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Russia's Modernization - 2010 – speaking notes .

“Oil is a resource that anesthetizes thought, blurs the vision, corrupts (...) oil is a fairy tale and, like every fairy tale, is a bit of a lie. Oil fills us with such arrogance that we begin believing we can easily overcome such unyielding obstacles as time”. Ryszard Kapuscinski, “Shah of Shahs’, Vintage Books, 1992, p.35.

To follow the theme that I received from the organizers I would like to discuss Russian modernization from a comparative - macro sociology and geopolitical perspectives. From that point of observation I may suggest that :

1. Historically, Russia appears an uncertain, yet also quite successful modernizer. In the Russian case centralized despotism, an extreme expression of State's relative autonomy, has been the traditional strategy of mobilizing resources to remain a serious player in world geopolitics. This strategy however, had been exhausted around 1960s. The great leaps forward in emulation of best foreign practices have been a part of Russian historical dynamics since late fifteenth century. For the sake of brevity, let me limit this historical reconstruction to three observations.
 - First, Russia rose impressively through the sixteenth- and the eighteenth-century rounds of modernization eventually leaving behind many contemporary states in its class: Poland, Turkey, Iran, China, or even Spain and Austria.
 - Secondly, tsarist Russia was an explicitly statist, coercion-intensive modernizer. In this Russia was hardly unique — along Sweden's Gustavus Adolphus, Louis XIV , Friedrich the Great of Prussia, or Japan's Meiji Restoration. Culturally and geographically, however, Russia stood at a relatively greater distance from the core of emergent capitalism and thus when the long overdue change arrived it was in rapid convulsions and bursts of creative destruction - to use Schumpeter's famous expression - along extreme coercion served to undo the domestic sociopolitical obstacles, centralize the material and human resources to feed the modernizing efforts. The human costs were usually horrific to the established elites and still greater for commoners.
 - Finally in each instance Russian late modernizations were led by state rulers, not capitalists thus the role of the state is usually greater than in “models” that Russia was emulating.
2. As for the modern experience let's leap forward and let me summarize somewhat differently what we all seem to know about the Soviet experience with modernity. It

is not too surprising that in October 1917 a party of radicalized intelligentsia (which is what the original Bolsheviks were in reality) seized power in the state shattered by war. It is truly surprising that a year later they were still in power. Unlike the Paris communards, the Bolsheviks survived. Yet, the most glaring and puzzling contradiction of the Soviet 1930s is the coexistence of mass terror and mass enthusiasm. The great test arrived with the Second World War. The splendid fighting machine of Wehrmacht could never be stopped by Russian climate and piles of dead bodies. It had to be the newly created Soviet industrial base which overproduced the Third Reich in tanks, warplanes and munitions. It also had to be the newly acquired technical skills, discipline and, yes, the ideological determination. On this count Russia's third historical modernization can be recognized also as success. Moving along history:

- Gorbachev's perestroika – for the most important was the alliance that the reform faction at the very summit of Soviet hierarchy allied with the liberal intelligentsia, professionals, educated specialists and advanced workers against the conservative majority of nomenklatura who paternalistically controlled the masses of lower-skilled workers and rural sub-proletarians. Glasnost in effect became a purge of obsolete cadres and practices the newly promoted cadres were becoming an alternative lever to the vested interests entrenched in the old apparat. Gorbachev's perestroika however ran into the pitfall of most authoritarian reformers and the results proved disastrous at most levels.
- Yeltsin's presidency went successively through three phases which all ended in debacles. In 1991-93 the near-messianic hopes vested in the neo-liberal shock therapy delivered instead the demoralizing and destructive hyperinflation. The subsequent shift to neo-imperial grandeur in the absence of a functioning state soon led to the humiliating defeat in Chechnya. Since the reelection campaign of 1996 Yeltsin became hostage to financial oligarchs whom he himself had created. In its turn, the reign of oligarchs ended in the financial meltdown of 1998 and the concerted bid for power by regional governors which threatened Russia with further fragmentation.
- In 2000 the new regime centered on the unexpectedly charismatic Colonel Putin marginalized oppositional parties, bought over the fabulously corrupt governors, exiled or imprisoned the more assertive economic oligarchs and

wrestled control over their business and media empires. Against the background of ‘colored’ revolutions in Ukraine and Georgia, the Russian state restorationists then clamped down on NGOs and further weakened – already weak – civil society. Putin’s recovery so far has strengthened the state at the expense of all other claimants to power, unavoidably contributing to the dualization of the Russian society and corruption that swallows a good portion of the Russian GDP.

