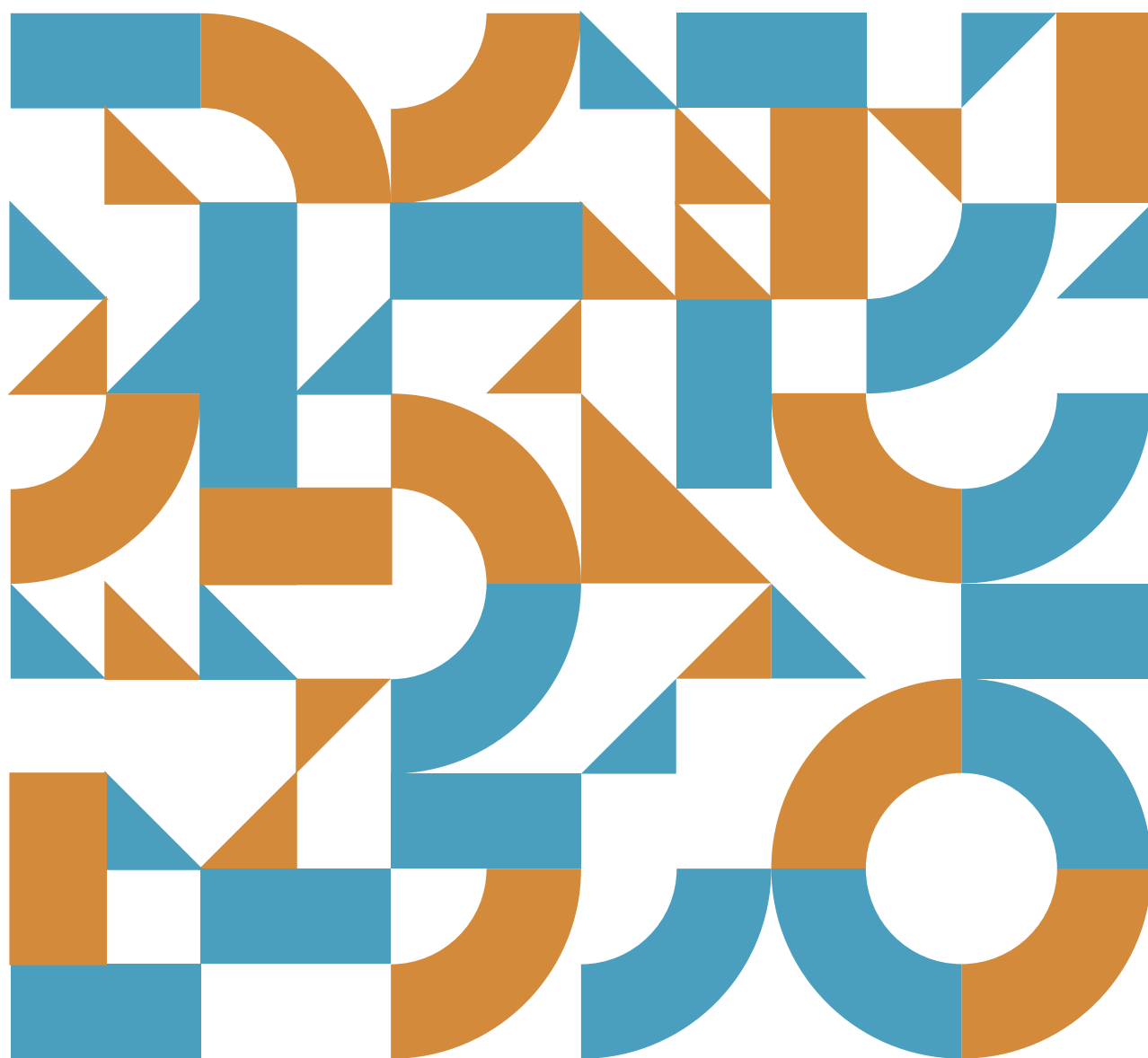


# **Persistent Factors in Russian Economic Policy**

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# Persistent Factors in Russian Economic Policy: Competing Paths to Illiberal Government and the Futures of Putinism

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# Persistent Factors in Russian Economic Policy: Competing Paths to Illiberal Government and the Futures of Putinism

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## Russian Monetary Policy and the Politics of War

In December 2022 *The Financial Times* published an outstanding story by Max Seddon and Polina Ivanova on the technocrats of the Central Bank of Russia who, despite their liberal leanings and opposition to Putin's genocidal war had chosen not only to stay in government service but adeptly handle the shock of sanctions. Seddon and Ivanova describe a conversation between Konstantin Sonin, a Russian economist and opposition figure teaching at the University of Chicago, his friend, Ksenia Yudaveva, the Central Bank of Russia's deputy director in charge of macro-economic research and policy. Over the encrypted messenger app signal, Sonin attempted to convince his old friend to leave her post comparing her to Hitler's competent and creative central banker Hjalmar Schacht. Yudaveva responded by arguing if people like her left, they would be replaced by hardliners like Sergey Glazyev who would immiserate ordinary people not responsible for the war.<sup>1</sup>

Who is Glazyev and why was Yudaveva reportedly so afraid of him? Glazyev is an economist who is a well-known figure on the Russian nationalist hard right. A full member of the Russian Academy of Sciences and an advisor to the President of the Russian Federation until 2019, he is one of the most outspoken pundits of "Eurasian Economic Integration." For Glazyev, Eurasian integration is not just an economic concept - it is a political one. In his opinion, the Eurasian Economic Union serves as the economic counterweight to liberal economic system built around the United States and other "Atlantic powers."

These terms reveal an affinity with conservative Eurasianist ideas, which posit Russia as the head of traditionalist powers with a common Eurasian steppe heritage who are opposed to decadent Anglo-American commercial values. Eurasian economic integration offers access to a large resource and economic base which can be mobilized for a national development agenda that restores Russia's industry and builds the Eurasian bloc into a world power. In practice, he advocates a vague national developmentalism coupled with soft-money

1 — Max Seddon and Polina Ivanova, "How Putin's Technocrats Saved the Economy to Fight a War They Opposed," *Financial Times*, December 16, 2022.

policies to stimulate strategic industries.<sup>2</sup>

Glazyev is not just an ideologist of Russia's hard right and its genocidal war in Ukraine - he is one of the instigators of the crisis that began in 2013. The full-scale invasion which began on February 24, 2022, was just a stage in a long conflict which began with protests on the Maidan against the Yanukovich government's cancellation of the EU-Ukraine trade agreement. Glazyev, himself Ukrainian born, had spent that year pressuring Ukraine's government to cancel the treaty which he saw a mortal threat to Russia's proposed Eurasian Economic Union. According to tapes leaked in 2016, he was deeply involved in organizing anti-Ukrainian government, pro-Russian demonstrations in Zaporizhia and actively work to choreograph the annexation of Crimea.<sup>3</sup>

It is not surprising Glazyev is the hardliner's candidate to replace Elvira Nabiullina, who has a reputation as a relatively liberal, economically orthodox, and hyper-competent central banker, as the Governor of Russia's central bank. And yet, as Konstantin Sonin pointed out, to his colleague, what the Russian Central Bank was doing was not any different from what Glazyev would have done. The Bank had introduced capital controls and foreign currency withdrawal limits to brace the impact of Western sanctions. By prioritizing the defense of ordinary Russians at the expense of Ukrainians it became just as much of a rogue actor as Glazyev's potential central bank and even adopted policies that would have horrified Russia's economic liberals just a few weeks earlier.

