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Change, Continuity and Power in the Russian Political Economy in Comparative BRICs Perspective

Alexandra Vasileva



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**Change, Continuity and Power in the Russian Political Economy
in Comparative BRICs Perspective**

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aan de Universiteit van Amsterdam

op gezag van de Rector Magnificus

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Promotiecommissie:

Promotor: Prof. dr. B.M. Burgoon
Universiteit van Amsterdam

Copromotor: Prof. dr. D.K. Mügge
Universiteit van Amsterdam

Overige leden:

Prof. dr. A. Gerrits	Universiteit Leiden
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Prof. dr. M.J. Ellman	Universiteit van Amsterdam
Prof. dr. G.R. D. Underhill	Universiteit van Amsterdam
Prof. dr. M.E. Glasius	Universiteit van Amsterdam

Faculteit: Faculteit der Maatschappij- en Gedragwetenschappen

Dedicated to Uwe Becker

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Having tragically lost my mentor, I was extremely lucky to gain a new one who helped to make the second half of my PhD a journey more

intellectually stimulating and gratifying than I ever expected or hoped it to be. I always felt that Uwe's mentorship gave me wings. I guess Brian taught me how to fly.

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Abstract

This article-based dissertation explores the development of the Russian political economy over the past 25 years in comparative BRICs perspective. The first half of the thesis describes (article 1) and compares (article 2) the evolution of the macro-configuration of Russia's political economy (state-business and capital-labour relations) in the framework of Comparative Capitalism approach. The main finding is that Russia de-liberalised in the 2000s and increased its patrimonialism, understood as a form of socio-economic organisation strongly based on clientelism and patronage. All other BRIC countries developed in the opposite direction.

The second half of the dissertation examines the functioning (article 3) and origins (article 4) of Russia's current type of capitalism, characterised by insecure property rights and dubbed 'statist-patrimonial'. The focus of analysis is placed on small firms and their daily interactions with state officials. Based on in-depth interviews, the articles examine the drivers of widespread informal - and sometimes corrupt - business strategies and reveal the mechanism of 'informality trap': small firms that behave informally get locked in the vicious circle of informality, thus inadvertently undermining the security of their property. As a result, small businesses are not only victims of state predation but also have actively contributed to the functioning and emergence of Russia's form of capitalism.

In summary, by examining patrimonialism and the mechanism of 'informality trap' the dissertation provides a better understanding of the Russian case and enables the refinement of social science tools to analyse political economies beyond the industrialised countries.

Abbreviations

BRICs	Brazil, Russia, India, China
CEO	Chief Executive Officer
GDP	Gross domestic product
SMEs	Small and medium-sized enterprises
OECD	Organisation for Economic Co-Operation and Development
R&D	Research and Development
VoC	Varieties of Capitalism
WTO	World Trade Organisation

Tables and figures

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Summary

This PhD dissertation explores the development of the Russian political economy over the past 25 years in comparative BRICs (Brazil, Russia, India and China) perspective. It focuses on the central feature of Russian capitalism dubbed 'patrimonialism', examining the relationship between the state and (primarily small) companies, in particular its informal aspects. The dissertation is article-based and aims at:

- describing the distinct variety of Russian capitalism (chapter 1);
- comparing the evolution of Russia's variety of capitalism to that of other BRIC countries (chapter 2);
- understanding how Russia's capitalist variety functions and is sustained (chapter 3);
- exploring why Russia's capitalism developed this particular way (chapter 4).

In short, the chapters focus on the description, comparison, functioning and origins of Russia's type of capitalism. Thereby they address four fundamental questions of social science: 'what?'; 'and compared to others?'; 'how?'; and 'why?'.

Conceptually, the dissertation moves from a macro perspective on a political economy as a whole (chapters 1 and 2) to a micro study of its functioning on the level of small and medium-sized enterprises (SMEs) (chapter 3) and then back to the macro level, focusing on broader implications of companies' activity for the origins of the system (chapter 4). This three-step analysis requires a conceptual 'gear shift'. Theoretical tools of the 'Varieties of Capitalism' (VoC) scholarship are used in the first half of the dissertation to discern the specificity of Russia's politico-economic form and describe how it developed over time in a comparative BRICs perspective. The remaining half of the dissertation looks at Russia's highly patrimonial capitalism on its own terms, focusing on the behaviour of SMEs and their interaction with local state officials based on insights obtained through in-depth interviews.

