

Dear David,

“Interestingly, Bloomberg just ran an article as if to help me to partly answer your question – [Putin Clans Gridlocked Over Arrest as Sanctions Bite](http://www.bloomberg.com/news/2014-10-05/putin-clans-said-gridlocked-over-arrest-as-sanctions-bite.html).
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“Though I would not talk about anti-“siloviki” people as prime-minister Dmitry Medvedev’s group. Medvedev is currently widely seen as no more than a statist. Almost all of his not numerous liberal moves in economy, law, technical modernization made during his presidency were annulled after Putin had returned to the top post. There are a number of good (I would say ‘normal’) economists still working in the government – heads of ministries of finance and economics, as well as of the central bank. You can call them “realists” because they understand in what dire state the economy is and that everything that can go in the wrong direction, goes. But their resources are dwindling rapidly, they are losing ability to influence the country development since Putin’s policy undermines all their efforts. Besides, they have to a large extent lost, as we say, “access to the body”, i.e. Putin now consults mostly “siloviki” and not officials in charge of the economy.

“Several days ago I spoke to a prominent private economist who had recently visited a private party where those official economic policymakers were present. According to his words, they are “visibly on edge”, because they have to follow the course they believe is wrong and have few means to correct. Also, according to the economist, Russian economy has entered a three-year period of (at best) stagnation even without any western sanctions, just because of its structural weaknesses, but it is absolutely impossible to forecast what will happen afterwards.

“This is maybe the only point where experts agree – it’s impossible to forecast how long the current situation will prevail. The vast majority of Russians today support Putin and his policy (the annexation of Crimea sparked a huge burst of enthusiasm), especially since this policy once again, as in Soviet time, opposes Russia to the Enemy (not enemy, but Enemy), which is the West. And modern means of propaganda are much more efficient than during Soviet times. Today’s FT opinion piece provides a good look into current perception of the situation from within Russia (Nikonov views are widespread both between officials and ordinary Russians) – [Russia through the nuclear looking glass](#).

“Unfortunately, Soviet mentality is extremely deeply rooted in this nation. As psychologists and sociologists say, in times of danger (and the whole Ukrainian situation is seen as danger – Putin and his propagandists did their best) people here unite behind the government. This is partly because their historical memory tells them that otherwise they have to fear for themselves. “As the above mentioned economist says, despite already significantly rising prices and falling rouble, people still do not reflect that the economic situation is beginning to worsen, their minds are still preoccupied with the foreign policy, and Russian TV channels continue to massively feed this perception.

But he is sure that in some time (again, nobody knows when) economic problems will come to the fore.

“I can say that the situation very much reminds me of a bubble, with the absurd and idiotic laws, restrictions and decisions coming in higher and higher numbers and more and more quickly. But, as you always say, this process is of unspecified duration. Also, the bubble can either burst or deflate, and we don't know which way it will happen.

“As far as possible coup from Putin's inner circle or any part of the so-called elite is concerned, this seems unlikely at the moment due to the following reasons. The pragmatic economists in the government have no power to displace him since obviously the other clan, heads of security and law-enforcement agencies as well as heads of large state-owned companies (many of whom are also former KGB men) have more, as it were, rough power. Large businesses are either afraid (really, I see how billionaires, people who run huge companies become meek at the first signs of a conflict) or do not want to have anything to do with politics (so that not to hurt their business). As far as businessmen who are sanctioned as Putin's friends are concerned, as yet they do not suffer to the extent to think of changing something. More than that, they are going to receive support from state finances (either from the budget or reserve funds – see Rosneft example in Bloomberg article) or in the form of government contracts. Thus, companies of Gennady Timchenko and Rotenberg brothers, all of whom are under sanctions, were chosen by the government (you may easily say – by Putin) without any tender which is required by law, to build a bridge across Kerch Strait, the only way that connects Russia with Crimea (currently, there is only a ferry service there). The parliament is contemplating a bill that will make able to pay compensation from the federal budget to those whose property was unlawfully (from the Russian government's point of view) arrested by foreign courts. The bill is already nicknamed “Rotenberg law” since Italian police recently arrested several of his villas and apartments as well as Rome hotel due to EU sanctions. You make think, it's absurd, idiotism and legal nihilism. You are absolutely right but we are getting accustomed to such things.

“Since Putin's policy now is the policy of a besieged fortress, the first requirement for those who are close to him is deep loyalty. This, on the one hand, drives competent professionals out of power (thus exacerbating situation with governance) and on the other, seems to prolong Putin regime days – at least for some time. Although, of course, history gives us numerous examples of autocrat betrayal by the most loyal.

“Sorry for a long letter, hope it will help you to better understand our situation.”