Sonin might be even more correct than he lets on. Even the economic orthodoxy of Russia's central bank, which earned it plaudits from neo-liberal commentators must be understood in the context of Russia's increasingly illiberal politics. Russia's fiscal and monetary policies were so strict as to make the most ardent IMF official of the 1990s blush. As an energy exporter, it had a healthy current account surplus and thus, a strong tax base which gave it a budget surplus. This surplus was so high that domestic investment in Russian infrastructure was actually less than it was in the bad old days of the 1990s, despite a much larger and better functioning economy. The Russian central bank worked hard to liberalize Russia's capital account and eventually made the ruble a true floating currency in 2015.

These actions were not done purely out of belief in economic orthodoxy and good government. The term "fortress balance sheet" was taken literally by Russian officials. Running massive surpluses was supposed to make Russia more independent of international markets to give it more room to maneuver in geopolitics and resilient to sanctions and other foreign economic pressure. The Central Bank's creative diversification of reserves away from the dollar toward the Euro, gold and RMB was not just creative and effective hedging but

2 — Sergey Y. Glazyev, "Noonomy as the Core of the Formation of New Technological Mode and Global Economic Order," in *Noonomy as the Core of the Formation of New Technological Mode and Global Economic Order*, ed. S.D. Borodunov (London: Brill, 2022), 47–68; Anders Åslund, "Sergey Glazyev and the Revival of Soviet Economics," *Post-Soviet Affairs* 29, no. 5 (September 1, 2013): 375–86.

3 — Andreas Umland, "The Glazyev Tapes: Getting to the Root of the Conflict in Ukraine – European Council on Foreign Relations," ECFR (blog), November 1, 2016.

consciously understood to be a geopolitical act to preserve Russia's currency reserves from confiscation and sanction. Finally, floating the ruble was not just a liberal intervention. Mundell's trilemma - one of the most well-known and accepted concepts in international economics - shows that a floating currency gives a central bank more room to run a sovereign, domestic monetary policy.<sup>4</sup>

February 24th was as much of a shock to Russia's Central Bankers as it did to the rest of the world which had not believed ample American and British intelligence warnings. There were even rumors that Nabiullina had tried to resign in protest but was rejected. Just as shocking was the concerted Western response and harsh sanctions. The central bank's planning had never assumed a full-scale invasion - who could ever believe such a thing - and thus believed that Europeans, Americans, and even some Asian powers would not put together such a united front. Diversification of reserves failed as a variety of central bank counterparties froze the Central Bank of Russia's counter-party accounts. Large gold and RMB reserves did not seem to help much due to their very large transaction costs. The mask of liberalism fell from Russian monetary and fiscal policy. Faced with the reality of Russian imperial, revisionist geopolitical ambitions, Russian liberal technocrats implemented currency controls and have moved toward confiscatory taxation. These actions, combined with continuing Russian energy exports and the slow pace of sanctions on that industry saved Russia's domestic economy from crisis in 2022.<sup>5</sup>

The politics of Russia's central bank and its opponents on the hard right encapsulate two interlocking issues in the study of Russia. First, is the role of technocrats in contemporary Russia and Putinism's evolution as a socio-economic as well as a political system. Second, is a deeper, more persistent factor in Russian political history about the place of technocrats and liberal economists in a largely illiberal state. Nabiullina and Glazyev are avatars of two trends in Russian economic policy. The former is of technocrats with liberal inclinations who hope to integrate an illiberal Russia into a liberal capitalist world. Accepting many laissez faire principles and policies, these figures hope that integration with the global economic system can soften the edge of an illiberal state but, in practice, create policies that allow that illiberal state to achieve illiberal means through liberal ends. Glazyev, on the other hand, represents a different relationship with the global economy. While Russian liberals see the global economy as a tool for Russia's modernization, there more reactionary figures see it as a threat not only to traditional values but to Russia's geopolitical and statist objectives. Instead, they advocate for an internalist developmental policy which seeks to secure as many real resources as possible under the direct control of an autocratic government and use political mobilization to develop them.

This is not a new problem in Russia's political and economic history. Since the

4 — Maurice Obstfeld, Jay C. Shambaugh, and Alan M. Taylor, "The Trilemma in History: Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility," Working Paper (National Bureau of Economic Research, March 2004).

5 — "Russia Central Banker Wanted Out Over Ukraine, But Putin Said No," Bloomberg.Com, March 23, 2022.

mid-19th Century, the question of how to manage the Russian economy has been dominated by two approaches. The first wants to use liberal economic ideas and policies to create a strong Russian economy. However, this economy is not, by definition, politically liberal. In practice and often in ambition, it serves to create a new social and political basis for the stability of an illiberal political order. It is the economic equivalent of the German legal term *rechtsstaat* which defines a state whose sovereign rules through the procedures of a liberal legal system with courts and regulations but is himself not bound by it. The advocates of this tradition have usually been civilian, or civilianized technocrats working within government and academia and trained in then cutting-edge scientific, legal, and economic ideas. From their point of view, Russian economic policy should not be afraid of the larger global economy but use it, as necessary, to build its own industrial and economic base. This does not mean that they are fanatical free traders, but they do not see trade and foreign investment as threats to Russian state building.

The other tradition is a mobilization tradition. This tradition sees both liberal institutions and the globalized markets as a threat to Russian political, social, and economic security. It is not fair to call these people anti-modern. They are, in fact, very much interested in modernizing Russia's economy and making it a global economic power. However, they advocate a policy of using Russia's internal resources and labor to retain the full maneuvering room of the sovereign. In their conception, Russia is not just another state but a Eurasian imperial space. The Russian people are also perceived as exceptional and able to respond to a more spiritual, or ideational motivation rather than material incentives. These figures are often related to the Russian military and security elites, or traditionally powerful merchant and aristocratic groups rather than civilian bureaucrats.

Contemporary Putinism is an heir to this tradition. Its social contract was built on an illiberal political system with liberal economic management. In its most successful guise, it meant a prosperous but apolitical middle class, a policy run by technocrats, and a politics dominated by a small, oligarchic and security elite.<sup>6</sup> This stable consensus which I argue was the dream of many late-Soviet reformers and leaders began to fray around 2012 and is now beginning to come undone. With Russia's invasion of Ukraine and its unexpected transformation into a long, brutal conventional war, the voices for mobilization are growing louder. As of the writing of this essay, Putin remains his usual, relatively risk adverse self. The technocrats are still largely in charge of domestic policy. However, we are in a period of great uncertainty and the historical context of Russia's economic policy and its deep relationship to questions of statehood, security, and identity are critical context to navigate it.