In terms of the method, the dissertation combines a historical study with statistical assessment; a case study with a comparative study; a macro analysis of major institutions of a political economy with a micro treatment of behaviour of business actors; descriptive and explanatory

approaches, as well as desk research and data obtained from personal fieldwork. The timeframe of the analysis commences with the collapse of communism at the end of 1991 and ends in 2014 - the year of the latest available data.

Qualitative data obtained from in-depth interviews build the empirical centrepiece and offer a methodological contribution of this dissertation. The interviews were conducted during fieldwork in Russia in the spring of 2014. The total of 34 respondents included entrepreneurs, business association executives, corporate lawyers, academics and journalists. In addition, cross-sectoral and cross-national quantitative data were used in this study, as well as secondary literature, newspaper articles and historical analyses by other scholars.

Here is the overview of the main findings of the four articles (chapters) of the dissertation:

Chapter 1, entitled '**Continuity and Change in Russian Capitalism**' (published as a chapter in an edited volume), is a historical study of the evolution of Russian state-business relations and capital-labour relations since the collapse of the Soviet Union along three dimensions. The political dimension comprises state capacity and the composition of the dominant political elites; the legal dimension deals with the rule of law and the security of property rights; the economic dimension includes the economic policy of the state towards business. Viewed against the backdrop of the statist, liberal and patrimonial ideal types of capitalism, the chapter finds that the main direction of change in the Russian political economy is expressed in the shift in the proportion of the liberal and statist elements. While between 1992 and 2002 the Russian capitalism can be characterised as largely liberal, after 2003 the trend towards increased statism became clearly pronounced. Etatisation of the Russian capitalism is expressed in the partial increase of the state capacity, in the shift from the liberal to conservative political elites and in the partial nationalisation of the strategic economic assets, coupled with an overall increase in the state's involvement in the economy and labour relations.

The major continuity of the Russian capitalist development was found in the persistence of patrimonialism, expressed in the pervasive weakness of the rule of law; in the endurance of corruption, partial fusion of the state

and business and in the spread of the informal state-business and capital-labour relations, which were at odds with the formal regulations governing these relations. Another notable feature of Russia's patrimonialism is found in the informal bureaucratic control of property (dubbed 'power-ownership') and the extraction of administrative rents from it, examined in the following chapters of the dissertation. The chapter leaves open the questions of the scope of the Russian patrimonialism, eventual differences between the 1990s and the 2000s and mechanisms of its working as it is taken up in the later chapters of the dissertation.

Chapter 2, entitled '**Russia's political economy re-conceptualised: a changing hybrid of liberalism, statism and patrimonialism**' (published in co-authorship with Uwe Becker in *Journal of Eurasian Studies*), is a study of the evolution of Russia's capitalism in a comparative BRICs context. It is based on the analysis of both historical and statistical data and takes up some of the questions left open in chapter one. In particular, it gives an approximation of the scope of Russian patrimonialism and how it developed between the 1990s and the 2000s.

The chapter proposes a conceptual framework for assessing the impact of patrimonialism on the country's trajectory of change by systematically adding patrimonialism as a third dimension to the better-known liberalism and statism. The chapter conceptualises Russia's trajectory as changing with respect to ideal-typical liberalism, statism and patrimonialism. The main finding of the first, historical part of the chapter is that Russian patrimonialism hindered the rise of the economically facilitating state capacity and undermined both liberalisation in the 1990s and re-etatisation in the 2000s. The second part of the chapter provides a quantitative assessment of these developments based on statistical data and adds a comparative BRICs perspective that clarifies the peculiarity of Russia's development. The data confirm the de-liberalisation of Russia and show an increase of patrimonialism in the 2000s compared to the 1990s. Another finding is that Russia was the only BRIC country that de-liberalised and increased its level of patrimonialism in the period under consideration.