3. If one can capture the political economy of current Russia than the simplistic algorithm would look like that:
 - Putin’s group rule = power + oil/gas +TV
 - Power = state based accumulation + bureaucracy + trusteeship
 - Oil/Gas = principal state/private revenues
 - TV = relative control of mass opinion
 - Therefore, Putin’s rule + power + oil + TV = the Russian developmental state in progress.

Such power base for modernization limits the space for any large scale societal-based innovative projects, as any change will – undoubtedly erode (with the scale of this process being completely unpredictable) the very fundamentals of the current ruling group. Thus it will be quite tempting to limit the scope of potential change and focus predominantly on localized territorially, technological innovations which – in turn – will turn this approach into a failure of this round flirt with innovativeness of the system in the longer term period

4. Thus in a fundamental sense, V. Putin’s “re-centralization” brought back some of the old Soviet dilemmas. If the enormous geopolitical costs of Cold War is now gone, the costs of bureaucratic self-serving inefficiency and paternalistic consumerism, leading to corruption stand as huge as ever. This is now one of the major obstacles to the next technological modernization. Having re-centralized power, Putin and his successor Medvedev now face the question what can be done with this – let’s be clear - fading social power or even how much power they can effectively deploy for any purposes besides the routine reproduction of bureaucratic privileges. The result of an accumulation of power – yes indeed, a necessary step in any modernization – but without real changes to the system led to situation where the state is nobody’s servant except its own; the real ruler in RF is a Russian autonomous bureaucracy. Thus Russian rulers now face another perestroika which must begin with making the ruling bureaucracy more accountable and thus less sovereign. In the past, concentrations of power at the top served prologues to leaps forward. In the

present, such concentration by itself appears useless unless supported by set of long term policies aiming at “system” not only a few its constitutive parts. The question is why this time is “different “?

5. There are at least four compelling reasons for Russia not to be able to repeat the past “modernizations blueprint’s” :
 - First. The use of coercion would be very limited and use of real available “power” in the form of state based accumulation might contradict the basic interests of its main carrier – state bureaucracy; thus the “power” vested in the President and PM in reality is quite limited for the purpose of any larger scale “modernization plan “ ;
 - Secondly, after the “2008 - to be seen” economic crisis the “model” for emulation/mimicry is less that certain and for many decision makers and potential subjects of change less attractive (unlike in all previous Russian modernizations), thus the temptation to implement the simplest “rudimentary modernization” in a form of simple transfer of technology concentrated and confined to a small town of Skolkovo;
 - Thirdly, the innovative society that is able to generate technological and societal innovations is absent in Russia as civil society is underdeveloped (RF currently submits as many new patents as a single US state of Southern Georgia); a dual society of “have a lot” and “have-nots” with a thin layer of a heavily bureaucratized middle class in between would –at best – produce “island type” innovative centers that hardly can be linked with the society but rather will serve either foreign companies that will be able to implement innovations or the only Russian sector still capable of doing so – military complex; innovations have significant cultural and societal components that cannot be reduced to a relatively simple “transfer of technology”; and further be controlled by the autonomous, un-controlled bureaucracy, that forms the very brake of any reforms.
 - Fourthly , there is an obvious , considerable risk for the stability and coherency of current ruling group by implementing a wholesale change; as previous experience show any modernization creates its own momentum when the social forces unleashed from state power can became an enemy of those to initiated the process; ironically, but historically proven – V. Putin’s centralization of power may lead – I repeat again - as in the past – to the process of democratization of the country; the main reasons for that are

twofold : the push for modernization can come only from the state (that is enough centralized but still quite weak) and only centralized, quasi-democratic state can generate collective enemies capable of deeper change as only in such conditions – I argue - can be seen as object of contestation.