### **Transforming an Empire into an Economy**

The persistence of the illiberal-liberalism - mobilization tension in Russian economic and political history is the result of the ambivalent position of the

6 — Neil Robinson, "Economic and Political Hybridity: Patrimonial Capitalism in the Post-Soviet Sphere," *Journal of Eurasian Studies* 4, no. 2 (July 2013): 136–45.

Russian state as a nation-state. In his essay on the persistent factors of Russian foreign policy - which this current piece draws inspiration from - Alfred Reiber pointed out that the Russian state always had a difficult relationship with the European state system. On one hand, it was a state that competed in great power rivalries. On the other hand, it was a land empire which engaged in a long history of fluid, colonial steppe politics with nomadic confederations.<sup>7</sup> Unlike other imperial powers in Europe, Russia could not neatly develop a distinction between the metropole and the colony. The ethnic category of Russian was ambivalent. Even after the end of serfdom in 1861, Russian peasants were a separate social class with their own set of laws regarding property rights and transfer. The Imperial Russian elite was more likely to speak German and French at home than Russian. Russia engaged in internal colonization as much as it did external expansionism because the entire basis of the state was autocratic subservience.

Imperial Russia was not an unusual entity by any means. The early modern world was made up of Empires. Imperial governance was never about creating a homogenous population but rather what Jane Burbank and Fred Cooper label “the management of difference.” Early modern empires featured heterogenous populations and elites who carried on with different cultures and languages but had personal loyalty to the imperial project, often through the person of the imperial sovereign. In this regard, Muscovy’s growth into the Russian Empire was not atypical. If anything, Russia’s steppe frontier and large peasant population gave it military advantages as it entered the European imperial system.<sup>8</sup>

Something changed in the mid-19th century. The industrial revolution produced technologies of rapid movement which facilitated urbanization and integration of geographical units. Peasants entering urban centers learned that they had something in common with people who had come from the next village over. Individuals could understand themselves in global terms for the first time. As the industrial revolution progressed, the global emerged as a reference point and the nation state - a bordered entity focused on homogenization emerged as the political unit to manage industrial modernity.<sup>9</sup>

The companion to the emergence of the nation-state, or at least an imperial metropole politically distinct from its colony, in industrial modernity was the understanding of “economic backwardness.” The combination of the rapid advancement of technology and the growing self-awareness of political identity as grounded in a national space contrasted to the global system made

7 — Alfred J. Reiber, “4. How Persistent Are Persistent Factors?,” in *Russian Foreign Policy in the Twenty-First Century: Shadows of the Past*, ed. Robert Legvold (Columbia University Press, 2007), 205–78.

8 — Jane Burbank and Frederick Cooper, *Empires in World History: Power and the Politics of Difference*, unknown edition (Princeton: Princeton University Press, 2011); Richard Hellie, *Enserfment and Military Change in Muscovy* (University of Chicago Press, 1971).

9 — C. A. Bayly, *The Birth of the Modern World: 1780-1914* (Wiley-Blackwell, 2003); Charles S. Maier, “Consigning the Twentieth Century to History: Alternative Narratives for the Modern Era,” *The American Historical Review* 105, no. 3 (June 1, 2000): 807–31.

newly emerging national elites understand themselves as economically behind others. In the more heterogenous imperial era, backwardness was a more difficult concept to understand. However, with the world of nations emerging, nation building by elites became simultaneous with catching up to the technology frontier. Economic policy, and in particular development policy had been born. As the industrial revolution advanced, the laissez faire policies, free trade advocated by the “classical political economists” came to be challenged by policies of explicit national developmentalism.<sup>10</sup>

For the Russian Empire, state building was a difficult and incomplete process. Russia was a country of unfree peasants and lacked a domestic bourgeoisie. This social system was a response to its unique challenges sitting between steppe raiders and European imperial powers. The system of serfdom came later to Russia than it did Western Europe and stayed later because it facilitated both a service and military elite and created a unique system of mass recruiting from peasant communities which created large professional armies. An early-modern Russian Imperial army was unique because it could march huge distances and not suffer desertion because Russian soldiers were pulled out of the social life of the community. Serf communities considered young men who left the Russian commune dead and unable to come back. There was nothing but the army.<sup>11</sup>

With the industrial revolution this model stopped working. Not only was Russia technologically backward, but its unique social structure was no longer an advantage. European citizen soldiers could be trusted to receive training during conscription and then leave to civilian life without the threat of a peasant uprising. Professionalized reserves allowed Europeans to field well-trained, motivated forces without the massive costs of a standing serf army. After the lessons of the Crimean War, Russia liberated its serfs not to modernize technologically but to try to create a social structure that would enable such a modernization.

The liberation of the Serfs was just one part of a larger social and administrative reform launched by Russia’s first technocrats. Despite his reactionary reputation Nicolas I, helped establish a cadre of elites with modern education to service his autocratic imperial “official nationality policies.” It was the reactionary Nicolas I and not the liberal Alexander II who was the first Russian state builder - his state was just conservative. Under Alexander, these new progressive bureaucrats attempted to turn the Russian Empire into a *rechstaat* - a country ruled through law and modern administration. Critically, this did not mean creating a liberal state as we know it but one where liberal legal procedure would be used to carry out an illiberal, undemocratic state’s dictates.<sup>12</sup>

10 — Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*, First Edition (Cambridge, Mass: Belknap Press, 1962).

11 — David Moon, *The Abolition of Serfdom in Russia: 1762-1907*, 1st edition (Harlow Munich: Routledge, 2002); Alfred Reiber, “Reason D’Etat: Military,” in *Emancipation of the Russian Serfs*, ed. Terence Emmons (New York: Holt, Rinehart and Winston, 1970).

12 — W. Bruce Lincoln, *In the Vanguard of Reform: Russia’s Enlightened Bureaucrats, 1825-1861* (Northern Illinois University Press, 1986).



The attempt of these modernizers to reduce the capriciousness of imperial administration was opposed by hardliners who wished to retain the autocrat's ability to mobilize the population through direct, militaristic means. What is important to understand is these figures were not some pre-modern call backs. They were also state builders but ones that tried to bring Imperial practices into the modern era by building police and militaristic legal and administrative policies. After Alexander II's assassination by radicals and the Polish-Ruthenian revolts of 1861-3, these latter figures came ahead under Alexander III.<sup>13</sup>

While the scholarship on legal and administrative politics and the tensions they unleashed are well known, economic policy and its relationship to Russian state building is less well documented. This is partly because economic policy is itself a product of modernity. In his later lectures and economically libertarian term, Michelle Foucault noted that the very idea of an economy as separate from the control of the sovereign is an invention of modern liberal thought. In Russia, the ambiguity of the national project and its bordering made economic policy as a self-standing discipline very difficult.<sup>14</sup>

One of the first Russian economic policy makers who we can recognize as modern was Finance Minister Nikolai Bunge (years). Bunge's modernity lay in his civilian background and liberal economic thought tempered by a recognition of Russia as economically backward. Bunge began his career as an academic at the University of Kyiv of German origin allowing him to observe the rapid modernization of Poland and Russia's Ukrainian borderland due to the region's more liberal policies. As finance minister, he pursued a policy of expanding credit to the newly liberated serfs, mild industrial protectionism, and most of all, balancing the budget so that Russia could move onto the gold standard. Moving Russia to the gold standard would allow it to take advantage of more foreign capital to develop its domestic industries and industrialize.<sup>15</sup>

Bunge's reformist streak infuriated powerful conservative nobles who relied on Russia's traditional paper money system to finance their debts and were major importers of foreign goods. After a campaign by the conservative Moscow merchants and Slavophile newspapers, Bunge was removed in 1886. His opponents accused him of importing foreign economic ideas and merchants thereby harming Russia's national interests. His replacement Ivan Vyshnegradsky was an engineer and early investor in industry. More politically astute than Bunge, he tried to continue his policy of moving Russia onto the gold standard and integrate it into European capital markets. However, to allay the concerns of conservatives, he pursued a regressive economy which balanced the budget on the back of heavy taxes on peasants. To pay their taxes peasants had to sell their grain no matter what and Russia built up a healthy trade surplus in grain

13 — George Yaney, *The Urge to Mobilize* (Champaign-Urbana: University of Illinois Press, 1983).

