

# Bitter fruits of self-deception

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*At the beginning of September 2004 the moral crisis of confidence in the authorities was self-evident. It was only the absence of mechanisms for expressing the popular mood that prevented this from turning into a political crisis or forcing the resignation of the government. Nevertheless, this crisis raised questions about where Russia was going and for how long this illusion of political stability and economic prosperity can survive. How long can self-deception last? How bitter will its fruits be and what will be the consequences of general disillusionment when these fictions collapse?*

The political and social consensus which led to the election of President Putin in the year 2000 was based on a delusion. The bitter fruits of this delusion became clear to those involved only at the beginning of Putin's second presidential term. It was a gradual revelation and not everyone is aware of it even now.

Society at large and the country's political elite gave their agreement – partly consciously, partly by default – to a temporary hardening of the political regime in exchange for promises of stability and economic growth. This was the essence of the self-deception. Many Russian liberal politicians believed it would be easier for a popular President to carry out unpopular but necessary liberal reforms, in the absence of political competition. The people, worn out by Yeltsin's burdensome transitory period and alarmed by acts of terrorism in 1999, gave a warm welcome to the new leader who promised to deal swiftly with the Chechen abscess and to provide personal security for the people of Russia.

Today, despite the generally positive outlook for economic growth, it is gradually being realised that the hoped for authoritarian jump into a better-off society will probably turn into yet another illusion. We are becoming more aware that, of the three parts of that initial "social contract" to which we silently agreed five years ago – authoritarian political system, liberal reforms and personal security – only the first part is being confidently implemented. We have already given up part of our freedom to state bureaucracy. It demands a higher and higher price. But we received neither deep structural reforms nor personal security in return. The September 2004 tragedy in Beslan once and for all shattered the myth that power which bears no responsibility towards the people is capable of fulfilling its obligations. At the beginning of September 2004 the moral crisis of confidence in the authorities was self-evident. It was only the absence of mechanisms for expressing the popular mood that prevented this from turning into a political crisis or forcing the resignation of the government. Nevertheless, this crisis raised questions about where Russia was going and for how long this illusion of political stability and economic prosperity can survive. How long can self-deception last? How bitter will its fruits be and what will be the consequences of general disillusionment when these fictions collapse?

The inertia of self-deception is, however, considerable. Especially as on the surface the outlook is generally favorable. For many people Putin is a moderniser who has brought political stability, economic growth and an increase in personal incomes. Gone is the Yeltsin era of anarchy and confrontation between President and Parliament, the years of “plundering” privatizations, severe inflation, economic decline and the default of 1998. Putin put “oligarchs” in their place, delivered Russia from the absolute power of Yeltsin’s “family”, prevented Russia from disintegrating and put a limit, if not an end, to the absolute power of “regional barons”. In 2000 he started his reforms. Aims such as doubling GDP by the year 2010 and halving the proportion of the poor in the population were announced at the beginning of his second presidential term. Parliamentary elections in December 2003 gave the “party of power” – “United Russia” – about 40% of the electoral votes and a constitutional majority in the State Duma. They resulted in a defeat for both the Communist and the democratic and liberal parties – “The Union of Right Forces” (SPS) and “Yabloko”. At that time many came to the conclusion that, in spite of this, Putin was using his authority to continue liberal reforms. After the elections he confirmed his course towards consolidating human rights and democratic values, strengthening the freedom of the media, and developing political pluralism.

Putin’s critics see it differently. Economic growth in recent years was not so much a reward for the President’s actions as a gift from fate. Not entirely, but certainly to a considerable extent he was supported by high oil prices and favorable external and internal factors. Many more doubts are expressed about the political results of Putin’s rule. Starting from the year 2000, the country was systematically and single-mindedly cleared of the achievements of the Yeltsin period which, though modest and controversial, were genuinely democratic. Political competition is absent. An actual monopoly by the “party of power” – a new Russian nomenclature – was established while maintaining formal democratic procedures. “Putin’s” Russia is becoming more authoritarian. It runs on principles of “managed democracy”, authority of the bureaucracy and power structures which are virtually free from restraint. This is not a direct return to Soviet times, but the current period of Russian development looks more and more like Brezhnev’s epoch of stagnation when the relative well-being and stability of Soviet society was paid for by oil and gas exports. The development of the country was practically at a standstill; the moment of its disintegration was merely being delayed. Other elements recalling the stagnant Soviet regime can also be observed: in the political indifference of people that feel comfortable with strong government; in the servility of the political elite that has, with rare exceptions, no convictions of its own; and in the marginalization of weak institutions in civil society.

