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Carnegie Endowment Moscow

RUSSIA AFTER THE PRESIDENTIAL ELECTIONS: DOMESTIC AND FOREIGN POLICY CHALLENGES

Moderator:

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Franz Kössler was born in South Tyrol, Italy, 1951, studied philosophy in Frankfurt/Main and Florence. During his journalistic career Franz Kössler worked as head of the foreign policy department for the Italian daily *il manifesto*, Rome and the weekly magazine on international policy of *RAI 3* and has been with the ORF/Austrian broadcasting since 1981. He headed the ORF-offices in Moscow, Washington and London, worked as director for *Zeit im Bild* and *Europajournal* (radio) and is currently director of the international weekly magazine *Weltjournal* (Austrian Television). Franz Kössler has contributed to numerous publications on issues of foreign policy and media coverage of international affairs.

Dr. Franz Vranitzky

Guten Abend meine sehr geehrten Damen und Herren, liebe Freunde des Bruno Kreisky Forums für internationalen Dialog. Way back to the year 2006 the Bruno Kreisky Forum for International Dialogue started the Anna Politkowskaja Lectures as memorial for Anna Politkowskaja. I think everybody here knows what happened to her and what kind of consequences in the Russian, and the European, and international life her death brought about.

It is my great pleasure to introduce Ms. Lilia Shevtsova to you tonight. I have had the opportunity, and the privilege, and the pleasure to meet her a couple of years ago as one of the participants of the Bilderberg Meetings.

This gives me a good opportunity to say at least one sentence about the Bilderberg Meetings. Bilderberg is a meeting once in a year which takes place in various parts of the world. The name Bilderberg is derived from a hotel in the Netherlands. It was the late Prince Bernard of the Netherlands, the father of Queen Beatrix, who founded Bilderberg Meetings. The purpose of the Meetings was and still is to foster communication, intercourse, debates, exchange of views across the Atlantic. It has also been described as a forum of Nato countries to exchange their views on economy, on international trade, on defense and security, and some other topics and items. As time went by the focus of the Meetings was extended according to the change of the international situation. That means that by now a country such as Austria which does not belong to Nato has been a participant in the Bilderberg Meetings for many, many years. I happen to run the Austrian Chapter for the Meetings. But as up to now we have also participants from former Warsaw Pact countries as well as from Turkey which is a Nato country. And it is also very interesting to watch and to listen to the exchange of views of Republicans and Democrats in the United States as far as international measures are concerned. None of us has a lot of doubt that there are no fundamental differences and discrepancies between Republicans and Democrats as far as the foreign policy of the United States is concerned which gives us some kind of perspective for the time after November 3rd.

Ms. Shevtsova will deal with Russia after the presidential elections, domestic and foreign policy challenges. In February of 2008 with the Russian presidential elections still ahead this brings me to an observation which I made a couple of years ago when the presidential elections in the United States was decided not by the voters, especially in the state of Florida, but by a judge. I remember that they had a lot of troubles in Florida, in Date county as you may remember, to count the votes. Also I remember that Mr. Putin at that time said, why don't you invite some Russians to go down to Florida because what they are able to is to count. After the decision was taken in the United States Putin said, the American people knew six weeks after the elections who their president will be, in Russia they would know it six weeks before the elections. So now we are well ahead of the presidential elections in Russia. It is quite good to know that there is somebody like our speaker tonight who will give us an impression of the consequences of the Russian elections well before the elections, which I ask you not to consider as a parallel to Date county and Florida but as a challenging topic at the Bruno Kreisky Forum for International Dialogue. The forum is yours.

Franz Kössler

Thank you Mr. Vranitzky for the introduction and thank you for joining us. Why should we be interested in what is going on in Russia? It seems to be obvious, but it is not. Russia seems to be moving both backwards and forwards at the same time. In a regime that is highly personalized, as it is in Russia, the period of transition from one president to another even if it turns out to be the same is a crucial point. It implies quite a lot of risks and prospectives. Russia in the last years has been back on the international stage as an actor, as an acting power with the pretext of being a huge power. And we feel the consequences both in the field of energy supply as well as in the security field and in the fight against international terrorism. So we should be interested in what is going on.

Lilia Shevtsova has previously given us invaluable guides to the Yeltsin and Putin periods, says the Swedish foreign minister Carl Bildt. And her thoughts and analyses now give us new help in understanding a country we simply have to understand. Her experience spans different periods in the development of Russia. We shared a few years in Moscow. You were a politologist already under the old regime.

Lilia Shevtsova

We did not have politics, but we had politologists.

Franz Kössler

Then you were at the Center of Political Studies in Moscow under Gorbachev, and you were at the Institute of International Economic and Political Studies at the Russian Academy of Science in the period from Gorbachev to Yeltsin. Now for the last years you have been with the Carnegie Moscow Center for International Peace and the Carnegie Endowment in Washington as well. If I understand what you wrote and what you write in your last book *Russia. Lost in Transition. The Yeltsin and Putin Legacies* you always shared a little bit the hope the Russian people had in an opening, in a democratization from Gorbachev when you realized that it was very cautious, maybe too cautious to really transform the society, you were in favor of the Yeltsin regime as well. And then it turned out to be a disappointment. I think you never believed in Putin. Now we are going to hear from you what you are expecting from the next transition.

Lilia Shevtsova

Thank you for your kind words. Ladies and gentlemen, it is really a pleasure, it is fun to be here. I am honored to speak before such a distinguished audience. I am honored to have Chancellor Vranitzky to open this meeting. It is very difficult to give justice to Russia's uncertain certainty or certain uncertainty in a mere thirty minutes. That is why I will first of all give you the short version of my presentation. The one or two sentence version of my presentation. This version would be the following: The medium term Russia's perspective is pretty good. And Russia could be still viewed as the success story, especially on the economic front, and especially if the oil price is hovering about 80 or 100 Dollars per barrel. The longer term perspective is problematic. But in any case Russia continues to be - with success or failure - the problem and the challenge not only for Russia itself.

Now let me switch to the longer presentation which is much more complicated and I will try to do it in a way of several brush strokes. I have three key points and I would like to have your feedback on that.

