



## Possibilities and Predicaments for Putin

BY RICHARD W. RAHN

RUSSIA'S LEADER HURRIES TO EXPAND HIS REACH WHILE THE U.S. DITHERS

Russian President Vladimir Putin's clear goal is to re-establish as much of the Russian Empire (1721-1917) as he can. At its greatest extent, the Russian Empire included the territories of the old Soviet Union, most of Eastern Europe, Finland and Alaska (up to 1866). Mr. Putin knows the next U.S. president is unlikely to be as indecisive and reluctant to act as President Obama. He also faces falling demand for Russian oil and gas and unexpected price declines, which may cause him to run through Russia's considerable financial reserves. Accordingly, the pressure is on him to act quickly.

The Russian economy is now little more than a petro-state, relying on oil and gas, which account for 68 percent of its total exports, and more than half of its government revenue. Much of Russia's manufacturing base evaporated after the end of the Soviet Union. The ruble has fallen more than 30 percent against the dollar since the beginning of this year. As a result, inflation is accelerating (more than 8 percent at the moment) as imports become more and more expensive. The Russian budget has been running small surpluses, but with the big drop in oil prices, government revenues will fall, and the budget will most likely go into deficit.

In order to keep their economy from falling into total disarray, the Russians are actively doing everything they can to keep global oil prices high and keep the Europeans (which by far and

away are their biggest customers) in continued dependence on their gas and oil. According to Eurostat, Russia supplies the European Union "with 30 percent of its gas, 35 percent of its crude oil, and 26 percent of its solid fuels." Bulgaria, Estonia, Finland, Slovakia, Latvia and Lithuania are nearly 100 percent dependent on Russian gas. Europe could quickly become self-sufficient in gas, but European politicians have banned most fracking and other actions necessary to make Europe less dependent on the Russians.

The Russians are known to have bribed and made other forms of payments to European politicians and opinion leaders, often through the subsidization of environmental groups that lobby against European oil and gas development. Former German Chancellor Gerhard Schroeder is now vice chairman of Russia's Gazprom, and the spokeswoman for the EU's foreign-policy chief is married to a Gazprom lobbyist. There are many public relations, law, lobbying and other groups in the EU and even in the United States that receive funds from Russian sources. One of the great hypocrisies is that the Russians fund groups in the West to lobby against national oil and gas development, while at the same time arguing that global warming is not a threat and that the world should rely more on fossil fuels. The Russians have a strong vested interest in chaos in the Middle East, which could disrupt oil and gas supplies and drive prices higher. Paying a few hundred million dollars a year in lobbying, bribes, and disinformation and harassment campaigns against critics is just the cost of doing business to protect several hundred billion dollars in oil- and gas-export revenue.

Mr. Putin is now likely to be even more aggressive on the military front, given that he has been subject to nothing more than lectures from foreign leaders and minimal economic sanctions. He is moving more troops into Ukraine — only semidisguised — and his agents are actively disseminating disinformation and bribing officials in the parts of the country he does not directly control — the old KGB playbook. Ukraine has remained poorer than the other parts of Eastern Europe because it was, and continues to be, more corrupt and still has not

made the necessary economic reforms. Ukraine is for all intents and purposes bankrupt, dependent on Russian gas, and lacks the weapons to adequately confront the Russian invaders.

If Mr. Putin soon controls Ukraine — directly, or indirectly, by setting up a vassal state as the Germans did in Vichy France in World War II — he is likely to move quickly to directly control Belarus and Moldova, and then Georgia and Azerbaijan, which will give him control over the Caspian Sea oil and gas pipelines. At that point, he will be well positioned to begin incursions in the Baltic states under the pretense of protecting Russian minorities.

The Russians have a weak military but they do have a large stock of nuclear weapons, and as a Putin spokesman recently warned, "Russia is the only country in the world that is realistically capable of turning the United States into radioactive ash." Such statements — along with the many Kremlin paid agents of influence in Europe and the United States — are clearly designed to keep the West from interfering with Mr. Putin's grand scheme.

Rather than crawling under the rock of appeasement, we should be providing Ukraine with weapons and performance-based aid on a strict lend-lease basis (which, unfortunately, may already be too late). We should also take away the many impediments to expanded oil and gas production in the United States, and oil-export restrictions. Finally, we should get serious about using the many financial tools we uniquely have to seriously impede Russian global trade and financial activity as a nonviolent way to discourage Russian expansionism.

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