

Putin after re-election.

The Kremlin's policy in Vladimir Putin's second term

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Key points

1. Vladimir Putin's first term as President was a period of submitting political, regional and economic lobbies to the Kremlin. The actions Putin has taken since being re-elected are aimed at consolidating the Kremlin's control over the political, economic and social spheres. Further liquidation of political and informational pluralism, an increase of the ruling group's control over state and private property, and an intensification of state propaganda aimed at generating social support for the Kremlin's initiatives have all proceeded apace. These processes reinforce authoritarian tendencies and strengthen the emerging mono-centric political system, with the President's strong domination over political, economic and social life.

2. Since Putin's re-election no return to wide-ranging economic reforms can be observed; previously, the reformist impetus of the President's team had been checked halfway through his first term of office, with a view to the approaching parliamentary and presidential elections). Thus, the concentration of power in the President's hands (which had been repeatedly named as a *sine qua non* for the implementation of unpopular reforms) has not brought about any continuation of economic reforms. The authorities have limited themselves to selected actions in the social sphere and have made no attempts to reform the area of the natural resource monopolies. Nor have they guaranteed to put into practice the pro-market acts which had been passed during Putin's first term of office. Instead, one may observe the consumption of the fruits of the boom in the raw material markets, and the demonstration of Russia's remarkable economic indicators (which in fact mostly derive from high oil prices). Meanwhile, unfavourable conditions for long-term economic development in Russia are growing: the archaic structure of the economy is being strengthened (the overwhelming dominance of big businesses over small- and medium-sized enterprises in GDP production); the raw-material profile of the Russian economy is being reinforced (at the cost of services and technologies), the Kremlin's political control and "manual steering" of the economy is growing, and corruption (the which is a serious problem for the effective func-

tioning of the Russian economy) has not been reduced.

3. The elections and the beginning of Vladimir Putin's second term of office were a period which saw an increase in the Kremlin's control over both state and private property. This was done by strengthening the position of big state companies (especially in the raw materials sector), by increasing the amount of state regulation over the strategic sectors of the economy, and by tightening control of private companies. At the same time, the right to private property is being violated by the ruling elite. Under the pretext of collecting delinquent tax demands, the authorities are attempting to take over the assets of Russia's biggest private company, the oil concern Yukos. Such actions have already led to an increased flight of capital from Russia, and to a general deterioration of the country's image as a stable, predictable economic partner which encourages foreign investments.

4. In the last few months Russian political life has witnessed a visible intensification of Kremlin propaganda, based on the ideology of security. The authorities are trying to create an image of Russia as a country besieged by the hostile outside world (especially the West), and undermined from within by a democratic "fifth column". The Russian authorities, using the media, are requiring a unification of forces in the battle against terrorism. In practice, this means a strengthening of the President's powers at the cost of other centres of public life, as well as an intensification of xenophobia and distrust towards all forms of dissidence and dissent. Moreover, the Kremlin is trying to involve the Russian Orthodox Church in the struggle for people's minds. The authorities have appealed to Orthodox hierarchs for "active participation in fighting terrorism by boosting society's morale".

5. Since the very beginning of Vladimir Putin's rule, we have witnessed a visible expansion in the appointment of security service representatives (the so-called "chekists"), as well as their increasing influence on politics, the economy and social issues. This tendency has been maintained since Putin's re-election. At the moment, the "chekists" have influence not only on state govern-

ment issues, but also have increasing access to financial resources. At the present stage of Putin's rule, a wider process can be noted of appointing Putin's close colleagues from the security services to key posts in state-controlled companies. Also, the "chekists" activity keeps growing in the sphere of ideology.

Introduction

The aim of this text is to try and sketch President Putin's policy course in his second term of office. This is done on the basis of analyses of the most crucial actions that the President took or initiated after his re-election. We consider the date of the presidential elections (14 March 2004) as the beginning of Putin's second term of office. However, the beginning of his second term may also be dated from 7 May 2004 (when he was inaugurated), 5 March 2004 (when he appointed the new government of Mikhail Fradkov), or 7 December 2003 (the date of the pro-presidential parties' sweeping victory in the parliamentary elections).

The text begins with a short presentation of the course and results of the parliamentary and presidential elections. This is the starting point for a sketch of the political and economic context in which Putin found himself at the beginning of his second term. Furthermore, we analyse the President's actions in areas such as politics, the economy, security and social questions. On this basis, we try to sketch out the course of Putin's policy during his second term of office, as well as to answer the question of how Putin's rule may appear up to the year 2008, and what consequences it may have on Russia's further development.

I. Political and economic context

The elections to the State Duma, the lower chamber of the Russian parliament, took place on 7 December 2003 (the members of the higher chamber, the Federation Council, are appointed, not elected). The elections were a sweeping success for the pro-Kremlin party United Russia (*Yedi-*

naya Rossiya). United Russia now comprises more than two-thirds of all the Duma's deputies¹. Such an overwhelming majority allows them to promote their political projects efficiently, as well as to pass or revise laws (including the Constitution)².

The pro-Kremlin parties have been so successful due to the Kremlin's backing and the support of Vladimir Putin himself, as well as the assistance of the popular media and the regional elites (who – under pressure from Moscow – made every effort to ensure a result favourable to the pro-presidential parties). This situation demonstrates how powerful the authorities' influence over the election process is. Thus, last year's parliamentary elections are often thought of as the moment when the result of the approaching presidential elections was determined (in Putin's favour). In a wider sense, they are often considered to be the moment of the final consolidation of the mono-centric political system in Russia³.

On 5 March (a week and a half before the presidential elections) a new Russian government was formed, with Mikhail Fradkov as the Prime Minister. The hasty dismissal of the former government (led by Mikhail Kasyanov) and the formation of the new cabinet took place before the elections, and not straight after them, as is usual. This was probably caused by political circumstances (namely, the fear Putin and his inner circle had of Kasyanov's assuming power in case the presidential elections were rendered null and void⁴). The shape of Fradkov's cabinet proclaims unambiguously that the government plays a merely "technical" role in the Russian political system. The cabinet's autonomy is significantly limited, and the ministers appointed are absolutely loyal to the President. Many influential politicians from the Yeltsin team have left the government. The Prime Minister is a technocrat devoid of political ambitions, and is dependent on President Putin. Thus, the new government has become a loyal executor of the Kremlin's projects⁵.