First point. We are going to discuss what is going to happen after the March presidential elections in Russia, what kind of leadership Russia will have beyond March 2nd, how transfer of power will be made, and what will happen to the outgoing president Vladimir Putin.

Second point. What kind of legacy the new president is going to get?

Third point. What are the options the new president will be facing?

Let me start with the succession mechanism and the model of future leadership. We really do know who is going to be nominated as the Kremlin presidential candidate during the March presidential elections and there is not a slightest doubt that it would be Mr. Dmitry Medvedev who will be elected as the next Russian President. Already now 80% of the Russian electorate is going to vote for Dmitry Medvedev which says an interesting thing about Russia and its society that is ready to endorse Putin's handpicked successor. This fact demonstrates that approval rating could be transferred from one pocket to another, that is, from Putin to his heir and people are ready to support as their new leader a person they virtually don't know anything about. At the same time knowing who is the next Russian president, who is going to be the boss in the Kremlin we don't know much. We don't know what agenda he is going to pursue, what kind of priorities he is going to have, what would be his team, political regime, and Russia's trajectory. According to majority of the Russian pundits there are at least two most plausible options of what will happen after March 2nd and later in May when the new Russian government will be formed and the official transfer of power will take place the outgoing President Putin to the new President Medvedev. The first plausible option will be the emergence of the tandem of the two or the diarchy. Mr. Medvedev is going to be the President, and in view of many people he is going to be the technical

president, the junior brother, and Mr. Putin is going to be the powerful Prime Minister and the elder brother which is a unique fact in Russian political history. So we are going to have apparently the tandem, the duo, the tango in a Russian style. The second plausible option will be the situation when Medvedev will get the upper hand and Putin will gradually bow out.

Nearly all observers come to the conclusion that even if the two Russian leaders within the model of the tandem will sort their relations out, if they divide their areas of competence and decide as to who is going to be responsible for what, in any case there is a logic to this type of regime. Irrespectively of the fact that Putin still enjoys a huge approval rating (at the moment Putin still has 80% approval rating), the elites and the society will inevitably start to look in the direction of the Kremlin, that is toward Medvedev, the new president. In this situation the squabbles, the bickering, infighting maybe not between them personally, but between their teams, are inevitable which may end with either paralysis of power or much more disastrous consequences. In any case, representatives of the Kremlin gang, and people around the Kremlin, and political elite, the representatives of the administration and apparatchiks in the regions are baffled and perplexed as to how this kind of tandem, tango power will work out. No one knows whom to obey when the new model of power will be formed. Nobody knows and everyone is already in the state of consternation. It seems to me that these two guys – Putin and Medvedev who are now in the process of sorting out their future responsibilities, who are now in the process of making trade offs, who are now thinking about their mutual commitments, don't know how it will work out because we never had such a tandem power in our history. And when such diarchies emerged they collapsed pretty soon with one leader taking over. And today sooner or later one person will have to be on the top. And who is it going to be? Mr. Medvedev, the new president who will have legitimacy of power and who will be the boss of the Kremlin? Or the previous powerful man, Mr. Putin, the new prime minister who apparently will be still in charge of the power structures? This is a question mark. And we cannot totally exclude a situation when neither one will have the dominating position and then anyone else could emerge. Mr. Z, Mr. Y, A, B, C? And that Mr. Z will be? That is the ground for a new suspense....

Second option is less plausible, but still cannot be ruled out. The option is when Mr. current President, Mr. Putin, serves as the guardian, as the shelter, as the fence behind Medvedev's back. And then after Medvedev's victory and after his successor strengthens his position he simply will walk away. During this interval he will simply save Medvedev from the barking of the hyenas and power structures, from the people who are trying to jump at Medvedev's eyes. And it is widely known that Medvedev does not enjoy love, respect, or any positive emotions on the part of the power structures. So the role of Putin is to defend Medvedev during the short period of time.

Which option will be dominating in the end? It is still too early to say. My hunch is that at least for the period of time of maybe one year, maybe more than a year, Putin will be a formidable presence behind Medvedev's back. One could even expect that Putin will not be ready to hide behind Medvedev's back but will try to stay on the scene and preserve his leverage leaving his successor to compliment his agenda. He will be the elder brother. He will be the Russian Deng Xiao Ping at the same time and he will exert tremendous influence on the areas of security policy, foreign policy, and maybe on the cadres re-shuffling which is a very important process in Russia. But in any case, sooner or later one boss will be in charge. This is how the logic of the Russian mechanism of transition works.

What are the Russian people expecting from Mr. Medvedev? He is, of course, a much softer, much milder political personality. And he is trying already to give us impression with his rhetoric, with his body language, that might prefer a totally different model of leadership, the leadership oriented towards the social issues, social dignity, freedom, civil society, democracy, etc. This is his vocabulary. He is not that cocky, macho guy as Putin tries to be. He would like to have his own image, his own rhetoric, his own posture. However, when you watch Medvedev, you may see that he already tries to mimick some of Putin's machoism apparently attempting to strengthen his role. However, a lot of people around him,

and within the society, and within the Kremlin and outside, and especially in the West view Medvedev as liberal. The West already has observed Mr. Medvedev during the Davos Economic Forum last year. And the Western business and the Western political establishment present in Davos have endorsed Medvedev as the pro-Western and soft political personality. Is Medvedev really a leader who might start a new thaw in Russia? Well, I would remind the audience that President Putin in 2000 when he first participated in the election and during his second presidential campaign in 2004 also tried to present himself as the liberal reformer, as the pro-Western guy. And in March 2000 when he was still Prime Minister before the presidential election in his interview to well known David Frost, in the interview with the British BBC he said when he was asked what he was thinking about Russia's membership in NATO: "Why not! You should invite us." And in 2004 when Putin was elected for the second time as the President of Russia, he was presenting his program to the Russian society as a program of liberal reformer, modernist, and pro-Western. His major rhetoric and slogan was, "Freedom of everyone is freedom for all". And this didn't become an obstacle for him several months later to crack down on the leftovers of political freedoms.

So when we are thinking about Mr. Medvedev a lot depends not only on the people who will surround him, not only on what ideas he has on his mind and in his soul. Nobody yet looked into his soul. We need a new American President to do that apparently. But a lot will depend on what kind of legacy Medvedev is going to get from Mr. Vladimir Putin, from his predecessor and what would be the new pressures he will be facing.

