalisation on the strength of large-scale redistribution of rising oil and gas rents, to attempts to stimulate regional development through largely ineffectual state investments (but without improvement of the investment climate), and then to geopolitical instrumentalisation of specific regions through the federal budget. In the final analysis, the Russian state has decided to bet on the 2 most expensive vectors of regional development—equalisation and geopolitics; and this comes, of course, just as the financial resources of the state are shrinking in the context of the fall in the price of oil, international sanctions, and high geopolitical tensions. For now, we can reasonably say that the magnitude and centrality of Russian equalisation can be changed, but that Russia's geopolitical priorities remain immutable for the foreseeable future.

WHAT'S TO BE DONE?

Reforms in Russian regional policy and administration must invariably reckon with 2 signal realities: first, the very strong and sustained inequality in development levels and tax bases among the regions; and second, the enduring importance of natural resources (oil and gas), which supports the preservation of a big, centralised state with powerful redistributive functions. The macro-goal of all future reforms in this area must be the development and modernisation of the economy and social life of the country's regions. In my view, we can set 3 fundamental medium-term tasks for the Russian state. First, there must be an increase in the self-sufficiency of the regions and municipalities through decentralisation and deregulation at 2 levels—centre-region and region-municipality—pushing powers and resources “downward” to a far greater extent. Second, conditions must be created for competition among the regions and municipalities for investment and human capital, which will speed up the modernisation of institutions. Third, there must be an increase in inter-regional and indeed whole-of-country mobility within the population. Mobility-stimulating policy will allow for better concentration of human capital and talent in the country's major cities as well as in regions with competitive advantages, including in terms of wages and quality of life.

To deliver on these tasks, it will be critical for Russia to implement comprehensive, system-wide institutional reform in different spheres of Russian life. Although such institutional reform has been discussed for many years in post-Soviet (and even late Soviet Russia), as well as in numerous chapters in this book, let us use the systems reforms proposed in 2011 by the experts who developed Strategy 2020 as a basis for formulating some basic potential vectors of reform. In politics, for instance, there must be real representation of the regions in the upper house of the federal parliament (the Federation Council), which must return to being an effective arena for the negotiation and coordination of interests between the centre and the regions. There must also be a return to a system of effective control from below via fair elections of regional and municipal authorities, a removal of the “filters” on gubernatorial elections, and a reversion to the direct election of city mayors.

In fiscal federalism, there must be a gradual decentralisation of tax revenues. This decentralisation would address not only the significant horizontal differences in tax bases among the regions but also the fact that the federal budget mainly comprises commodity “rent” revenues that are

redistributed extremely unevenly. In the event of a too-rapid decentralisation of tax revenue, a small handful of “rich” regions will become even richer, leaving the circumstances of the “poor” regions largely unchanged. As such, we must take small steps towards tax decentralisation: all revenues from corporate income taxes should go to the budgets of the regions (whereas only a small portion of corporate taxes currently go to the regions), and changes should be made to the percentage splits for excise taxes between the federal and regional budgets, increasing significantly the proportions in favour of the regions. As for municipalities, tax decentralisation will be considerably easier, requiring in the first instance only an increase in the municipal share of personal income taxes beyond the present 15 per cent.

To be sure, the transparency of federal transfers to the regions must increase, especially given that Russia will rely on resource revenues and rent redistribution for a long time to come. To this end, the grants, calculated according to a transparent formula, should ideally represent at least half of all transfers. Moreover, ad hoc administration must be minimised, as should be the size of the least transparent transfers.

Regional independence in the use of subsidies should be increased: the more than 100 types of subsidies currently received by the regions should be consolidated to 6 or 7 in order that the regions may efficiently allocate funds for priority objectives within key areas, such as health care and education.

Finally, the formal requirements of the budgetary law of the Russian Federation must be met in practice. The law forbids delegation (“downloading”) of expenditure obligations to the regions without supplementary financial resources from the federal budget. In 2012, the law was effectively breached, and the regions were required to fulfil the presidential decrees on pay increases primarily from their own treasuries.

In investment policy, the Russian state must begin to resist and reject overly expensive megaprojects as instruments of regional development. Instead, there must be far more opportunity and *marge de manoeuvre* for regions to manage their own investment policies. Decentralisation must happen for licensing in the extractive sector and, inter alia, for purposes of determining and managing foreign investment procedures.