On 14 March Vladimir Putin won in the first round of the presidential elections, gaining 71.3 per cent of the vote. The elections in fact took on the character of a plebiscite, with voters expressing their support for the acting President and his

policy. Putin's sweeping victory resulted from his unwavering popularity during his whole first term of office, as well as from the Kremlin's control over the election process, which ensured Putin a definite advantage over the rival candidates⁶.

During Putin's rule, the Russian economy has prospered, thanks to the worldwide boom on the raw material markets. The Russian economy has been growing for several years now; in 2000 its GDP grew by 10 per cent, by 5.1 per cent in 2001, 4.7 per cent in 2002, and 7.3 per cent in 2003 (the prediction for 2004 is 6.6 per cent⁷). However, the sources of this growth have changed. In 2003, Russia's economic growth was based on both high oil prices and rapidly growing domestic demand (both in investment and consumption)⁸. At this moment, the basic source of Russia's economic growth are principally oil prices⁹ (exceeding US\$40 a Urals barrel at the time of writing¹⁰). Some economists even argue that without this income from raw material export, Russia's economic growth would have been negative¹¹.

The expectations connected with Putin's actions in his second term of office boil down to two fundamental questions: on one hand, whether Putin's strong position will bring about a continuation of the economic reforms started back in 2000, and on the other, how is the succession question going to be resolved. The author of this text has attempted to answer these questions, and to formulate key points and predictions regarding the nature of the political and economic system in Russia, as well as its perspectives for the future.

II. President Putin's policy since re-election

Since Vladimir Putin's victory in the presidential elections, the authorities have undertaken a number of actions with the aim of a further concentration of power in the hands of the Kremlin. These actions have affected the political, economic and social spheres. As a result, the emerging monocentric political system has been consolidated, with its clear (and still growing) domination of the Kremlin over all key areas of Rus-

sian political life. This is inextricably linked with the intensification of authoritarian tendencies in Russia, such as the Kremlin's "manual steering" the domestic policy, the reduction of political and informational pluralism, and the minimisation of social control over the authorities' policies.

This increased concentration of political power is being carried out with the succession of 2008 in mind (when Vladimir Putin's second and last term of office expires), or – which cannot be ruled out – with Putin's extension of rule in mind¹². The ruling team is attempting to maintain its exclusive position in the process of appointing Putin's successor, or in amending the Constitution so that the current President can stay in office.

The events following Putin's victory in the presidential elections also prove that a number of the important processes initiated during Putin's first term are continuing. In particular, we note the ever-growing influence of representatives of the security service on state policy; the intensification of propaganda activity aimed at inculcating social support for the Kremlin's successive policy initiatives, and in the economic field a slow-down in the liberal reforms, replaced by a policy of consumption permitted by the favourable situation on the world raw material markets¹³.

1. The concentration of power and the reinforcement of authoritarian tendencies

Following Putin's re-election, the authorities intensified the actions aimed at concentrating power in the hands of the Kremlin and the further neutralisation of different political and economic lobbies. These actions have primarily been aimed at the regional elites, big business circles, the media and the NGO sector, as well as the legislative and judicial branches of power.

One of the most important actions which has been taken is **the President's initiative to change the principles for electing regional governors**, which may affect the whole political system¹⁴. The governors, who hitherto have been elected in general elections, are now to be nominated by the President (the choice is to be approved by regional parliaments). The implementation of the

President's initiative would change Russia's political system and actually turn the Russian Federation into a centrally-governed unitary state. This decision also seems questionable from the viewpoint of how efficient this type of administration may be in such a vast country. There are fears that the "presidential governor" may have little social legitimacy and a limited independence in the decision-making process. In some extreme situations, this could lead to a paralysis of decision in the regions, and would often burden Moscow with the necessity of interfering and managing the situation in the regions directly¹⁵. This initiative is quite controversial to a number of Russian constitutionalists, as well as to Russian society in general (as surveys show, two-thirds of respondents are in favour of keeping the system of directly electing the governors¹⁶).

Together with the aforementioned reform, President Putin has announced his suggestions concerning electoral regulations (parliamentary elections), which have been considered behind the scenes for some time. The current "mixed" electoral system is to be replaced by a "proportional" one. Such a scheme would eliminate the single-mandate electoral districts (where half of the deputies are elected), and would lead to members of parliament being elected only from the party lists. This would in turn dramatically reduce the possibility that any politician independent of the Kremlin, representing the regions, business or democratic circles might obtain a mandate. Any candidate would have to participate in the elections in consultation with political parties, and on those parties' conditions – and almost all of the parties in the Duma are connected with the Kremlin.

The new electoral regulations are to be completed by a directive concerning **raising the electoral threshold from 5 to 7 per cent**¹⁷. The change to the electoral system and the raising of the election threshold may lead to permanent marginalisation of those parties not connected with the Kremlin (such as the Russian democratic parties, whose popular support does not exceed 5 per cent). This would eventually lead to the emergence of a party scene dominated by two or three major political parties, more or less dependent on the authorities.

Another initiative (which is in the process of passing through the Duma) is the proposal to quintuple the required number of party members (from 10,000 to 50,000)¹⁸. There are also other initiatives aimed at subordinating members of parliament by imposing strict sanctions for less important misdemeanours. All this demonstrates that the **Kremlin is aiming to strengthen its control over the legislative power, even though it already has efficient instruments of control at its disposal.**

The Kremlin has also taken analogous actions towards the judicial branch of government. On 29 September 2004, the Federation Council (the upper chamber of the Russian parliament) presented a set of draft acts whose aim is to strengthen the President's control over the key bodies of the judiciary. The main proposal concerns granting the President the right to appoint more than half the members of the qualification council (which decides on the suspension of judges' immunity, among other matters). The remaining members are to be appointed by the Federation Council itself (currently the council members are elected by the judicial congress). Another crucial initiative concerns giving the President the right to appoint the head of the general court department of the Supreme Court (this department is responsible for the staffing, financing and technical security of Russian courts).

