


CURRENTS/QUESTIONS D'ACTUALITÉ

The Impact of Western Sanctions on Putin's War

Olga V. Chyzh 

Department of Political Science, University of Toronto, Sidney Smith Hall, Room 3018, 100 St. George Street, Toronto, ON M5S 3G3, Canada

Corresponding author. Email: olga.chyzh@utoronto.ca.

Abstract

In response to Putin's invasion of Ukraine, the West imposed a package of unprecedented sanctions that has failed to generate meaningful domestic backlash against Putin's war. Leveraging extant research on the survival of authoritarian regimes under economic sanctions, I show that their devastating economic costs notwithstanding, sanctions are unlikely to destabilize Putin's regime or pressure him to withdraw his troops from Ukraine. The key to explaining this outcome is to zero in on the incentive structure of the groups of individuals that make up Putin's inner circle.

Résumé

En réponse à l'invasion de l'Ukraine par Poutine, l'Occident a riposté par un ensemble de sanctions sans précédent par leur ampleur. Pourtant, dans les semaines qui ont suivi, il y a eu peu d'indices d'une réaction intérieure contre la guerre de Poutine. En m'appuyant sur les recherches existantes sur la survie des régimes autoritaires en cas de sanctions économiques, je montre qu'en dépit de leur coût économique dévastateur, les sanctions n'ont guère contribué à déstabiliser le régime de Poutine ou à le pousser à retirer ses troupes d'Ukraine. La clé de la compréhension réside dans la prise en compte de la structure des incitations des groupes d'individus qui composent le cercle restreint de Poutine.

Keywords: economic sanctions; winning coalition; selectorate; authoritarian regimes

Mots-clés: Sanctions économiques; coalition gagnante; sélectorat; régimes autoritaires

As the first Russian missiles hit Ukrainian cities on February 24, 2022, Western states punched back with an unprecedented package of sanctions that Russia's President Vladimir Putin described as a "declaration of war" (Schwartz et al., 2022). Along with the Russian Central Bank and other financial institutions, the measures included asset freezes and travel bans on "individuals and their relatives who directly benefit from their connections with the Kremlin" (The White House, 2022).

Beyond their punitive nature, the sanctions' stated goal is "to cripple the Russian economy and starve Putin's war machine" (Truss, 2022). The deliberate targeting of Putin's inner circle, however, led some observers to suggest that sanctions may

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“entice” Russia’s elites to influence their leader to call off the invasion or even topple the regime (for example, Leon, 2022).

But as the world enjoyed the spectacle of seized super-yachts and mountain châteaux, Russian troops continued making inroads and attacking Ukrainian cities. Only a few of the sanctioned individuals expressed their rather reserved disapproval of the war—hardly the uproar for which the West might have hoped. Why do Russian oligarchs stay silent even as their assets and fortunes dwindle?

The central finding in the academic literature is that leader survival under sanctions depends on the domestic context in which the leader operates (Escribà-Folch and Wright, 2010; Lektzian and Souva, 2007). The crux of the argument is that every leader faces a domestic selectorate—a group of people who have a say (through vote or other types of influence) over whether the current leader stays in office or is replaced with a more preferred alternative. In order to stay in power, a leader must maintain support of some critical mass of that selectorate, known as the winning coalition (Bueno de Mesquita et al., 2005).

Whereas the selectorate of a democratic leader includes all the voting-eligible population, the selectorate of an authoritarian leader, such as Putin, is limited to a small number of elites that make up the leader’s inner circle. Either way, a leader maintains the support of the winning coalition by distributing rents—in the form of material wealth or policy. As long as a leader is able to guarantee their preferred distribution of rents, the members of the leader’s winning coalition will stand by them. Understanding the potential effects of Western sanctions on Putin’s decision making, as well as his short- and long-term survival in office, requires zeroing in on the members of his inner circle and the ways the latest sanctions affect their preferences.