14 — Michel Foucault, *The Birth of Biopolitics: Lectures at the College de France, 1978-1979*, First Edition (Palgrave Macmillan, 2008).

15 — Alla Sheptun, "Russian Monetary Reformers: Speransky, Mordvinov and Bunge," in *Economics in Russia* (Routledge, 2008); V. L. Stepanov, "Nikolai Khristianovich Bunge," *Russian Studies in History* 35, no. 2 (October 1, 1996): 42–72.

- even during the famine of 1891-2 which resulted in as many as 400,000 deaths. Public pressure and fear of insurrection led to Vyshnegradsky's dismissal.<sup>16</sup>

Vyshnegradsky's replacement remains one of the most influential policy makers in Russian history and, up to that point, probably its most recognizably modern one. Sergei Witte did not just see economic policy as a matter of industrialization but of nation making. Born in one of the most elite aristocratic families, Witte was both a man of the system and a uniquely peripheral figure. He spent his early years in Tbilisi, Georgia, his grandfather the Privy Councilor of the newly conquered Caucasus. He continued his education in Odesa, one of the Empire's cosmopolitan cities and later in Kyiv under Bunge. Unusually, for an aristocrat of his stature, Witte went into business working in the Ukrainian railways where he gained the reputation of being tolerant and even close to Jewish and Polish minorities working in engineering and management.<sup>17</sup>

Witte had strong ideas about what the Russian Empire should become. In his days in Kyiv, he wrote an essay about the ideas of German economist and publicist Friedrich List. Inspired by Alexander Hamilton and the American system, List argued that modern nation building was part in parcel of industrialization. Industrialization could not be achieved by laissez faire policies as practiced by early industrializers like the British. Instead, a nation had to be constructed as an economic zone and domestic industry protected. Just as important to List was the need for the state to not just protect but enable industrialization through direct investments in infrastructure. This did not mean List was a reactionary nationalist. He was open to trade where it was necessary and encouraging of foreign direct investment.

As a railroad man with a cosmopolitan background, List naturally appealed to Witte. As finance minister, he pursued a self-consciously Listian program. He returned to Bunge's policies for more progressive options in balancing Russia's budget and finally moved Russia onto the gold standard. This allowed for Russia to float its debt on international markets and to foreign direct investment flooded in. Even more than Bunge, he pursued protectionism. However, unlike his predecessors, Witte pushed for direct state investment into railroads to tie together the giant landmass that was Russia. The most ambitious of these projects was the Trans-Siberian railway meant to expand Russia's power in the Pacific. As well, he de-prioritized rural policy virtually ignoring agricultural development in favor of channeling state support to industry.

Witte's policy had results and Russia began to rapidly industrialize. However, like his predecessors, he quickly made powerful enemies in Russia's conservative elites. Witte's cosmopolitanism, friendliness with assimilated Jews, and openness to foreign capital triggered accusations of being a secret agent of nefarious anti-Russian conspiracies. A more serious critique of Witte was his total abandonment of agricultural policy and reform. Conservative Slavophile

16 — V. L. Stepanov, "Laying the Groundwork for Sergei Witte's Monetary Reform: The Policy of Finance Minister I.A. Vyshnegradskii (1887-1892)," *Russian Studies in History* 47, no. 3 (December 1, 2008): 38–70.

17 — Theodore Von Laue, *Sergei Witte and the Industrialization of Russia* (New York: Columbia University Press, 1963); Francis W. Wcislo, *Tales of Imperial Russia: The Life and Times of Sergei Witte, 1849-1915* (OUP Oxford, 2011).

publisher I.S. Aksakov published several studies that showed that under Witte, agricultural output fell due to the prioritization of industrialization and the contraction of rural credit which resulted from the movement onto the gold standard.<sup>18</sup>

One of these authors, Sergei Sharapov, illustrates the contours of anti-liberal, conservative modernization in the late-Russian Empire. Sharapov, not opposed to Witte's protectionism, public investment policy, nor even industrialization. What Sharapov objected to the fostering of foreign investment - especially foreign ownership - and its attendant hard money policy. Instead, Sharapov advocated soft money policies and the use of a paper policy. Paper currency could be used to direct credit to the countryside as well as to pay labor to build new industrial infrastructure. A central element of his thought was that the Russian peasant was a spiritual being different from the Western workers. The peasant could be motivated to labor for economic modernization with spiritual values and would accept paper currency. Through a mobilizational economic policy, Russia could both develop modern economic infrastructure but not be dependent on a morally corrupt and dangerous capitalistic west.<sup>19</sup>

In opposing Witte and Sharapov, we should not make neat distinctions between a liberal and a reactionary. Both men were Slavophiles and patriots of the Russian Empire. Witte was a modernizer but one who wanted to modernize to preserve the system rather than to overthrow it. He was willing to use liberal ends to transform Russia's autocracy into something resembling an industrial state but not to build an explicitly liberal system. On the other hand, Sharapov, accepted both the need for modern industry and for Russia to become a more technologically modern state. What he feared, however, was integration into global capitalism and the social upheaval it could bring to the idealized social base of the Russian autocracy and conservative tradition - the peasantry. Thus, he searched for a path toward modernity that did not rely on capitalist markets as much as a new national, spiritual elite and a mobilized peasantry that exploited the Empire's vast resources to allow it to be relatively autarkic.

### **Soviet Economic Policy and the Problem of Mobilization**

Vladimir Vernadsky was one of the most influential figures in Russian intellectual history and perhaps one of the most underappreciated figures in the development of global sciences. Born to a Ukrainian noble family, his father was an economist at the University of St. Petersburg and mother a music instructor. Vernadsky would go on to be one of the fathers of modern geochemistry and radiogeology. His vision of science is expansive. Vernadsky became one of the popularizers of the term "biosphere" - the sphere of interaction

18 — Thomas C. Owen, *Capitalism and Politics in Russia: A Social History of the Moscow Merchants, 1855–1905*, 1st edition (Cambridge: Cambridge University Press, 2008).

