Economic Shocks and Authoritarian Responses:

Putin’s Strategy After the Global Financial Crisis of 2008-9

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1 Introduction

Authoritarian leaders should fear economic downturns. Such downturns can threaten their position by several pathways. For one thing, poor economic performance casts doubt on the incumbent’s competence, undermining confidence in his abilities both among members of the elite and within the population at large. Attempts to overthrow the incumbent may follow, whether by mass protest or insider conspiracy (Haggard and Kaufman 1995; Brancati 2014). Besides motivating citizens to challenge their ruler, economic crises may make it easier to do so. A sudden economic shock can serve as a focal point, enabling discontented individuals or factions to coordinate on the timing of an uprising (Acemoglu and Robinson 2005). Meanwhile, unemployment and wage stagnation lower the opportunity cost for citizens to rebel (e.g., Acemoglu and Robinson 2001, Dagaev et al. 2015).

Even as they increase the odds of challenges, economic crises weaken the ruler’s capacity to fight back. Poor economic performance shrinks government revenues, reducing funds for both coopting critics and financing the police, army, and other agents of repression (Bueno de Mesquita et al. 2003). Dwindling domestic resources may create dependence on foreign patrons and donors, who rarely value a dictator’s survival as much as he does. Together, these various effects of economic crisis have a significant impact. Empirical studies confirm that leaders of authoritarian states are more likely to be replaced in bad economic times (Londregan and Poole 1996; Bueno de Mesquita and Smith 2010; Treisman 2015).

Of course, not all economic crises produce a change of leader or regime. Dangerous as economic shocks are, some dictators survive them. Cuba’s GDP per capita fell by more than one third between 1990 and 1993, yet Fidel Castro’s rule persisted. Muammar Gaddafi, Saddam
Hussein, and Kim Jong-il all experienced years of severe depression without losing office. To some extent, such variation is explained by the different initial conditions that prevail when economic crisis strikes. Leaders who have saved or inherited large reserves can use them to compensate for shrinking revenues. So can those with access to foreign aid—although then the donors’ objectives become important. If the ruler is initially popular, with a reputation for competence, an economic crisis may do less short-run damage than if it strikes a leader who is already widely reviled. The intensity of opposition may depend on both the existence of a credible alternative leader and the type of the authoritarian regime (Bermeo 2000, Magaloni 2008). Those with better outside options—a military junta, for instance, can often return safely to the barracks—may be more likely to step down. On the other hand, those with more effective tools of repression may be better able to weather economic shocks. In practice, the first effect seems to dominate for military regimes, which appear more vulnerable than other types to economic pressures (Geddes 1999). Finally, various contextual details affect how easily rulers can deflect the blame for economic problems onto others.

Besides initial conditions, the strategy with which a ruler responds to an economic shock is bound to matter. Of course, the strategy chosen will, itself, depend on the initial conditions, so disentangling the effects is difficult. For this reason, case studies offer a valuable opportunity to explore the mechanisms of authoritarian survival during economic hard times. In this chapter we examine the consequences for Russia of the global financial crisis that began in late 2008 and the successive responses attempted by the regime of Vladimir Putin.

This crisis, which began in the US with a panic in the market for mortgage-backed securities and quickly spread around the world, hit Russia particularly hard. Its GDP plunged by almost 8 percent, the largest decrease of any G20 country (Guriev and Tsyvinski 2010).
Although growth turned positive again in 2010, the rate soon dwindled, falling to 1.3 percent in 2013. In 2011, Russia’s GDP per capita in real terms re-attained the level of 2008. However, a second wave of crisis broke out in late 2014, as oil prices crashed from $109 a barrel in 2013 to $52 in 2015 and Western sanctions, imposed after the Russian annexation of Crimea, tightened access to credit. The ruble lost almost half its value against the dollar between mid-2014 and early 2015, and GDP fell by 3.7 percent in 2015 and then by 1.2 percent (year on year) in the first quarter of 2016.

The abrupt end to the eight-year boom that had lasted until 2008 posed urgent challenges to the regime of President Putin, whose popularity had been based in large part on the steadily rising living standards of these years. As of the time of writing (mid-2016), President Putin had survived both the initial crisis and the second wave. Whether that success will last is another question, and some indications suggest that the short-run benefits of the strategies chosen come with major medium term risks and costs.

The next section discusses possible strategic choices of authoritarian leaders facing economic downturns in light of theoretical analyses of dictatorships. Section 3 characterizes the economic and political situation in Russia on the eve of the global financial crisis. Section 4 reviews the details of the economic shock Russia suffered after 2008 and examines the regime’s economic and political responses. Finally, the concluding section explores to what extent the Kremlin’s strategy fits the expectations of different theories.

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2 Authoritarian responses to economic crisis: theoretical expectations

How do economic crises affect the survival strategies of authoritarian rulers? Scholars have approached this problem in a number of ways. Guriev and Treisman (2015) see modern dictators as focused on maintaining a reputation for competence that can reconcile the population to their rule. Of course, democratic leaders also prefer to be thought competent, but authoritarian ones achieve this by distorting information flows to an extent incompatible with democracy. In an economically interdependent, globalized, and media-rich world, manipulating information to boost the leader’s popularity is a less costly way of holding onto power than intimidating the population with violent repression. Dictators choose between, on the one hand, buying the silence of those who observe their incompetence (cooptation) and, on the other hand, blocking media messages that expose their inadequacies (censorship).