The above are the main grounds for discussion as to whether Putin’s regime, developed over the last four years, is good or bad. What is actually happening in Russian society? What direction is Russia moving in? Judgment of the worrying processes at work in Russia today depends, to a large extent, on an answer to the dilemmas of Russian society. It becomes more obvious that the unspoken social pact – authoritarian rule in exchange for institutional and structural reforms, together with personal security for the population – has not been observed, at least not in the latter two parts.

## Putin's political regime

The hard, centralised nature of the political regime formed under Putin and giving vertical presidential authority cannot be doubted. This part of the unspoken social agreement was certainly fulfilled. Duma elections in December 2003 and Presidential elections in March 2004 concluded the process of creating this regime. Following his re-election, President Putin continues to talk about the need to provide human rights and essential freedoms, freedom of the media and the development of a pluralistic party-political system. These values clearly do not fit with the political reality of modern Russia. Analysis of the political processes of recent years gives little reason to suppose that, by the year 2008, the present authorities will be evolving towards democracy.

In the process of consolidating vertical presidential power, one of Putin's key directions in his first government, revenge by the bureaucratic elite, became a natural, unavoidable consequence of the weakness of democratic authority and the institutions of civic society. Here are some of the main traits of the new political system.

*A sharp decline in the political influence of regional elites and a growing process of de-federalisation of the country.*

The most obvious steps in this direction were: abolition of the Council of Federations in its original state, when it consisted of governors, presidents and chairmen of legislative forums; creation of seven federal districts with corresponding reform instituting presidential representatives in the regions; initiation of legislative amendment to replace elected heads of Russian Federations with presidential appointees approved by the regional legislative assemblies.

*Intimidation and exclusion from the political process of businesses challenging the authorities.*

Business has been made subject to state structures under the banner of "social responsibility". This means that the authorities have lost a real opportunity to engage with the business community as a partner in transparent and civilised political dialogue.

*Creation of direct or indirect state control over the main television channels.*

As a result there is no public television service broadcasting information based on democratic standards. The number of outlets supplying information has declined sharply and the voice of opposition in the media has been reduced to a minimum. Criticism of the President is virtually non-existent.

*Practical abolition of the 'division of power' system.*

Judiciary authorities in Russia have never been independent. During Putin's presidency its sole boss has emerged – the Kremlin. This tendency is strengthened by legislative initiatives to widen presidential powers in relation to the judicial sys-

tem. The Council of Federations as an entity independent of the Kremlin's influence ceased to exist at the very beginning of Putin's rule. Following the elections of 2003, the State Duma lost its independence from the Kremlin completely. The "United Russia" (Edinaja Rossia) party gained a constitutional majority in the Duma on the basis of less than 40% of the vote. As a result of procedural changes, opposition in the Duma lost not only the ability to influence legislative process, but also the chance to be heard.

Abolition of *political competition* and the formation of a non-public, opaque style of political conduct, whereby the majority of decisions are made, in reality, behind closed doors, excluding full participation by the people or other political forces. In these conditions there is no means whereby the public can articulate its interests or feelings. As a result, acute problems in society find no solution and are swept under the carpet. The mood of public protest with no means of expression in the political sphere is creating the conditions for a future explosion.

The present structure of federal authority does not have, in practice, any mechanisms to prevent curtailment of the institutions of representative democracy. At the same time there are more than enough factors that facilitate its further consistent drift away from the democratic model. Terrorist acts on Russian soil contribute to the hardening of the authoritarian nature of the federal authority. This is further assisted by a drive on the part of the present power elite towards redistribution of property for its own benefit, using power structures, obedient courts and its "own" State Duma. Federal authority is pushed in the same direction by the process of cooling off of the relations between Russia and the West which, in reality, has already begun. The growth of corruption is an inevitable concomitant of the present system of federal authority.