The implementation of the abovementioned initiatives would mean a statutory consolidation of the Kremlin's control over the judicial branch (although the Kremlin has anyway been exerting informal pressure on courts). The President could officially decide to deprive "disloyal" judges of their immunity, or use the judges' financial and material dependence to push through certain court verdicts.

The authorities have also introduced a statutory possibility of preventing any public demonstration of social disapproval of Kremlin or governmental policy. On 30 June 2004 a new act concerning referenda came into force, which **substantially reduces the possibilities of organising a national referendum, and subjects this process to a strict control of the authorities** (initiative groups are supposed to be registered on ma-

ny levels, and should complete the whole procedure within a strictly specified period of time)¹⁹. Two years ago the Duma banned any organisation of a referendum in an election year, fearing that the communist opposition might have organised a referendum concerning the unpopular economic reforms which were being implemented at the time.

A further example of the reduction of the right to express disapproval of the authorities' policy is the act entitled "On gatherings, rallies, demonstrations and manifestations" (passed on 9 June 2004). This act sets strict demands of the organisers of such undertakings; among other things, it complicates the procedure of organising such actions, and forbids them from being organised in the vicinity of the President's residence. This enables the authorities to enhance the mechanism for controlling public actions, and to prevent wider opposition actions directed against the government or the Kremlin.

The authorities' initiatives have also reached the political party scene. During the period of the parliamentary and presidential elections, the Kremlin made attempts to **neutralise the only influential political opposition – the Communist Party** of the Russian Federation (CPRF). At the time the Communists enjoyed substantial support, and strongly opposed the government's socially unpopular decisions. The authorities have therefore inspired or supported several splits in the Communist ranks. In 2002, one of the CPRF leaders, Gennady Seleznyov, left the party to establish his own Russia Revival Party, and in 2003 another influential communist politician, Sergey Glazyev, set up the Homeland (*Rodina*) party and succeeded in seizing a good deal of communist votes in the parliamentary elections. In 2004, the Communists faced one more schism: Gennady Semigin created an "alternative" Communist Party luring away a numerous group of activists from the CPRF. The authorities have also tried to create loyal and manipulable parties on the right wing: every once in a while the press mentions marginal parties like the New Right, who declare that they "join liberal values with patriotic ones", and support the Kremlin's policy.

We may presently observe a **further reduction in the freedom of speech**. During Vladimir Putin's first term of office, the authorities established control over major Russian media (first of all popular television stations *Pervyi Kanal* [The First Channel, formerly ORT] and RTR), and generated a self-censorship effect among journalists. After Putin's re-election, the authorities started liquidating the "autonomous zones" which still existed in some of the media. First of all this policy affected the popular NTV station, which although controlled by the state-owned firm Gazprom enjoyed a fair amount of independence as far as its news programmes and political commentaries were concerned. NTV has undergone a number of personnel changes (for example, Putin's university colleague Tamara Gavrilova was appointed deputy director of the station). Popular political programmes which dared to criticise the authorities (*Namedni* [Nowadays], *Svoboda slova* [Freedom of speech]) have been cancelled, and the channel has started to be used for broadcasting propaganda programmes²⁰.

The authorities are also trying to tighten their control over the procedure for issuing licences for the media. A Committee dealing with media licences is being formed within the government, and it is to be headed by Boris Boyarskov, a representative of the "Petersburg chekist" circle. From time to time, initiatives also appear which are aimed at tightening control over Russian Internet sites²¹, although this demand seems quite impossible to realise nowadays.

2. Reform of the state administration and the efficiency thereof

During and immediately after the election period, President Putin initiated reform of the state administration – first of all, of the government and the Presidential Administration. The changes implemented have not however improved the efficiency of the state administration; in many cases, they have disorganised the Cabinet's activity and dramatically reduced its effectiveness.

On 8 March 2004, Vladimir Putin signed an executive order which introduced a **new structure of government**. The aim of this reform was to create a clear structure and hierarchy within the cabinet, and (in some cases) to change the com-

petencies and scope of responsibility of certain ministries. As of now, the government has a three-level structure: the ministries (which prepare the guidelines of the state policy in the field they deal with), federal services (which monitor the implementation of state policy) and the agencies (which provide state services within their sphere of competence). The federal services and the agencies are subordinated to the ministries.

Another change is the reduction of the number of ministries from 30 to 16 (some of them have been merged, such as the Ministries for Health Care and Social Development, the Ministries of Science and Education, and the Ministries of Culture and Media). The number of deputy Prime Ministers has been reduced from six to one, and the number of deputy ministers has also been significantly decreased.

The government reform was intended to increase transparency regarding ministerial competencies and responsibilities, and to reduce the over-inflated government apparatus²². Meanwhile, the real number of bureaucrats and office workers has not decreased. Moreover, the **first months of the reform's implementation were dominated by chaos and paralysis in the decision-making process**. The cabinet, busy with organising and redistributing its own competencies, was unable to fulfil a number of its immediate functions and duties. As a result, the government's efficiency was considerably reduced.

Putin has also introduced **cosmetic changes in the Presidential Administration (PA)**²³. The number of deputy heads of Administration has been reduced to two; Administration civil servants act as the President's assistants and advisers. The changes implemented have not affected the Presidential Administration's performance – in the current political system, it **remains the key centre of decision in Russia**. In the structure of the whole Russian administration, the PA is the authority which makes key decisions, prepares strategies in the crucial spheres of politics and economy, and holds overall control of the political, economic and social fields in Russia.

