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Why Putin Can't End the Conflict

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Most analyses of how to end the war in Ukraine focus on the intentions of one man: Russian President Vladimir Putin. This assumes that the person who single-handedly launched the invasion can also single-handedly stop it. But after more than four years of conflict, Russia's economy and society have been reorganized around war, creating a powerful set of domestic incentives that makes ending the war difficult, and even dangerous, for Russia's president.

The Kremlin has made the war the central organizing principle of social and economic life, and the Russian state has been transformed by the war in turn. The country's shadow economy, labor markets, regional budgets, social hierarchies, and political incentives have all been reordered around the conflict. In the process, the war has produced a self-sustaining institutional and economic order that constrains even Putin. Russia's fiscal and industrial base has become structurally dependent on military spending, so much so that entire regions and sectors cannot survive without it. Combat pay and expanded defense wages have given millions of Russians in depressed regions their first real income gains in years.

The regime cannot roll back these changes without exposing the country's vast inequality or without creating a large class of aimless, incomeless veterans. And an expanding shadow economy—one made

up of smuggling and lax customs enforcement—now keeps consumer goods flowing into a sanctioned country, spawning new commercial interests and supply chains around the war that cannot easily be reversed.

This does not mean that peace is impossible. Most Russians, in fact, would welcome an end to the conflict. But it does mean that any serious effort to end the war must reckon with these invisible forces. Stopping the fighting now would mean economic dislocation, social upheaval, and a political reckoning the regime is not prepared to face. Moscow, in other words, has stumbled into a war trap that no one designed and no one can easily dismantle.

PATH DEPENDENT

Contrary to popular belief, most Russians have not benefited from the invasion. It is true that as the defense budget tripled over the first two years of conflict, the Russian economy grew and wages rose. But what looks like wartime prosperity is what the geographer Natalia Zubarevich calls the "law of small numbers": percentage gains that seem impressive only because the starting point is so low. Real wages did rise, by official count, by about eight percent in 2023 and nine percent in 2024. But even after those gains, the median Russian wage in 2024 was only around 56,000 rubles a month (roughly $600). Growth then slowed sharply in 2025, to just 4.4 percent. And the official inflation rate over these years—7.4 percent, 9.5 percent, and 5.6 percent, respectively—is likely understated.

Meanwhile, the top five percent of Russians hold roughly 75 percent of all the country's wealth, a figure that is worse than in the United States (where the top five percent hold around 60 percent of the wealth). The gains of Russia's military Keynesianism, where they exist at all, are unevenly distributed, accruing primarily to those working in or near military production. Since the start of the war, the number of working pensioners has risen sharply, and the tax system has been

methodically redesigned to extract more from those who have the least. The state hasn't imposed an inheritance tax in two decades and property taxes are negligible, but the value-added tax, which was 18 percent a few years before the war, rose to 22 percent in 2026. It now funds nearly half the federal budget.

This is not a system designed to share the bounty of wartime spending. To ordinary Russians, the benefits of the wartime windfall increasingly look like a bait and switch. The promise that sacrifice would be rewarded, and that war spending would deliver what Russia's economic policy never had, is already colliding with reality.

But that does not mean that Moscow can simply shut off its wartime economy, or that doing so would prompt the kind of economic growth the invasion has failed to deliver. Instead, war has so transformed the economy that it might collapse without it. Consider, for instance, consumer imports. Thanks to sanctions, Russia's shadow economy has expanded to keep such goods flowing into the country's markets. Sanctioned goods and counterfeit products enter the country from China, Turkey, and Central Asia through improvised networks in which bribes, deliberate undervaluation, and misclassification have replaced the formal customs procedures. The Russian government also tolerates outright smuggling in order to help the economy fill gaps that domestic production cannot meet. Entire sectors of retail have gone gray with the state's tacit blessing, since the alternative is empty shelves and political trouble.

Stopping the fighting now would mean economic dislocation, social

If the war ends without immediate sanctions relief and reentry to global markets, the government will have to continue to allow this gray-zone economy to keep functioning. Russia has tolerated smuggling before. But the real cost is that peace would not undo the new distortions. A class of intermediaries now profits from

upheaval, and a political reckoning.

the workarounds and has no interest in seeing them replaced. And the more the gray zone is tolerated, the more it undermines Putin's hope of replacing hydrocarbon revenues with taxes on consumption and trade.

The wartime economy is difficult to structurally dismantle in other ways, as well. Defense and security spending now accounts for around 40 percent of all federal expenditure, an unprecedented level in Russian history and likely higher than even during Soviet-era militarization in the 1970s and 1980s. The number of enterprises in Russia's military-industrial complex has roughly tripled since the invasion, and these firms now employ around four and a half million people. War-related manufacturing grew by 20 percent in 2025 alone.