In Guriev and Treisman’s model, dictators can often ride out small economic shocks—and may even see their reputations enhanced if they survive. But large economic downturns pose a greater threat, so they may force a change of strategy. Dictators switch from coopting the informed elite to censoring critical media. If they are already censoring such media, they increase the resources devoted to such censorship relative to other expenditures. They also respond to large economic shocks by boosting relative spending on propaganda. Thus, this theory predicts that severe economic shocks should prompt an increase in relative effort on censorship and propaganda. Since the amount of available funds shrinks, one expects to see a decrease in spending to coopt the elite.

Rozenas (2015), also modeling the dictator’s information control problem, reaches close to the opposite conclusion. If economic crisis leads citizens to suspect the dictator’s popularity is
falling, he must correct this impression in order to forestall challenges. To do so, he needs credible communication channels. But to be credible, such channels must be relatively independent, since manipulated information sources are discounted. Rozenas develops this logic in the context of fraudulent elections, but it could apply more broadly to manipulation of the media. A dictator who is thought to be losing popularity because of economic crisis should commit less electoral fraud so that, when he receives a higher vote than some expect, citizens believe that he is genuinely popular. By the same token, such dictators should permit more media freedom so that the independent media can credibly report his stronger than perceived public approval.

By contrast, a dictator whose popularity has not been thrown into question—by economic deterioration or other events—does not need a credible channel to send persuasive messages. He can afford to manipulate elections and censor the media as much as he likes. The key difference from Guriev and Treisman’s approach is that Rozenas assumes that the amount of manipulation can be observed, whereas Guriev and Treisman assume that at least some manipulation can be concealed. Based on Rozenas’ argument, one might expect a dictator struck by economic crisis to reduce both censorship of the media and the broadcasting of propaganda.

Another common expectation, consistent with Guriev and Treisman (2015), is that as its resources dwindle an authoritarian regime should shift from trying to coopt the elite and population with material benefits to providing (at least relatively inexpensive) symbolic goods. The dictator should substitute circuses for bread. This can involve stirring up nationalism by invoking external threats, and even provoking—preferably easily winable—military conflicts. Scholars have suggested that economic deterioration may prompt diversionary wars. General
Galtieri’s invasion of the Falkland Islands is sometimes seen in this light (Levy and Vakili 1993; Hastings and Jenkins 1983). The same logic might lead to a search for internal enemies, who could be pitted against the circus gladiators.

The effect of economic downturns on the extent of corruption is unclear. On the one hand, the incumbent might cut back on lavish expenses to compensate for falling revenues and avoid having to change political strategy. In this case, one might observe a decline in corrupt self-enrichment by insiders. On the other hand, if the crisis shortens the incumbents’ time horizon, it could prompt a rapid grab for moveable wealth during what time remains (Olson 1993). It might also motivate the autocrat to lavish greater largesse on members of his selectorate in order to offset their losses caused by economic deterioration and keep them loyal (Bueno de Mesquita and Smith 2011).

All these predictions hold ceteris paribus. As noted in the previous section, monetary reserves, aid (plus any associated conditionality), the initial popularity of the leader, his ability to suppress dissent, the type of authoritarian regime, and other contextual factors will all affect the impact of economic shocks on leader and regime survival. These factors will also influence what strategy the incumbent chooses. Thus, no simple model is likely to accurately capture in all settings what approach the incumbent will choose. Rather, the different logics specified by the various arguments can inform a closer examination of individual cases.
3 Russia on the eve of the global crisis

The global financial crisis that struck in 2008 caught Russia at the peak of a remarkable economic rebound. After the painful contraction of the 1990s, GDP per capita had been growing by 7 percent a year on average since 2000. For eight years, the state budget had been in surplus. The country had paid off most of its foreign public debt, reducing the total from $139 billion in 1999 to $37 billion in 2008. The authorities achieved this while simultaneously simplifying the tax system, slashing rates, and introducing a flat 13 percent personal income tax. The Central Bank’s currency reserves had grown from $12 bn in 1998 to almost $550 bn in June 2008, an amount exceeded only by China and Japan. Rather than spending windfall profits, the government had saved excess oil revenues in a stabilization fund that by early 2008 contained $157 billion.

Living standards had grown even faster than output. The average wage rose by 14.7 percent a year during 2000-2007, adjusted for inflation, while the average pension increased by 11 percent a year. This surge in spending power had fueled a consumer revolution. Between 2000 and 2008, retail trade per person grew from $570 to $3,952 a year (at market exchange rates); computer ownership soared from 6 to 47 per 100 households; and the number of cars per 100 people increased from 13 to 21. Even among the relatively poor, both incomes and life satisfaction had risen substantially (Guriev and Zhuravskaya 2009). Between 2000 and 2007, the

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2 Except where indicated otherwise, all economic data cited are from the Russian state statistical agency Rosstat (previously Goskomstat). Its website is www.gks.ru.