3. Withdrawal from the economic reforms

Comparing with the beginning of Vladimir Putin's first term of office, at the moment we can observe a visible withdrawal from the economic reforms²⁴. The "modernisation project" (as the set of liberal and pro-market reforms has been called) has visibly lost its priority position at the moment. The authorities carry out only selected reformist actions in some spheres of economy. Finalisation of many structural economic reforms (first of all the monopolies, like the energy concern RAO *JES Rossii* and the Russian Railways) is being put off. The restructuring of the gas monopoly Gazprom has not been started at all.

The reforms initiated by the government and the parliament in 2004 in fact came down to passing a bill on the so-called monetarisation of the social benefits²⁵, though – it's worth mentioning – this bill has a great significance for the Russian budget. The aim of the bill is to convert certain social benefits (granted for war veterans, the handicapped, single mothers, etc.) to cash payments, directed to concrete people. Such solution is meant to reduce the immense social burden which overloads the federal budget. Instead, the cash subsidies are supposed to be financed by the regional budgets. However, the regions may also have serious problems with lifting such an immense financial burden. The threat of the regional budgets' insufficiency causes great social resistance towards this reform.

At the moment, the government is working on **the tax laws** – the reduction of the social tax and VAT is planned for 2005. Next year will probably be the time of final implementation of another sphere of the budget reform – **the demarcation of powers between the centre and the regions** (this concerns financial matters, federal and regional property, etc.). **The banking reform**, started in 2000, is progressing gradually. Its aim is to adapt Russian banking sector to western standards. Recently, however, the reform came down to causing a number of bankruptcies of minor banks, which had not fulfilled the financial and structural criteria, set by the reformers.

The authorities have not been determined enough to continue or complete key structural reforms, especially in the **natural monopoly sector**. Restructuring of Gazprom, announced earlier, has been postponed. At the moment the government is only considering the possibility of Gazprom's share market liberalisation²⁶. The reform of the energy-producing monopoly RAO *JES Rossii* has been stopped at the crucial stage, when power engineering companies in the neighbouring regions were to be united into bigger regional companies. The railway reform has not been finished, either – the Russian Railways company, created after state railway restructuring, heavily dominates on the market and impedes competition in the railway traffic sector. One can observe stagnation in another important sphere of Russian economy, which was supposed to be reformed – the **housing sector**. The reform's aim was to liberalise the municipal services prices, and at the same time to modernise the deteriorating housing infrastructure and provide subsidies for the poorest ones. For the last 2 years, the municipal service rates have been steadily growing all over Russia. This, however, has not brought about improvement of the municipal service quality and has not lead to modernising of the housing infrastructure²⁷.

4. Development of the state property

The beginning of Vladimir Putin's second term of office was a period of strengthening and expanding the Kremlin's control over state property. This process started already during President Putin's first term of office, when the authorities started to regain control over companies with state shares (among other companies, the gas monopoly Gazprom, which in fact used to be an autonomous structure²⁸). At the moment strategic companies fully or partly owned by the state (like Gazprom, Rosneft, Transneft, the Russian Railways) are controlled by the Kremlin and have become an element of financial base of the ruling elite. They are also perceived as the Kremlin's instrument in the domestic and foreign policy²⁹.

At the moment we are witnessing the **process of strengthening and developing of the companies controlled by the state**. This is being done by carrying out mergers of state companies or by

incorporating smaller state companies into the bigger ones. The best example of such policy is a recent incorporation of the state oil concern Rosneft into Gazprom (the next to be incorporated is the Zarubezhneft concern). There is a probability that Gazprom will also engross the assets of the oil concern Yukos, which is at the threshold of bankruptcy. As a result, there may emerge a huge state corporation dealing with gas and oil and heavily dominating on the Russian raw materials market.

As a result of such Kremlin's policy, we witness the emerging of **powerful corporations controlled by the state** (and in fact by the ruling Kremlin's elite) and **playing increasingly significant role on the market**. They try to **dictate their rules to private corporations**, domestic as well as foreign (operating on the Russian territory). The most illustrative example is Gazprom's behaviour – the gas concern uses its control over Russian gas pipelines network as well as its close relations with the Kremlin to participate in the other companies' investments. This way Gazprom has in fact forced the TNK-BP concern to grant the gas monopoly the right to participate in the Kovykta deposit. Recently, Gazprom has been negotiating with Royal Dutch/Shell about participation in their Sakhalin-2 project³⁰.

One of the state property development methods is the overtaking of private property by the President's team. The most illustrative example of such policy is the so-called "Yukos case", initiated in July 2003. The authorities have accused Yukos of illegal reduction of their taxes³¹, multiplied tax claims and arrested a great deal of the concern's assets. In fact, the aim of the 'Yukos case' is to overtake this concern by the companies loyal to the Kremlin (probably the state oil or gas corporations). The "overtaking" initiative is ascribed to Vladimir Putin's close associates deriving from the security services (the deputy head of the Presidential Administration Igor Sechin, among other politicians), who have far-reaching political influence, but practically no financial base at their disposal³².

The authorities actions, taken after the so-called "bank crisis" in summer 2004, may also be seen as aiming at overtaking private property in the

banking sector. As a result of the "bank crisis" a number of Russian banks have gone bankrupt. Most of them have collapsed because they had not fulfilled the market standards set up by the government. However, it seems that this bankruptcy wave (partially initiated by the authorities³³) was used by the state Vneshtorgbank to take over "for a song" the Gута Bank, controlled by the Moscow mayor Yuri Luzhkov and possessing large industrial assets. Another object of the state structures interest was allegedly Alfa Bank, the largest private bank belonging to the oligarchic Alfa Group Empire. The bank succeeded to survive only thanks to an immense financial support of the Alfa Group³⁴. However, in general the "bank crisis" has weakened the clients' trust towards private banks (many have transferred their deposits to state banks). This has in turn lead to strengthening of the state banking system.