To be clear, the companies that have gained the most from the conflict are geographically isolated, a legacy of the Soviet "deep defense" thinking that placed them far from major population and economic centers. The wage boosts that attract workers to cities such as Nizhny Tagil, a tank-making hub of 300,000 people about a thousand miles east of Moscow, rarely ripple beyond the factory gate. Across Russia, the arms sector may employ millions of people, but its workers live in poor, medium-sized cities far from the capital. Meanwhile, civilian firms face high interest rates and acute labor shortages, which make productive investment nearly impossible for anyone not connected to the defense sector.

But these firms and their workers are still quite influential. Because Russia's civilian economy is starved of capital, labor, and investment, its state-subsidized military sector holds enormous economic power, and it has every incentive to perpetuate the conditions that sustain it. Any collapse of defense spending that accompanied the war's end would risk defense-industry workers striking and bringing their grievances to Moscow. At a minimum, such a collapse would result in rising unemployment and lower growth, causing headaches for

Russian officials. To cover deficits and service government debt, the Kremlin would likely need higher taxes and cuts to social spending. Russia's central bank has no clear answer for how to wind down the war economy while staving off stagflation and a potential debt spiral, and so it might be left with little choice but to pair austerity measures with borrowing at punitive rates, smothering any prospect of economic recovery.

NO EASY EXIT

Another source of tension for the Russian state is its growing class of veterans: an estimated 700,000 soldiers will eventually return from the front. Some 140,000 have already permanently come home, and over half a million more will eventually join them. The Kremlin is working to turn former soldiers into a loyal political base; Putin has called war veterans the "new elite." The Defenders of the Fatherland Foundation, a state fund headed by one of Putin's relatives, has been established to coordinate veterans' services, and veterans have been appointed to regional and municipal posts. According to reporting by the exiled Russian journalist Farida Rustamova, the Kremlin plans to run 100 veterans as candidates for the State Duma in the 2026 elections.

But for Putin, these plans are a double-edged sword. Former soldiers may shore up support for Russia's president and his system, but they also further lock Moscow into the conflict, since veterans and their families have a material and psychological stake in the war's legitimacy. Their sacrifices must be honored and their benefits maintained. Any peace deal that cannot be sold as victory risks alienating them. Returning soldiers who earned far more at the front also face a painful adjustment to civilian life. In January, Russian state media reported that some 250,000 veterans were unemployed. The story was quickly scrubbed from the Internet, a sign of the issue's political sensitivity.

The social costs are already visible: the Russian public increasingly regards veterans with fear and suspicion. Analysis by independent Russian journalists of thousands of court records found that veterans are prosecuted for murder 2.5 times as often as men who have not served, and twice as often for grievous bodily harm. Many Russians still remember the aftermath of the Soviet withdrawal from Afghanistan in 1989, when the flood of returning veterans contributed to a surge in organized crime and instability. Today the number of returning veterans is larger, and the social infrastructure to absorb them, such as health clinics and rehabilitation centers, is worse.

What makes these wartime dependencies especially hard to unwind is the way they reinforce one another. Each adaptation to the war produces new interests, dependencies, and political facts that raise the price of peace. Regional governors now compete on recruitment quotas, and their budgets depend on federal defense spending; severing that funding would undercut their political standing and fiscal base. The central bank has oriented its monetary policy around managing war-driven inflation. By holding interest rates at levels that effectively punish civilian investment, it has created a perverse incentive structure in which only war-connected firms can afford to borrow and grow.

The Russian education system has also been reorganized, with military-patriotic instruction expanded and university curricula revised. The emigration of liberal professionals has shifted the composition of the educated class toward loyalists. And state media, having spent four years constructing a narrative of existential struggle against the West, cannot pivot to a story of compromise without undermining the regime's credibility.

THE MACHINE PUTIN CAN'T STOP

Western policymakers tend to assume that wars end when leaders decide to end them. But Russia's war has become a fact of daily life for

millions of people. Ending it requires dealing not only with Putin's ambitions but with the fear of upheaval that peace could bring.

Putin remains the central decision-maker in a system engineered to concentrate authority. But his choices are also bounded by the consequences of his own policies. He cannot demobilize without setting off a vast unemployment and reintegration crisis. He cannot cut defense spending without devastating the regions and industries that depend on it. And he cannot abandon the narrative of existential struggle without undermining the legitimacy on which his authority rests.

The war may have begun with the decision of one man. But it will end only when the underlying incentives that sustain it change, whether through exhaustion, external pressure, or off-ramps that make peace less costly. Understanding the invisible constraints that limit even the ruler's choices is the first step toward designing those off-ramps. Too much diplomatic energy has been spent trying to read Putin's mind. It would be better spent trying to understand the war machine he has built, and the ways in which that machine now runs the country without him.