19 — Theodore H. Von Von Laue, "The High Cost and the Gamble of the Witte System: A Chapter in the Industrialization of Russia\*," *The Journal of Economic History* 13, no. 4 (ed 1953): 425–48; Mikhail Suslov, "The Lost Chance of Conservative Modernization: S. F. Sharapov in the Economic Debates of the Late Nineteenth to the Early Twentieth Century," *Acta Slavica Iaponica*, no. 31 (2012): 31–54.

between biological life and non-living matter and then the “noosphere” - the sphere of interaction between human reason and the biological environment. Vernadsky's politics were liberal. He was a Kadet and a moderate promoter of Ukrainian culture and autonomy with a confederation in the Russian Empire. In fact, he founded the Ukrainian Academy of Sciences.

With such a background, one would have expected Vernadsky to either have gone into exile or not make it through the Stalinism. However, Vernadsky died of old age in Moscow in 1945, two years after receiving the Stalin Prize for his lifetime of contribution to Russian and Soviet science. Vernadsky's strange survival can be, at least in part, attributed to the fact that his thinking about development was very close to, if not almost identical to what would become the Stalinist orthodoxy. In 1915, with Russia involved in an extended World War, Vernadsky founded the Committee for the Study of Natural Productive Forces (KEPS) in the Imperial Academy of Sciences to map and catalogue potential resources across the vast Russian space. After the revolution, KEPS was renamed the Committee on Productive force (SOPS) but retained the same mission and same personnel. SOPS survived through the Soviet period, eventually moving from the Academy of Sciences into Gosplan. Its descendent continues to exist within the Russian Ministry of the Economy.

SOPS was the first agency in Russian history to understand the problem of economic development as a matter of planning resource use through scientific method. Unsurprisingly, Vernadsky enjoyed the support of Soviet leaders. If we peel the onion a bit more, we will find that SOPS' project was not just about planning but about the planning of internal resources. Such had very specific significance in the context of the early USSR.

When the Bolsheviks took power in 1917, they found themselves leading a small government supported by militant workers and even more militant rebelling soldiers in a politically ill-defined empire demographically dominated by a suspicious peasantry. As the Mensheviks pointed out, this was not what Marx had intended at all. However, for the Bolsheviks in 1917, the revolution was a gamble on a larger conflagration of capitalism. Thought capitalism in Russia was weak, it was this weak link in the chain that would break the system. The ambition of the USSR was finding a way toward Germany, its militant workers, and advanced industrial economy. By 1921, the Polish-Soviet war had put this dream off.

The Bolsheviks found themselves having to govern Russia. This was a problem. Russia was not only devastated by war but, even in 1914, was not a leading capitalist economy. The Russian working class was vastly outnumbered by the peasantry which did not trust these new authorities and only tolerated them because they were better than the Whites. With the White Armies fleeing, the peasants began to turn against the harsh requisition policies of the new Soviet state forcing the Bolsheviks into a retreat from “War Communism” to the New Economic Policy (NEP). NEP saw the re-introduction of markets for food and consumer goods with only the “commanding heights” of heavy industry in the state's hands.

Under NEP, the Soviet government faced a problem. First, it was seeing the re-emergence of capitalist traders and peasant farmers, as well as former “bourgeoisie experts” who had been brought into the Soviet Union's governing

apparatus. This sat badly with the many revolutionaries and young Red Army veterans who were expecting to move up in this new worker's state. Just as unsettlingly, the advanced state sector, which was to compete with and eventually peacefully displace the market, was actually losing its terms of trade. The USSR was not moving into the industrial future, and the revolution was confined to one country surrounded by hostile capitalist states.

This conjuncture led to several positions in the Communist Party. The so-called "left opposition" led by Trotsky argued for a move to sharp industrialization financed by taxes on the peasantry. The left opposition, however, assumed that the USSR could not actually build a fully socialist economy without the world revolution. Industrialization was important to keep the USSR alive in a hostile world but not a revolutionary aim in and of itself. On the other hand, Nikolai Bukharin and what would eventually be labeled the "right opposition" argued for the continuation of the NEP. Soviet industrialization under NEP would have to be gradual and driven by the demand of the countryside. This meant continuing pro-peasant development policies.

Stalin came to power by resolving these political tensions. Stalin is often portrayed as a cunning maneuver who supported the right against the left, then adapted the left's economic policy and eliminated the right. Though he was a cunning politician, Stalin was internally consistent. Starting with his 1924 *Socialism in One Country*, Stalin established a doctrine that reconciled the containment of the international revolution to one backward country and from there, its implications for industrialization. Socialism in one country did not mean abandoning the global revolutionary project. Instead, it used Lenin's theory of imperialism being the highest state of capitalism to create a geopolitical doctrine of socialist revolution. The Russian revolution had succeeded because of inter-imperialist economic competition which resulted in the crisis of WWI. This created an opportunity for the Russian revolutionaries. However, capitalism had successfully contained this revolution to the borders of the USSR. This did not mean that capitalism was a stable system. It would again come to crisis through the internal dynamics or imperialist rivalries opening the door for revolution to expand. The USSR meanwhile had to survive in a hostile world and be ready for the next conflagration.<sup>20</sup>

The implication of socialism in one country was that the USSR needed to industrialize and build an economic base for achieving socialist power in its borders. This meant rejecting the left opposition's arguments about the limits to socialist development in the USSR without the world revolution on one hand, while also rejecting the right's slow development and mixed economy. Instead, the USSR's socialists had to use planning to mobilize the USSR's internal resources to industrialize. This did not mean total autarky. Stalin and the Soviet economic system he created welcomed the import of Western technology. However, this was only useful as far as it meant developing state owned industry and

20 — Richard B. Day, *Leon Trotsky and the Politics of Economic Isolation*, Cambridge Russian, Soviet and Post-Soviet Studies (Cambridge: Cambridge University Press, 1973); Stephen Kotkin, *Stalin: Paradoxes of Power, 1878-1928*, Reprint edition (Penguin Books, 2015); Vladimir Kontorovich, "The Preobrazhenskii-Feldman Myth and the Soviet Industrialization," SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, January 13, 2013).

domestic equivalents. Stalin explained the logic of Soviet economic planning very plainly to a group of economists in 1941:

The planned economy is not our wish; it is unavoidable or else everything will collapse. We destroyed such bourgeois barometers as the market and trade, which help the bourgeoisie to correct disproportions. We have taken everything on ourselves. The planned economy is as unavoidable for us as the consumption of bread. This is not because we are «good guys» and we are capable of doing anything and they [capitalists] are not, but because for us all enterprises are unified...

What is the main task of planning? The main task of planning is to ensure the independence of the socialist economy from the capitalist encirclement. This is absolutely the most important task. It is a type of battle with world capitalism. The basis of planning is to reach the point where metal and machines are in our hands, and we are not dependent on the capitalist economy.

In the broader context of the economic policy debates in the late-Russian empire, Stalin did something remarkable. He accepted the need for a militarized, mobilization economy as the method through which one achieves the mobilization of internal resources. However, he turned it against the peasantry and agricultural sector. Thus, Stalinist state building temporarily resolved the tensions in the Russian Imperial state building project through rivers of blood.