3 Data from the Russian Central Bank at www.cbr.ru.


unemployment rate fell from 11 percent to 6 percent and the share of citizens in poverty from 29 to 13 percent.

Yet the economic picture was not all rosy. The impressive growth rates of 2000-2007 had four main causes: A) a recovery after the previous collapse, B) increased competitiveness because of the devaluation of 1998, C) the effect of market reforms introduced in the 1990s and early 2000s, and D) rising prices of oil and gas. While the first three factors dominated in the early 2000s—the oil price increased only moderately in those years, rising from about $10 a barrel at the end of 1998 to $30 a barrel at the end of 2003—their effects had been exhausted by 2005. From that year, growth owed much more to the soaring price of hydrocarbons and the stimulus effect of a huge foreign borrowing binge by mostly state-controlled companies.

Between 2004 and 2008, the foreign debt of Russian banks and corporations ballooned from $80 bn to $425 bn.

The effects of higher oil prices and inflows of liquidity more than offset the effects of a simultaneous negative trend—the gradual decrease in the security of property rights. In 2003-4, the authorities dismantled the leading oil company, Yukos, supposedly to pay tax debt, and its main assets were sold cheaply to the state oil company Rosneft. Yukos’ CEO, Mikhail Khodorkovsky, was imprisoned after a trial based on dubious evidence and procedural irregularities. However, the stock market continued to soar, rising 50 percent in the two years after Khodorkovsky’s arrest. In subsequent years, the term “reyding” entered the Russian

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6 See, for example, Guriev and Tsyvinski (2010).

7 Information from the Central Bank of Russia, at www.cbr.ru.

language to refer to corrupt takeovers of companies with the help of judicial fraud and police threats or force. Meanwhile, certain old friends or associates of President Putin became extremely wealthy, acquiring control of major banks and other companies (Treisman 2008, 2011a).

The clearest example was Bank Rossia, which, led by an old Putin associate, Yuri Kovalchuk, rose from a little known provincial bank to one of the country’s leading financial institutions. Throughout the period, most of the largest banks were majority state-owned, and the two giants—Sberbank and VTB—were both headed by old Putin loyalists—German Gref, who initially worked with Putin in St Petersburg, and Andrei Kostin, a former Soviet diplomat posted in London (Aris 2015). This permitted the Kremlin to count on assistance from these banks when, for instance, it needed a reliable buyer for a failing private bank. In 2011, VTB purchased the Moscow City Government’s stake in Bank Moskva, which was later revealed to have accumulated $9 billion of problem loans. In turn, such Kremlin-connected banks could count on bailouts when needed; to cover Bank Moskva’s losses, VTB later received a $14 billion state package.9 Such close Kremlin ties also left Russia’s leading banks in the firing line when the US imposed post-Crimea sanctions: both Sberbank and VTB were cut off from much international borrowing.

The dramatic improvement in living standards during this period made any political strategy almost superfluous. Putin’s approval ratings spiked in late 1999, most likely reflecting a rally behind his leadership in the initial phase of the second Chechen war. But as support for his policy on Chechnya waned, the president’s ratings were sustained by the country’s buoyant

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economic performance (Treisman 2011b). Between January 2000 and December 2008, Putin’s approval never fell below 60 percent, and it rose as high as 87 percent.

Putin’s political strategists exploited their boss’s overwhelming popularity to concentrate power within the Kremlin. This reflected not so much need—with such approval ratings, Putin could reliably get his way under the existing system—as opportunism. The Duma was rendered subservient. A number of legal changes and informal measures reasserted Kremlin authority over the country’s regional governors. From 2005, these became presidential appointees rather than elected officials (Yakovlev and Zhuravskaya 2004). The “oligarchs” of the 1990s were ordered to withdraw from politics. A few who resisted—Boris Berezovsky, Vladimir Gusinsky, Mikhail Khodorkovsky—were forced to part with assets and sent to exile or jail. The Kremlin imposed control over the national television networks and began closely managing news coverage. The main previously independent television station, NTV, was acquired by the state-controlled oil company Gazprom, and editorial policy became much more supportive of the president (Becker 2004). The apparatus for organizing elections was turned in large part into a machine for manipulating and distorting the results.¹⁰

None of this dented Putin’s popularity with the general public; in fact, the claim that he was rebuilding the state, restoring law and order, and fighting corruption among governors and oligarchs added to his appeal. With ratings in the 70s and 80s, Putin’s approval was high among almost all identifiable social groups. What opposition existed consisted of a very small liberal fringe and, at the other extreme, anti-market and anti-Western communists and nationalists. Yet,

¹⁰ Electoral manipulations and fraud had also existed in the 1990s, but the scale clearly increased in the 2000s (see, e.g., Fish 2005).
although Putin’s ratings were lower in these groups than among others, he still often enjoyed majority support among their members. Even among those who said in December 2007 that they would like to vote for the Communist leader, Gennady Zyuganov, in the next presidential election, 52 percent said that they approved of Putin’s actions.11

Despite his moves against the most political oligarchs, and the growing pressures on other businessmen from the new Kremlin-connected corporate raiders, those magnates who survived remained decisively in Putin’s camp. It was under Putin that the number of Russian billionaires rose from zero in 2000 to 83 in 2008.12 Although a few of these were friends of the president, the vast majority were second-rank oligarchs of the Yeltsin era. For those that kept loyal, and were lucky enough to escape direct expropriation, the payoffs were enormous (Treisman 2016).