The power of the President and executive branch is nowadays virtually unlimited. Nevertheless, the created model of "managed democracy" is far more vulnerable than a democratic system with its checks and balances, a requirement for public consensus, a strong social fabric, and limits on the absolute power of the bureaucracy. The modern Russian political regime looks stable and effective only from the outside, in those relatively favorable socio-economic conditions in which it grew stronger after the year 2000. But it has not passed the test of strength. Elections in 2003 and 2004 which took place under hothouse conditions in the absence of real public political competition were not a test as such. The death of hundreds of hostages in Beslan at the beginning of September 2004, which turned into a crisis of confidence in the government at all levels, has shown how vulnerable the authorities can be in an emergency.

## **Growth without development**

Statistics of Russia's economic growth cannot but bring a feeling of satisfaction. Putin's supporters have reason enough for celebration. His period of rule coincided with the recovery of the Russian economy, a long-awaited growth after many

years of precipitate decline. But can it be said with hand on heart that a debt of gratitude is owed specifically to this regime?

The foundations of Putin's economic policy began in the autumn of 1999 after the economic, financial and budgetary crisis of 1998–1999 pushed Russia to the brink of socio-political destabilisation. The aims of economic policy in that period were, first and foremost, of an anti-crisis nature. The problems to be dealt with included: restoration of budgetary balance, restructuring of the State's debts, resolution of foreign indebtedness, re-establishing the credibility of the banking system, lowering inflation and preventing social unrest. It was inevitable that efforts would have to be concentrated on solving the problems of macroeconomic stabilisation.

By the end of the first presidential term these tasks were accomplished. Russia entered 2004 as one of the fastest growing countries in the world, with many of the critical problems of the previous four years resolved, and with the subject of economic modernisation once again on the agenda.

Five years of growth, irrespective of the reasons, is a great achievement and a blessing for the country, exhausted by revolutions and reforms. The question is, how optimal was the use of resources of growth during the preceding years and how effectively will those resources be applied in the near future in the interests of modernising the country?

What could and could not be achieved with the economy during the years of Putin's rule? The main result of recent years was the removal of the most pressing macroeconomic problems from the agenda. Budgetary balance was restored and the Russian economy began to grow again. Macroeconomic stabilisation reduced investment risks. A massive positive trade balance facilitated the accumulation of Central Bank reserves. The banking system began to develop. Creation of a stabilisation fund designed to absorb a possible economic downturn in Russia's development is almost complete. After the year 2000 a large number of projects for institutional reform were finalized: fiscal, budgetary, pensions, labour legislation, and land, judicial. The Civil Code was introduced. Today we talk about the second stage of reform. By this we mean the beginning of administrative reform, including reform of the regional self-administration, an increasing drive against corruption, and reforms in social security and pensions provision, housing and communal services, education, health care and banking.

Plans for reform in 2000 were, on the whole, fulfilled but their depth and intensity did not live up to expectations. Many of the institutional reforms of that period exerted limited influence on economic growth. Implementation of a number was either postponed or delayed. Some were implemented only partially. In recent years two major issues, vital to any programme of reform were not dealt with – provision of private property guarantees and the formulation of conditions for fair competition. Russia's integration into the world economy during these years was advancing according to an old scheme. Russia continues to export raw materials in exchange for consumer goods and products of heavy engineering. Investments were attracted by means of direct capital outflow and inflow of portfolio invest-

ment. It will be some time before a stable and reliable economic climate is established and Russia achieves a high investment rating.

Growth of GDP in recent years is attributable primarily to exports and to private consumption. At the same time, growth of consumption had a marginal effect in stimulating domestic production. From the year 2001, rising incomes and the greater stability of the rouble led to increased Russian demand for imported goods. Statistical data for year on year growth of heavy engineering products should not deceive anyone. Production in this sector of the Russian economy grew from such a low level that the real scale of the growth is modest indeed. One other point is worth noting: if growth in heavy engineering products in recent years increased by approximately 40%, imports for the same period doubled, peaking above the level of 1997.

Reliance on super-profits from the export of oil and other raw materials only helped to exacerbate the "Dutch disease". Stabilisation of economic and social condition through export of raw materials does not solve the problems of the Russian economy; it only exacerbates them. Dependence of the budget on oil prices has increased: up to 80% of its increase in income in recent years was directly or indirectly connected with oil. This means that any likely fall in oil prices contains a serious threat to balancing the budget.