The remaining two chapters of the dissertation focus on the Russian case and its statist-patrimonial variety of capitalism, aiming to illuminate its

working and understand its origins by focusing on the activity of small firms. **Chapter 3**, entitled '**Trapped in informality: The big role of small firms in Russia's statist-patrimonial capitalism**' (published in the journal *New Political Economy*), is a study of the functioning of Russia's capitalism and the mechanisms of its stability. It takes up a question left open in chapter one, namely the mechanisms behind Russian patrimonialism and the factors and circumstances that give bureaucrats the power to extract administrative rent from property under their indirect control.

While predominant accounts focus on the lack of institutional constraints on state predation, the chapter explains the resilience and maintenance of Russia's statist-patrimonial capitalism by exploring the often-overlooked contribution of small- and medium-sized companies. Drawing on statistical data, the chapter finds a steady rise of SMEs in the 2000s despite increasing state predation, concluding that SMEs are not simply subjugated by the state. In-depth interviews with Russian entrepreneurs reveal that business contributes to the maintenance and functioning of the statist-patrimonial system through the mechanism of the 'informality trap': companies that choose the informal strategy find it difficult to return to the legal sphere and become trapped in the informal economy.

The chapter finds that the drivers of informality comprise institutional constraints such as overregulation and bureaucratic extortion, which represent a power resource on the side of the state and compel companies to opt for informal behaviour. However, informality is also driven by some company-specific factors that offer a degree of choice and thus agency. Firstly, depending on the characteristics of a company (such as size and sector), a small enterprise may face incentives to choose informal behaviour. Secondly, socio-cultural factors dubbed 'normality of informality' matter in this regard too: viewing the formal costs of doing business and informal expenditures such as bribes as comparable expenses, for subjective reasons, some SMEs may prefer cutting corners to legal compliance. Though this power to subvert the system may sometimes help companies to get things done or protect their interests, it often has an unintended adverse long-term effect on the security of property rights as the companies may get locked into informality. In sum,

the mechanism of the 'informality trap' highlights the agency of SMEs in Russia's political economy and their contribution to its functioning.

Finally, **chapter 4** provides a historical analysis of the origins of Russia's variety of capitalism, entitled '**Digging their own graves: how small companies contributed to the emergence of Russia's statist-patrimonial capitalism**' (in preparation for submission). The chapter traces in historical perspective how for a variety of reasons Russian companies embarked on informal practices back in the 1990s and, by falling into the informality trap in the following decade, co-created the foundation of insecure property rights and informal particularistic state-business relations that define patrimonial capitalism today.

The main finding of this chapter is that statist-patrimonial capitalism is not only the result of a top-down activity of the state sovereign, its corrupt agents or cronies in big business, as is commonly perceived, but that it is also a system that rests on the bottom-up activity of the bulk of economic actors - the SMEs. They are not simply passive victims of state threats to property rights, rather in many cases they also contributed to the emergence of these practices. This resulting contribution - often inadvertently made - was linked to some of the informal business practices undertaken by the SMEs that locked them in the long run in the informality trap. Back in the 1990s some of those informal practices were not the only choice available to companies, but were taken up by SMEs out of expediency. In the 2000s, when the state grew more powerful, the informal behaviour of these companies backfired as the corrupt state took advantage of the informality of some companies and exploited it to violate the property rights of virtually any business actor at will. Thus the advent of statist-patrimonial capitalism in the 2000s, marked by state threats to property rights, was made possible and in fact facilitated, among other factors, by the informal choices and practices of business actors in the previous decade.

The main contribution of this dissertation is two-fold. Empirically, it allows us to better understand how Russia works, and where its political economy stands compared to the other members of BRICs. It also suggests why Russian statist-patrimonial capitalism functions the way it does, and how it came to be this way. Another empirical contribution is the suggestion of a tool for quantifying and comparatively mapping the

trajectories of change in emerging economies, applicable beyond the BRICs to other emerging economies and time periods.