4 The global crisis and the regime’s response

With little exposure to the “toxic assets” that had spread panic through US markets, Russian business and political leaders at first thought their country would avoid the storm. Speaking at Davos in January 2008, finance minister Aleksey Kudrin described Russia as an “island of stability.”13 But as international investors fled emerging markets, Russia’s corporations found it

11 Authors’ calculations from Levada Center kurer survey December 2007, available at sophist.hse.ru.

12 This is the number as of March 2008, when Forbes published its global list. By the summer, when the Russian edition of Forbes published its list, the number had grown to 100.

harder to roll over their debt. After the US investment bank Lehman Brothers filed for bankruptcy in September, Russian financial markets froze, and the authorities had to close the stock exchanges for two days to curtail hysterical selling (World Bank 2008). Between mid-May and late October 2008, the RTS share index fell almost 80 percent, erasing $1 trillion worth of value (World Bank 2008). The country’s currency reserves dropped by $220 billion in late 2008 and early 2009 as the Central Bank tried to slow the ruble’s decline.

By early 2009, the crisis had spread from finance to the real economy. GDP dropped by almost 8 percent that year. Meanwhile, consolidated budget revenues fell from about 40 percent of GDP in 2007 to 35 percent in 2009 and 2010. Industrial enterprises were soon running into trouble. In the small town of Pikalyovo, southeast of St Petersburg, workers stormed the town hall and blocked highways to protest unpaid wages after all three of the town’s enterprises were forced to close. Unrest spread rapidly. According to data compiled by Tomila Lankina, the number of protests nationwide peaked in 2009 at 1,093, falling to 810 in 2010, 701 in 2011, and 549 in 2012. Data collected by the Moscow-based Institute of Collective Action, and analyzed by Graeme Robertson (2013) show similar trends.

One can divide the Kremlin’s economic policy responses to the crisis into several phases. The first phase was one of emergency management. The immediate priority was to prevent banks from collapsing and major corporations from losing assets to foreign creditors. The government issued about $40 billion in credits to banks and $50 billion to companies. It bailed out the automobile producer AvtoVAZ with an $806 million credit and lent the oligarch Oleg

14 These data are based on reports posted on the namarsh.ru website, which compiles information from a network of regional correspondents as well as press and online sources. Web links to press coverage are provided to check accuracy of each event report.
Deripaska’s aluminum concern, RusAl, $4.5 billion. Russia also cut export tariffs on oil to compensate for falling world prices and raised tariffs on imported cars to protect domestic factories. Less successfully, the authorities wasted $5.3 billion trying vainly to prop up share prices, but quickly abandoned the effort. These short run measures of the government and Central Bank cost about 12 percent of GDP in 2009, according to Putin, constituting a much larger stimulus in relative terms than the US’s 5.5 percent of GDP. Government budget spending rose from 34 percent of GDP in 2008 to 41 percent in 2009. In part, this reflected falling GDP, but the level of spending, in real terms, also increased by 5.4 percent.

These actions prevented mass bank failures and industrial bankruptcies. The government offered bailouts to a list of 78 companies in various sectors, but the terms were sufficiently onerous that many companies chose not to take them. It resisted calls to immediately nationalize troubled private companies. In these regards, finance minister Aleksey Kudrin and associated macroeconomic conservatives won in the short run. Analysts tended to see these early measures as effective (Guriev and Tsyvinski 2010).

The contraction of 2009 threatened to slash living standards and undermine the political model that had worked so well for the previous eight years. In 2009, the Kremlin tried to soften the blow. However, its leverage over the wage level in the economy at large was limited. This

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15 Sergei Balashov, “Every Banker for Himself: While Businesses Must Now Swim on Their Own, the Government is Reluctant to Economize on Social Spending,” *Russia Profile*, May 27, 2009.


influence consisted mostly of the government’s control over the minimum wage—which served as an anchor for various other wages—and its wage-setting for public sector jobs. From January 1, 2009, the minimum wage was raised by a massive 88 percent in nominal terms. State sector wages were also increased more than inflation. Yet, the plunge in private sector wages meant that the average real wage in the economy fell by 3.5 percent in 2009. The government increased pensions by 11 percent in real terms in 2009 and another 24 percent in 2010. Overall, social and cultural spending rose from 51 to 58 percent of the consolidated budget between 2008 and 2010.

And, after the disorienting first months, the Kremlin settled on a political strategy. The focus was on using the media to show that Putin was personally in command and—as prime minister—was energetically fighting the fires as they arose, in a style that became known as “manual control.” When the workers rioted in Pikalyovo, Putin flew out, accompanied by television cameras, to knock heads together and broker a deal. He was also shown in supermarkets berating their managers for raising prices.19 To divert discontent, the Kremlin blamed the West for triggering the crisis.