The state's attempts at reaching for private property, especially the "Yukos case", have created a number of negative consequences in politics and economy. First and foremost, they have lead to the investment climate decline. The "Yukos case" has also played a significant role in submitting the Russian business circles to the Kremlin. The authorities have thereby demonstrated that they can use their control over the Tax Office and the prosecution authorities for fighting political adversaries and obtaining economic benefits.

5. Increasing control over the private business

The process of the state property development by the Kremlin goes along with **advancing process of strengthening the control over the private business**. One can notice a growing government's role in the sphere of the raw material sector regulations (e.g. in licence issuing), gradual elimination of tax allowances and gaps from the tax legislation (among them the so-called tax paradises³⁵) and different financial schemes (among other things, the tolling scheme³⁶) which had allowed the businessmen to reduce the taxation substantially. These actions also testify to the **decrease of the big business' lobbying potential**. This potential has been reduced in the parliament as well as in the Enterprise Council (a governmental structure), which has changed from a lobbyist

body into a channel transmitting the Kremlin's demands to the business circles³⁷. Together with the business' weakening position in the dialogue with the authorities, one can observe the increase of the state's claims towards the private business. The claims consist of, on one hand, the demand that business should fully fulfil their tax obligations, and on the other – of the Kremlin's appeals for businessmen to take on a "social responsibility" and participate in financing numerous social obligations of the state³⁸.

The Kremlin's domination over Russian business is complemented by its **growing control over foreign investments**. A signal of that are the President Putin's personal encounters with major foreign investors who are entering the Russian market (e.g. meeting with the representatives of Conoco Philips, who has acquired shares in the oil concern Lukoil). One more thing is imposing on foreign investors the Kremlin's rules of operation on the Russian market (like in the aforementioned case of Gazprom forcing foreign investors to include it into their projects).

6. The isolationism ideology as the instrument of gaining social support

For the last few months, the Russian media have demonstrated an intensification of the Kremlin's propaganda, addressed to the society through the loyal media. **The aim of the authorities' propagandist activity is to justify the strengthening of the President's powers and to create strong social support for such initiatives.**

Since the beginning of Putin's rule, one may observe the process of making security issues a central point of the state ideology and using it to consolidate the society. Recently, the key aspect of the "security ideology" has become the terrorism phenomenon. Also, the authorities are trying to create an image of Russia as a country besieged by the hostile outside world (especially the West), and undermined from within by a democratic "fifth column"³⁹. According to the authorities, the remedy for outer and inner threats is the unification of forces in the battle against terrorism. In practice, this means a strengthening of the President's powers at the cost of other centres of public life, as well as an intensification of xenophobia (especially towards the Caucasus

people) and distrust towards all forms of dissidence and dissent. Moreover, the Kremlin is trying to reach the society with the help of the Russian Orthodox Church. President Putin has appealed to Orthodox hierarchs for "active participation in fighting terrorism by boosting society's morale". The Kremlin's "social strategy" also includes gradual liquidation of the "information dissidence", i.e. liquidation of independent political programmes on TV and replacing serious debates in the media with apolitical entertainment.

In many cases the Kremlin propaganda produces adequate results. For some time now, a **growing susceptibility to isolationism slogans** can be observed in the Russian society. In particular, the Russians' unfriendliness towards the West (especially the United States) is growing⁴⁰. Although a large part of the society is critical about the efficiency of the Kremlin's battle with terrorism, still they prefer safety to democratic values and rights. Moreover, they are ready to give up some of these rights for the sake of successful battle with terrorism – 60 per cent of the surveyed are ready to give up their freedom of movement around the country and abroad; 59 per cent of the respondents agree that the organisations and media, which question the President's anti-terrorist policy, should be liquidated⁴¹.

Still, the efficiency of the Kremlin's propaganda is not undisputable. The **Russian society often seems baffled and torn** between their fears for safety (skilfully aroused by the pro-Kremlin media) on one hand, and their disapproval of the President's attempts to strengthen his powers, on the other. As the surveys show, the majority of the Russian society sees no connection between the President's recent initiatives (e.g. the nomination of the governors by the Kremlin) and ensuring of the country's safety. 60 per cent of the surveyed does not support these initiatives and is in favour of keeping the general elections of the governors. The respondents also demonstrate considerable criticism in their evaluation of the authorities' actions, like in case of the anti-terrorist action in Beslan or, generally, the Kremlin's policy in the security sphere.

7. Growing influence of the security service representatives

Since the very beginning of Vladimir Putin's rule, we have witnessed a visible expansion in the appointment of security service representatives (the so-called "chekists"), as well as their increasing influence on politics, the economy and social issues⁴². This tendency has been maintained since Putin's re-election. At the moment, **the "chekists" have influence not only on state government issues, but also have increasing access to financial resources.** The security sector's growing influence on the state propaganda can also be observed.

The strengthening of the economic position of the "chekist" representatives consists of a few factors. At the present stage of Putin's rule, a wider process can be noted of **appointing Putin's close colleagues from the security services to key posts in state-controlled companies.** These companies often have strategic importance for the state's economic security and have multi-million resources at their disposal. The expansion in the appointment of security service representatives is linked with the process of strengthening the state companies on the market (especially in the raw material sector)⁴³.

The "chekists" presence in the state companies can be observed first of all in the raw material sector as well as in the financial and communication spheres. One of the most influential "chekists", the deputy head of the Presidential Administration Igor Sechin has been appointed the supervisory board chairman in the state concern Rosneft (at the moment Rosneft is being merged with Gazprom into a big corporation dealing with gas and oil). Earlier, the "chekists" had secured a strong position in Gazprom – the concern is headed by Alexey Miller, Putin's acquaintance from Petersburg. Miller is often suspected of being affiliated with the security services, as are many Gazprom's senior managers and directors. Another prominent "chekist" Yuri Zaostrovstsev, former deputy director of the Federal Security Service, is now a vice-President of a weighty state Vneshekonombank. Victor Ivanov, an influential "chekist" from the Presidential Administration has been appointed a member of the supervisory board of the air-potentate Aeroflot. Earlier, Vla-

dimir Yakunin and Georgy Kornilov, former security service associates, had been appointed vice-Presidents of the Russian Railways company, controlling the railway.