Conceptually, the dissertation refines the Varieties of Capitalism debate by a systematic incorporation and a detailed study of patrimonialism. The findings of the dissertation corroborate that patrimonialism is more significant than an incidental feature like corruption or a blemish on a particular type of capitalism. Instead, patrimonialism should be viewed as a competing logic of economic and social organisation, without which political economies beyond the OECD world cannot be adequately understood. By studying the reproduction of patrimonialism on the example of Russia the dissertation adds knowledge about reproduction of institutions more generally. By giving attention to bottom-up forces generating and sustaining patrimonialism, the findings of this dissertation also speak to a broader state-society debate in social sciences.

Introduction

The disintegration of the Soviet Union 25 years ago was a seminal moment in recent history. It marked the end of the Cold War and saw the largely peaceful dissolution of the former totalitarian empire that had spanned almost an entire continent and reigned over some 300 million people for seven decades. The dramatic changes Russia has undergone since then can be viewed as a major politico-economic experiment. The country first radically liberalised its former planned economy in the early 1990s under the first President Boris Yeltsin and conducted the largest single privatisation in history. This process made a few individuals immensely rich but left the greater part of the citizenry coping with the economic hardship of the shock transition. In this context many became disenchanted with the nascent democratic institutions that were introduced concurrent with the economic reforms. A decade later, under the leadership of its second President Vladimir Putin, Russia reverted to an increasingly authoritarian political regime with a state-influenced economy, which was governed not only by formal state intervention, but also driven by a myriad of informal practices. Understanding this immense political-economic change, some of its processes, origins and implications by focusing in particular on the role of business actors and their informal practices is the primary intent of this dissertation.

After 1991 Russia's development upset the expectations of both scholars and practitioners: it fitted neither the standard predictions of the modernisation theory nor the transformation paradigm, made popular in social sciences by Fukuyama, who famously proclaimed the 'end of history' (1992); nor did Russia fulfil the hopes of liberals who expected it to join the club of Western capitalist democracies, like the formerly-communist states of the Visegrad group (Poland, the Czech Republic, Slovakia and Hungary). The fact that things developed differently in Russia requires us to rethink our understanding of societal change. It should also make us question the validity of some of our conceptual tools as they may be not up to the task of capturing what happened in Russia after the collapse of the Soviet Union (cf. Bodin et al. 2013). Western models and paradigms are often used as a yardstick, against which Russia's democracy is described as 'derailed', its economy as 'crony' and the system as a whole a 'kleptocracy' (e.g., Fish 2005, Dawisha 2014).

Thus Russia's political economy is often seen as a failure, a deviation or a blemish on the 'pure' Western-style variety of capitalism.

This dissertation circumvents a normative judgement on the quality of Russia's system of governance or the economy and aims to examine Russia's political economy as a distinct though not exceptional mode of socio-economic organisation. To this end, I systematically integrate the Russian case into the comparative capitalism debate by re-considering it from the perspective of the Varieties of Capitalism framework. Emerging economies, and also Eastern European economies including Russia, have recently become part of the comparative capitalism agenda (King 2007, Myant and Drahokoupil 2011, Nölke and Vliegenthart 2009, Schneider 2009; McNally 2012, Nölke et al. 2015). However, in this debate Russia is mostly examined as a case *sui generis*, variously labelled as 'Kremlin capitalism' (Blasi et al. 1997), 'political capitalism' (Robinson 2013a), 'bureaucratic capitalism' (Petrov 2011), 'state-managed, network capitalism' (Puffer and McCarthy 2007), 'oligarchic capitalism' (Myant and Drahokoupil 2011) or even 'chaotic capitalism' (Lane 2005). This approach tends to be static (it does not capture the enormous changes that have been under way in Russia) and is ill-suited for comparisons. To close this gap, I propose a typology as an analytical tool that allows to trace change and to draw comparison with other countries and that at the same time accounts for the informal (I call them 'patrimonial') elements of a political economy. Patrimonialism is central for understanding Russia and other emerging economies, however it is not a complete story.