In social policy, there must be a marked reduction or loosening of federal regulation of social policy in the regions, including in respect of assessing or measuring the so-called effectiveness of social expenditures in the regions. The regions must transform their networks of social institutions,

taking into account the specificities of the various settlements on their territory, geography, the structure of the population, and the numerous permutations of social consequences for their residents. Finally, there should be a general expansion of the powers of the regions to opt for different models of reform in the social sphere, taking into account regional conditions and preserving the overall coordinating role of the federal centre for social policy reforms.

Evidently, reform of regional policy in Russia faces great obstacles and is fraught with risk. Over the many years of Russian administrative hyper-centralisation, strong interests groups were formed at both the federal and regional levels, profiting both financially and in terms of political influence. Reforms will doubtless progress slowly due to resistance from these groups. In addition, decentralisation may well increase or consolidate the economic and social inequality among the regions and municipalities, as the more competitive regions—those enjoying modernised institutions—will be able to adapt and develop more rapidly and nimbly to the new operating environment, while the volume of non-redistributable resources for the less developed regions and municipalities may well shrink. In order, then, to moderate or mitigate such a negative outcome in regional equality, social policy will have to be highly targeted, aiming to support lesser-resourced populations, the number of which is always larger in the less developed and more peripheral regions of the country.

One further risk of excessively rapid or untargeted decentralisation is a net decrease in the quality of regional government due to the long-term absence of competitive elections and the appointment of governors on the basis of loyalty. The combination of low-quality administration and non-modernised institutions could lead to the collapse of certain regions—that is, to “failed regions”. This is the central argument of opponents of decentralisation in Russia. Of course, the argument can be countered by pointing to the fact that the federal government has all the necessary instruments of control, including existing laws allowing it to change governments in these regions, where and whenever necessary—even if we must concede that deployment of such instruments in practice may not always be easy under conditions of political tension.

If the Russian federal government does not, in the near to medium term, change anything—even as it is perfectly aware of the general ineffectiveness of a hyper-centralisation that fails to take into account the interests of the regions and destimulates regional dynamism—then the

unavoidable result of the ongoing fall in federal budget revenues will be a reduction in transfers to the regions, and a growing downward pressure on the economic health of many of these regions. *Bref*, Russia must move from an ineffective, hyper-centralised approach to regional policy and administration, dominated and driven by expensive equalisation and geopolitical priorities, to a more nimble model that expands the powers of the regions and stimulates competition among them for investment and talent. Without such reforms, decentralisation will happen before long anyways, inevitably and spontaneously. For a strict, hyper-centralised system of power cannot be permanent, and sooner or later it bumps up against real-world limitations of efficacy.

Russian history has often seen spontaneous decentralisation resulting from stiff central power. However, as this spontaneous decentralisation has always come with great costs to the national treasury and political stability, the present, dominant Russian interest is to bring to bear rational administration on a process of gradual decentralisation, with an eye of managing risks to the population and to the stability of the country more generally.

At the time of this writing, such managed or controlled decentralisation seems improbable. This state of affairs comes with 2 potential dangers to the country. The first danger consists in the freezing of national economic development and the gradual economic and social degradation of the country, given that the regions are not being properly used, if used at all. The second potential danger is the outright collapse of the country. To be sure, the risk of disintegration for a country as huge and internally diverse as Russia is constant. But it is far greater under a strict power vertical that is administratively ineffectual and otherwise incapable or unwilling to make critical decisions in the event of outside shocks and the continued worsening of national economic and political conditions.

NOTES

1. Based on calculations made by the author, using 2013 Rosstat data.
2. Based on calculations made by the author, using 2014–16 data from the Federal Treasury.
3. Based on the author's calculations, using 2015 and 2016 Federal Treasury data.

State Corporations

Viktor Dementiev

SETTING THE STAGE: THE ECONOMIC PURPOSE OF STATE CORPORATIONS

The question of the “rational” or appropriate size of the state or public sector in the national economy has been at the forefront of Russia’s post-Soviet policy and administrative debates over the last 3 decades. The question is complicated, no doubt, by the characteristic inclination of Russian public reforms towards permutations of radicalisation, dirigisme and liberalism. In this context, for purposes of national development, the risk of going too far, as it were, in the privatisation of resources or, in the opposite case, their nationalisation, is significant.