By 2010, the economy had begun a fitful rebound. The growth rate bounced back to 4.5 percent in 2010 and 4.3 percent the next year. After their decline in 2009, real wages rose by 5 percent in 2010 and 3 percent in 2011. The stock market also recovered somewhat from its 2009 plunge. After the emergency response of 2009, the authorities now sought to rein in the surging consolidated budget deficit, reducing it from 6.3 percent of GDP in 2009 to 3.4 percent in 2010, and returning the budget to surplus the following year. The growth of social spending slowed.

19 Adrian Blomfield, “Vladimir Putin humiliates Russian supermarket chiefs over expensive sausages,” The Daily Telegraph, June 25, 2009
The oligarchs, who had seen much of their wealth evaporate in 2009, were almost all saved by the rebound and, in some cases, government bailouts. The 10 businessmen who had topped Russia’s *Forbes* list of billionaires in 2008 had watched as their total net worth crashed from $197 billion in 2008 to $54 billion in 2009. By 2011, it was back up to $155 billion. Yet a set of Putin-connected businessmen did even better. Gennady Timchenko, an old associate of Putin’s who had created a business trading oil, raked in billions precisely during these crisis years. His wealth, according to *Forbes*, grew from $2.5 billion in 2008 to $9.1 billion in 2011 and $15.3 billion in 2014. Four Russian businessmen are often reported in the press to be old friends of Putin—Timchenko, Yury Kovalchuk, and the brothers Arkady and Boris Rotenberg. The combined net worth of these four according to *Forbes* increased from $4.4 – 6.4 bn in 2008 to $22.4 bn in 2014.20 Putin’s friends at the head of state corporations lobbied hard to use the crisis to nationalize troubled private firms—into their holdings (Treisman 2011a).

Yet, while the super-wealthy might have been relieved, the recognition that the previous boom would not be returning demoralized those who had risen into the middle class during the previous decade. Consumer confidence never regained its pre-crisis levels.21 The strategy of blaming the West was clearly losing effectiveness. In December 2008, 39 percent of respondents had held the US and other Western countries responsible for Russia’s economic distress, compared to 22 percent that pointed the finger at the country’s own leaders. By March 2010, 35 percent blamed Russia’s leaders and only 30 percent the West. The proportion blaming large

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20 We can give only a range of estimates for 2008 since the Rotenberg brothers were below the $1 billion minimum threshold for Forbes in that year.

Western banks and corporations had also fallen from 22 percent to 18 percent. Putin was becoming a target for economic discontent. In late 2010, even among those who thought the economy was in bad shape 51 percent still approved of the president’s performance. By late 2011, only 28 percent did (Treisman 2014).

The second phase in the political strategy began in early 2012. To the Kremlin’s surprise, Putin’s decision to return as president in 2012, “castling” with his protégé Dmitri Medvedev, who took Putin’s role as prime minister, prompted grumbling from the capital’s elites. Insiders were also caught off guard when, after numerous observers documented fraud in the parliamentary vote of December 2011, tens of thousands took to the streets in Moscow demanding clean elections. These demonstrations actually mobilized fewer people in total and were more localized than those of 2009-10. But, unlike the economic protests in Pikalyovo and other cities, the Moscow events were explicitly political; brought out up to a hundred thousand people in the country’s capital; and attracted the most modern and globalized segment of the population, which had previously been mostly supportive of Putin or politically inert.

At first, the Kremlin wavered. Medvedev, in late December 2011, announced several political compromises, including a return to elections for regional governors—a reform later weakened by the addition of a screening mechanism—and easier registration procedures for political parties. But after Putin’s inauguration in May, his team introduced a tougher line, seeking to intimidate and marginalize the Moscow protesters with a mix of hostile propaganda and relatively mild but effective political repression. This coincided with—and facilitated—a

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shift in power within the Kremlin, with security officials coming to dominate the technocratic managers.

To scare potential protesters off the streets, the Kremlin tightened relevant laws and undertook a number of very public prosecutions of opposition figures. The maximum fine for participating in an unauthorized demonstration rose from 300 to 300,000 rubles—about $9,000. In line with the view that the protests had been instigated from outside, a new law ordered NGOs that were receiving foreign funding and engaged in “political activity” to register as “foreign agents.” The definition of treason was broadened to cover cooperating with foreign organizations “against Russia’s security.” To signal the new environment, the performance artists of Pussy Riot, several left-wing activists, and the opposition leader Alexei Navalny were all tried and sentenced to jail for different offenses, although Navalny was immediately released to house arrest. Perhaps even more significantly, 27 previously unknown Muscovites who had marched in a May 6th rally on Bolotnaya Square were prosecuted on dubious evidence for allegedly attacking policemen. This sent a clear message to all potential protesters that they, too, could end up in a labor camp.

No authoritative accounting of politically motivated arrests exists. Still, a meticulous examination by the NGO “Union for Solidarity with Political Prisoners” (USPP) suggests the scale increased after 2011. In 2011-14, according to USPP, 139 political prosecutions were initiated, more than in the entire preceding 12-year period (Durnovo 2015). The human rights organization Memorial also tracks those it considers to be political prisoners. As of October 2013, its list contained 70 names. Several dozen of these—including the Pussy Riot performers and 30 Greenpeace activists arrested trying to scale a gas drilling platform in the Pechora Sea—were freed in an amnesty that December. Putin also pardoned the jailed oligarch Mikhail
Khodorkovsky, in what was viewed in the West as an attempt to improve Russia’s image on the eve of the Sochi Winter Olympics.\(^{23}\) By February 2014, Memorial’s total had fallen to 40, but it began to rise again, reaching 50 by June 2015.

