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Economic Growth and Putin's Approval Ratings — The Return of the Fridge

This brief discusses how the approval ratings of president Putin covaries with economic growth. In most years the relationship between approval ratings for Putin and growth looks like approval ratings for politicians in most countries so that when growth is higher, the president is more popular. Or to use an American expression "it's the economy stupid". The caveat in Russia is that external events at times overshadow the importance of growth to the extent that the president's ratings stay high and can even go up despite a faltering economy. In a time of low Russian growth, this is not good news for geopolitics unless Putin can be convinced to focus on policies that generate high, sustainable growth instead of international turbulence. That said, it is clear that poor economic growth carries a political cost also in Russia. The only sustainable way of maintaining high approval ratings for the president is by fostering economic growth since in the contest between "the TV and the fridge", the fridge will eventually win.

Russia is a complex country and culture. Instead of the simple American saying "it's the economy stupid", Russians talk about "the TV vs the fridge". This translates into that concerns about the economic situation can be made irrelevant by propaganda so that voters turn their eyes away from the half-empty fridge to follow how Russia's armed forces fight the enemy in foreign countries.

The propaganda messages have of course varied over the years, but it seems that external enemies that threaten the nation are at the heart of many of the messages. This theme in propaganda is of course not unique to Russia, but it seems to carry more weight in Russia than in other countries.

The observation that propaganda is used and that it seems to work to a relatively large extent at times can lead to the conclusion that "it's not the economy stupid" when it comes to approval ratings of the Russian leadership.

This observation is tempting as another piece of evidence on how Russia is different and unique, but this brief will show that in most times, it is indeed "the economy stupid" also in Russia.

Putin's ratings and growth

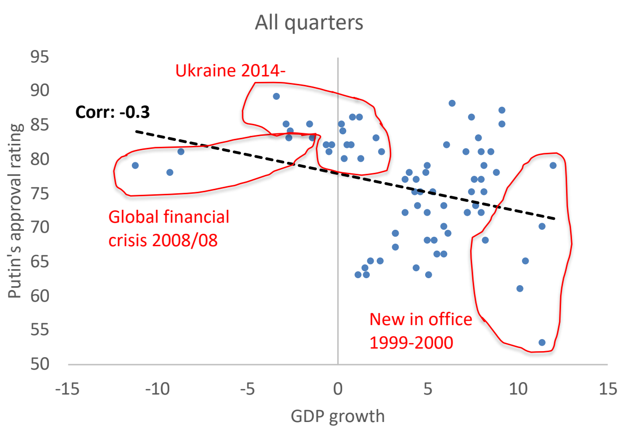
The idea that Russia is different in that growth would not be important for the president's approval rating can be justified empirically when we look at the full series of approval ratings of Putin as measured by the Levada center and corresponding quarterly growth rates going back to 1999 (Figure 1).

Instead of showing a strong positive correlation as we would expect, the correlation is negative 0.3. However, a more careful look at the observations in the scatter plot suggests that there are a few clusters of observations that create this negative correlation. In the figure, three distinct clusters are marked; first there is the period when Russia rebounded strongly from the 1998 crisis in 1999-2000, with growth rates that have not been seen before or after that time in Russia. The growth was an artefact of the previous massive decline in income in combination with a large devaluation, and later followed by oil price increases. This happened in Putin's initial time in the highest offices when he was prime minister, interim president and then elected president. Although Putin enjoyed high ratings as a consequence, it was not in line with the extreme growth rates that were the result of events preceding his tenure and can thus be regarded as outliers.

The second cluster is related to the global financial crisis in 2008/09 when Russian growth took a major hit as oil prices collapsed and the exchange rate was not allowed to appreciate correspondingly. However, this crisis was blamed (as in many other countries) on the US and the West and did not cost Putin in terms of approval ratings.

The final cluster is related to the annexation of Crimea and ongoing involvement in the conflict in Eastern Ukraine. This period also coincides with a sharp drop in oil prices that taken together led to negative growth that then remained low for a prolonged period. We should note that before the annexation of Crimea, growth rates in 2013 were very low at 1-2 percent with approval ratings going down to 63 percent, which was an all-time low since Putin's first year in office.

Figure 1. Ratings and growth

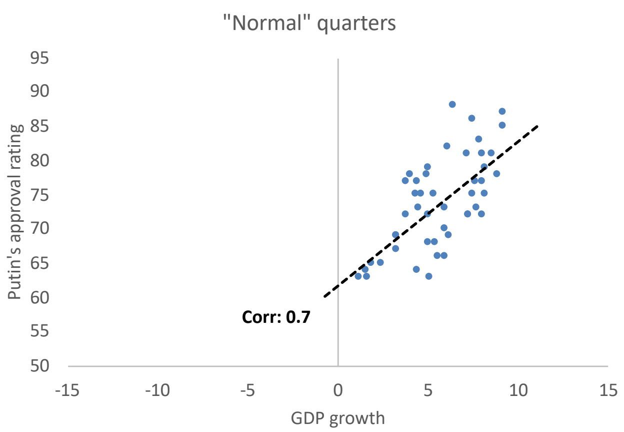


Source: Becker (2019)

If we purge the data from the three exceptional episodes that we have identified above, we get Figure 2. Note that the scale has not been changed from Figure 1. Now there are no observations of negative growth rates, but the distribution of growth rates is still rather spread out, going from around 1 to 9 percent growth. The spread of the growth distribution is important since it allows us to identify the relationship between growth and approval ratings more clearly.

The relationship between approval ratings and growth in Figure 2 is strongly positive with a correlation coefficient of 0.7, and in line with what we would expect in other countries. This is a quite remarkable shift from the negative correlation in Figure 1. Note that if approval ratings in 2014 had been behaving as in "normal" years, the regression line would have put them around 60 percent instead of the actual approval rating that peaked at 86 percent after the annexation of Crimea. Such is the strength of the TV.

Figure 2. Ratings and growth



Source: Becker (2019)

This is very clear evidence that Russia is a "normal" country in "normal" times, but that there are also times when other forces overshadow this normalcy.

Policy conclusions

Are there any policy conclusions that can be drawn from the stark contrast between figures 1 and 2? The answer is a very clear "yes", both for the Russian leadership but also for the rest of the world that has economic interests and security concerns with Russia.

For the Russian president, the message is that it pays in terms of high approval ratings to generate growth and "keeping the fridge well stocked". It is also clear that the high popularity rating that was seen after the annexation of Crimea has been followed by several years of poor growth. A forthcoming brief discusses how the increased uncertainty created by this event has led to lower capital inflows, lower domestic investments and lower growth.

Not surprisingly, the sustained low growth has started to show in terms of falling approval ratings. The polls at the end of 2018 and early 2019 (for when there is not yet data on growth rates) indicate a significant decline in approval ratings, down to 64 percent from over 80 percent at the end of 2017. This is linked to protests over pension reforms, but they in turn are a result of lower government revenues in an economy that lacks growth.

In other words, if growth does not return before the propaganda loses its appeal, this will eventually result in falling approval ratings for the president, which is what we are seeing now.

There are potentially also some policy conclusions for Russia's foreign investors, trading partners and neighbors. When growth in Russia is low and no credible reform programs are on the horizon, expect external actions that take the attention away from poor economic performance while increasing the level of uncertainty both in Russia and abroad.

For the more pro-active external actors, finding ways to support Russia's return to growth through dialogue on real economic reforms could perhaps be both politically feasible and of mutual interest to Russia and the West. There are clearly some geopolitical issues that may interfere with this process, but it should still remain high on the wish list of regular people in Russia and elsewhere. Let the fridge rule!

References

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