The Stalinist planning system was remarkably durable in some respects. Under his successors, key aspects of Soviet economic planning such as the five-year plan window, the salience of the yearly plan over the long-term goal, and most importantly, bias toward autarky, and the priority of the “means of production” - in practice producer goods in heavy industry - remained the guiding principles of Soviet economic policy. The Soviet Union developed an “investment-led growth model” wherein public consumption was repressed in favor of growing investment into fixed capital. This model is not unusual for catch up growth. The East Asian “tiger economies” and China had the same. However, this model has diminishing returns as nominal gains from catch up growth begin to be eaten by the real costs of inflation and over production of capacity. In the USSR this problem was compounded by the fact that the economy was relatively closed and not exporting value added goods.<sup>21</sup>

One significant political change in Soviet economic policy was a routinization of labor and social processes. Starting with Khrushchev, the top-down mobilization that characterized Stalinist production processes began to retreat in favor of a more popular form of mobilization. Under Brezhnev, this process continued further with political mobilization retreating even further. The “late-Soviet period” was characterized by what sociologist James Millar called

21 — Michael Pettis, *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy* (Princeton: Princeton University Press, 2013); Barry Eichengreen, Donghyun Park, and Kwanho Shin, “Growth Slowdowns Redux: New Evidence on the Middle-Income Trap,” Working Paper (National Bureau of Economic Research, January 2013); Peter Kriesler and G.G. Harcourt, “The Failure of Economic Planning: The Role of the Fel’dman Model and Kalecki’s Critique,” in Michał Kalecki in the 21st Century, ed. Jan Toporowski and Łukasz Macima (London: Palgrave Macmillan, 2015), 9–28.

“the little deal.” Soviet citizens could enjoy their day-to-day existence in an increasingly consumer society. Corruption and “work on the side” was tolerated. The only thing that mattered was relative adherence to political norms. It was a conservative model built for stability.

However, there was a key contradiction in this “little deal.” The Soviet economic growth model was never intended to be one that created consumer plenty. It was always meant to be a mobilization model. The disconnect between the functions of Soviet institutions and their purpose was an increasingly existential question. From the mid-1950s, the Cold War evolved from a military and industrial to a socio-economic competition. The mark of success for the superpowers became development. The arrival of America as a capitalist power displaced the old European imperial order in which Stalinism was born and replaced it with a more free trade empire. The terms of development became redefined as the growth of consumption.

The disconnect between consumer goals and Stalinist methods helped enable the growth of a new generation of Soviet technocrats. Based in academic institutions and government agencies, these figures imbued the latest trends of global social science and even contributed to them. However, we should not identify them as secret liberals. Rather, these figures were technocrats who did not want to, and could not successfully challenge the illiberal politics of the USSR. They simply wanted to reform the priorities of the economy.

Reforms were initially introduced in the 1965-1969 Kosygin Reforms but were gradually rolled back due to the potential instability that shifting the USSR’s investment practices toward profitability and in demand consumer goods could bring. Even Gorbachev’s reforms, which began not as attempts to challenge the Soviet growth model but to literally “accelerate” it (*uskareniia*) to more rapidly adapt labor saving technology to restore growth without redistribution to households. The Soviet growth model was too critical to both powerful interests and to the ideology of the USSR. It had become synonymous with socialist development. Indeed, accepting that this model no longer yielded results meant bringing up uncomfortable questions including those about whether the USSR’s economic system was simply another way to exploit workers.

To fill the gap between the Soviet model’s priorities and a growing consumer culture, the USSR depended on low value-added energy exports which funded high value-added imports and food stuffs. This only sucked more resources out of potential higher value-added sectors needed to rebalance the USSR’s growth model to a more sustainable path. By the late-1970s, Soviet industrial capacity had become so redundant that new investments no longer yielded any return and the economy of the USSR slowed to a crawl.<sup>22</sup>

In his recounting of the collapse of Communism in Eastern Europe, sociologist Daniel Chirot summed up the problem: “the Soviet Union had built the world’s most advanced nineteenth century economy complete with its largest, most inflexible rust belt.” The Stalinist mobilization model and investment-led growth

22 — Yakov Feygin, “Reforming the Cold War State: Economic Thought, Internationalization, and the Politics of Soviet Reform, 1955-1985” (Ph.D. Diss, Philadelphia, The University of Pennsylvania, 2017).

had worked to replicate the world in which the founding fathers of the USSR had grown up through which they defined modernity. At the time, it was a successful but brutal way of solving the problems faced by Imperial Russia. The problem was that the political structures that evolved from it could not handle the task of reforming the model.<sup>23</sup>

### Post-Soviet Russia and Putin's Little Deal

The collapse of the USSR was a deeply complex political and social process. However, it is impossible to chalk this collapse up to economic factors. Rather, the economic collapse of the USSR should be understood as part-in-parcel of the slow and then rapid erosion of formal institutions. The period between 1988 and 1992 was well described by Steven Solnik as “a bank run on the economy” as Gorbachev’s reform opened opportunities to grab real resources by managers and elites causing others to have to quickly secure their stake.<sup>24</sup>

The bank run model is invaluable background for understanding the political economy of the Russian 90s. Many popular and scholarly accounts see “shock therapy” - rapid price reforms and privatization - as imposed by foreign neo-liberal institutions like the IMF and by Hayek reading fanatical Russian liberal economists. The truth, however, is that the reforms of Yegor Gaidar were another attempt to use liberal technocratic means toward illiberal ends. This chapter of Russia’s political economy is difficult to write because Gaidar and other Russian reformers were and still are ideological liberals. However, to build a liberal economy, they quickly realized that they would have to accept and work with an illiberal politics.

The first generation of post-Soviet reformers came out of the same milieu as their Soviet-era counterparts. However, they had witnessed the many failures to reform the USSR and developed a very political theory of how the Soviet economy functioned. The group of economic theorists clustered around Gaidar and his Leningrad associate, Anatoly Chubias, understood the USSR as an “administrative market economy.” It was not that the USSR was a planned economy and prices did not exist. Rather, the USSR was an oligarchic market where state owned enterprises operated as monopolies and actively worked to distort the market. The only way out of this situation was not to build the market from scratch but to break the ability of the monopoly to distort what was already a market economy. From this vantage point, shock therapy was not about “getting prices right” but reforming the social structure of the market.<sup>25</sup>

From the vantage point of Russian politics in the early 1990s, neoliberal

23 — Daniel Chirot, “What Happened in Eastern Europe in 1989?,” *PRAXIS International* 11, no. 3+4 (1991): 278–305.

24 — Steven L. Solnick, *Stealing the State: Control and Collapse in Soviet Institutions*, 1st Edition (Harvard University Press, 1998); Vladimir Kontorovich, “The Economic Fallacy,” *The National Interest*, no. 31 (1993): 35–45.