Also the famous "Yukos case" seems to be an element of the "chekist" strategy of strengthening their financial position at the expense of private business. Thus, a prospering company, independent from the Kremlin, has been pushed towards bankruptcy and will probably be taken over by structures affiliated with the Kremlin (most likely it will be a state company controlled by the "chekists"). The authorship of the "Yukos case" is often ascribed to the prominent Presidential Administration politicians, Igor Sechin and Victor Ivanov, the so-called "hawks" of the Administration.

The "chekists" growing influence on the sphere of ideology is reflected by increasingly wide-ranging and radical **"ideological projects"** carried out by the authorities – i.e. the "mobilisation scenario". It consists of creating isolationist moods in the society, propagating the so-called "counter-espionage" thinking (intensified vigilance, distrust towards strangers, denunciation) and creating an image of external and internal enemies, who want to disintegrate and destroy Russia⁴⁴. All this goes along with the progressing authoritarianism in the domestic policy of Russia.

Since the beginning of Vladimir Putin's rule (2000) **the position of the whole repression apparatus of the Russian state has been visibly growing.** First of all, the importance of the state security and justice organs in solving of key political and economic problems has visibly increased. Secondly, many organs in the security services sector have been reintegrated and strengthened (the Federal Border Service has been incorporated into the Federal Security Service, and the Federal Agency for Government Communications and Information (FAPSI) – into the Federal Protective Service [FSO]). Moreover, their competences in the sphere of security (but also control over economy, and finance flows among private companies in particular) have been enlarged. Thirdly, **the budget expenditure on security and defence keeps growing** every year⁴⁵. According to the budget project for 2005, next year the expendi-

ture is to grow by 27 per cent and amount to 927.5 bln roubles.

8. The Kremlin's policy towards the North Caucasus

The authorities' actions towards Chechnya and the whole North Caucasus, carried out after Putin's re-election, are the **continuation of the Kremlin's "policy of force"** initiated back in 1999, before Putin was elected for President. Moreover, at the moment the appeal for fighting the "Chechen terrorism" is being used by the authorities for justification of a strengthening of the President's powers.

After five years of the military operation, Chechnya still is in the state of war. The tension in other North Caucasus republics as well as the threat of terrorist attacks all over Russia are growing⁴⁶. The fiasco of the Kremlin's policy of force has not, however, pushed the authorities to revise their hitherto strategy. On the contrary, every successive attack was becoming a pretext for affirmation of the war scenario or even for hardening the military actions and intensifying the anti-caucasus rhetoric.

The war in the Caucasus is an important instrument of the Russian domestic policy. In some situations the unstable situation in the North Caucasus and the terrorism threat became a **pretext for strengthening of the President's powers and the competencies of the security services** (which happened after the Dubrovka and Beslan attacks). The "Caucasus threat" is also used by the Kremlin propaganda for consolidating the society around the President as the only guarantor of safety. The Chechen conflict has also been used for satisfying the Russian army's ambitions and improving their financial status.

Although President Putin tries to play up the "Caucasus threat", the **Chechen issue is becoming an increasingly serious problem for him**. Instability in the republic is spreading all over the region. Also, the "Chechen issue" often demonstrates how helpless Russian military or the security services are in a situation of a crisis. Another problematic question for the Kremlin is the fact that the social support for the "military scenario"

in Chechnya systematically decreases⁴⁷ and a great deal of the respondents in the surveys recognise the war in the Caucasus as the main source of the terrorist attacks in Russia⁴⁸.

III. The prospects for Russia's further development

The actions the Kremlin has undertaken since President Putin's re-election have led to a reinforcement of the following tendencies in the Russian political system:

- a reduction in political and informational pluralism,
- violation of the autonomy of the legislative and judicial branches of government,
- the "privatisation" of the state by the President and his inner circle,
- the progressive decline of public politics (increasing unpredictability and lack of transparency of decisions and political processes),
- a minimisation of social control of the authorities' policies.

All this brings the Russian political system increasingly close to the **authoritarian model**, with clear domination by the President and his circle, who direct and control all major processes in Russia.

The ruling team's priority task during Putin's second term of office is a **favourable resolution of the succession question** (in 2008 Putin's second and last term of office will come to an end). As part of this task, we may also expect the extension of the current President's rule. In the next few years, this priority will determine the Kremlin's policy to a great extent. We can expect the consolidation of the political influence that the President has already established, as well as a maintenance of the control Putin's team has over financial resources. This will consolidate the monocentric and authoritarian political system, and will also strengthen the Kremlin's position as the only decision-making body, using the policy of "manual steering" in many crucial domains. This kind of political system may freeze the grassroots activity of the whole administrative apparatus as well as regional and local authorities. It may therefore lead to ineffectiveness and ineffi-

ciency of processes such as the government of the country and the solution of current problems.

The logic of the “succession scenario” causes the **so-called modernisation project** (wide-scale economic reforms aimed at reducing the state’s role in the economy and changing the economy’s structure) to **lose its priority position**. Focused on concentrating power in its own hands, the Kremlin has not returned to economic reforms and has not supervised the efficient implementation of the reformist laws already passed. Instead, we can expect the continuation of the current economic policy: consumption based on the highly favourable situation on the oil markets without undertaking unpopular or expensive attempts at modernisation. Thus, Russia’s fundamental economic problems – including the archaic model of the economy, the unfavourable investment climate, the progressive degradation of the infrastructure and corruption – will in all probability remain unsolved. Such neglect of these necessary reforms, together with the assumption of state control over both the Russian economy and private property greatly reduce the effects of the liberal economic initiatives of Vladimir Putin’s first term of office. All this also contributes to the worsening of Russia’s international image as a credible, law-obedient and predictable partner.