To be sure, the regular alternation in global practice between privatisation and nationalisation properly lends itself to a general professional scepticism about the notion that there is a single correct or “rational” dose of state entrepreneurship. Despite the fairly established view that such cycles of privatisation and nationalisation occur principally in countries with low levels of institutional development, the international economic crises of the early 2000s and 2008 demonstrated that certain developed countries are in fact prepared to resort to temporary direct government control over business under conditions of conspicuous difficulty and pressure. Indeed,

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these cycles of privatisation and nationalisation are often commensurate with the ideological and political circumstances at play in a particular country. Ideological changes can themselves issue from the exhaustion of the potential and utility of a dominant techno-economic paradigm and the need for a country's political economy to transition to a paradigm that responds effectively to the next technological revolution.

In this chapter, we explain that state corporations (state enterprises—that is, organisations that, in producing goods and services, are, to varying degrees and in varying forms, controlled and owned by the state) can contribute significantly to creating dynamic efficiency in the Russian economy and also to driving structural transformations in the nature of production in the country. For the public sector to play such a role, its size and structure must change in accordance with the cyclical patterns of technological renewal of production (i.e. long Kondratiev waves). Of course, income distribution—and therefore the country's overall economic development—is not indifferent to this dynamic and may be directly influenced by the balance between state and private property. And in all this, the nature and magnitude of the influence of state corporations on national economic development continue to depend a great deal on the general quality of state administration.

STATE CORPORATIONS AND STRUCTURAL CHANGES IN THE NATIONAL ECONOMY

According to Jesús Huerta de Soto, dynamic efficiency is the ability of an economic system to stimulate entrepreneurial creativity and coordination.¹ Identifying the necessary conditions for dynamic efficiency in economic systems at different levels (enterprise, sector, national economy) can be done by studying these systems in terms of “dynamic capabilities”—that is, in terms of the ability “to integrate, build and reconfigure internal and external competencies to address rapidly changing environments”.²

On the necessity of structural changes in the Russian economy—in particular, the lessening of its dependence on international energy markets—much has already been written (see Chap. 2 on the Objectives and Principles of the Russian State in the Twenty-First Century). And yet the present structure of employment in the country testifies to the fact that the critical structural shifts towards manufacturing have not occurred. According to Rosstat, between 2000 and 2015, the proportion of people employed in the extractive sectors fell by only 0.1 per cent, while the

proportion of those employed in manufacturing fell by 4.7 per cent.³ The share of people employed in education, health care, and scientific research also fell (by 1.2, 0.2, and 0.6 per cent, respectively); by contrast, the share of those employed in the financial sector grew nearly twofold. Clearly, if these trends continue, the competitive risks to Russia in the context of the next technological revolution are severe. *Bref*, in order to participate actively in the technological revolution, Russia must be at the cutting-edge of international research and development (R&D). (However, the fruits of this research will serve to advance the Russian economy only if there is a reduction in the production backlog from the prior technological revolution. Thus, investments in the modernisation of existing sectors experiencing pressure from more efficient international competitors are risky, with infrastructure investments betraying especially high risks.)

Direct, even temporary, state participation in industrial modernisation can help advance the structural transformations in the economy. Consider, for example, how the Japanese state provided “bridging” support to Japanese rail transport as it transitioned to an entirely new technological level. Of course, Japan’s high-speed railway lines (*shinkansen*) were subsequently privatised. Indeed, temporary nationalisation of enterprises, even in advanced industrialised countries, for the purpose of modernisation and subsequent privatisation is a perfectly reasonable and rational policy option. The restructuring of the 100-year British Steel Corporation was engineered thus under the government of Margaret Thatcher. Similarly, in Russia, the state has assured, by dint of various programmes, the modernisation of the company Russian Helicopters, and now the question of its partial privatisation is on the national policy agenda.

In periods of high turbulence in national or international socioeconomic processes, state enterprises play a multifaceted role in ensuring the dynamic efficiency of the economy: the participation of the state in supplying capital and redistributing the attendant risks is essential in order for business to survive and negotiate, through modernisation, a given technological revolution. Among the key challenges for state enterprises in this context is to demonstrate the very potential of new technologies.

However, if state regulation and state companies are used to support unsustainable production, this may itself lead directly to the accumulation of crisis potential and increased risks. The better scenario, then, is when a country enjoys the support of strong, diversified business groups

working to realise priorities agreed with the government, thereby making large structural changes in the economy achievable without permanently enlarging the state sector of the economy. This was demonstrated in Japan's economic miracle period, after the Second World War, by the *keiretsu*—interlocking business groups that, working on the strength of long-term loans from state banks, played a significant role in concentrating resources on priority directions in the Japanese economy.