Let me say several words about this legacy that Medvedev is going to deal with. In May with his new government he will have a very serious, a very tough job trying to respond to the challenges that Vladimir Putin is leaving him, and Russia, and the West.

Very briefly, what are the challenges of Putin's legacy? The key challenge if we put it in a very concise form, would be *appearances that are deceiving*. Putin is leaving his successor the typical Russian Potemkin village, and a very complicated one, multilayered one. On the surface everything is just fine, especially on the economic side. But when one gets to look inside, when one scratches the surface, one will get another picture.

I will give you several numbers that really can prove that Russia is the success story. Russia is becoming a prosperous state. The country is booming with 7.8 percent economic growth during the last consecutive years, with stock market up 83 percent. The GDP has risen during Putin's presidency from \$200 billion in 1999 to \$1 trillion in 2007 (in current dollars). In 2007 the trade surplus was more than \$120 billion, and the budget profit was 7.5 percent of the gross domestic product. The Russian economy is now the twelfth largest in the world. Although since 2005 economic growth has been slowing down, a boom is continuing not only in the extractive sectors of the economy but also in construction, trade, and the service and banking sectors. Russian business has shown it is able to organize large-scale production and successfully compete with international corporations. According to Goldman & Sachs data their forecast, in seven years time Russia could be number five with a six trillion dollar economy. We more do we have? We have rather positive developments not only in the extractive areas of the economy. But we have machine building 20% growth last year, 17% growth in the services.

What about the social life? Russians really started to live that. When Putin came to power Russian salary in 1999 was about 80 dollars a month. Now Russians have average monthly salary about 500 dollars. So this is a progress. We had in 1999 approximately 37% of the population living below the poverty line. At the end of 2007 we had only 25% of the population living below the poverty line. The unemployment fell from 7 million people to 5.7 million people.

What about politics? Politics also is the area of Putin's success. He continues to enjoy 80% approval rating. He has very good rating in nearly all social groups and in all provinces, starting with Moscow.

People support Putin and support his economic, social policy and security policy. Approximately 70% of the Russians say that they not only became more optimistic, they are much more optimistic about the future. So the picture overall looks rosy and quiet successful. But the reality is much more complicated.

On the economic side – and I will give you another several numbers – there are serious causes of concern. The government is trying desperately to fight the inflation but cannot bring it below 10%. At the moment we have nearly 12% inflation according to the official estimates. According to the unofficial, independent estimates we have inflation of about 17% up to 20%. And the government is trying to freeze process with administrative, typically Soviet methods. The government has no idea what to do with petrodollars. Russia is awash with money. But Russians prefer to invest somewhere else. Russian expenses abroad we call now not the capital flight but the export of capital. Last year we had approx. 150 billion of FDI, foreign direct investment that went mostly into the natural commodities sector. And at the same time Russian capital flight or Russian export of capital has amounted to 140 billion dollars. What is more, Russian foreign trade accounts for 45% of GDP. In China this indicator is 75%. What does this say about Russia? It says a lot about the Russian economy demonstrating that our goods are not very competitive. Some other very worrisome numbers. Russia has paid off its debt to the Paris Club, to the countries, to the states. And it was a great success of Putin. But Russian corporate debt, the debt of Russian corporations like Gazprom and other corporations, started to mount. Currently we have approx. half a trillion, 500 billion dollars of debt accumulated by Gazprom and other corporations. And the debt has to be paid. And the debt will be paid by the Russian tax payers.

What about the social area? Again, the appearances are quite deceitful. The population fell from 149 million people in 1991 to 143 million people in 2007. Life expectancy despite all efforts of the Kremlin and the national projects implemented under Medvedev's leadership continues to be extremely low. We are lagging behind European standards approx. by 15 to 19 years when we are talking about life expectancy for men, and 7 to 12 years for women. Only one Russian out of five according to the official statistics could say that he enjoys good health. 30% of the children below the age ten have several diagnoses. When they graduate from school 70% of kids have chronic diseases.

What about social disparities? According to the official estimates the gap between the rich and poor in Russia is now at a ratio of 25 to 1. But in reality, of course, the difference is much higher because only the difference between rich areas, Moscow for instance, on the one hand, and some cities in Siberia and small Russian cities, on the other hand, amounts to 140 times or 160 times(!). Russia has only 1% of really rich population, 15% of the middle class and the rest of the society that any moment can "slide" in it living standards to the bottom. People in the middle class have no real guarantee that they will survive as a middle class. At the same time Russia has officially 100.000 millionaires. We have officially 53 billionaires with a total amount of wealth approx. 200 billions dollars.

What about this political stability that I have mentioned several minutes ago? Yes, still political stability is absolutely amazing after Yeltsin's years. People now look quite happy, satisfied. But what are the pillars of this stability? To put it in a congested form, we have three pillars of stability. Firstly, this is still Putin's approval rating and support of the president within the society. People do respect the Presidency and they did not want to undermine the Presidency, any Presidency. Why? Because there is only one political institution in Russia to be counted with and nothing else, no other institutions. Secondly, this is the oil price. Nobody knows what could happen when the oil price starts to decline. I will remind you that there are two cases, two moments in Russian history when the oil price determined the Russian stability and survival of the Russian state. In 1986 when the oil price has declined six fold this became the trigger that finally brought the collapse of the Soviet Union. In 1988 the oil price declined only two fold and it brought the whole Russian economy into disaster. So we are afraid that in case the oil price again starts to jump we will have serious problems. What about the third pillar of stability? The third pillar of stability is typically Russian and post-communist. This is the hope. And hope is always delayed disappointment.

This is the legacy Mr. Medvedev is going to get from his predecessor. And beside that, besides the Potemkin villages and appearances that are deceitful he is going to get a lot of reforms that have been put on the back burner. Pension reform, military reform, the reform of the economic structure, administrative reform, land reform. Our economy is not diversified which is admitted by Putin. This kind of economy resembles the typical Petro-state because 64% of Russian exports is oil and gas. Oil, gas, and metals amount to 80% of Russian GDP. So this is the Petro-state economy. Medvedev is going to inherit Petro -state with social disparities and with social degradation.