Lumped together as “Russian oligarchs” in the Western media narrative, the sanctioned individuals are not a monolithic group. These individuals vary in the degree of their access to the Russian leader and in political influence over his decisions (Stanovaya, 2020). For the purposes of this analysis, the sanctioned individuals may be roughly classified into two relevant categories: the state-oligarchs and the strongmen.¹ I will highlight the functional differences between these two categories to show that neither has an incentive to pressure Putin to end the war in Ukraine. Moreover, neither group has an incentive to topple the regime, albeit for different reasons.

The individuals in the first category—the state-oligarchs—derived their immense wealth from privatization of the state-owned enterprises in the 1990s (for example, Igor Sechin of Rosneft, Andrei Kostin of VTB Bank). Contrary to a common misperception in the West, Russian state-oligarchs today do not have the political cachet they did in the 1990s and early 2000s. Upon his rise to power, Putin drastically reformed the relationship between the oligarchs and the state. Today’s state-oligarchs in Russia manage, rather than control, various industries of the Russian economy (Stanovaya, 2020).

The state-oligarchs’ position in today’s Russian society is rather precarious, as it is entirely conditional on remaining within Putin’s favour. Practically all assets they manage can only operate with the state’s permission, with Putin as the final arbiter. State-oligarchs’ wealth and position are solely legitimized by the current regime through their personal connections to Putin—an asset they cannot pass on to

their offspring or transfer beyond Putin's regime (Lamberova and Sonin, 2018; Stanovaya, 2020).

Putin has also made it very clear to the state-oligarchs that their material wealth does not translate into political influence. Those that tried to test the system have paid a steep price (Stanovaya, 2020; Lamberova and Sonin, 2018). For example, the former media magnate Vladimir Gusinsky, whose TV channel, NTV, led an investigation into a Federal Security Service (FSB) connection to the 1999 apartment bombings in Russian cities—a precursor to, and the Kremlin's justification for, the Second Chechen War—faced accusations of corruption, multiple arrests, and ultimately, a forced exile (Radio Free Europe/Radio Liberty, 2011; Roxburgh, 2011; Hoffman, 2003).

Putin's continued support and continuation in power guarantee the social status, wealth and personal safety of the state-oligarchs. As long as they keep out of politics, they are able to maintain their assets in Russia. Moreover, they can continue using their connection to Putin as currency, essentially selling insurance (from government regulation or business competitors) to their less connected business partners. Should they speak up against the war or the regime, they not only risk losing their remaining wealth but may also face criminal charges and prosecution. However disappointed they are to lose their Western assets, the state-oligarchs have even more to lose if they do not keep their heads down and their mouths shut. The latest sanctions may decrease the size of the pie—the amount of wealth that Putin can distribute to the state-oligarchs—but the pie is still very large. Moreover, for the oligarchs who can shift production to import substitution, sanctions may actually increase domestic rents, as import restrictions drive up the prices and profits of the domestically produced goods (Lektzian and Souva, 2007). While the state-oligarchs are well positioned to take advantage of these windfalls under the current regime, a different leader could revise the distribution in favour of their own inner circle. The threat of a revision to their preferred (economic) status quo forces the state-oligarchs to stay quiet.

The second group, the strongmen, consists of Putin's St. Petersburg connections: those who helped him rise to power and whom he repaid with appointments to key government and other power positions (for example, Nikolai Patrushev of the Security Council, Sergei Naryshkin of the Foreign Intelligence Service). Middle managers and criminal thugs turned ministers and heads of research institutes, these individuals are Putin's most loyal supporters. Unlike the state-oligarchs, the strongmen do hold political influence (Soldatov and Rochlitz, 2018; Stanovaya, 2020). Putin's continuation in power is predicated on their continued support and the support of the key military and defence structures they control. Rather than buy them off with material wealth, Putin secures their support by aligning Russia's domestic and foreign policies with this group's ideal point, which also closely matches his own.

