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Can Navalny Take Down Putin?

Feb 12, 2021 | **NINA L. KHRUSHCHEVA**

MOSCOW – There are arguably two moments in the last century when a wrecking ball was taken to Russia's political regime. In 1917, the Bolshevik Revolution toppled the country's teetering monarchy. And, in 1991, an abortive coup by Marxist-Leninist hardliners against the reformist Mikhail Gorbachev accelerated the tottering Soviet Union's collapse. Does the wave of protests that have swept Russia in recent weeks herald another regime change?
Not likely. To be sure, unlike the protests that roiled Russia in 2011-12 in response to Vladimir Putin's third inauguration as president, today's protest movement has a charismatic and sympathetic leader. Not only has Alexei Navalny been a relentless anti-corruption advocate for years; when he was arrested last month, he had just returned from Germany – where he had spent months recovering, after being poisoned with the Kremlin's favorite nerve agent, Novichok – to continue confronting Putin's regime.

But, unlike the twilight of the czars and the Soviets, Putin's regime is neither teetering nor tottering. Putin has spent the last decade consolidating a police state, and he is prepared to use every available tool to retain power. The leader who invaded Ukraine and illegally annexed Crimea in 2014 to bolster his foundering approval rating, and who secured a constitutional amendment last year so that he could remain president for life, is not about to be forced from power by a movement of weekend protesters.

Yet there is something particularly excessive, even irrational, about Putin's suppression of Navalny, his associates, and his supporters. Already, law-enforcement officers have detained thousands (including journalists), often using brutal tactics. The government has also blocked social-media platforms, because they are supposedly fueling unrest.

Meanwhile, the Kremlin-controlled television networks endlessly broadcast fawning stories about Putin, and every effort is being made to discredit the protest movement. By effectively shutting down central Moscow, including public transport leading to it, the government has severely inconvenienced many citizens – and made it seem like Navalny's fault. The government *wants* "peaceful city-dwellers" to be able to do their weekend shopping, the narrative goes, but the “law-breaking” protesters, much like “terrorists,” insist on disrupting “normal” life.

By the Kremlin’s logic, when foreign leaders, journalists, and diplomats speak out in support of the opposition, they are merely proving that Navalny is the factotum of a global plot to destabilize Russia. To drive this point home, Russia’s Ministry of Foreign Affairs recently expelled three European diplomats for attending Navalny rallies – while Josep Borrell, the European Union’s high representative for foreign affairs and security policy, was visiting Moscow, no less.
The Kremlin is treating Navalny himself accordingly – like an enemy of the state. Navalny’s farcical court hearings since his return from Germany recall Stalin’s show trials in the 1930s, with one key difference: Navalny is not capitulating to the dictator by confessing his “crimes.” During the proceedings, Navalny rebuked the state’s lawlessness and denounced his sentence – almost three years in a penal colony – as illegitimate.

Moreover, Navalny recently released a viral video accusing Putin of using fraudulently secured funds to build a billion-dollar palace on the Black Sea. While Russians expect their leaders to be corrupt, Navalny consistently puts into perspective the scale of the riches that corruption generates. (He did the same with his 2017 investigation into then-Prime Minister Dmitri Medvedev.)

Navalny’s attacks thus directly undermine Putin. In this sense, Navalny is not like one of Stalin’s Trotskyist targets; he is Trotsky himself. And he needs to be purged.

Putin’s fears are compounded by the possibility that a slow-motion palace coup may be unfolding. Since the annexation of Crimea, Western sanctions have been choking Russia’s economy, fueling resentment among the country’s political elites, who long for access to their Swiss bank accounts and Italian villas. They may now seek to oust Putin, much in the same way Nikita Khrushchev was ousted in 1964. And a humiliated Putin would presumably be much easier to overthrow than a popular one.

The emergence of mystics and proselytizers with promises of clarity offers further evidence that Russia’s ossified regime is beginning to destroy itself. Grigori Rasputin, a self-proclaimed holy man, helped to drive the rotting imperial monarchy into the ground. In the 1980s, when the Soviet empire was beyond reform, TV psychiatrists were all the rage.

Today, political shamans of all stripes – from communist to nationalist – are rising to prominence. They predict Putin's imminent death, warn of a Western or Chinese takeover, and speculate that Navalny is a project of Russia's security services that got out of hand. Some have even interpreted Navalny's name – which translates as "push away" – as a sign that he is the one who will drive out Putinism.

Nonetheless, as the Kremlin's response to the protests has shown, Putin and the state are one and the same. That makes toppling him a particularly difficult proposition – at least for now.