We can, of course, attempt to force the growth of private business through the privatisation of state property. But this path often leads to an increase in, and consolidation of, socioeconomic inequality in society. Given that structural changes in production require corresponding large-scale investments, the less developed a country's credit markets, the larger the concentration of wealth necessary for such investments. Inequality thus becomes, for all practical intents and purposes, a factor of economic growth on the basis of radical innovation.

And yet income inequality clearly restricts the ability of low-income layers of the population to invest in human capital, which can seriously limit the spread of new technologies, due to a net shortage of qualified specialists. Moreover, the sharp income differentials within the population portend sociopolitical instability, which may also activate capital and brain drains alike. Investment risks—already high in periods of technological revolution—rise once more. A negative correlation between income inequality and economic growth is established.

Bref, in an environment that is not ripe for investments in structural changes to the overall economy, state corporations can be an important vehicle for securing such investments without a sharp increase in income inequality. Having said this, without any corresponding state control, these corporations can themselves become sources for the rapid enrichment of their management. Enter the Russian reality in the post-Soviet period.

STATE CORPORATIONS IN RUSSIA

The experience of state enterprises in the Soviet planned economy showed that there was weak motivation to innovate among the directors of these enterprises to the extent that their activities were not incorporated into real competition in terms of technology or product quality—as was the case in, say, the Soviet military aviation sector. In the absence of such external competition, the rivalry for state resources dominated. And in the post-Soviet context, the process of privatising Russian state property in the

1990s was the natural continuation of such rivalry, albeit with an enlarged circle of participants, now including state bureaucrats and those closely associated with them.

The post-privatisation development of the Russian economy confirms that, strictly speaking, the legal status of companies—whether state or non-state—is not, on its own, a sufficient condition for the aforementioned dynamic efficiency. Instead, for companies that are not natural monopolies, what is important is the formation of a competitive environment, while for state corporations it is essential that effective state control be in place. And yet even these prerequisites may not be enough to assure the dynamic efficiency of the economy in periods of major structural shifts associated with catching-up development or technological revolutions. National industrial policy plays a key role here in the negotiation and implementation of such shifts (see Chap. 17 on Industrial and Innovation Policy).

The early 2000s saw numerous announcements concerning the need for major changes in the work of state institutions, including in respect of their adaptability for purposes of resolving strategic challenges. However, the administrative reform of 2003 did not lead to substantial improvement in the work of the state apparatus, including in the economic sphere (see Chap. 30 on the Bureaucracy). This prompted the authorities to turn to large, state-controlled commercial and non-profit organisations as instruments of industrial policy. To be sure, the growing financial capabilities of the state in the context of high oil and gas prices also played a signal role here. For all practical intents and purposes, an effort was made to transfer responsibility for resolving the strategic challenges of national development to the mezzo level of the economy.

The path to creating large holding companies that can provide the population with goods like fuel, heat and electricity was outlined at the start of the market reforms in the early 1990s. In 2007, specific types of state corporations were created, regulated by the 1996 federal law on non-profit organisations and its 1999 amendments, including article 7.1, which specifies the legal status of state corporations as non-profit organisations established by the state on the basis of a property contribution and created for the implementation of social, managerial, or other socially useful functions.

What are some of the characteristics of this legal status? The creation and activities of state corporations, including their goals and administrative arrangements, are regulated separately for each state corporation. Property

transferred to a state corporation by the Russian Federation becomes the property of the state corporation. At the same time, decision-making in respect of the transfer of a part of the property of the state corporation to the state is part of the competence of upper management in each state corporation. A state corporation is not responsible for the liabilities of the Russian Federation, and the Russian Federation is not responsible for the liabilities of the state corporation. The cornerstone of the activities of a state corporation is not profit, but rather the goals for which it is created. The state corporation is required to publish annual reports on the use of its property. The strategies of each state corporation must be indicated on that corporation's website. Decisions on the loans undertaken by a state corporation in foreign currency are regulated by the federal government. Finally, the Accounts Chamber of the Russian Federation and other state bodies have the right to audit the activities of state corporations.

In 2007, the following state corporations were created: Vnesheconombank (VEB), Rusnanotec (renamed Rusnano), the Fund of Assistance to Reforming Housing and Communal Services, Rustechnology (renamed Rostec), Rosatom, and Olympstroy (liquidated in 2014). In 2015, Roscosmos, the state corporation for space activities, was created. The basic models of modern Russian state corporations are as follows: financial institutions of development (VEB, Rusnano); agents of government and operators fulfilling the various functions of state agencies (Fund of Assistance to Reforming Housing and Communal Services, Olympstroy); quasi-holding companies (Rostechnology); and quasi-ministries (Rosatom and Roscosmos).