25 — Adam E. Leeds, “Spectral Liberalism: On Subjects of Political Economy in Moscow” (Philadelphia, The University of Pennsylvania, 2016).



programs pushed by technocrats were to achieve an end of a “transition” to Western style liberal capitalism but rather a means toward reconstructing a new Russian state and the social compact to support it. A popular interpretation of the 1993 Russian constitutional crisis as a conflict about shock therapy. During the crisis, the Congress of People’s Deputies, Russia’s then parliament created in the late USSR, opposed the continuation of the “Gaidar program” of rapid liberalization in favor of a more gradualist transition. Yeltsin and his allies are portrayed as attacking the duly elected parliament and creating a super-presidentialist constitution to block democratic opposition to shock therapy. A closer look at the process reveals a more subtle story. Instead, Yeltsin’s conflict with the Congress of People’s Deputies and the subsequent new constitution should be understood as a parallel process to shock therapy both designed to create a new elite and polity built around the presidency as a unifying, quasi-monarchical position that can serve to hold together a new Russian polity. In the context of the early 1990s, when the actual geographical unity of the emergent Russian federation itself was in question, creating a new elite, through liberal reforms was understood to be a way of constructing a coherent, survivable regime. The politics of shock therapy, privatization, and the creation of a highly centralized all powerful presidency was built on a tradition of Russian state building which deployed liberal ideas about economic and constitutional reforms toward the establishment of a Rechtsstaat, but not a liberal polity as understood in the Western political tradition.<sup>26</sup>

The 1993 Constitutional Crisis also began a growing alliance between Yeltsin and the security services. Through 1992-3, Yeltsin gradually adopted a more hawkish position vis-à-vis the Western alliance system to gain the support of the military against the already more hawkish Congress of People’s Deputies. Ultimately, he was successful, and the standoff was resolved by military intervention on the side of the Presidency. This alliance grew deeper during the 1996 Presidential election when an unpopular Yeltsin faced a challenge from a newly reinvigorated but increasingly nationalist Communist Party. The 1996 election married support for the new regime from oligarchs who issued campaign loans in exchange for shares of state companies and security connected with a resurgent and suspicious state security apparatus.<sup>27</sup>

In many regards, Putin was truly a successor to the system built by Yeltsin. In his first two terms, he completed a project of stabilizing the Russian political economy. The 1998 Russian financial crisis allowed the ruble to devalue while prices on oil and gas simultaneously peaked. The combination of a lower value currency and higher import receipts rejuvenated both the Russian government

26 — William Parlett, “Separation of Powers without Checks and Balances: The Failure of Semi-Presidentialism and the Making of the Russian Constitutional System, 1991-1993,” in *The Legal Dimension in Cold-War Interactions*, ed. Tatyana Borisova and William Simmons (Brill Nijhoff, 2012), 105–40; Andrew Scott Barnes, *Owning Russia: The Struggle Over Factories, Farms and Power*, 1st ed. (Cornell University Press, 2006); Neil Robinson, “State, Regime and Russian Political Development” (Limerick, Ire: University of Limerick, 2008).

27 — Andrei Soldatov and Irina Borogan, *The New Nobility: The Restoration of Russia’s Security State and the Enduring Legacy of the KGB* (PublicAffairs, 2010); Catherine Belton, *Putin’s People: How the KGB Took Back Russia and Then Took On the West* (Farrar, Straus and Giroux, 2020); Allison K. Stanger, “Courting the Generals: The Impact of Russia’s Constitutional Crisis on Yeltsin’s Foreign Policy,” in *Russia And Eastern Europe After Communism* (Routledge, 1996).

budget and the broader economy. Putin's main achievement was to actually routinize the tax system on energy imports, allowing the state to get a share of higher revenues.

Less formally, the Putin years saw a new deal with Russia's elite. As long as state companies and Putin's personal accolades could get a growing share of the economy, and oligarchs stayed out of politics, they were allowed to do as they pleased. Thus, corruption became a tool of regime making, if not state building, allowing inter-elite conflict to stabilize and the Kremlin to become its ultimate arbitrator. Russia's middle class grew. A similar agreement began to pertain to them. They could begin enjoying more economic and physical security and particularly, consume more. In exchange, they would largely stay out of politics.<sup>28</sup>

The so called "sushi years," named after the ubiquity of sushi restaurants catering to the urban middle class, stretched roughly between 2001 and 2012. In many regards, this era of Putinism was the successful achievement of what late-Soviet leaders and even the era's economic reformers had wanted. The market provided the efficient distribution of consumer goods to a growing urban middle class. In exchange that group was increasingly politically disengaged, and the key sectors of the economy, though often nominally private, were held by closely trusted figures. This political capitalism used the features of neoliberal economics such as a flat tax, tight and orthodox monetary policy, ample foreign investment, and a well-balanced budget for illiberal ends. Economic stability bought elite political consolidation. Putin had, for a time, achieved Brezhnev's little deal to its fullest extent.

### Putinism's Dilemma

On April 26, 2022, Nikolai Patrushev, the Secretary of the Russian Security Council, a sort-of de-facto national security advisor to Putin was interviewed by the government official newspaper, *Rosiseiskaya Gazetta*. In the interview, he declared that the West had declared a full-scale war on Russia in a bid to suppress Russian culture, national interests, and capture its natural resources. In response to a multi-factor cultural, economic, and military assault, Russia had to abandon "market mechanisms alone" and move to "using more of our countries internal resources" through "greater [government imposed] discipline" in key industries for "Russia's security."<sup>29</sup>

Patrushev is one of the most hawkish figures in Putin's orbit. He replaced Putin as director of the FSB after the former became Prime Minister in 1999. His current position has no direct institutional power but oversees briefing Putin giving him access to the dictator's ear. Patrushev began his career in the KGB as a counter-intelligence officer rising to leading the Leningrad region's anti-smuggling operations. KGB officers involved in domestic counterintelligence, and counter-intelligence officers in general, have a very particular culture. These circles are dominated by an adherence to a variety of conspiracy theories used to explain the collapse of the USSR though various "stab in the back legends."

28 — Ben Judah, *Fragile Empire: How Russia Fell In and Out of Love with Vladimir Putin*, Illustrated edition (New Haven ; London: Yale University Press, 2014).

29 — Ivan Egorov, "Patrushev: Zapad Sozdal Imperio Lizh, Predpolagaiushio Unichtozhenie Rossii," *Rosiskaya Gazetta*, April 26, 2022. Mark Galeotti, "Russia's Hardliners Present Their Manifesto," *The Moscow Times*, April 29, 2022.

One of the most popular of these is the “Dulles Plan,” which claims to be a 1948 document written by Allen Dulles (who was not in Washington policy making positions until much later) as an official US strategy to break the Soviet Union by poisoning Russian culture. There is no evidence of such a document and the story first appears in a historical novel from the early 1990s. Patrushev is on record believing even more outlandish ideas. In 2015, he made statements that Madeleine Albright had created plans to destroy Russia to gain its natural resources. The source of this claim was a statement by an ex-KGB psychic program mind reader who claims to have read Albright’s mind during an official meeting in the late 1990s.<sup>30</sup>

Thus, one can read Patrushev’s position as a very traditional position in favor of a mobilization economy. He calls for the use of internal resources to the maximum, hints at more coerced labor, and to prioritize the military-industrial complex. This is done to insure against a global economic system that, even without the threat of sanctions, Patrushev believes is manipulated by the United States and its allies to undermine Russian sovereignty.