The most probable scenario for Russia for the next few years is that existing trends will continue. If high world oil prices are maintained (which will make Russia’s financial situation stable), we can expect the continuation of tendencies like the progressive move to authoritarianism in the Russian political system and the lack of deep economic reforms. This will doom Russia to years of stagnation, keeping it politically, economically and technologically obsolete. On the other hand, if world oil prices collapse (which is not very likely in the near future), or if the oil and gas extraction level goes down (which cannot be ruled out in a mid-term perspective), we could face a serious economic crisis in Russia. This in turn would inevitably lead to a political crisis, whose course and results are as yet hard to predict.

Jadwiga Rogoża

¹ At the moment the *Yedinaya Rossiya* fraction consists of 306 deputies (out of a total of 450) (www.duma.gov.ru).

² The Duma has already revised the constitutional law concerning referendum (11 June 2004), which demanded the achievement of a qualified majority of votes (301 out of 450).

³ For example, see the report by the Centre of Political Technologies (President poslednyego sroka: politicheskaya situatsiya v Rossii poslye presyidentskikh vyborov, March 2004), and L. Shevtsova, *Etot ryezhim ne tyerpit dazhe otkrytoy fortochki*, paper presented at the “Liberal Mission” Foundation session (available at www.yavlinsky.ru).

⁴ According to the Russian press, Putin decided to dismiss Prime Minister Kasyanov under the influence of his close associates from the Presidential Administration (especially Igor Sechin and Victor Ivanov). They allegedly suggested that should the Presidential election be annulled (e.g. if voter turnout was lower than 50%), Kasyanov as Prime Minister could take over power in the state until new elections are held. According to Russian law, such a possibility was practically impossible. However, as the press said, the President and his inner circle decided to exclude even the theoretical possibility of a person outside their group taking power. More in J. Rogoża, *Dymisja premiera Kasjanowa jako kolejna odsłona walki o władzę?*, *Week in the East*, 26 February 2004.

⁵ A. Makarkin, *Pochyemu Fradkov*, www.politcom.ru, 01.03.2004.

⁶ More in J. Rogoża, *Władimir Putin u prognozy drugiej kadencji*, *Week in the East*, 18 March 2004.

⁷ According to the Russian Ministry of Economic Development and Trade (www.economy.gov.ru)

⁸ I. Wiśniewska, *Wskaźniki gospodarcze Rosji w 2003 r.*, *Week in the East*, 8 April 2004.

⁹ OECD Economic Department, *Economic and Development Review Committee, 2004 Economic Review – Russian Federation*, 2004, p. 6–7.

¹⁰ I. Yefimchuk, *Slyezem s neftyanoy igly?*, *Finans* nr 1 (42), 12–18.01.2004

¹¹ President Putin’s economic adviser Andrey Illarionov said this in his interview for the *Financial Times* (07.10.2004). According to Illarionov, in 2003 the income from raw material export generated 9.2 per cent of economic growth, whereas the overall economy growth was 7.3 per cent. Thus, without the oil and gas exports, it would have actually decreased by 1.9 per cent.

¹² More and more publications in the Russian press and expert circles are considering how the “2008 problem”, i.e. the succession to or prolongation of Putin’s rule, will be solved. A number of serious experts (among others Olga Kryshtanovskaya from Russian Academy of Sciences, President Yeltsin’s former adviser Georgy Satarov of the Indem Foundation, Vitaly Portnikov of Radio Liberty and the Central Election Committee member Vadim Solovyov) have publicised the Presidential Administration’s plans to change the political system in Russia from a Presidential system into a parliamentary democracy. In this case, most of the competences would be transferred from the President to the Prime Minister, who would be chosen by the parliament. Putin could take the post of PM (there are no

limits to the number of times one can hold the office of Prime Minister).

¹³ For example, constantly growing pensions and salaries financed by the federal budget.

¹⁴ The act concerning the procedure for electing governors was passed in the Duma on 3 December 2004.

¹⁵ More in J. Rogoża, *Rosja po zamachach: scenariusz autorytarny*, *Week in the East*, 23 September 2004.

¹⁶ According to the *Obshchestvennoye Mnenye* foundation survey, published on the 23 September 2004 (www.fom.ru), 25 per cent of the respondents are in favour of governors being nominated by the Kremlin, 13 per cent have no opinion on this question, whereas 61 per cent support the maintenance of the general election of governors.

¹⁷ This regulation was added to the “Duma deputy election” act on the 25 October 2002.

¹⁸ The draft act concerning this question underwent the second reading in the Duma on 3 December 2004.

¹⁹ It is worth mentioning that the act concerning the referendum (which belongs to the “constitutional acts”, and thus demands a qualified majority of votes in order to be approved) was passed in the Duma with lightning speed. The President submitted the draft act in the Duma on 16 May 2004, and on 30 June the act was put into force. This proves the great efficiency of the legislative process as steered by the Kremlin. It also demonstrates the true extent of the Duma’s disposability.

²⁰ On 26 September 2004, NTV issued a documentary aimed at disclosing an alleged relationship between the former head of Yukos, Mikhail Khodorkovsky, and Chechen terrorists. In the opinion of numerous experts, this documentary was clearly a propaganda project. It also proved that NTV’s information policy has changed (see also www.grani.ru/society/media/television/m.77348.html).

²¹ This initiative is backed by (among others) Moscow mayor Yuri Luzhkov and Vladimir Matyukhin, ex-director of the Federal Agency for Government Communications and Information (FAPSI).

²² T. Stanovaya, *Vertikal pravitelstva*, www.politcom.ru 09.03.2004.

²³ Based on Putin’s executive order of 25 March 2004.

²⁴ Compare with: M. Menkiszak, *Przyspieszenie reform w Rosji*, *Week in the East*, 19 July 2001.

²⁵ The bill is available at <http://document.kremlin.ru/doc.asp?ID=024085>.

²⁶ Gazprom’s share market liberalisation is meant to liquidate the division into a domestic and foreign market and thus to equalise Gazprom’s securities’ prices.