The amendments to the 2009 federal law on non-profit organisations introduced an additional type of non-profit organisation—the state company—into the Russian system of legal entities. The main difference between the new state company and non-profit state corporations consists in the fact that that state companies explicitly fix as their focus the delivery of public services and the performance of other functions, using state property, on a trusteeship basis. In the same year (2009), the state company Rosavtodor (Russian automobile roads) was established.

Most of Russia's state corporations and companies, to a limited degree, fulfilled the expectations attached to them. Olympstroy delivered the Olympic infrastructure in Sochi, although famously incurring exorbitant expenses (*vis-à-vis* planned expenses). Rosatom, set up to be the global leader in the nuclear industry in terms of growth and efficiency, ranked, as of the start of 2016, first in the world in the number of nuclear power

plants being built concurrently abroad, second for uranium reserves, fourth in terms of uranium extraction, and second for the generation of nuclear energy, supplying 36 per cent of the world market of uranium enrichment services and 17 per cent of the nuclear fuel market. Rosatom spends 4.5 per cent of its revenues on R&D. Its portfolio of international orders grew from US\$66.5 billion in 2012 to \$110.3 billion at the start of 2016.⁴ Finally, Rostec, which was created to assist in the development, production and export of high-tech industrial products of civilian and military significance, spent some 11 per cent of consolidated revenues on R&D in 2015.⁵

These state corporations and companies became new drivers of national development and future-oriented economic and technological policy. They played a significant role in restoring cooperative links and in the formation of new supply chains, with corporations like Rostec also playing a non-negligible role in driving increased efficiency in the organisational structures of businesses in the high-tech sectors.

Of course, from their very creation as legal forms in post-Soviet Russia, state corporations have been scrutinised by specialists and researchers—primarily in terms of the natural apprehension about the weak institutional control of the state over their commercial activities as well as concern about low efficiency in the use of the resources transferred to state corporations. By way of reaction to these issues, the law on non-profit organisations was amended in 2010 and 2011 in order to specify the reporting requirements of state corporations, provide additional oversight of their activities by the Accounts Chamber of the Russian Federation, and assert regulation by the state over loans taken out by these corporations in foreign currency. At the same time, there remain open questions about the basic distribution of legal and practical responsibilities between the government and state corporations as well as in respect of the justifiable scope of resource consolidation in these companies.

To be sure, an important analytical aspect of state corporations is their influence on Russia's political markets. They may interfere, in other words, with the formation of a rational configuration of the state sector of the economy—in particular, obstructing or inhibiting the narrowing or shrinking of the state sector when there is no discernible need for large-scale involvement of the state in production processes in defence of public interests.

Each of the state corporations and companies was created to solve a certain problem. However, their formation was not accompanied with a

precise justification as to why these problems could not be solved via the existing arsenal of means, including state procurement, budgetary subsidies and subventions, tax incentives, budgetary credits, and also budgetary investments (e.g. participation of the state in the capital structure of traditional legal-organisational entities), not to mention through direct involvement of the private sector. The consequence is that, instead of creating a single legal plane, for each public problem it seeks to solve, the state ends up inventing a special vehicle or instrument and establishes separate or discrete rules of the game. Now, this approach has been revised, gradually, since 2007, but some of the general administrative logic has already been firmly set.

In general, the revision corresponds to the recommendations developed over the course of the implementation of the presidential decree of July 18, 2008, on the improvement of the Civil Code of the Russian Federation. The private law research centre under the President proposed that non-profit state corporations be converted into other forms of legal entities that do not enjoy special status and privileges—for instance, that Rosatom be transformed into an organ of public power, and Rusnano and Rostec into joint stock companies with 100 per cent state participation. Rusnano was the first of the state corporations to complete its reorganisation and was re-registered in March 2011 as an open joint stock company. For their part, United Aircraft Corporation and the United Shipbuilding Corporation—both state-owned corporations—were originally created not as non-profit organisations but as joint stock companies, making them similar to many companies with state participation (inter alia, Aeroflot-Russian Airlines, VTB, and Russian Railways).

