



Young men fleeing abroad at the Russian-Georgian border after the Russian military mobilization order. (September 26, 2022—Lars, Russia)  
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## Putin's Home War: Imperialism vs. Economy

By **Marsha McGraw Olive**

Speeches on the one-year anniversary of the Ukraine war by Presidents Putin and Biden show why the West is losing the information war. While Vladimir Putin called for social solidarity to repel the enemy at the gates,<sup>1</sup> Joseph Biden stood at the gates in Warsaw and declared that Putin and his war, not the Russian people, was the enemy.<sup>2</sup> His well-intentioned appeal drowned in a deep well of belief by Russians that the West wants to destroy their country. That narrative, long shaped by Putin propaganda, sustains a go-for-broke foreign policy by an autocratic state.

To win and keep the peace, we urgently need a new way to communicate with ordinary Russians.

Understanding the tensions in Putin's home war is a first step in crafting a robust public diplomacy strategy.

### Roots of legitimacy: Loss of livelihoods, loss of status

Putin's legitimacy derives from the emotional trauma of the 1990s, which he manipulated to scapegoat liberals in Russia and the West. The profound psychological impact of the late Gorbachev-Yeltsin years laid the ground for Putin's appeal. The concomitant collapse of borders, ideology, polity, and economy was intensely disorienting. People lost a sense of social belonging through meaningful

employment and to a grander global status by membership in the Soviet Union. After 1994, society absorbed the twin shocks of lost livelihoods and international prestige.<sup>3</sup> Not surprisingly, in November 1994, three-quarters of Russians polled by the Levada Center felt the collapse of the USSR brought them more harm than good.<sup>4</sup>

During the same period, support for a strong military rose dramatically, even though the economy was in freefall. This post-imperial syndrome led to an intense desire to recover superpower status, which was sustained into the 2010s.<sup>5</sup> A shared sense of victimhood coalesced between elites and average citizens.<sup>6</sup> Putin turned loss into pride and patriotism by activating a sense of exceptionalism and foreign threat inherited from the Soviet Union.<sup>7</sup>

Putin's social contract grew out of his 1999 *Russia at the Turn of the Millennium* (Millennium Manifesto), which argued for a strong paternalistic state to restore stability, overcome economic backwardness, and reassert Russia's reputation as a great power.<sup>8</sup> Initially he focused on restoring consumption, particularly for the professional middle class, which had collapsed with the Soviet Union. His early reform program, combined with fortuitous international economic conditions, solidified his leadership credentials until the global financial crisis gave Putin another reason to blame the West for a severe downturn in 2009. Calls grew domestically for economic modernization to restore living standards. The 2011–12 Bolotnaya protests added a political dimension to consumption demands.

Putin shifted the emphasis in the social contract to geopolitics. The 2014 annexation of Crimea capped a period of assertive foreign policy that restored collective pride in Russia as a great nation.<sup>9</sup> Putin

lost some public support because of the economic cost of Western sanctions, but his overall ratings rose because the Crimean annexation was so popular.<sup>10</sup> After that point, according to Russian economist Alexander Auzan, the population was expected to accept "constraints on consumption in exchange for belonging to a superpower."<sup>11</sup>

Putin's February 21, 2023, speech to the Federal Assembly now rejects any trade-off between patriotism and pocketbook. Russia will prevail through social solidarity against the West, he said:

Let me reiterate that the sanctions against Russia are merely a means, while the aim as declared by the Western leaders, to quote them, is to make us suffer. "Make them suffer"—what a humane attitude. They want to make our people suffer, which is designed to destabilize our society from within....However, their gamble failed to pay off. The Russian economy, as well as its governance model, proved to be much more resilient than the West thought.

You know, there is a maxim, cannons versus butter. Of course, national defense is the top priority, but in resolving strategic tasks in this area, we should not repeat the mistakes of the past and should not destroy our own economy. We have everything we need to both ensure our security and create conditions for confident progress in our country.<sup>12</sup>

In contrast to this upbeat portrayal, Putin's own policies are undermining the social contract on which his legitimacy depends.

## The social contract depends on economic performance

Expectations that severe sanctions would upend the Russian war machine proved unfounded in 2022, aided in part by a [battle-hardened](#) economy.<sup>13</sup> But that performance was based on one year of sanctions, historically high oil prices, and superb technocratic management by the Central Bank of Russia (CBR) and Ministry of Finance.