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Schrödinger's Bitcoin

Feb 12, 2021 | **WILLEM H. BUITER**

NEW YORK – On February 8, Elon Musk's electric-car firm Tesla announced that it had invested $1.5 billion of its cash reserves in Bitcoin back in January. The news helped to boost the cryptocurrency's already skyrocketing price by a further 10%, to a record high of more than $44,000. But, especially in Bitcoin's case, what goes up can just as easily come crashing down.

Bitcoin was invented in 2008 and began trading in 2009. In 2010, the value of a single Bitcoin rose from around eight-hundredths of a cent to eight cents. In April 2011, it traded at 67 cents, before subsequently climbing to $327 by November 2015. As recently as March 20 last year, Bitcoin traded at about $6,200, but its price has since increased more than sevenfold.

Today, Bitcoin is a perfect, 12-year-old bubble. I once described gold as "shiny Bitcoin," and characterized the metal's price as a 6,000-year-old bubble. That was a bit unfair to gold, which used to have intrinsic value as an industrial commodity (now largely redundant), and still does as a consumer durable widely used in jewelry.

Bitcoin, by contrast, has no intrinsic value; it never did and never will. It is a purely speculative asset – a private fiat currency – whose value is whatever the markets say it is.

But Bitcoin is also a socially wasteful speculative asset, because it is expensive to produce. The cost of "mining" an additional Bitcoin – solving computational puzzles using energy-intensive digital equipment – increases at such a rate that the total stock of the cryptocurrency is capped at 21 million units.

Of course, even if Bitcoin's protocol is not changed to allow for a larger supply, the whole exercise can be repeated through the issuance of Bitcoin 2, Bitcoin 3, and so on. The real costs of mining will thus be replicated, too. Moreover, there are already well-established cryptocurrencies – for example, Ether – operating in parallel with Bitcoin.

But as the success of government-issued fiat currencies shows, the universe of speculative bubbles is by no means restricted to cryptocurrencies like Bitcoin. After all, in a world with flexible prices, there is always an equilibrium where everyone believes the official fiat currency has no value – in which case it consequently has no value. And there are infinitely many "non-fundamental" equilibria where the general price level – the reciprocal of the fiat currency's price – either explodes and goes to infinity or implodes and falls to zero, even when the money stock remains fairly steady or does not change at all.

Finally, there is the unique "fundamental" equilibrium at which the price level (and the value of the currency) is positive and neither explodes nor implodes. Most government-issued fiat currencies appear to have stumbled into this fundamental equilibrium and stayed there. Keynesians ignore these multiple equilibria, viewing the price level (and thus the price of money) as uniquely determined by history and updated gradually through a mechanism like the Phillips curve, which posits a stable and inverse relationship between (unexpected) inflation and unemployment.

Regardless of which perspective one adopts, real-world hyperinflations – think of Weimar Germany or the recent cases of Venezuela and Zimbabwe – that effectively reduce the value of money to zero are examples not of non-fundamental equilibria, but rather of fundamental equilibria gone bad. In these cases, money stocks exploded, and the price level responded accordingly.

Private cryptocurrencies and public fiat currencies have the same infinite range of possible equilibria. The zero-price equilibrium is always a possibility, as is the unique, well-behaved fundamental equilibrium.

Bitcoin clearly is exhibiting neither of these equilibria at the moment. What we have instead appears to be a variant of a non-fundamental explosive price equilibrium. It is a variant because it must allow for Bitcoin to make a possible, if unexpected, jump from its current explosive price trajectory to either the nice fundamental equilibrium or the not-so-nice zero-price scenario. This multiple-equilibrium perspective doubtless makes it appear risky to invest in intrinsically valueless assets like Bitcoin and other private cryptocurrencies.

The real world is of course not constrained by the range of possible equilibria supported by the mainstream economic theory outlined here. But that makes Bitcoin even riskier as an investment.

Tesla's recent Bitcoin buy-in shows that a large additional buyer entering the market can boost the cryptocurrency's price significantly, both directly (when markets are illiquid) and indirectly through demonstration and emulation effects. But an exit by a single important player would likely have a similar impact in the opposite direction. Positive or negative opinions voiced by market makers will have significant effects on Bitcoin’s price.

The cryptocurrency’s spectacular price volatility is not surprising. Deeply irrational market gyrations like the one that drove GameStop’s share price to unprecedented highs in January (followed by a significant correction) should serve as a reminder that, lacking any obvious fundamental value anchor, Bitcoin is likely to remain a textbook example of excess volatility.

This will not change with time. Bitcoin will continue to be an asset without intrinsic value whose market value can be anything or nothing. Only those with healthy risk appetites and a robust capacity to absorb losses should consider investing in it.

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