Medvedev is going to inherit also a Russian foreign policy which could be defined in a very crude way as Putin's doctrine which boils down to the following: "To be with the West and be against the West". I don't see that the Western European countries have found a recipe how to react to this policy. In a good way it could be defined as Russia wants and would like to be partner with the West, Russia would like to be inside of the Western civilization, Russia wants to be deterrent of the West. Everything in one box. This type of policy resembles riding two horses in opposite directions simultaneously. It is very difficult to react to this type of policy. The Kremlin uses anti-Western sentiments in order to mobilize the Russian society. At the same time the Russian elite wants Russia to be part of Europe, part of the European Council, part of G8. We want to be at the dinner with all developed nations while looking at them as enemies. The Russian political elite and the Russian businessmen would like to extend their political activity, economic activity and business activity into the West. They are fighting for juicy junks of European property. And you in Austria apparently watch this process with interest or at least with curiosity. At the same time the Western business can never be sure about their property rights in Russia.

Trying to be part of the West, the Russian elite in order to consolidate the country returns back to the enemy search, to mobilization technique, to the anti-Western primitive feelings of the past. It appears to be the most effective way to consolidate the society, keep it together. Last year President Putin has been pretty actively engaged in this mobilization technique. Putin's Munich speech at the beginning 2007 where he accused the West of the cold war mentality and his speech in Moscow at the Luzhniki stadium where Putin called the nation to defend itself against the enemy were the vintage performance that demonstrated how far Russia had moved away from Europe. Of course, you can raise the question to what extent the Russian political elite is ready to have confrontation with the West. In reality, they do not want it. They hate the very idea of serious friction with the West. They don't like even the tensions with the West. They are ready to be engaged in spats, squabbling etc. but until some limit. Nobody at the moment wants to cross the boundary. The question is, however, if one has started the ball rolling, could he stop it at some point before it becomes too late? That is the question. Nobody knows the answer. This is the reality that Mr. Medvedev is inheriting.

It is very difficult for me to guess what is happening in Medvedev's head. It is very difficult even to predict how his team will be reacting to what he is inheriting. Who is going to be on board? How they will wrestle with Vladimir Putin? Who will be the leading figure in the tango? Too many questions remain without answers so far. Maybe someone new will emerge and kick over the chessboard which is a quite plausible scenario. Anyway, the logic of the new political regime is still vague. The new president Dmitry Medvedev actually has three options. He can continue Putin's agenda. He can continue trying to stabilize the situation without rocking the boat, pretending that everything is just fine. He can make promises to the society. He can bribe the political elite and business consolidating his own base by redistributing the property assets. Medvedev can go on like that for some time. This is one option. I am afraid, however, that he can't follow this scenario indefinitely. Why? Because today the situation is different from the situation when Putin had started to do that. The situation is much more complicated both on the international scene and in Russia. I am talking first of all about the economy which relies on the high oil price. Sooner or later Russia will face recession. And sooner or later people will start thinking what are the guarantees of their wellbeing and they will have to understand the brittle nature of

the current Russian economic “success story”. Thus, Medvedev may be forced already in the next two-three years to understand that current stability is in fact the fore of stagnation.

Another option will be imitation of the change when the Kremlin will start doing something gradually, will open the window slowly, will begin fighting corruption without changing the rules of the game, trying not to undermine the system. But any step in this direction, any attempt to open the window may become a trigger that will start the process of unraveling. Mikhail Gorbachev also wanted only to open the window just a bit and he created an impetus that in the end brought the collapse of the Soviet Union. The system of personified power has its iron logic – if you take one brick out of this edifice you may trigger collapse in an avalanche like style.

The third option would be, Medvedev decides to restructure the Russian system and become the Russian Adolfo Soares who was the architect of the most successful transformation in the world after WWII in Spain that even today serves as an example for many transitional countries. Adolfo Soares, one of the best subordinates of General Franco, a fascist who became the reformer. Quite an amazing evolution! Could Medvedev follow suit and replicate the same project in Russia? Nothing is excluded – never say never! But this transformation of Putin’s loyalist could take place only under several conditions.

First, if there is strong pressure on the part of the Russian political class and business that understand that continuation of the personified power in the end may endanger the position of the ruling class. Secondly, if there is pressure within the society that starts to become not simply restless but takes to the streets demanding freedom. Thirdly, if the oil price plunges and current economic stability becomes unsustainable. What in this case happen in Russia? Difficult to predict. Things might go sour and the new, much harsher authoritarian or even totalitarian regime will emerge. But at the same time any prospect of change brings hope and chance.

Anyway, the periods of transfer of power in Russia always bring speculation on the chances of change and hope for liberalization. Deliberations on Medvedev’s liberalism only proves that, again, part of the society has started to dream about dehermetization and a new thaw.

Is this hope totally misplaced and even ridiculous? I would not say so. Despite even liberals’ disbelief in their own society there are no insurmountable barriers on their path to freedom and democracy. Yes, Russians do support order. But at the same time they would like to have freedoms. Among people who support Putin 56% would like to have an opposition. More than 60% of those who constitute Putin’s basis and now will serve as the basis of the new rule are critical of the administration and officialdom. At the moment they are not going to take to the streets, but they would like to have an opposition. At the same time 47% of Russians, when asked about their priorities, say that they would like to defend the interests of the individual even if this contradicts the interests of the state. So people have started to think in a different way.

Another example. Despite of the constant anti-American rhetoric from every TV channel every day from early morning till night 43% of Russians still consider the United States as a benevolent country. I looked at the Pew Foundation survey of different countries on how they view America and I was puzzled. It appears that only about 20 % of Italians, 30% of French, and 29% of Spaniards have the same positive view of America. Can you imagine: Russia is a much more pro-American country than France or Italy, or Spain?

Let me wrap up with two things. There are two laws that continue to govern Russia. There are a lot of things uncertain about Russia. There is some certainty about the laws that rule this country. The first law is *the Law of Failure*. Here is how it works. Russia usually has to drink the bitter cup of tea until the end, has to reach the end of the tunnel, hit the wall and then start to look for other exit solution.