Already by early 2008, almost all the television channels broadcasting news had been brought under state control. But efforts to cow critical journalists from what remained of the independent print media continued. On his return to the presidency, Putin re-criminalized defamation and slander, which Medvedev had de-criminalized in his last months in office. In a notorious incident, the head of the Investigative Committee, Aleksandr Bastrykin, had *Novaya Gazeta* deputy editor Sergei Sokolov driven to a forest outside Moscow and allegedly threatened to kill him if Sokolov did not apologize for a critical article about Bastrykin.\(^{24}\)

Before the protests of 2011-12, Putin had paid little attention to the Internet, which he once described as containing "50 percent pornography."\(^{25}\) That changed after Facebook and Twitter were credited with helping to coordinate both the Arab Spring and the Moscow demonstrations.\(^{26}\) A new law in 2012 introduced a “blacklist” of web sites, supposedly to filter out child pornography and other information harmful to children. But in December 2013, the law’s scope was broadened to cover sites that promoted “extremist” information or publicized unsanctioned protests. The sites blocked included the blogs of opposition leaders Alexei Navalny


and Garry Kasparov. Between January 2012 and February 2013, Freedom House reported an approximately 60 percent increase in the number of websites blocked on the grounds of “extremism.”

As in China, many of these measures seem aimed at preventing the use of the internet to coordinate protests (King, Pan, Roberts 2013). But in other ways the Kremlin appeared committed to a more active agenda aimed at shaping opinion. A vigorous propaganda campaign sought to portray the West as morally decadent, while asserting conservative Russian values, rooted in Orthodox Christianity. The prosecution of Pussy Riot, various initiatives against “pro-homosexual” publications, and a law passed in late 2012 that banned adoptions of Russian children by Westerners all sent this message in different ways. Another new law, passed after the Pussy Riot affair, criminalized “public acts expressing manifest disrespect for society and carried out with the goal of insulting the feelings of religious believers.”

State television became a venue for increasingly blatant attacks on the domestic opposition, casting them as agents of the West. In a series of conspiratorial documentaries produced by the journalist Arkady Mamontov, anti-Putin activists were portrayed as violent revolutionaries or social deviants. To counter such forces, the Kremlin set about mobilizing its own supporters. During President Putin’s election campaign, the Kremlin had organized a mass rally of 130,000 loyalists in the Luzhniki Stadium; some came voluntarily, others were paid to participate. Educating youth in patriotic values also became a more urgent priority: the agency responsible for such work, Rosmolodezh, saw its budget rise from $12 million in 2012 to $31 million in 2013 and $36 million in 2015.

Whether because of the effectiveness of the Kremlin’s propaganda and repression or just because of the natural wave-like dynamic of protest movements, the opposition demonstrations
in Moscow dwindled over the course of 2012. At the same time, the Kremlin was shoring up its support among public sector workers, especially those required to implement the tougher approach. Between 2011 and 2013, wages rose nationwide by a total of 12 percent in real terms. But the increases were larger for many state employees—23 percent in healthcare and social services, 31 percent in education, 34 percent in justice and the courts, 58 percent in public order and security, and 61 percent in management of jails.

Although Putin’s ratings remained at a level that most leaders would envy, they had nevertheless been sliding for several years. From a peak of 87 percent approval in December 2007, his rating had reached a low of 61 percent in November 2013. Other polls suggested a hollowing out of this support. The proportion that said they fully shared Putin’s views and positions had dropped from 27 percent in May 2007 to 16 percent in August 2013. The share that said they used to like Putin but had recently grown disappointed in him had risen from 9 percent to 20 percent. Six weeks after his election in 2012, fewer than 40 percent of respondents thought Putin would still have won the presidency if Russia had “a free press and television, which could freely talk and write about abuses of the authorities” (Treisman 2014, p.16). At the same time, the trend in the economy was, by 2013, unmistakably bad. The growth rebound, which had ended in 2011, was followed by five consecutive quarters of falling rates.

It was against this backdrop that Putin’s political strategy changed again in early 2014. To what extent Russia’s intervention into Ukraine reflected external political objectives or domestic concerns is not easy to say. But the domestic situation certainly worried political advisors. In February 2014, after the regime of President Viktor Yanukovych collapsed in Kiev, Putin ordered covert special forces troops to invade the Crimean Peninsula. After a hurriedly
organized referendum conducted in the shadow of the Russian troops, the region was annexed to Russia. In a triumphant speech to the Federal Assembly, Putin declared that the West had placed Russia “in a position it could not retreat from,” and demanded that others “take into account and respect” Russia’s national interests. "In people's hearts and minds, Crimea has always been an inseparable part of Russia," he asserted.27

As the West responded with harsh criticism and economic sanctions, Putin’s approval rating shot up to 86 percent that June.28 Eighty-eight percent supported the annexation of Crimea.29 Putin then rolled the dice again, providing covert support to anti-Kiev rebels in the predominantly Russian-speaking regions of Donetsk and Lugansk, at first in the form of nationalist volunteers with military experience who were allowed to infiltrate across the border, and later in the form of heavy weapons and interventions by Russian troops.