Within this theoretical framework, the dissertation attempts to describe the Russian economy in a comparative BRICs (Brazil, Russia, India and China) context, to understand its working and shed new light on its origins. This approach may help us better understand the Russian case proper and give us a hunch about the development of other emerging political economies such as the BRICs, and as a result help refine our analytical tools and conceptual frameworks. In this context, the overarching question guiding this dissertation reads: *How can we grasp the changing political economies of emerging countries using the example of Russia, and what are the drivers of continuity and change?* To answer this question, I will focus on the central feature of Russian capitalism dubbed 'patrimonialism', examining the relationship between

the state and (primarily small) companies, in particular its informal aspects.

This dissertation is centred on questions about the nature of Russian capitalism and, more broadly, the sources of political-economic change. It aims at better understanding the Russian case and refining social science tools to analyse political economies beyond the industrialised countries. The dissertation is article-based and specifically aims at:

- describing the distinct variety of Russian capitalism (chapter 1);
- comparing the evolution of Russia's variety of capitalism to that of other BRIC countries (chapter 2);
- understanding how Russia's capitalist variety functions and is sustained (chapter 3);
- exploring why Russia's capitalism developed this particular way (chapter 4).

In short, the dissertation focuses on the description, comparison, functioning and origins of Russia's type of capitalism. Thereby it addresses four fundamental questions of social science: 'what?'; 'and compared to others?'; 'how?'; and 'why?'. The first three questions deal with the nature of Russian capitalism, whereas the latter question is broader and points to the sources of social change and continuity.

The answers provided in this dissertation aim at as much precision as possible; at the same time we need to acknowledge that they are bound to include interpretation, estimation and a degree of speculation as a result of the complexity and interdependent character of the social phenomenon at hand – the changing political economy. Overall the dissertation is explorative: it neither tests theoretically derived hypotheses nor reduces the analysis to a few discrete variables, but rather seeks to understand the phenomenon from a holistic perspective by trying to tackle its complexity and scrutinise the mechanisms of its working. The dissertation also contains deductive elements, drawing on a typology of capitalist variety.

Figure 1: Overview of the article-based dissertation 'Change, Continuity and Power in Russia's Political Economy in Comparative BRICs perspective'



In this introduction, I will discuss the major knowledge gaps that motivated the central questions and arguments of the dissertation, introduce the main theoretical concepts that underlie the study and explore why patrimonialism matters - beyond the Russian case - and how it enriches our understanding of the working of political economies in general. I will then present the main empirical findings on the development, functioning and origins of Russia's statist-patrimonial capitalism. A brief discussion of the major empirical and theoretical contributions follows. Implications of the findings, as well as policy recommendations will be dealt with in the concluding chapter of the dissertation.

Knowledge gaps and the main arguments of the dissertation

Russia's politico-economic system has been the subject of numerous scholarly studies. However, at least four major knowledge gaps or incomplete interpretations exist, which drive this dissertation and which I address in each of the chapters.

Firstly, the trajectory of Russia's political economy is most often described as one of initial liberalisation, followed subsequently by re-tatisation a decade later (cf. Aslund 2007, Goldman 2010, Hanson 2007, Rutland 2008, Yakovlev 2006). I argue that this view is incomplete and that two dimensions are inadequate to capture the development of Russia's political economy. Moreover, I argue that attention should be given to the continuity of what I call 'patrimonialism' in Russian capitalism. Patrimonialism is a distinct structural mode of political-economic organisation based on clientelism, patronage and informal bureaucratic control of property. I make a case for supplementing the statist and liberal dimensions of Russia's trajectory with the systematic incorporation of patrimonialism. Even those studies that recognise that Russia combines both legal-rational and patrimonial features (e.g., Sakwa 2011, Whitmore 2010, Solomon 2008, Robinson 2011, Robinson 2012) do not spell out the relationship between the two spheres. This dissertation aims at illuminating more precisely the ways in which patrimonialism interacts with other dimensions of Russia's development and suggests both a qualitative and a quantitative assessment of this interaction. Patrimonialism which is one of the central concepts of the study is discussed in more detail in the next section.