Thus the final question is:

6. Quo Vadis Russia's modernization ?

With an uneasy humbleness, we shall collectively say that we do not know for sure. Based on our best knowledge, we can only point to the best examples known and extrapolate / adjust their experiences into the specific conditions of today's Russia. Crudely, there are at least four basic choices to be made (each with its Russia-tailored variations and mutations):

1. the “developmental state way” (basically the East-Asian model);
2. the “conservative modernization” way (basically adjusted continuity) ;
3. “deep modernization” (basically comprehensive adjustment of the economic-political-societal system that would lead to a more “inclusive growth a la de Silva);
4. The “EU way” (basically selective adaptation/implementation of key normative and institutional concepts).

Each “model” has some in-built uncertainties and contradictions; each requires strong political will and policy implementation capacity. Guaranteed success of any one is everything but certain. My point is, however, that by not making a decision, Russia – willingly or not – will slide (as it is in many areas sliding down already – see industrial capacity, population growth, R&D, etc.) down to the junior league of states regardless of a quite sure oil price stability or even growth .

(1) Let me start with the developmental state option as a lot of energy, money and political capital have already been invested in that strategy of Russia's change mainly by V. Putin and his team. This scenario would unfold (obviously – at this point - *only hypothetically*) as follows: based on the hitherto achieved pattern of accumulation/power, the Russian ruling group decides to move to the next level of developmental state evolution: a deep and systemic modernization of the country. But the initial Kremlin-elite-based trusteeship of the stabilization/consolidation period (roughly 2000- 2005) is no longer enough to move ahead. They prepare a plan that will envision modernization, not narrowly defined (as the need for new technology and equipment) but as an all-embracing, staged process of legal/institutional, economic/social, technological, research/educational, and conscience/ideological change. They set in motion reforms and then move to a clear cluster

of priorities in their plan, centered on re-constructing a sophisticated industrial base linked to the innovative scientific research/implementation and pushing banks to finance it. Only those who are really competitive get the money. The Kremlin makes special efforts to make rules and procedures as clear as possible for business and supports these through a strong, corruption-free court system. Corruption at large is at least halted thanks to changes in the regulatory system, punitive actions and changing social attitudes that no longer accept it (as society becomes a part of the plan this time as slowly empowered civic formation. As the Kremlin needs to find a larger pro-modernization consensus and (simultaneously) ways to convince/co-opt/neutralize powerful, interest-based opponents (located mainly in the energy sector), they make a choice of relying on the small middle class, medium-scale business, and that section of bureaucracy that is dynamic enough to implement new policies. They are also re-shaping the “elite” as only a new ruling group will be able to carry on with the enormously complex tasks. At the same time, they launch a mass media campaign to explain to the different constituencies the benefits of going through a quite painful and unexpectedly long (5-6 years) initial modernization process (and of the danger of not setting off down this path). As the process advances, the Kremlin is peacefully undermining rising social discontent (which is normal as the re-distributive function of the state is becoming step-by-step diminished and increasingly targeted) and gaining enough support to make the bold move of reforming the resource and energy sectors. In the first stage (1-2 years) they will need harsh measures as – paradoxically – one of the impediments to the successful implementation of the “developmental state scenario” was that Putin was “not-dictatorial enough”. Finally (within 3+ years), they move decisively to the point of the democratization of the developmental state. Does this sound like fantasy? But is there any other choice than some form of this fantasy other than a comfortable oil-and-gas-cushioned semi-stagnation?

(2) The second way is to have a “conservative modernization”. Such scenario embraces at least five components : a) some transfer of most modern technology (mainly to military industry as it will be the only sector capable of absorbing it); b) keeping the budget filled with petro-dollars (that will be quite sufficient at \$ 68-70 per barrel to fulfill current level of social and security obligations); c) serious modernization of the energy sector to make it as efficient as its western counterpart d) strengthening military and security capacity to secure its – inevitably - diminishing economic and social power both domestically and internationally ; e) implementing even more assertive international policies to hide domestic weakness (for instance in the Arctic); f) at least partial renewal of the elite (in key areas of security and higher end regional/federal bureaucracy) that is capable of moving beyond the “stability-stagnation phase”. Within this scenario the Russian state can go on *without any significant change* for at least couple of years. The rhetoric would be changed – however - focused on a more skillful use of the language of modernization, change and openness. The deep

modernization - within this scenario - will be postponed and re-considered at the later stage. Energy price stability at above \$70 per barrel would be very important to that scenario and Russia shall try to support/create a global mechanism for oil and gas price control. The above scenario is socially risky – as the state shall contain any political upheavals and continue to block any significant source of opposition (that will be naturally growing as all-controlled-state will become a natural target - but it is nonetheless doable (at least for a few years). The implementation of this scenario will be quite appreciated by the current politico-economic elite as it would mean a stabilization of their power/wealth/influence and also diminish the level of uncertainty related to the implementation of any alternative scenarios. In the long run it might relegate Russia to the “secondary powers” club within some years and push Russia towards marginalization but – comparatively speaking - no state can be sure of their position in an unpredictable global environment that we have entered during the current economic crisis.