This group, on balance, is ideologically conservative and hostile toward the West. In contrast to the state-oligarchs' concern with (mostly their own) economic prosperity and material wealth, strongmen focus on Russia's role in the global security structure and what they perceive as the "unfair" rules of the game brought about by the fall of the Soviet Union (Putin, 2007). As a result, the strongmen are generally unconcerned with Western sanctions: even those with foreign assets view

economics as a tool of the state. If anything, strongmen view Russia's looming economic isolation, as well as the forced return of the state-oligarchs to Russia, as a benefit. Autarky and isolation facilitate repression and further strengthen their status vis-à-vis the state-oligarchs and other domestic rivals. As evidence of the hardening of the Russian regime are notable increases in police brutality against anti-war protesters and a crackdown against the few remaining independent media outlets and Western social media platforms (Stelter and Golodryga, 2022; *BBC News*, 2022; Sauer, 2022). The strongmen welcome these changes—the security agencies they control ensure their enforcement. As long as Putin helps fulfill their dream of a ruthless police state, the strongmen will rally behind him.

The above description is, of course, a simplified sketch of the power dynamics in today's Russia. It zeroes in on the groups of actors with the most direct access to Putin—his winning coalition—and leaves out other groups whose power is limited to other realms (for example, technocrats delegated with day-to-day arbitration among various power groups). By painting the ideal types, the above description also downplays within-type variation—for example, the generational differences among strongmen.

For understanding the effect of sanctions on Putin's regime, the focus on ideal types highlights two core insights: (1) neither of the core groups within Putin's inner circle has an incentive to pressure Putin to stop the war, and (2) both groups have a continued preference for supporting the regime. The latest sanctions fail to compromise Putin's ability to distribute rents to his core supporters and hence are unlikely to lead to the toppling of his regime.

The results of the analysis fit with the broader research on the effects of economic sanctions on regime stability. Just as we see in the case of Putin's Russia, research shows a strong association between sanctions and domestic repression, especially in authoritarian regimes (Wood, 2008). The link between sanctions and regime stability is known to be conditioned by domestic institutions: sanctions destabilize democratic leaders but have little to no effect on authoritarian regimes (Lektzian and Souva, 2007). Within autocratic regimes, sanctions are most effective at destabilizing personalist regimes² and monarchies but have no systematic effects on single-party or military regimes (Escribà-Folch and Wright, 2010). While the current regime in Russia is not strictly a military one, much of Putin's authority derives from his growing reliance on the intelligence apparatus, security, and other power structures. At the same time, the regime's increasing reliance on career technocrats for arbitration (Stanovaya, 2020) and on state-oligarchs for economic decision making parallels other single-party regimes.

While limited in their immediate effects, the sanctions have nontrivial long-term payoffs: the weakening of Russia's economy and, with it, its military power. It is only a matter of time before the Russian state can no longer fulfill its massive entitlements and pay its employees—not only doctors, teachers and administrators but also the police and the military-industrial complex. And the sanctions on the state-oligarchs' wealth are an essential tool in achieving this goal, as they limit the Kremlin's ability to draw on this wealth for stopgap funding. Whether Russia's economy—and with it, its military might—can endure weeks or months of

sanctions depends on how Russia plays its remaining cards, including co-operation with China and leveraging its comparative and absolute advantages in agricultural resources (for example, wheat and corn) and natural resources (for example, rare earth minerals, oil and gas).

The long-term sanctions' success also depends, in no small part, on the West's ability and commitment to withstand their own costs of imposing the sanctions. This means finding alternative energy sources that would alleviate Europe's dependence and vulnerability to Russia's energy blackmail. Russia's invasion of Ukraine unified the United States and its allies more than any other event since the end of the Cold War, but this moment of unity might be fleeting. After all, energy concerns quickly unravelled previous rounds of sanctions against Russia (for example, those in response to its 2014 invasion of Crimea). The United States and its partners must act swiftly to devise practical ways to support one another before this monolithic front starts showing cracks.

Notes

1 The sanctions list also includes other wealthy individuals, who are excluded from this analysis, due to their lack of direct access to Putin (that is, these are not a part of his winning coalition).

2 Personalist regimes, according to this literature, are characterized by weak institutions (both military and the party system). Leaders of these regimes remain in power by distributing rents (often from exports of primary products, such as coffee or cocoa) to their patronage networks—for example, Idi Amin of Uganda (Escribà-Folch and Wright, 2010).

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