These actions made Russia’s economic problems considerably worse. Western sanctions cut off major Russian companies and banks from Western financing, just as they needed to roll over the large foreign debt they had continued to accumulate through the crisis period. Sanctions exacerbated the effect of plunging oil prices. In late 2014, the ruble crashed, losing almost 50 percent of its value between June 2014 and January 2015. Real wages fell by 11 percent in the year after Crimea’s annexation, and the average pension fell by about 4 percent. But approval of Putin remained strong, never dropping below 83 percent. The Kremlin succeeded in diverting the


blame for deteriorating economic conditions onto Western sanctions. Levada Center polls showed that 46 percent of respondents thought that foreign sanctions were aimed not at the elite but at the general population and 66 percent believed their aim was to “weaken and humiliate Russia.” Even Putin’s self-punishing “anti-sanctions,” which banned the import of European food into Russia, won the support of 70 percent of respondents.

The renewed economic crisis of 2014—and Western sanctions—hit Russia’s billionaires hard, but especially those closest to Putin. The combined total wealth of Russia’s ten richest men fell from $161 billion in 2014 to $137 billion in 2015. But that of the four “old Putin friends” on the Forbes list dropped from $22.4 billion in 2014 to $12.1 - 14.1 billion in 2015, a much larger proportional decrease. This was despite remarkable efforts by the Kremlin to offset Western sanctions on these individuals by providing them with state-financed material benefits.

Analysis of the top recipients of Russian government contracts in 2010-15 shows that members of Putin’s inner circle received about 142 times more money in such contracts than unconnected recipients (Lamberova and Sonin 2016). Indeed, the wealth of members of Putin’s inner circle and their immediate contacts turns out to be particularly volatile and tied to hydrocarbon prices. Such Putin connections did far better than other major business people in years of high oil prices, but worse than others in years when prices were low (Ibid).

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30 “Rossiyane uvereny vo vrazhdebnosti zapada,” Levada Center poll results, published on 02.11.2015.

31 In contrast to the capital account, the trade account has not posed any problems to the Kremlin. High exports of oil, gas, and other commodities have made for a trade surplus—and a current account surplus—in all years since Putin took office. The current account surplus in 2015 was $65.8 billion (see http://www.reuters.com/article/russia-economy-capital-idUSL8N1522RH).

Meanwhile, the Kremlin ratcheted up the censorship, propaganda, and pressure on potential protesters. On the propaganda front, a key change came in late 2013, when the relatively professional and politically restrained state news agency RIA Novosti was reorganized under the new name Russia Today and the leadership of the virulently anti-Western news anchor Dmitri Kiselyov. With the Ukraine events, the theme of state propaganda shifted from the attack on Europe’s moral decadence to the military competition and even conflict with the West. As Kiselyov pointed out to viewers, Russia remained the only world power with capacity to reduce the US to “radioactive ash.” At the same time, propaganda operations on the internet were decentralized to hundreds of “trolls,” who were hired to disrupt discussion of certain issues with their comments and promote the government view on other issues.33

New amendments in 2014 toughened penalties for violating public order and increased the police’s authority to use violence. And a range of measures intensified pressure on what remained of the independent press. In October 2014, the Duma banned foreign ownership of more than 20 per cent in any Russian mass media organization, prompting Axel Springer and other major foreign players to begin selling their holdings.34 Reportedly under pressure from the Kremlin, cable providers cut off service to the small, liberal, Russian-owned Dozhd television station in January 2014, depriving it of 90 percent of its audience. A year later, the station was hit again by a new ban on advertising on paid television channels.

Simultaneously, control over the internet tightened. Pavel Durov, the founder of the largest social network, VKontakte, had since 2011 been resisting pressure to hand over users’


34 Katherine Hille, “Axel Springer Joins Long Media March from Russia,” Financial Times, September 17, 2015, http://www.ft.com/intl/cms/s/0/235ef22a-5d4f-11e5-97e9-7f0bf5e7177b.html#axzz3r8w7GvtG.
data to the security services. In 2014, he was compelled to sell his stake in the company to pro-Kremlin investors, and he left the country shortly afterwards (Thornhill 2015). A new 2014 law required foreign internet companies to store all Russian citizens’ personal data within Russia, where they could be monitored by the security services. As of November 2015, it was not clear whether Facebook, Twitter, and other platforms would comply (Soldatov and Borogan 2015).

After Navalny published details of the vast real estate holdings of top officials, the law on privacy was amended to make it a crime to reveal information about the living conditions of individuals. Bloggers whose posts attracted more than 3,000 views were, from 2014, ordered to register as media, rendering them subject to various regulations. Re-sending “extremist” material was also criminalized, raising the possibility that a wrong re-tweet could lead to imprisonment. And anonymity was eliminated by a law that requires Russians to sign in with their phone number whenever they use Wifi in public spaces. Preparing for possible new waves of protest, the authorities even tried simulating a complete cutoff of Russia from the global internet to be used in a crisis (Soldatov and Borogan 2015).