Secondly, to the best of my knowledge no quantitative assessment of the Russian variety of capitalism and its change over time has been carried out thus far. To address this gap, I propose a methodology to measure change in Russia and in other political economies based on existing comparative statistical data. With the help of the suggested tool the dissertation provides a quantification of Russia's development compared to other BRICs countries and empirically assesses the impact of patrimonialism on politico-economic development.

Thirdly, conventional wisdom sees the Russian state as the primary actor in Russia's capitalism (e.g., Easter 2008, Gans-Morse 2012, Petrov

2011a, Rochlitz 2013, Nazrullaeva et al. 2013). Challenging and complementing this interpretation, the dissertation makes the case that business, and small and medium sized enterprises (SMEs) in particular, are also an important part of the system. Rather than simply being victims of state predation or fighters against it, these companies actually often inadvertently facilitate state predation. The dissertation explores how the activity of SMEs becomes a bottom-up force that provides energy, reinforcement and sustenance for the Russian politico-economic form.

A fourth knowledge gaps regards the bottom-up dynamic of the emergence of Russia's politico-economic form. Existing accounts of the origins of Russia's capitalism primarily focus on the defining role of the state and a corrupt bureaucracy viewed together with the Soviet legacies of command economy and authoritarianism (e.g., Yakovlev 2006, Hellman et al 2000, Gelman 2012, Yakovlev et al. 2014). Business is viewed as merely adapting to imperfect institutions. By contrast, this dissertation shows that the actions of part of the business community itself contributed to the emergence of the system. I argue that by embarking on informal strategies, business inadvertently facilitated the advent of a predatory state offensive against property rights that defines Russian statist-patrimonial capitalism, as we know it today.

Methods and data

To develop these arguments empirically, I use a combination of methods and a variety of data. Such combination is necessary for understanding complex social phenomena such as changing varieties of capitalism and is one of the contributions of this dissertation. The dissertation combines a historical study with statistical assessment; a case study with a comparative study; a macro analysis of major institutions of a political economy with a micro treatment of behaviour of business actors; qualitative and quantitative data; descriptive and explanatory approaches, as well as desk research and data obtained from personal fieldwork. The timeframe of the analysis commences with the collapse of communism at the end of 1991 and ends in 2014 - the year of the latest available data. Most chapters include historical digressions to both Tsarist times and the

communist era as their legacies continue to shape Russia's present-day political economy and patrimonialism in particular.

This dissertation draws upon a combination of qualitative and quantitative data, obtained both from existing sources and gathered by myself. Drawing on different types of data allows triangulation: insights obtained with the help of quantitative data complement insights from qualitative assessment and compensate for each other's weaknesses. For example, statistical assessment allows a quantification and comparison of developments examined in this dissertation (limits of precision notwithstanding), while qualitative data illuminate processes and mechanisms behind general statistical trends.

Quantitative cross-national data used in this dissertation and obtained from existing sources comprise comparative data on the BRICs from the World Bank (Worldwide Governance Indicators), the Organisation for Economic Co-operation and Development (OECD) (indices of Product Market Regulation and Employment Protection Legislation) and Heritage Foundation (Index of Economic Freedom). Drawing on Becker (2013), the data are combined in an index designed to measure the relative share of liberalism, statism and patrimonialism in political economies. However, it should be noted that there are limits to how far statistical data are able to reflect the relevant social reality and therefore measurement precision is compromised to some degree. This is particularly so with regards to the BRICs data where data availability and reliability are found to be an issue.

I further combined various cross-sectoral quantitative data myself, drawing on a number of databases from the Russian statistical service Rosstat to compile a comprehensive overview of the development of the Russian SMEs sector since the 1990s. The difficulty found with using Rosstat data is that they are sometimes calculated in a non-comprehensible way or the data are based on different methodologies over different years, making over-time comparisons difficult. My approach to such data problems was to make them explicit and integrate their discussion into my interpretation. Whenever possible, I double-checked, re-calculated or included alternative measures that were comparable over time. For example, I contrast official Rosstat figures for the share of SMEs employment with my own calculations. This yielded

lower figures based on Rosstat data on the number of workers and on total employment.