The scale and character of foreign investments into the Russian economy during the years of upsurge is unfortunately reminiscent of the situation during the financial crisis of 1998. Russia continues to be a direct capital exporter although it has begun to attract more portfolio investment. The present volume and character of foreign investment is not, however, sufficient for the kind of stable economic growth that structural modernisation of the Russian economy would require.

The disparity in income between different population groups and inequality between Russian regions continues to grow. Conditions of economic growth led to a natural transfer of employment, production and investments into the most advantaged regions. As a result we can expect, within the foreseeable future, a further squeeze on a number of sectors of manufacturing industry and science, further impoverishment of a number of regions and their loss of organisational, governing and financial mechanisms of regeneration.

In 2000–2003 Russia made only partial use of the chance history had given it to escape from its transitional crisis. The economic upswing of recent years has led not to modernisation of the economy, but to a consumer boom on the part of a population weary of hardship. The growth of 1999–2004 contributed to improving economic conditions in the country, but it did not bring modernisation any closer.

Reforms carried out in recent years and those which are planned for the next few years are insufficient to bring about structural reform of the Russian economy or to secure its stable development. As Russia's economy becomes increasingly dependent on oil prices and raw materials exports, there may not be enough time

to carry out modernisation “from the top”. Each consecutive drop in world energy prices will reduce people’s prosperity and cause serious budgetary problems.

Practical steps taken during Putin’s second term do not, as yet, provide grounds for an unequivocal answer to the question about Russia’s development prospects. The most probable scenario in the coming years is one where the authorities will react to events neither following a consistent course of reform, nor abandoning reforms completely. Preserving socio-economic stability will remain their priority ahead of the implementation of painful reforms. Especially as the latter can bear fruit only in the long term.

If unfavorable internal and external circumstances were to coincide, even more pessimistic development cannot be excluded. But in either case we can hardly expect any serious changes in the Russian economy. Even in the unlikely event of consistent implementation of institutional and structural reforms by the year 2008 and in the foreseeable future following Putin’s second presidential term; it is doubtful whether preconditions for sustainable development in Russia will be created.

### **“Self-sufficient” Russia in European and world politics**

After becoming President of Russia, Vladimir Putin consistently demonstrated a pragmatic approach to foreign policy. He abandoned great power rhetoric. Discussions about a multi-polar world were replaced by a multi-vector Russian policy, which allowed the following objectives to be pursued in parallel: “integration” with Europe; the development of anti-terrorist cooperation with the USA; “strategic partnership” with China and India; a programme for the creation of the “single economic space” with such states as Belarus, Kazakhstan and Ukraine.

Putin consistently demonstrated openness toward cooperation with Western countries, which caused some to welcome and some to criticise his supposedly “pro-Western” leanings. At the same time, right from the start, the Russian President did not flinch from elements of cruelty in his reluctance to “give up positions” in those cases where Moscow believed itself to be defending important state interests.

At the very beginning of his rule, Putin removed the threat of worsening relations with the US and extended the credit of trust in Russia. However, at the start of his second presidential term, Putin’s foreign policy stock began to dwindle. Discussion about the second Chechen war, gradual formation of the new political regime, limitation of freedom of the media, exclusion of free political competition and the arrest of Khodorkovsky did not quite spoil Russia’s relations with the West. It did, however, teach the West that Russia did not share common values and was, therefore, unlikely to become a really close partner within a visible timescale.

Putin’s external policy is aimed at achieving three key objectives. First of all, it had a tendency to avoid confrontation with the West, recognising the simple fact that

under these conditions any project for the modernisation of Russia would be doomed to failure. Secondly, Putin's government wanted as far as possible to shield Russia from criticism and unwanted advice from the West. Thirdly, Putin's most important task was to achieve Western recognition for the new political regime in Russia. Not merely to accept Russia but to support it in reaching its stated goals by, among other things, encouraging the direct inflow of foreign investments into the Russian economy.