Never in Russia's history Russian started reforms before the crisis- they have to go through the crisis and then start to look for other agenda and mechanisms. The question could be raised, will Russia follow the same way again or will try to reform itself before the crisis starts? Will we have guts, courage, and brains to do something for the country before the crisis? I don't know. We may know the answer sooner than we think.

The second law is the *Law of Unintended Consequences*. Just one example how it works in Russia. It was really the golden dream of President Putin to have Gazprom as the most powerful, responsible supplier of gas to Europe and to the world. And the way the Kremlin was trying to reach this goal brought absolutely disastrous results. Today Brussels and the EU started to think about a common energy policy trying to find ways to neutralize the Gazprom leverage. Every time we see the Kremlin's steps, we have to keep in mind the possibility of the unintended consequences.

Finally, I have been thinking about historical parallels and I found that Arnold Toynbee coined a very good phrase that could be used in describing Russian conundrums. Toynbee while with his definition analyzing the collapse of empires in the 20th century invented the term "suicidal statecraft". It seems to me that the Russian elite has been engaged in this suicidal statecraft too long ...

And finally I would like to quote Churchill who once I said: "I like Americans. They always chose the best way, but after they exhaust all other possibilities". It seems to me we at the moment, Russia as a country, as a nation, is in the process of exhausting all possibilities. Whether we'll find the best option and when I don't know. Meanwhile, Russia continues to be a problem and a challenge not only for its own society and the elite, but for the surrounding world as well. Thank you.

Franz Kössler

Thank you very much. I was predicting that you were going to say it is moving backwards and forwards at the same time. And you did. A few months ago I happened to meet Mr. Berezovsky in Tel Aviv. He is believed to having vented Mr. Putin. I asked him that after the interview. Why did you choose Putin? He said, "We were friends for a very long time and I really trusted him. I was convinced that he would continue Yelzin's way. And then he suddenly turned around and became a completely different person within a few weeks." And then he said, now he is convinced that he had already a strategy in his mind, maybe a mission, and that was the mission of the KGB to reassert control over Russia and over developments in Russia. Do you believe that he had this mission in mind and maybe still has it? How is he going to try to avoid Mr. Medvedev takes the same turn as he himself did?

Lilia Shevtsova

I have always problems because I don't have the psychological training and can't penetrate other people's minds. In case of Putin we are dealing with the special services person who has been trained either to conceal his thought or not to have them altogether. So I am at a loss how to respond. I don't believe that we'll ever know what has been happening in Putin's mind. But I will make a try. I do believe that on the basis of the evidence that we have, on the basis of Putin's concrete politics and his actions when he found himself in the Kremlin, his appointment to be a successor was a surprise for him. I don't think that he had been preparing himself for that mission. Putin apparently understood that he had been chosen for the role three-four months before it happened. But when he found himself in the Kremlin he definitely started to think about his mission. Pretty soon he said to himself that he was not going to be a lap dog or simply a shallow implementor of Berezovsky's or even Yelzin's ideas and orders. Putin wanted his independent role in Russia. He discussed his ambitious agenda to create a strong Russia in his first article at the beginning of 2000. I hardly can imagine that he had been thinking about installing KGB(FSB) in power. He is smart enough to understand that firstly, it would be dangerous to have special service as the ruling institution. He understood that he needed to counterbalance KGB (FSB) with other corporations for his own sake.

There is no doubt that at the beginning Putin thought of becoming a modernizer. But then he deliberated on the best way to modernize the country and came to conclusion that first he has to reinstate control over everything. And after he started to achieve this goal - more control, more control - he became a control freak. Control from the means to achieve the goal became the goal in itself and this was the end of Putin's modernization agenda. Instead of becoming a reformer he became a stabilizer. It seems to me that 2003 became the benchmark. When Putin cracked down on Yucos, he put all his ideas about modernization into the coffin and buried it, starting to build a bureaucratic model of capitalism. It was the end of Putin's reform efforts.

One more point. I do believe that Berezovsky really played a huge role in Putin's appointment and Putin's escalation to power. I think that Berezovsky knows what he is talking about. The purpose to make Putin Yeltsin's successor was to get Putin to defend the position of the previous ruling group. And Putin was smart enough to kick them out like every other successor will do with his predecessor. According to the Russian logic and logic of this type of regime all personalized regimes build their power on the bones of the predecessors.

Questions

Considering the state that Russia is in today or reduced to the state that Russia is in today, how wisely the world, especially Europe, how wisely Russia is being dealt with considering its complexities, and its hurt pride, and the state it is in today. The second question is related to the first one. I heard this morning that the OECD international observers' team is not going to be present at the presidential election. Do you think that is wise on the part of Europe to react this way to the presidential election? Should they be there or not?

Lilia Shevtsova

You raised rather emotional issues for Russian pundits. My brief response to your first question. From my position of a Russian liberal what we have in Russia today is the result of our own activity or inactivity. Russians themselves are the decisive factor of the Russian history and developments. But at the same time I would admit that the West could have played a more benevolent role in creating a more favorable international environment for the Russian transformation. Meanwhile, very often the opposite happened. I am not talking here first of all about Western and European political establishment and business, that in fact have been used by the Russian political elite in order to legitimize the Russian system. It was the Western political establishment and big business that started to be part of the huge laundry machine that has enabled Russian elite to create this type of capitalism that we have now. Several examples. It was a huge blow to the Russian view of the West and Western establishment when former Chancellor Schröder agreed to be a Gazprom apparatchik. Russians with curiosity, to put it mildly, watched the efforts of Chirac, Berlusconi, Sarkozy, who have been trying to befriend Putin and tried hard to persuade their audience that Russia is not ready for democracy. Nobody forced Sarkozy after recent Russian December parliamentary elections to make the conclusion that Russia had fair and democratic elections. There was no necessity for him to do that. One could have an impression that Putin and his colleagues have got the impression that the western establishment could be easily co-opted, or even bought, or simply ignored... This is a very polite answer to your first question.