The economy now appears to be heading for long-term secular decline. Growth forecasts for 2023 and beyond are notoriously hampered by Russian data restrictions, which help explain the wide variance in predictions, from minus 2.1 percent by the OECD to plus 1.0 percent by JP Morgan.<sup>14</sup> Yet two pessimistic forecasts deserve attention. One, by the CBR,<sup>15</sup> includes a global crisis scenario in which oil prices (Urals) settle at \$40/barrel, close to the price at which Russia is selling to countries not in the sanctions regime.

The other, by Alfa Bank chief economist Natalia Orlova, argues for caution over optimism. Orlova points to domestic sources of weakness in her macroeconomic [review](#), particularly a decline in Russian consumption stemming from the exodus of an estimated 1.2 million people from the middle class in fall 2022.<sup>16</sup> The migrants fled with bags of cash. This is bad news for the economy because middle-class consumers are vital for sectors ranging from cars to real estate to household appliances. Instead, they deposited an estimated US\$36 billion of their savings in foreign bank accounts between February and September 2022. To put that figure in perspective, the Ministry of Finance withdrew 2 trillion rubles (\$29 billion) from the 7.5 trillion-ruble National Welfare Fund (NWF) to bolster spending in 2022.

Another source of weakness is budget financing. The fiscal deficit is growing rapidly, expected to reach 3.3 percent in 2023. Russia can handle a deficit of 3 percent for the next three years by drawing down the NWF, according to Bloomberg Economics.<sup>17</sup> Oil revenues, always tricky to forecast, are key to [Putin's fiscal policies](#), which have swung between saving for a rainy day or spending to shore up political support, usually before an election.<sup>18</sup> Putin built a war chest by increasing savings in the NWF in 2017–18 and got a boost from higher-than-expected oil revenues in 2022. Such conditions are unlikely to return any time soon. Sanctions have restricted Russian access to international capital markets, so the budget will have to be financed by drawing down the NWF, increasing taxes on domestic firms, and tapping the savings of households, which are limited. All these measures will hamper future growth.

Growth will also be depressed by a state-financed development model that is increasingly devoid of private initiative. As promised in his Federal Assembly speech, programs include a new state fund with offices in every region for the “families of the fallen” in Ukraine; a low-cost rental program for defense industry employees; a free gas distribution program for citizens; massive upgrading of roads; and trillions of rubles for housing, utilities, waste management, clean air, new schools, and other priorities. Only a new “industrial mortgage tool” of low-cost loans and tax incentives to buy Russian-made IT solutions involves the private sector in modernizing the economy.

Unquestionably, massive spending is needed to fix [crumbling infrastructure](#)<sup>19</sup> and the [growing stock of housing in dilapidated and emergency condition](#),<sup>20</sup> projected to affect over 6 million people in 2024.

Emergency repairs alone were estimated at \$60 billion in 2021. These are socially sensitive programs, and their delay could reignite the 2017 protest in Moscow against relocation tied to rehabilitated premises. Housing is an agenda on which [Putin is politically vulnerable](#).<sup>21</sup>

A long fiscal crisis will put Putin in a bind. There will not be enough money to fund a protracted war and pay for state paternalism on steroids. A war economy must first serve the military, not social needs. Putin faces the same trade-offs between guns and butter that no Soviet president surmounted.

### An unravelling social contract

The political side of this economic conundrum is that the emigration of middle-class Russians and loss of their talent and savings is also a setback for Putin's legitimacy. Whether it endures will depend on how well he maintains the social contract with this class.

Depending on the definition used, the middle class has qualitatively different roots in Russia than in the United States and advanced democracies. It is smaller as a share of the population and geographically concentrated in leading cities. Since the 19<sup>th</sup> century, its members have been integral to the intellectual, professional, and creative class. The most politically active are those who Masha Lipman once termed "angry urbanites." Polling shows that younger, well-educated middle classes in major cities trust Putin less and oppose the war more.