Unlike Yeltsin, who put the problem of integrating Russia into the system of developed western states at the beginning of his presidential rule, Moscow, under Putin, has placed the emphasis on keeping a free hand in the world arena. It presupposes that Russia may make its own decisions whether or not to participate in different international coalitions, but excludes any form of integration into institutions of Euro-Atlantic security. Moscow makes an exception only for the most prestigious international "clubs" such as the G8 and international economic organisations such as the WTO or OECD.

During the initial years of his rule, Putin made considerable advances in dealing with the first two problems but was only partially successful with the last. Energetic contacts with leaders from Great Britain, Germany, the EU and the US as well as removal from the agenda of various points of disagreement – disputes over the expansion of NATO and US plans to withdraw from the ABM Treaty\* – allowed President Putin to revive hitherto stalled relations with the West. Joining the anti-terrorist coalition unconditionally and granting permission for the US to locate military bases in Central Asia facilitated the breakthrough in the relationship between Russia and the West.

Thanks to the dynamic performance of the economy and by starting to repay foreign debt, Moscow managed not only to shake off supervision by the International Monetary Fund and the World Bank but also to minimise unfavorable criticism by Western states of Russia's internal political processes. During the years of Putin's rule, Moscow acquired strong immunity to criticism of its actions and, in essence, was able to play a free hand in internal politics.

Putin did not, however, resolve the third problem – i.e. unconditional acceptance and support of his political regime by the West. Although the latter chose to overlook many processes which were worrying from their point of view, they were not in a hurry to give carte blanche to Russia to realise an authoritarian modernisation project, either. Western states did, however, at least make a temporary deal with Moscow. Putin's readiness to go along with them on important international issues was rewarded by the West's political indifference to Russia's internal processes. Although disputed questions – Chechnya, freedom of the media, elections which are free, but sometimes suspected of dubious practices – are regularly mentioned at official level, Moscow had no need to fear sanctions. This state of affairs is unlikely to change in the near future.



All of the above makes it possible to describe Putin's foreign policy during the first four years of his presidency as effective when seen through the prism of the three problems discussed above. During this period he managed to clear the field to allow himself freedom of maneuver in relations with Western states. At the same time he also survived tests of the strength of Russia's new relationship as a partner with the West, and above all the US. The most serious test was the Iraq crisis of 2003. Other areas of disagreement were the fate of nuclear co-operation between Russia and Iran, and the periodic straining of Russo-Georgian and other bi-lateral relations.

Moscow successfully passed these tests in the preceding four years but this does not mean that it is insured against failure in the future. And it is not just a matter of possible causes for disagreement – of which there are still plenty. The main problem lies elsewhere.

During the years of relative economic prosperity, an illusion of “self-sufficiency” took hold within Russia's foreign policy establishment; an illusion of revived status as a Great Power, which no longer has to march to the tune of the hated West. Confidence in its own strength, if not self-assurance, was growing as a result of internal political victories within the Kremlin. Large-scale changes in the ruling elite had brought to power a number of people from military and other backgrounds who lacked experience of politics on the world stage.

As a result, by 2003 and 2004 there were increasing signs of a tendency to Great Power rhetoric and an anti-American stance. Examples include: the controversy with the European Union over the consequences of its enlargement to the East, the usual splash of anti-NATO rhetoric over the admission of the Baltic States into the alliance, and calls to consolidate Russia's position in countries of the former USSR so as to prevent American and Western influences from taking hold there. This tendency also manifested itself in an anti-American campaign during the Iraq crisis of 2003. Until now, Putin has restrained the more ardent proponents of Russia's nationalistic, Great Power interests. But the readiness of the generation of Russian politicians who recently came to power to try the might of a somewhat stronger Russia in the international arena should not be ignored. It was from precisely the same rhetoric in 1994 that Yeltsin began to change course – from the idea of integration into the system of developed democratic states to talk about the beginning of a “cold war”. The repetition of this mistake, which Putin corrected at the beginning of his first presidential term, could, against a background of unresolved economic, social and political problems, have fatal consequences for Russia.

Moscow is likely to continue to avoid serious disagreements with the US and the leading states of the European Union. In the event of new international crises, Russia will, most probably, try to avoid being drawn in when there is the likelihood of major disagreement between Washington and its European allies. This is to serve the purpose of preserving the benevolent external environment for the development of Putin's Russia and avoiding unnecessary pressure. At the same time, the incomplete institutional and structural reforms, and the hesitant attitude of most Western countries to those internal Russian political processes that give them cause for concern, mean that further progress in co-operation with them is

unlikely to become a driving force of the modernisation of Russia's economy, state and society.