Patrushev has quite a lot of influence on Putin, the fully extent of which is debatable and will be better understood in the future when we have a full accounting of the past years.<sup>31</sup> There are some indications that the Russian state is preparing for a more militarized economy. Russian military recruitment centers have had their databases updated to avoid the chaos seen in the fall. Some laws have been created to seize personal property in the interests of national security. Finally, announcements about the creation of a larger Russian Army designed to fight long wars imply a much larger military-industrial complex.<sup>32</sup>

However, as of his February 21, 2023, speech, Putin has not made any announcements or indications that he was abandoning the economic technocrats and putting in people like Glazyev. Neither has he made a decision on further mobilization or used the new economic laws. If anything, Putin’s latest pronouncements have sounded incredibly routine and even, Brezhnevian in their boringness. In late-Soviet fashion, Putin even praised the harvest and spoke about it as much as the full-scale industrial war he initiated.

Putin’s conservatism belies his popular reputation as a risk taker. In fact, his political pattern has been to wait to take difficult decisions until the last moment and avoid them as much as possible. February 24th was an exception and based on the false belief that an invasion would be a sure thing - a 72hr special military operation. However, Putin’s conservatism and vacillation between liberal illiberalism and mobilization represents a more fundamental problem.

Since his 2012 reelection, Putin has been unable to restore the social contract

30 — Oleg Kashin, “How the Hallucinations of an Eccentric KGB Psychic Influence Russia Today,” *The Guardian*, July 15, 2015, sec. World news; Maria Snegovaya, “What Explains the Sometimes Obsessive Anti-Americanism of Russian Elites?” *Brookings* (blog), November 30, 2016.

31 — Recent reporting in the *Financial Times* indicates that even Patrushev believed that invading Ukraine in 2022 was a bad idea. “How Putin Blundered into Ukraine — Then Doubled Down,” *Financial Times*, February 23, 2023.

32 — Dara Massicot, “What Russia Got Wrong,” *Foreign Affairs*, February 8, 2023; Pavel Luzin, “Doomed to Failure — Russia’s Efforts to Restore Its Military Muscle,” *CEPA*, November 15, 2022.

of the early 2000s. Putin's third term came on the heels of Medvedev's time as president. Medvedev has a justified reputation as a plant, but it did not mean he had zero agency. He represented a liberal, technocratic wing of Putin's coalition and attempted to do very high-profile policies to make Russia more open to new business. His acquiescence to the NATO mission in Libya also greatly angered Putin. Most importantly, the end of Medvedev's presidency was marked by the "Bolotnaya protests" against unfair Duma elections in Moscow and across other Russian cities. This was the Russian middle class coming out as a political force. The social contract of the sushi years had been broken.

This came against a difficult economic background. Like the rest of the world, Russia was hit hard by the 2008 financial crisis. However, it moved out of recession relatively quickly on the back of recovering energy prices. Yet, growth was not what it used to be. Investment in fixed capital never recovered and Russia never pursued a large-scale stimulus. As a result, the energy sector became even more important to the Russian economy. The increasing weight of energy led to a gradual renationalization of the economy since the energy sector was dominated by state, or quasi-state firms. Most important to the "little deal," the contribution of the consumption share to GDP growth reached a post crisis peak in 2012. Even before the sanctions announced on Russia after its 2014 intervention in Ukraine, Russia's economy was heading to recession.

Putinism in the third term already had a harder edge, even before 2014. There were programs launched to try to bring in more young people from outside the cosmopolitan middle class into Russian politics, or more precisely to cadre build new administrators. The rhetoric of the Russian state also became more militant and paranoid. However, there was very little change in the economic agenda, even after the annexation of Crimea. Despite calls for "import substitution" Russia's economic policy and implicit contract with the elite did not change. In fact, Moscow became an even bigger playground for the urban middle class.<sup>33</sup>

Putin did not make the choice to move from illiberal, liberal economics to mobilization. After all, why would he? Crisis after economic crisis has shown that Russia's technocrats will remain loyal to the regime. As well, they have been good crisis managers. Using very orthodox methods, Russia managed to weather the 2014 storm, and after a bout of inflation and panic, the ruble stabilized. In fact, a lower exchange rate turned out to be good for Russia, lower nominal costs meant that foreign denominated oil payments were worth more to the Russian budget. In 2022, Russian technocrats adopted less conventional but still effective means to stabilize the economy in the face of sanctions. To some degree, the social contract still exists during the war. Moscow is not the place it used to be, but it is still possible to live an apolitical, materialistic life. Mobilization has broken that shell a bit with a large portion of Russia's urban middle class fleeing. However, it is still largely restricted to the poorest members of Russian society and provincial. These are the people who are most likely to have some prior military experience anyway. Putin fears a broader

33 — Alexander Baunov, "Ever So Great: The Dangers of Russia's New Social Contract," Carnegie Endowment for International Peace (blog), July 15, 2015; Peter Sattler, "Putin Defaulting on the Social Contract," Atlantic Council (blog), June 24, 2015; Justin Burke, "Perspectives | Russia's Social Contract Is Fraying. What Are the Implications? | Eurasianet," Euasias.Net (blog), accessed February 26, 2023.

mobilization for good reason.

And yet, the future is very uncertain. First, Russia's economy has survived due to the deft response of the technocratic establishment. However, the real factor was that Russian energy exports remained strong, bringing in much needed revenue and allowing state energy firms to refill government coffers. This may not last. Sanctions on the Russian energy sector are beginning to come into effect and are starting to have an effect. 2023 is likely to be much harder on the Russian economy than 2022. In these circumstances, the usual liberal tools may not work as well to foster stability.

The military reality is also uncertain. As of the writing of this article, the new Russian offensive in Ukraine has not achieved major gains. Theoretically Russia still has plenty of mobilized troops, but their quality is unknown. Russian stocks of military equipment remain high but are beginning to show some signs of strain as well. The challenge of building and equipping the kind of military necessary to fight an extended, perhaps even quasi-permanent war, is daunting for Russian industry. Under these circumstances, the temptation toward a mobilizational economic policy will grow.

The question we must ask ourselves is whether such a policy is even feasible? Even Stalinist shock industrialization needed both foreign technology and a cadre of newly trained, ambitious specialists and engineers. Whether contemporary Russia has the capacity to move to a mobilization economy is a very open question.

Whatever the answer may be, I believe that we will have to live with Russia for quite a long time. That means that we in the West must think about how to break the wheel of Russian of the persistent factors in Russian economic policy. If we one day want to see a Russia that is not a threat to its neighbors and the global order, Russia has to be integrated into the global economy in a way that does not make it just a resource exporter and goods consumer. This requires many things which are beyond the scope of this article, including a real labor movement making specifically political demands to have a Party politics which is not solely focused on the unresolved questions of the Russian state, which is independent of its empire. Russian state building must finally become a matter of building well-functioning institutions that foster a good life and a growing, diverse economy, rather than a problem of securing a ruling elite and determining Russia's borders. The mistake to avoid is to think that if a post-Putin, post-war Russia follows a liberal economic policy will not be coopted toward further illiberal ends.