

# Russia: The Collapse of the Vertical

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## The brittleness of a top-down society

If we can characterize the situation in Russia in a few words, then let us say that the country is plunging into a state of catastrophe, the scale of which will be quite comparable to 1991, perhaps even surpassing those events. Let me remind you that the trigger for the collapse of the Soviet Union was the disappearance of oil and gas revenues, which undermined the budget and completed the processes of decline that had been in development for decades. The end of this crisis came about through the development of market relations, the main beneficiaries of which were members of the governing bodies of the CPSU, the Komsomol and the “red” directors. The population was given the opportunity to engage in small business and privatize their apartments.

But the democratic freedoms that the propertied class needed for the transitional period of privatization ran counter to its fundamental interests of protecting property from the masses of the poor. Democratic control over state power and the creation of a multi-party system after the fashion of “liberal democracies” meant there was at least the possibility of redistribution from the rich to the poor. Therefore, not even a year had passed after the collapse of the USSR when democracy began to be curtailed.

The current system is not a denial of the “damned 90s,” but a natural and logical continuation of that period. In 1993, the parliament building was fired upon, and a constitution built on a strong president was adopted. In 1996, presidential elections were rigged. The ban on strikes in 2000, the abolition of gubernatorial elections in 2001, the liquidation of the Federation Council as a chamber of heads of regions, the transition to an essentially one-party State Duma in 2003, and then the cancellation of elections for heads of districts were the next steps towards creating a vertical organization of power, which pressed its weight down, becoming more and more authoritarian.

The builders of the vertical power were very lucky with the prices of hydrocarbon raw materials. It is only because of this commodity that the budget was fed and the standard of living was sharply raised in the oughts. The cost of a barrel of oil rose at the beginning of the 2000s from \$10 to \$40, and then to \$100. Because of this, the growth in incomes of Russian citizens was paid for by workers and consumers in European countries.

But the citizens of Russia got trifles in comparison with what those at the top got. In the “damned 90s” there was not a single billionaire in the country. In 2004 there were already twenty-five of them, and then their number reached one hundred soon after.

With the direct support of the state leadership, money was taken out of the country and thus withdrawn from taxes. Gazprom alone created 13 offshore companies in order not to have to pay into the Russian treasury. Rosneft, Aeroflot and all the others else did exactly the same. When there was a financial crisis in Cyprus and accounts were blocked, then-president Dmitry Medvedev said: “There, in Cyprus, they are robbing us of our loot. We need to help our business.” That is, the president of the country aided in the withdrawal of capital from Russian taxes.

This policy reached its peak in 2014. The conflict with the West, plus the exhaustion of the Soviet standard of living, coincided with the general degradation of the state apparatus. The burning out of political competition emasculated not only the executive vertical power, not only turned parliament into an appendage of executive power, but also destroyed the professional community. Today we can see what now passes for “professionals” daily on TV, addressing us with bloodshot eyes and foam on their lips. With this level of competence, no CIA sabotage of the operations of government are needed.

This “energy superpower,” absolutely dependent Western economies, was bound to come to an end sooner or later. Modern technologies, such as shale oil and green energy, blocked off any possibility of continuing on the previous course.

The energy transition mandated by the European Union, which is to enter a decisive phase in 2035, has become a kind of hourglass, indicating the time remaining after which a time of deep crisis will come for Russia. There are resources for the technological renewal of the country. Following the example of South Korea, China and Taiwan, our country could become a contractor for international corporations while also developing our own technological production and integrating into the international system of division of labor at a level higher than that of simple raw material appendage. The petroeuro could have become a strong support in such development, spurring the development of infrastructure, domestic consumption, and investments in science and education.

Moving along a new path would have required the creation of a national production plan with high added value, an end to theft from the budget, the expansion of domestic consumption, open discussion among experts, and the restoration of political competition as a contest of ideas and concepts. This path would mean the death of the vertical organization. But the choice between the future of Russia and the future of the tower was made in favor of the latter.

The country turned out to be too complicated for those who were placed in control of it. Complex systems are built on the principle of developed and independent institutions (the executive, the parliament, courts, parties, trade unions, the media, etc), delegation of authority, civic engagement, and regular renewal of the seat of power. Decisions in such systems are made slowly, but errors are minimized. Here it is necessary to convince, and is impossible to force. Therefore, a Trump can do no harm; crazy ideas will be cut off by Congress, the Attorney General, and the Supreme Court, and only those that can survive these will remain. Leadership in such conditions is an art, and while changing external circumstances will require new strategies and entail a constant change of the personalities in power, stability can still be maintained during such transitions, thanks to strong institutions.

But much easier than this is direct, vertical control. Without the need to convince anyone, you can start from scratch; in other words, without competent preparation or any need to elaborate a solution. But while this method is simpler, it is far less effective. The number of errors and the cost of correcting them increase sharply. Not to mention the fact that most incoming criticisms generally remain unanswered, and are put off for an endless “later” - if fewer people have any real power, then fewer issues will be meaningfully contested.

It cannot be said that the vertical power has accomplished nothing, but the lion’s share of the funds under its control went into mega-projects, such as the Sochi Olympics, or the construction of pipelines bypassing Ukraine and snaking into China, built under conditions that foreclosed any possibility of payback. The degree of Russia’s backwardness can be characterized by a census of our industrial robots: there are 630 robots for ten thousand workers in South Korea, 160 in Spain, 68 in China and three in Russia. Expenditure on education, science, and healthcare in relation to GDP during all twenty years of prosperity remained at a level half as low as in Poland or Sweden; that is,

the vertical power simply ate away the Soviet legacy and sooner or later had completely devoured it.

The gradual decline of the standard of living, the doubling of the cost of oil production as the deposits discovered in the former Union were exhausted, the inability of the state apparatus, in the midst of losing its credibility, to master even the available budgetary funds, excluded the possibility of continuing such a calm lull of low competence. Hence the tightening of the screws, including the transition to a "remote electronic voting system" - that is, the abolition of elections as an institution - and the constant search for enemies, and the drumming into the minds of people the myths about an "energy superpower," about the supposed fact that "Europe will freeze," "our great ally China," "Kyiv will fall in three days," and "we can return."

The flow of petrodollars pouring in from Europe, coupled with the complete lack of control of the population on this side of the border and the degradation of the government apparatus, led the ruling elite to believe in those myths that were obviously originally intended to control public opinion.

We are seeing the results today. In the context of the budget and economy, the country is plunging back into the 90s. This year alone, the non-oil and gas sector has declined by 10%. Oil is sold at \$40 per barrel, despite the fact that the budget is calculated to assume a price of \$80; the reason for this drop is not in the global economic currents, but in the destruction of a relationship with Europe that has stood since the days of Brezhnev. There is no response to the challenges of the time from the people at the helm. They are still going to lay pipes to sell hydrocarbons, although there is almost nowhere else to supply them. But there are no resources for technological renewal, either external or internal, and there will not be any in this system; the past year is a clear confirmation of this.

This is a dead end. The slide down will be long and by no means bloodless. War will come here too; although it will not necessarily be accompanied by bombing and shelling, but will certainly manifest itself in the form of a long-term decline in living standards, accelerated extinction of the population, fragmentation of the system of unified state administration, and general chaos. It is impossible to judge how and when it will end, but one thing is certain: the current vertical power is entering a period of disintegration. Many more smaller verticals may spring up in its wake, or we may see a transition to more collegial methods of governance, but within a few years a completely different political space will form around us.

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Translated by Dan Erdman

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