Second question on OECD. As far as I understand the OECD monitoring team is coming to Moscow today or tomorrow just to check the logistics. It was evident from the very beginning that the OECD should not come to Russia on February 28 just before the polls. It was humiliating for this institution and it was ridiculous to come to Russia to observe the voting procedure only having no chance to observe the campaign. The fact that the Kremlin did not allow the OECD team to come to Russia to observe the election process says about the collective insecurity of the ruling team and this fact is an indirect recognition of the possibility of irregularities at the Russian polls. The Kremlin people would not like the independent observers to watch manipulations and irregularities. True, those manipulations could be done in such a way that nobody from the outside would ever understand. And besides the majority of

Russians in any case were going to vote for Medvedev. Thus, this obstruction looks really foolish and is demonstration of the besieged mentality of the ruling team.

Question

When I observe the Russian society's mood and looked at the opinion polls in 2000 the two keywords are stability and predictability. With the Russians having experienced the social situation of the 1990's, the demographic collapse, the drop in income, the wiping out of the savings, they longed for someone who could lead the country. At that time it was an emotional reaction to what these people have experienced in the 1990's. I think that the West never understood that that time was some sort of period of depression like it was for the United States society in the 1930's. Stability and predictability are still very important goals for the Russian society. But the picture is becoming more confusing and contradictory now. We do have almost 50% of the Russians saying now that they want an opposition. Unfortunately enough at the very same time 71% of the Russians say they want an iron fist, they want a tough leader. These are quite contradictory moods. It is quite surprising to see that 71% say they want an iron fist while at the very same time more than 80% say they have no influence whatsoever on the Russian leadership. And it is 13% who still say they don't have the right to elect their leader. So it is a very confusing, contradictory pattern of opinions among the Russian society. But it seems that what I called a demand side problem of Russia's democracy, that people do not ask for democracy, is somewhat changing. We not only had a demand side problem with democracy, but what we still have and what will be even more problematic in the years to come is we have a supply side problem with democracy. We don't have a strong united, liberal force. It is quite surprising given all the repression that the government of Putin has exerted over the past eight year on NGOs, on civil society, on the free media, on the liberal parties, that due to personal animosities and rivalries it has not been possible to form a united liberal front. I see as the main problem that we still have the people of the 1990's. The liberals need someone new. They don't need Yavlinsky, they don't need Tchubais, they don't need Gaidar, they don't need Nemzov. They need a new leadership. But there is almost none. So that is a problem I see. What will happen with the liberals? Will they be able to overcome their disunity? Will they be able to have a new leadership? Will we have to wait for a grassroots liberalism which takes its time, ten, fifteen, twenty years to form a strong liberal opposition? I would very much hope so.

Lilia Shevtsova

Gerhard, I consider your questions as comments that prove the contradictory picture of the Russian public opinion. Two weeks ago we had again the new survey that gives the picture that may look like a collective paranoia or could be considered as the reflection of dual and even triple identity, or it might be perceived as the demonstration of an absolutely incomprehensible popular mentality. On the one hand, 67% of respondents were in favor of the state controlled economy, and only 20% supported the institution of private property and market economy. At the same time 65% of the same respondents said that they would like to have democracy and only 20% of them said that they would like to go back to the time of the USSR. It is incomprehensible! This is the state of the society that has got stuck in the doldrums, between yesterday and tomorrow. This is the society which is still in the state of mental confusion after the collapse of the previous state. But again, I will repeat, that there are no insurmountable barriers on its development forward towards liberal democracy. There were those barriers ten years, twenty years ago. There are no such barriers now. This is not the society but the elite that tries to freeze Russia in its current state of collective schizophrenia. The elite that does not know how to rule free and open Russia.

With respect to the liberals. Russia needs a new generation of liberals and democrats. Before we start to grow the green grass again we have to erect the monument to the old generation of the Russian liberals and democrats. Their squabbles, their big egos prevented their consolidation, they failed to coordinate their efforts in the times of trouble. Unfortunately, Yavlinsky, Nemzov, Kasparov and the rest of the Russian democratic leaders simply failed to come together and sit at the same table in the situation when more than 20% of the society could vote for liberal ideas. During the parliamentary elections only 2%

of the electorate voted for liberal parties. But at the same time, Russian democrats have succeeded to keep the niche, to keep the fire alive. There are other reasons behind failure of the Russian liberalism and democracy. As a matter of fact, all failures and disasters of the 1990's together with the collapse of the Russian infrastructure and the social degradation have been blamed on the liberal reforms. All unhappiness and misfortunes have been viewed as the result of the liberal activity. That is why people started to get disappointed in the very liberal principles. Moreover, when the government tries to use liberal ideas in its interest and when it includes liberal slogans in its activity and agenda, and at the same time discredits liberal principles, one could hardly anticipate these principles to become popular within the society at large. And besides we have technocrats in the government who call themselves liberals and they behave in a way that only undermines liberal ideas. In this situation it is very difficult to push forward liberal ideas, especially when you are lacking one instrument that can consolidate politicians. I have in mind TV. When you are not on TV you do not exist. Real Russian liberals and democrats are out of TV. This explains a lot.

Point on the new generation. The problem is that we are lacking one generation "in between"- between those who participated in Perestroika and the first democratic movement and the young people in their twenties. People who are in their thirties and forties seem to be nearly lost for the active political activity, at least at that moment. With respect to the 20 year olds, a lot of them would prefer left wing slogans.

Finally on the impact of the West. Russians in 1991, the whole Gorbachev Perestroika generation followed a dream about Russia joining Western civilization. The West was a great seduction. Today, Russians are not enchanted by the West any longer. The Iraqi war, Guantanamo base, Schröder on the Kremlin's pay role, cynicism of the Western business – all that has brought a lot of disenchantment with the West in all groups of the Russian society. I hope these feelings are temporary...

Question

President Putin certainly cannot control the whole country on his own. So he has rounded up the support of a rather large apparatus that consists of different structures. I would suppose that the FSB is an important one of those. Do you think that Medvedev will be able to inherit this support? If he cannot then he may lose his grip on power quite rapidly.