There is a possibility that events will develop within a scenario less favorable to Russia of worsening external and internal conditions of economic development, particularly any sharp decline in the world price for oil. Diplomatic relations could deteriorate if 2008 sees a further consolidation of "Putin's regime". Internal political complications could force the evolution of the regime towards a leftist populist version and/or considerable hardening of its authoritarian character and open disregard for the principle of the rule of law and the need to observe democratic procedures.

## Quo vadis?

There is a *contradiction between the announced liberal socio-economic programme* of Putin promises the continuation and intensification of institutional reforms and the *anti-liberal social mandate, given by the electorate in December 2003 and in March 2004* (observation of social justice by redistribution of income in favour of poor sections of population). What choice will Russia make under these conditions? Until now the high rate of economic growth has enabled the leadership to escape making this choice. The high price of oil has allowed painful decisions to be postponed. But what will happen if in the next 2–3 years the world market changes and oil revenues collected by the State are reduced? The government's freedom of maneuver would be substantially diminished but would it be ready to make unpopular decisions?

The government of Russia will have to face another problem. It plans to implement the most painful of its proposed reforms, in housing and communal services, in education and in healthcare. How will it react if during the course of such reforms it sees signs of social unrest and a fall in its popularity? Will it continue to implement them or back down and begin to pursue a more populist social policy?

While most experts today regard Putin's political regime as more and more authoritarian, the government's choice of socio-economic policy will determine whether this regime in the short term drifts towards becoming a leftist and populist one or remains a semi-authoritarian rule pursuing a liberal agenda of economic modernisation.

But even if Putin chooses the path of continuing and intensifying liberal reforms, he will face another dilemma: is modernisation of the country under conditions of "managed democracy" possible at all? Is an authoritarian model that has allowed many countries to transform agrarian society into industrial one appropriate to meet the challenges of a post-industrial modernisation, of a qualitative and innovative development?

The rudimentary state of the institutions of civil society, including media independent from the state and the weakness of political parties, increase the likeli-

hood of corruption and degradation of authorities. Provided that circumstances are favourable, it is possible for Russia, under conditions of “managed democracy”, to sustain the relatively high rates of “catch-up” development that are characteristic of developing countries. However an authoritarian modernisation will not enable the country to leave the periphery of the world economy, nor change the ‘raw material export’ nature of its economy.

Putin’s new government therefore faces a choice between increased control of socio-political processes, or reviving and strengthening democratic institutions and broadening rights and freedoms.

The tragedy of Beslan clearly gave the Kremlin a reason to make the choice in favour of further tightening the screws and curtailing democratic institutions. Will this course remain until 2008 or will Putin find the courage to admit its fatal consequences? In the absence of public debate of existing problems or any coherent political alternatives, and the growing alienation of society from power, any decline in the country’s economic performance is fraught with the risk of destabilisation of the present regime.

As the year 2008 and the need to choose Putin’s successor draw nearer, the probability of the Russian governing elite giving up “managed democracy” becomes increasingly unlikely. The revival of political competition in the country is only possible in conjunction with the following several factors: a fall in oil prices, increased social tension, the appearance of a demand for political alternatives and also disagreements and struggle for dominance within the “party of power”.

Contemporary Russian reality poses more questions than answers it provides. We have to find the latter in the form of scenarios of the future development, which combine both positive and negative economic, political and external processes. Impressive economic growth, Putin’s personal popularity, a constitutional majority in the State Duma, political stability, the successes of Putin’s foreign policy – when contrasted with the permanent shocks of the nineties as a background, these are the reasons for euphoria within the ranks of the “party of power” and those foreign observers who believe in the possibility of Russian modernisation “from the top”.