The middle class bears the most severe consequences of the invasion and the economic war, according to sociologist Natalya [Zubarevich](#).<sup>22</sup> Relatively poorer Russians are Putin's base and will receive additional social benefits. Many among

them are [willing to fight](#) for economic and patriotic reasons.<sup>23</sup> Richer Russians tend to support the regime. For the middle class, lifestyle changes are as much a shock as constraints on household spending. [Deeper economic troubles](#) that appeared in 2022 will further erode living conditions and consumption for families, whose [debt](#) has risen by 40 percent since 2017.<sup>24</sup> All the while, aided by Western sanctions, the Russian economy is getting less modern: air travel is becoming more dangerous without imported spare parts, new Russian cars lack anti-lock brakes and airbags, and technological inputs, not to mention personal smartphones and computers, cannot be sourced from the West.

Understanding the risks, the Kremlin acted early to mobilize social support for the war. It has detained an estimated 20,000 critics as pro-Western traitors; curtailed military mobilization from cities where protest is politically risky, such as Moscow and St. Petersburg; and encouraged pro-government rallies such as those in Samara, at the memorial service for soldiers killed in Makiivka. Most significantly, the Kremlin ramped up propaganda in state media and used rallies and videos on social media to inspire patriotism. Whether or not participants in these events support the regime is not known—some may participate out of fear—but the image of broad-based support in the media feeds into nationalist framings that the country is under attack.<sup>25</sup>

One tactic, keeping the borders open to reduce internal dissent, is about to end for draft dodgers. The electronic recruitment law passed on April 11, 2023 forbids anyone who fails to respond to the online summons from leaving the country, taking out loans, buying or selling real estate, or even driving.<sup>26</sup> Escape routes, whether external or internal, will close. The educated middle class comprised the first wave

of post-invasion refugees, and it was a significant share of the second. Another mobilization is likely to generate a growing cast of internal enemies who are subject to onerous prison terms. A worst-case model is the sham trial of political activist and former journalist Vladimir Kara-Murza, who was sentenced to 25 years in prison under treason laws.<sup>27</sup>

Though it is not powerful, the middle class is not politically irrelevant. It can amplify the signals of elites by backing a more revanchist regime or a modernizing government.<sup>28</sup> The outcome is vital to international security. Russia can become even more of a rogue state, a resource colony of China, or a responsible member of the family of nations.

## Public diplomacy for post-war Russia

For two decades, Putin has hyped an anti-Western narrative. It is possible that the silent majority—the estimated 55 percent<sup>29</sup> who are uneasy but do not oppose the war—will sit on the sidelines even as personal hardship and battlefield losses mount. So long as they see the 1990s as worse, as Levada polls published in January 2023 show,<sup>30</sup> it will be difficult to break the Putinist fever.

To encourage new thinking, we need to offer a vision of where a peaceful Russia fits in the future. A first step is to counter the propaganda that Americans are out to destroy Russia.

First, we should keep the internet open. Blocking access to search engines and public websites in the West would reduce the flow of globally vital and independent information. A digital Iron Curtain would silence the people we most want to reach. If the Kremlin pulls the “kill switch” by implementing the 2019 [Sovereign Internet law](#), Western tech

companies should be encouraged to help activists within Russia keep it open.<sup>31</sup>

Second, we should be alert to the impact of foreign pressure on the political preferences of average Russians. While [hotly debated](#), visa and travel bans are particularly sensitive because they target the population directly as co-combatants and [play into the Kremlin’s narrative](#) that the West hates all Russians.<sup>32</sup> Rather, visa and work authorization policies might be crafted for Russians who are under threat for speaking out against the war.

Third, we should communicate carefully. Direct attacks on Putin or patriotic symbols will backfire. Non-political contacts via group chats on shared interests such as personal hobbies or exchanges of humorous home videos would be a light-touch way to show Americans as they are, not as they are vilified. An informal working group with government and nongovernmental experts could collaborate on appropriate messages. The [Global Engagement Center](#) in the U.S. State Department, which is gearing up operations to counter Russian propaganda within Russia, not just disinformation to the outside world, will be vital to an effective messaging strategy.<sup>33</sup>

Finally, we should remember [Ronald Reagan’s distinction between the people and the state](#).<sup>34</sup> Although he was fiercely anti-communist, Reagan recognized positive contributions of Russian culture and saw society as diverse rather than monolithic. As we focus on winning in Ukraine, we should also strive to win a Russia that is stable, at peace with its neighbors, and integral to the security of the region and world.

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The opinions expressed in this article are those solely of the author.

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