Lilia Shevtsova

Good question. We are making our conclusion on the basis of current trends that we see and on the basis of linear development. We often project what we see today into the future. At the moment Putin's entourage is in place and Medvedev will inherit them with the throne. This is the most difficult part of Putin's legacy. By the way, Putin himself is part of his own legacy and he will linger on the political scene for a while or maybe for a long time yet. Putin's people would like either to embrace Medvedev or they may try to get into his eyes if he resists. Thus, Medvedev will have to push the old guards out of the Kremlin. With them around he will never be independent, with them in the Kremlin he will never be on his own, and with them he will never control the Kremlin. Medvedev is facing a very serious cadre problem and we can't be sure that with Putin as part of the leadership Medvedev will be able to sort it out in order to get the most dangerous for him influence groups out of the Kremlin. That would be a very risky job.

Question

My question has to do with the inactivity of the Russian government, a problem which has not been solved by Gorbachev and has not been solved by Putin. It is a problem of illegal migration from China to Russia. I am a little bit familiar with that because I am a former consultant of the government of Chilin. On the one side are living 120 million people, on the other side in Siberia, in the Russian Far East, seven million people. The Russian people have no perspective, no job. Putin said, in thirty years in the Russian Far East and in Siberia they will speak Chinese. Do you think that Medvedev will try to solve this

problem, illegal migration from the Chinese side to the Russian side? Or will it one day be really a problem?

Lilia Shevtsova

You express an opinion that is very popular in Russia. Today Russian media write a lot about the Chinese threat and pathetic situation in the Russia Far East. We don't have statistics on how many Chinese people are in Chabarovsk or Vladivostok, or in the Far East in general. There are approx. less than 50.000 Chinese according to the official statistic. Maybe there are up to 100.000 Chinese emigrants. I do believe that for the time being the threat of Chinese immigration, legal or illegal, into the Far East and Siberia is intentionally exaggerated by the regional elite for the political purposes. It's always good to have an enemy in order to consolidate the population against it. Meanwhile, Chinese migration is playing a positive role in the development of the Far East and there is hectic border trade between Russia and China that helps the population on both sides to survive. By the way, Putin himself never played the Chinese threat card. But you are right when you are talking about 25 years from now. If the current demographic trend in Russia, when we are losing 800.000 people annually, continues during the next quarter of a century we are going to have problems with control in the Far East. That is the problem that is postponed into the future because we have so many other problems on the back burner. But strategically this is a challenge that Russia will face.

Question

You mentioned the millionaires and billionaires in Russia. As far as I know a lot of them do already own their own businesses and companies. If you have a look in the financial media a lot of those companies are already listed at the stock exchanges of London, Warsaw, and Germany. A lot of those companies are going to be listed in 2008 and 2009. From your experience, those business men or those billionaires or millionaires, do they have any kind of fear or different feelings as far as the forthcoming political establishment is concerned? A couple of years ago there was this big incident of Yukos. I am interested what this upper class of business men thinks?

Question

You were mentioning the miseries of the 1990's and the sources of this misery. You mentioned mistrust of the West and Western business. You never mentioned the IMF. Is there a public dialogue which is separating this institution, this nefarious institution, at this chapter in its history from other elements in the West which may not have had as direct a role in making the transition so difficult in Russia?

Lilia Shevtsova

Let me respond to the first question first. What do Russian business people think? This is a question that would be difficult to answer because we don't have surveys that will give us the assessment of the big business interests and perceptions. That is why I have to use my intuition and imagination. My hunch is that immediately after 2003, Russian big business on all levels has been pretty frightened. They were all thinking about coming disaster. Starting with 2006 they have calmed down and decided that despite of everything, despite the fact that there is a strong pressure on the part of bureaucracy and power structures on all levels, they could still work and function. Western business is thinking along the same lines. They are ready to pay for the political risks because the dividends are big. True, the states can behave in the most arrogant way. Only last year the Kremlin grabbed Shell property in Sakhalin, and how do you think the Shell people behaved? After they had been cheated out of a huge junk of their property, the Shell president came to Putin and said: "Thank you Mr. President for the very best rules of the game that you are implementing".(!) Thus, both – the Russian and Western business have decided to follow the rules of the games dictated by the Kremlin. So business has calmed down. But again, now we have a new political period of development. A new team will come to the Kremlin. In Russia the change of power always means new redistribution of the assets. Thus, the assets redistribution is inevitable. That is what everyone in the business world is afraid of. But they are risky guys. They

already have got accustomed to walk the thin ice and they will stay in Russia and face new challenges. The perks of doing business in Russia are high...

On the IMF issue. There was a lot of discussion of the role of the IMF in the 1990's. The IMF became the enemy number one for Yeltsin's critics, especially for nationalist media. Now we forgot about IMF. During the last ten years the IMF did not play any special role in the Russian economy, neither substantial nor insubstantial.

Question

Clearly, I understand it is impossible to cast a prognosis because of all these different, diverse factors and we don't know how Mr. Medvedev is going to behave. But from the view point of a Russian liberal considering the glaring problems Russia has today, you mentioned this enormous, astronomical national debt. You did not mention the army. But we keep hearing in what a terrible state the Russian army is with all these suicides of Russian soldiers. We hear a lot about the whole social problems. Hospitals where there is no money for people beyond sixty years old who cannot get treatment because there is no money for them. There are 70% children who are graduating with some chronic disease. I heard many years ago from a Russian lady, at that time about 17% of all the children are born with a defect caused by their fathers' alcoholism, a point that you did not mention at all. If you had a say what kind of utopia would you as a Russian liberal give us in broad strokes to deal, to tackle with the most glaring problems that Russia has today.

Lilia Shevtsova

This is a one million dollar question. Really, there are formidable challenges Russia is facing today. Ironically, even the Kremlin representatives do admit that Russia has a complicated agenda. The problem is that the Kremlin leadership again tries to solve the daunting problems you've mentioned in the same old way - by using the state as a hammer. But when you have a hammer, all problems look like nails. We'll never solve them unless we start with restructuring the system and make it accountable to the people. A lot depends on the sense of responsibility among the Russian elite and the Russian business. So far we don't see any sign that they started to understand their mission. At the same time we see that the elites in other post-communist states and former Soviet republics are ready to take a new responsibility. I am talking first of all about Georgia and Ukraine. Despite all corruption scandals in these two countries they have achieved two things. First, their elites are thinking in terms of the national interests and they are ready to achieve compromises with each other, and they have found their own one way to move ahead. ...