*Preservation of political stability and high economic growth providing the basis for the implementation of institutional and structural economic and social reforms – this is a scenario that seems to many to be the most optimistic one in mid-term, even if this development of Russia is accompanied by a strengthening of the authoritarian regime.*

*Pessimistic scenario suggests growing economic and financial difficulties, disruption of political stability including the partial or total loss of administrative control over political and social developments. It could be provoked by a combination of several factors: a substantial fall in world oil prices, increased dissatisfaction and possible public protest due to rejection of painful reforms, and growing social disparity between sections of the population and regions of Russia. Confidence in the*

authorities is undermined by its pathological inability to halt the wave of terrorist acts in the country, or to control corruption.

The pessimistic scenario offers the possibility of a political crisis, caused by the high level of corruption and the low level of loyalty of officials to the central authorities, growing disagreements between different political groups within the authorities, and loss by the latter of the esteem of the public which, under the semi-authoritarian regime, is deprived of the ability to influence political decisions or to participate in governing the country. At its extreme, this version of developments could lead to the disintegration of Russia.

This scenario seems improbable today considering the victories achieved by Putin. It seems especially unlikely during the period leading up to 2008. Of course, the country is not doomed to follow this path. One can imagine several intermediate scenarios of Russia's development, combining to a lesser or higher degree both optimistic and pessimistic versions. Development of the country before and after 2008 will depend on the quality of Russian politics – that is on those decisions that are taken or not taken by the country's leaders.

It is quite possible to see an *intermediate scenario of Russian political development when during the remaining years of Putin's rule the authorities will avoid making critical decisions*. As long as oil prices remain high, the authorities may follow a "centrist" policy; introducing "moderately liberal" reforms which don't meet with strong disapproval among the population. They may continue with "managed democracy" while keeping an appearance of democratic procedures and political pluralism. In relations with the US and the West they would avoid aggravation but would not back down on issues considered vital to the national interest.

In this situation the foundations of future deep structural change would never be laid during the years of Putin's presidential rule. The symptoms of growing stagnation would be less obvious against a background of favourable socio-economic indices. The burden of finding solutions to the unresolved problems of Russian politics would be borne by the next generation of Russian elite.

Based on the analysis of key tendencies of economic and political development of the country, we may suppose that for the next four years the most likely scenario of Russian political development will be neither optimistic, nor pessimistic, but something in between. The authorities will, most likely, be flexible, neither following a consistent course of reforms, nor abandoning reform altogether. They will continue to consolidate the "managed democracy" regime and to provide for its continuance after 2007 and 2008. Since there is no serious political alternative in the country today and the chances of revival of political competition within the next few years are small, it is unlikely that this regime will have to face serious challenges either at federal or at regional level.

Probability of such development is supported by the absence in Russia of political conditions and stimuli to carry out deep-seated reforms. The role of external stimuli should not be overestimated either. Although they may play a significant role

after Russia joins the WTO, their influence is greatly limited by Russian “immunisation” against Western influence.

Moscow’s policy of avoiding serious contradictions with the US and the leading states of the European Union fits quite well into the framework of the above scenario. The purpose of this policy is to facilitate favourable external conditions for the implementation of the government’s plans for internal development of the country. At the same time, owing to incomplete institutional and structural reforms, and the restrained attitude of most Western countries to those internal Russian political processes that give them cause for concern, further progress in co-operation with them is unlikely to be a deciding factor in the modernisation of Russia’s economy, state and society.

Nonetheless, should there be an unfavourable coincidence of internal and external circumstances; we cannot exclude a development which brings the intermediate path closer to a pessimistic scenario. We neither can exclude the possibility of a substantial fall in the oil price during this period, heralding a new economic and financial crisis that could place a question mark over the achievements of recent years. Since the critical period coincides with the State Duma elections of 2007 and the Presidential elections of 2008, such a development raises the probability of increased disagreements within the ruling elite and protest voting. But in either case, significant changes in the Russian economy are not expected during Putin’s second Presidential term. Even in the unlikely event of consistent and successful implementation of institutional and structural reforms, the appearance of the conditions for sustainable economic development in Russia by the year 2008 and for the foreseeable future is highly questionable. The problem therefore is not whether Russia can achieve sustainable growth by the end of the decade, but how much closer Putin’s government can come to solving this problem during its second term.

How long will our self-delusion last and for how long will authorities divert themselves with pleasing illusions? There is no unequivocal answer to this question. But one is clear: the longer this self-delusion goes on, the bitterer will be its fruits.