To be sure, the 2008 financial and economic crisis provided a decisive impulse for growth in Russia's state sector. Under threat of bankruptcy, a number of companies gave a portion of their shares to state banks like Sberbank and VEB in order to secure loans. Of course, not all these loans could be repaid, resulting in the banks becoming owners of the companies in question. As at January 1, 2014, the Russian state was a shareholder and participant in 2113 joint stock companies and limited liability companies. As at January 1, 2016, the federal property registry listed 1912 joint stock companies, where the percentage of capital-structure participation by the Russian state was 100 per cent for 860 joint stock companies, between 50 and 100 per cent for 84 companies, between 25 per cent and 50 per cent for 202 companies, and less than 25 per cent for 766 companies.⁶

In relation to citizens and other businesses, the activities of state corporations are subject to Russian private law. On the other hand, as the activities of state corporations are associated with the provision of general (public) interests, they properly attract the jurisdiction of Russian public law. As such, in 2010, the Ministry of Economic Development initiated proposals to introduce into legislation the category of legal entity in public law. Moreover, the adoption of the 2016 federal law on public law companies in the Russian Federation and on amending certain legislative acts of the Russian Federation was an important step in the legislative regulation of legal entities with state participation.

The state programme on the administration of federal property provides for the improvement of state regulation of public and legal entities, the creation of legal conditions to increase the quality of corporate governance for companies with state participation, and the enhancement of state mechanisms for purposes of exercising shareholder rights. A number of the measures planned through this programme correspond with longstanding and also recent OECD recommendations, including specifying the goals of the administration of federal property; expanding the practice of publishing documents on strategic planning for the operations of companies with state involvement (including a system of key indicators of effectiveness and efficiency in activities and also programmes of innovative development); phased withdrawal from the use of directives (government instructions for representatives of the state on company boards of directors), as well as the strengthening of the responsibility of directors for decision-making—especially in the event that performance indicators are not met.

Linking the remuneration for the management of state corporations and companies to the implementation of corporate strategies, and not just to financial results, was a step forward in affirming managerial responsibility and stewardship. At the same time, of course, the development of these strategies has been entrusted to the state companies themselves—with little consultation with outside stakeholders, albeit with subsequent approval by the government.

It is doubtful whether state companies can independently determine and precisely form non-commercial goals for their own operations as well as indicators for purposes of measuring their progress towards these goals. The first word in this regard should therefore go to the state, with society and the state companies themselves weighing in later. To this end, a clearer policy articulation of the prerogatives of the state as owner could help to

avoid situations in which state corporations and companies have excessive independence in determining their own goals or establishing the nature and scope of obligations in respect of the provision of public services.

WHAT'S TO BE DONE?

The degree of direct state involvement in corporate capital must take into account the position of the corporation or company in question in global technological competition and value chains. At the same time, state corporations and companies have the potential to accelerate (and also put a brake on) structural changes in national production. Of course, in contributing to dynamic efficiency, the ability of the state, including its capacity to overcome conflicts of interest when it is at once owner of the state corporation and its regulator, is prisoner to the quality of public administration. And whereas the state can use these corporations as institutions of development—that is, as instruments of national economic policy—it is also called upon to prevent capricious or uncontrolled expansion of the corporations themselves. For without appropriate systems of accountability, and without clear roles and responsibilities for the government agencies involved in the management of state enterprises, such expansion lays the foundation for corruption, conspicuous indulgence by and of different state enterprises and also the opportunity for the state to offload blame to state enterprises for any number of mistakes in the implementation of their mission.

Relations between the Russian state and state corporations or companies must be built on a long-term logic, with precise delineation of the obligations of all sides and the sanctions in question for infringements of these obligations. This does not exclude a review of the contract when there is need or as key circumstances change (including in the event of forces majeure). All the obligations and accountabilities (and risks) that state corporations and companies must undertake in relation to the delivery of public services over and above generally accepted norms or standards must be precisely fixed. The costs incurred in the performance of such services should be compensated in a transparent manner. Otherwise, this compensation will always be the subject of backstage bargaining, or private companies without such responsibilities will enjoy and profit from distinct competitive advantages over state corporations.

Steps to minimise the size and scope of the state sector in Russia are not a panacea for the economy, even if the administrative system is presently weak or vulnerable to corruption. Indeed, such moves only distract inves-

tor resources from the productive sphere and increase the risks to private business involved in the redistribution of property—something already observed in Russia in the 1990s. And of course, it is not only business risks that are at play here but also political risks in the context of the intensifying deconsolidation of Russian society. Having said this, poorly considered enlargement of the state sector against a backdrop of weak accountability within and among the state organs and entities that are charged with playing the ownership role for state corporations and companies can easily exacerbate the problems of state administration in the country. All of this is food for thought as the Russian state seeks to find the right public-private-third sector balance and hit the right notes in the coming decades.

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