By the way, I felt such an envy recently at the Davos Economic Forum. I went to the annual Ukraine lunch with the Ukrainian President. For four years already Ukrainians host their lunches in Davos that became rather popular event. There was a queue of people who wanted to participate. Russian business representatives were also present. I said to the Russian business mogul who was sitting with me at the table, how I envy Ukrainians because they have got a nationally oriented elite that has started to lead the country. He whispered to me looking around with caution that he has the same feelings. We looked at the Ukrainian table where President Yuschtschenko was sitting, where the leaders of the competing factions were sitting together. Those people could fight in Kiev. But they stood as a united front with their president before the West because they want to join Europe, they want to join NATO, they want to join the EU. They have found their trajectory.

Let's go back to the Russian situation. We'll succeed to solve all these problems we are facing in Russia only when the Russian elite will behave like the Ukrainians. So far there are no signs of this evolution.

Question

Could we switch to foreign affairs for a moment. Serbia. What may we expect from Russia in the future in Serbia, especially when Kosovo becomes independent maybe with the consent or the assistance of the

EU. How far will Russia go in its readiness to back up the Serbs? Will it go beyond sabre rattling, or economic help? Is there going to be more political pressure to be expected in that matter?

Lilia Shevtsova

I feel so awkward responding to this question because I don't have serious expertise in this area. I will try to respond to your question on the basis of my intuition. Despite of the sabre rattling on the part of the Russian elite I don't believe that any part of the Russian ruling team is ready to go beyond this macho posturing and undertake any serious action. It seems to me that the Kremlin understands that Kosovars will be declaring independence. The Kremlin people are looking for some kind of a less humiliating exit solution for themselves. At the same time they will continue what they have been doing during the visit of the Serb's official delegation at the beginning of 2008 to Moscow – they will try to preserve their positions in Belgrade and woo the Serbians. The Kremlin will continue its economic expansion into Serbia. Kosovo became one more humiliation for Russia in the foreign policy area. However, for the sake of objectivity I have to add that the EU has also failed to find a less painful solution by persuading both – Pristina and Belgrade to find a compromise and offering them carrots in the form of fast EU accession. With respect to Russia, it is not ready for a real confrontation with the West because of Serbia. Russia is not going to recognize the independence of Abchasia or South Ossetia. But there could be one problem: Moscow cannot guarantee that the federal troops in the region, radical separatists, and radical Georgians will never make a mess.

Franz Kössler

Why are they not prepared to recognize Ossetia and Abchasia?

Lilia Shevtsova

Moscow has already made several official statements on that topic. Nobody in the Kremlin wants confrontation with the West and marginalization of Russia. Any recognition of the independence of these breakaway republics will never be followed by their recognition in the world. Moscow understands it and can see the repercussions of this step for Russia. There are lines that Moscow will never step over. We have to distinguish shrill rhetoric, including threat of the preemptive nuclear strike on the part of the Russian generals and the rather cautious approach on the part of the leadership. The Kremlin bark so far has been milder than the bite. The elite, even the power structures in Russia are so involved in the commerce with the West that they will hardly be ready for a serious conflict. The new Cold War is out of question. True, the Cold Peace is possible.

Question

What you said does not really make us feel very happy about Russia. But one of the elements you mentioned which should give us some confidence is that there is still hope in Russia. I wonder whether you could specify the kind of hope Russians have. They had been disillusioned. There is no political idea, no philosophical idea which had not been discredited in recent Russian history. Take Marxism, take liberalism and the disastrous effects it had. Many Russians say they accuse Western ideas, the ideas of democracy, with the terrible effect it had economically and socially on their country and their society. Does the church, does religion still represent a hope for the Russian people? Do they believe that the church could help them at least individually because it lines up with Mr. Putin who pretends and shows off in church whenever there is any occasion? What is the hope?

Lilia Shevtsova

On the role of the church. During Putin's presidency we see an open and very strong attempt on the part of Putin himself to use the orthodoxy as the pillar of the state, to return church into the political and civilian life. These attempts partially succeeded when we are talking about the schools and education. When we are talking about the believers within the society at large, according to the polls there is no surge. Just the opposite happens. The more government uses the church, the less church is influential within the society. The Polish catholic church has been always influential because this is not part of the

state. In fact, ironically, Putin undermines the influence of the orthodoxy. This is at least one more example of how the law of unintended consequences works.

On the hope of the Russian population. I don't see the new hope will be connected or will become the result of reflections on Marxism, liberalism, conservatism. Russian people simply want to live in a secure environment, they want to let kids go safely to the schools. They want their pension paid regularly and they want normal salaries that will allow them to lead dignified lives. These are pretty low expectations. At the same time these are new expectations; now Russians en masse want to have normal life but not an abnormal empire. With respect to the young generation, they have the same ideas and interests as the young people in your society. When I look at my 26 years old son, I don't see any difference between him and Austrians, Americans of that age. The Russian young generation is sitting and living in the internet and they talk the same language. So far representatives of the Russian younger generation have a lot of possibilities to realize themselves. They are not interested in big projects, though. However, the moment the state cracks down on them, on their freedom, on their internet, the moment they understand that individually they cannot survive, they will start to unite. And it can happen fast. We have already a good experience in organizing flash mobs. The trigger could become the plunging of the oil price. The moment it starts to decline a lot of other bubbles within the society could burst. The only problem for Russia is that when the bubble or a number of bubbles burst will there be a liberal agenda, liberal politicians who can take over? Or will there be a nationalist agenda and people with complexes? That is the question difficult to answer now.

Every time we are discussing with friends the question of hope and whether we have grounds to hope this discussion reminds me of an old joke. Let me share it with you: A sick man is being picked up by the ambulance. He asks the doctor: "Doctor, where are you taking me?" "To the morgue," says the doctor. "But I am not dead, yet." "We are not there, yet."

This joke is metaphorical reflection of Russian hope.

Franz Kössler

This was an excellent conclusion. I want to read one sentence from Strobe Talbot, President of the Brookings Institution. He says about your last book, "Once again, Lilia Shevtsova has proved herself to be a unique source of wisdom about what is happening in Russia, and why it is happening, and why it matters so much to all of us." In this sense I thank you very much for sharing your thoughts with us. It was a great pleasure.