²⁷ *Reforma v rossiyskom ZhKKh uzhe zavyershe*, www.polit.ru, 24.09.2004. The government had planned to invest US \$ 700 mln in the housing sector, however the investors did not obtain the credit for such a risky enterprise.

²⁸ The authorities used to control 38 per cent of the Gazprom shares. At the moment they have almost completed the majority stake (50 per cent plus 1 share). More in: J. Rogoża, I. Wiśniewska, *A summary of the politico-economic changes taking place during Vladimir Putin’s first term of office*, CES Studies, July 2003.

²⁹ Major companies controlled by the Kremlin may be often seen as the Kremlin’s domestic policy subjects – the Kremlin gained control over the opposition NTV station with the assistance of Gazprom. The state companies may also be seen as the subjects in the Kremlin’s foreign policy, whose element is the Russian capital expansion in the region, mostly in the former Soviet Union states. Fully or partly state-owned companies are also used for election financing as well as for supporting all sorts of social initiatives of the authorities.

³⁰ More in: E. Paszyc, *Niepowodzenia zachodnich koncernów w Rosji*, *Week in the East*, 5 February 2004.

³¹ Yukos, just like other oil companies, used legal tax mechanisms to reduce the taxes. Out of 24 per cent of the binding income tax, Yukos paid around 12–15 per cent. It should be added that e.g. Sibneft concern (controlled by Kremlin’s loyal businessman Roman Abramovich) pays around 5 per cent of the income tax, and the aluminium concern RusAl around 3 per cent (out of 24). Both companies are loyal to the Kremlin; the Tax Office and the prosecution authorities have not applied any sanctions against them.

³² K. Pełczyńska-Nałęcz and others, *Ekipa Putina przejmuję własność*, *Week in the East*, 15 July 2004.

³³ The panic in the banking sector was initiated after the bankruptcy of Sodbiznesbank tied to former Prime Minister Mikhail Kasyanov. This bankruptcy was followed by the Federal Financial Monitoring Service head’s Victor Zubkov’s statement that there exists a “black list” of the banks which may lose their licence. More in: Petrova S., Bekker A., *CB razglyadel krizis*, *Vedomosti*, 08.07.2004.

³⁴ *Ibid.*

³⁵ The novelised Tax Code (in force since 1 January 2004) has liquidated Russian “tax paradises”, where a significant reduction of taxes was possible. More in: E. Paszyc, *Likwidacja rosyjskich „rajów” podatkowych*, *Week in the East*, 4 December 2003.

³⁶ Aluminium plants operating in the tolling mode only smelt the raw material belonging to a foreign orderer. Neither the raw material, nor the final product belong to them. This allows to reduce taxation significantly (services have low tax rates). The tolling scheme was widely used by Russia’s largest aluminium concern RusAl (controlled by the „oligarch” Oleg Deripaska).

³⁷ T. Stanovaya, *Partnyorstvo vo imya mira*, www.politcom.ru 06.07.2004.

³⁸ Prime Minister Fradkov, speaking of the spheres which require the businessmen’ financial support, has named transport, computing, communication, new technologies and scientific research. For the time being, however, the state has not suggested concrete mechanisms of financial support. As for the businessmen, they try to delay their participation in such „non-returnable” social projects.

³⁹ The most illustrative example of such propaganda is the interview of the deputy head of the Presidential Administration Vladislav Surkov for a popular daily *Komsomolskaya Pravda* (29.09.2004). Surkov has harshly criticised the actions of Russia’s „outer and inner” enemies. He also called for vigilance and self-organisation to ensure safety and security (<http://www.kp.ru/daily/23370/32473>). See also: O. Latsis, *Ne*

Kuzma Minin, ne Mikhail Kutuzov, ne Georgy Zhukov. K nam obratilsya Vladislav Surkov, *Russkiy Kuryer*, 30.09.2004, M. Glikin, Vrag u vorot: kto yego vydumal i komu on nuzhen, *Nezavisimaya Gazeta*, 04.10.2004.

⁴⁰ www.levada.ru/press/2004101204.html.

⁴¹ More in *ibid*.

⁴² See also O. Kryshtanovskaya, Ryezhyh Putina: liberalnaya militokratiya? in: *Pro et Contra* (Carnegie Moscow Centre), volume 7, nr 4, 2002, p. 158.

⁴³ More in p. 4 of the current chapter.

⁴⁴ More in p. 6 of the current chapter.

⁴⁵ Total expenditure on security and defence: 2002 – US \$ 15.1 bln, 2003 – US \$ 18 bln, 2004 – US \$ 23.2 bln, 2005 (the budget project) – US \$ 30.9 bln (the Ministry for Economic Development and Trade, www.economy.gov.ru).

⁴⁶ More in: M. Falkowski, North Caucasus: the Russian Gordian knot, current issue of the CES Studies.

⁴⁷ In August 2004 survey, 21 per cent of the respondents supported the continuation of military actions in Chechnya, whereas 68 per cent assumed that peace talks with the separatists should be started. The Beslan events (1–3 September 2004) have corrected these results slightly. Still, at the moment the number of people supporting the peace resolution is almost twice as big as the group which supports the continuation of the armed conflict (55 per cent compared to 32). The survey was conducted by Levada Centre (<http://www.levada.ru/chechnya.html>). Another survey contained the question “How would President Putin’s image change, should he stop the military actions in Chechnya and start the peace talks?”. 43 per cent of the respondents said that this image would improve, 15 per cent thought that it would worsen. 30 per cent of the respondents thought that this image would not change at all (<http://www.levada.ru/press/2004090601.html>).

⁴⁸ Levada Centre conducted a survey after the terrorist act in Beslan (www.levada.ru/press/2004091602.html). According to it, 39 per cent of the respondents consider the war in Chechnya as the source of the terrorist attacks. 27 per cent think that the attacks have been caused by the activity of international terrorist organisations. 12 per cent think that they have been caused by Russia’s Western enemies’ actions.