5 Conclusion

So how did the Putin regime adjust its political strategy—in particular, its use of repression, cooptation, censorship, and propaganda—in response to the global economic crisis? As we saw, this response passed through several phases.

The first, which lasted from 2009 to 2011, focused on emergency management. With extensive currency and fiscal reserves, the Kremlin could afford to delay any decisions about a
more fundamental change. At the same time, Putin’s remarkable approval rating at the start of
the crisis—which hit 87 percent after Russia’s brief war in Georgia—allowed him breathing
room. In this period, the Kremlin concentrated on cooptation, boosting public spending to offset
the pain felt by the population as the economy contracted. At the same time, the government
allocated resources—albeit relatively sparingly—to bail out business interests. Yet, although this
strategy deflected any major threat to the regime, it did not prevent the disillusionment of those
in the upwardly mobile middle class who had been counting on the continuation of the previous
boom. Increasing discontent among more modern and globalized circles in Moscow and other
big cities contributed to the outburst of protest in 2011-12.

What brought this first phase to an end was both the shock of mobilized opposition to
Putin in the streets of Moscow and the realization that, given the tepid pace of economic
recovery, the Kremlin would need to conserve and target its reserves. The key objective of the
second phase was to discredit and marginalize the urban opposition. Propaganda was stepped up,
focused on the theme of Russian traditional values. Cooptation now targeted mostly core
supporters—in particular, public sector workers—while repression and censorship (of both
media and internet) were intensified in an attempt to block collective action and break the
momentum of protests.

The theme of the third phase, which began with the covert invasion of Crimea, was war,
first in Ukraine and later in Syria. From late 2013, Putin appeared to give up on a revival of rapid
growth. With the international economy slowing down from Europe to China, depressing
demand for oil, he largely abandoned cooptation and concentrated on blaming the West for the
population’s economic hardship, which he did less and less to alleviate. Indeed, Russia’s open
military confrontation with the West made economic conditions worse. Propaganda was raised to
an unprecedented pitch, focused now on military conflict more than traditional values. Controls over media and internet were tightened still more, less at this point to disrupt the protest movement, which had in any case died away, than to dominate public discourse.

As economic conditions worsened and resources shrank, this did not lead—as might have been expected—to any observable reduction in favoritism toward Putin’s close associates. Rather, the Kremlin sought to compensate these businessmen for losses suffered at the hands of Western governments, which sanctioned their travel and froze their foreign assets. At first sight, this might look like an attempt by the autocrat to shore up support within his selectorate (Bueno de Mesquita and Smith 2011). Yet, the favored individuals—who include two old judo partners of Putin’s and a former physicist-turned-banker—have no political resources that could threaten Putin’s position. The special treatment might also reflect the Kremlin team’s shortened time horizon, except that we know of no evidence that Putin sees his time in office as limited.

In sum, the case fits Guriev and Treisman’s expectation that economic shocks can prompt the substitution of censorship and propaganda for cooptation of the opposition elite. It also fits the notion that leaders, facing a shortage of bread, may switch to circuses, or, in the Russian idiom, may seek to distract citizens from their emptying refrigerators with exciting drama on the television. Although the motives for Russia’s interventions in Ukraine and Syria are more complicated, the initiation of military adventures after an economic shock is certainly consistent with the diversionary war view. That said, the change in strategy did not follow the economic crisis immediately, but materialized only after several years. Initial reserves of money and popularity allowed the regime to coast along for a while, waiting to see how economic conditions might develop.
We observe no effort by the authorities, in light of falling popularity, to strengthen their credibility by increasing media freedom and the honesty of elections. Rather, the fall in the reputation of the pro-Putin United Russia party during 2011 was followed by a parliamentary election that was plausibly portrayed as one of the most fraudulent in post-communist history. Pressures on both the media and internet intensified. By contrast, it was in the era of post-Crimea soaring ratings that the Kremlin did seem concerned to reduce the appearance of fraud in the legislative elections of 2016. The long-serving head of the Central Electoral Commission, Vladimir Churov, nicknamed “the Magician” for his seeming ability to conjure up the Kremlin-favored electoral result, was replaced in March 2016 by a former human rights ombudswoman, Ella Pamfilova. Nor do we observe any attempt to conserve resources by suspending corrupt favoritism in public contracts. While this could possibly reflect greater perceived insecurity of tenure among ruling circles, there is little supporting evidence for this view.

Whereas in some other countries well-organized ruling parties have been important tools by which authoritarian leaders maintained control at times of economic crisis, Putin’s “United Russia” (UR) party is commonly viewed as a rickety construction, staffed by opportunists who would desert without hesitation if the party lost its dominance and funding. UR’s reputation as the “party of crooks and thieves,” as the opposition activist Alexei Navalny dubbed it, became such a liability that Putin himself sought to find some distance in 2011-12, setting up a loosely defined “National Front” as a parallel vehicle for mobilizing supporters. Instead, Putin’s model depends on more direct mobilizational appeals that exploit his personal popularity and television image, as well as the “vertical of power” within the state. Governors and mayors are responsible

for maintaining social order and ensuring electoral victories in their jurisdictions, and are managed in this regard by the political operatives of the Presidential Administration in the Kremlin.
References