(3) The “deep modernization” scenario differs from the developmental state scenario only in some key points , namely in scale and in the engagement of all social actors in the process of modernization and crucially *re-industrialization of Russia*. It assumes – quite safely – that one cannot modernize the Russian economy without, in time, modernizing the state’s governance principles and enabling society to be more empowered. Russia cannot become stronger without strengthening its industrial base that looks today as obsolete and job loosing machine. It also assumes two more things: that any social or economic change requires the presence of political subjects who are willing and capable of supporting the alternative (i.e.: modernization) and that “modernization ideology” is only as good as the meaningful societal support it garners. Thus a meaningful modernization in Russia will require significant societal support as it will be a real struggle to change the key sectors of the economy and reshape well-entrenched habits and structures. It will also require the participation of organized interest groups that will link their future prosperity with a modernized Russia. It can potentially attract followers, particularly among the middle class, small- and mid-size entrepreneurs, and the youth.

Even a loose coalition of “deep modernizers” around the President can create the additional political space which could make Russia more hospitable to the *evolutionary change* that eventually will make the country stronger, more prosperous, and more respected. We shall admit that the actual level and depth of such support is – at present – not known and thus it would be quite risky politically and socially to start a wholesale implementation of the “modernization project” without the formation of a “movement for modernization” that eventually (if it will get significant support) may take the shape of a new centrist political party. There are, however, significant risks to such development. Two spring immediately to mind: such a “progressivist” movement might be too all-embracing and thus too loose to

formalize itself as a coherent political party (or even a social movement), and second, as history tells us, socio-economic modernizations are capable of delivering a deathblow to the existing system — something that nobody in power is likely to welcome.

(4). The “EU way” is a fourth possible option. Obviously I am *not advocating transposing* a copy of European Union onto Russia or her applying to join the EU or even imitating its legal system. Vladislav Inozemtsev, a well-known Russian economist, made a very good point by saying that, “This path doesn’t require such a strong developmental state as the first one, but needs radical political decision to be made. (...) a pro-European policy based on accepting if not European values, but EU practices. If Russia accepts at least part of the EU-wide regulations known as *acqui communitaire*, complies with European ecological, competition, trade and some social protection standards (...) the modernization of this country may take another direction.”¹ Of course, it would be a revolutionary decision that would shake the whole system. Russia is far away (institutionally/legally and strategically as far as state is concerned) from the EU. This would also mean re-shaping Russian foreign policy and some portion of the elite’s mentality, but as Russian economic interests are located between Europe and Asia this might be a sustainable choice. It would give Russia a firm place within the EU-quasi-empire (even if it has been dented recently by a deep fiscal problems), guarantee its security, better access to the EU market, reinforce Russia’s position as also a European power .

Conclusions

In all cases, the ruling group shall consider moving from the “trusteeship” mode of ruling Russia (state v. weak society) to a “social coalitions”-based system. As history has shown, even the most enlightened “trusteeship” cannot reorganize the system (in a longer term) without broader societal support. At this moment the game is *not - narrowly defined - technology and innovation transfer*, as some members of the elite advocate; rather, it is about making Russian *society and economy innovatively oriented*, with the state and society playing roles in that process.

The choice between accelerated continuity, “deep modernization” and “status quo evolution” should be carefully considered as a future of a huge country is at stake. What is certain is that the lack of real modernization/innovation policies of the last 4-5 years cannot be continued without serious, negative, long-term consequences. The only good thing about the crisis of 2008-2009 is that no one can deny the necessity for accelerated change and the need for a larger, societal debate about the future of the country. And this in and of itself is a good thing for Russia.

¹ Vladislav L. Inozemtsev, *Dilemmas of Russia’s Modernization*, unpublished paper, Russian Institute and The Expert Dialogue Conference, *What does Russia Think?*, Moscow 2009, pp.11.