Qualitative data obtained from in-depth interviews build the empirical centrepiece and offer a methodological contribution of this dissertation. I conducted the interviews during fieldwork in Russia in the spring of 2014. The total of 34 respondents included entrepreneurs, business association executives, corporate lawyers, academics and journalists. Respondents who were not entrepreneurs were reached through internet based search and contacted via email. Recruiting entrepreneurs was more problematic. The most effective way was to rely on the personal recommendations of my acquaintances and other respondents. This 'multiple snowballing' had two advantages. Firstly it allowed me to reach companies whom I would not have been able to identify otherwise as many of them did not have websites. Secondly, contact made through personal recommendations helped to create trust, which was probably the reason why most entrepreneurs were surprisingly open when talking about sensitive issues such as interactions with the authorities. Indeed many of my respondents shared details of informal and in some cases outright corrupt transactions (cf. Vinogradova 2006, Ledeneva 2006).

In addition to the interviews, during my fieldwork I attended four pertinent conferences in Moscow: a presentation of the annual report by the federal Business Ombudsman Boris Titov; a roundtable at the Civic Chamber on violations of SME rights with representatives of the local administration and business; a conference at the Higher School of Economics on the challenges of state-business relations with invited entrepreneurs and lawyers discussing cases of property rights violations by the authorities; and a roundtable with business association executives and experts on new risk assessment for government bodies authorised to control business. I complemented insights obtained from fieldwork by minor archival work, having researched policy documents, speeches by policy makers as well as texts of laws and regulations pertaining to SMEs.

Finally, the dissertation draws on qualitative data obtained from existing sources. I used data from in-depth interviews with entrepreneurs conducted in the late 1990s by Igor Kliamkin and Lev Timofeev, which was published in full transcript in the appendix to their book (2000).

Having access to the interviewees' original statements was hugely advantageous in my examination of the origins of Russia's variety of capitalism. In addition, I used data from secondary literature, newspaper articles and historical analyses by other scholars.

Theoretical angles: bringing patrimonialism into the Varieties of Capitalism debate

Conceptually, the dissertation moves from a macro perspective on a political economy as a whole (chapters 1 and 2) to a micro study of its functioning on the level of SMEs (chapter 3) and then back to the macro level, focusing on broader implications of companies' activity for the origins of the system (chapter 4). This three-step analysis requires a conceptual 'gear shift'. Theoretical tools of the 'Varieties of Capitalism' (VoC) scholarship are used in the first half of the dissertation to discern the specificity of Russia's politico-economic form and describe how it developed over time in a comparative BRICs perspective, ultimately becoming statist-patrimonial capitalism. The remaining half of the dissertation looks at statist-patrimonial capitalism on its own terms, separate from the VoC debate. It focuses on the Russian experience and provides a detailed analysis of Russian patrimonialism by examining the behaviour of SMEs and their interaction with local state officials. The mechanism of the 'informality trap' is central to this account. Chapter 3 investigates the informal activity of SMEs as a feature of Russian capitalism and as a part of its operation and maintenance. Chapter 4 explores causal implications that the informality trap may have had on the rise of the system.

Varieties of Capitalism

The Varieties of Capitalism approach gained prominence in the comparative capitalism scholarship from the early 2000s. In its initial formulation, based on the example of Western industrialised countries, VoC suggested that there were two ideal types of organisation of the economy that were internally coherent and internationally competitive - a liberal type and a coordinated type (Hall and Soskice 2001). Although it drew on previous studies such as Regulation Theory (Boyer 1986), the approach was novel in at least two respects. Firstly, it drew attention to

the fundamental differences between the main forms of socio-economic organisation in (parts of) the industrialised world. Secondly, it implied that there were different roads to international competitiveness and that global competition did not necessarily push all political economies in a liberal direction. In sum, somewhat countering the prevailing *zeitgeist*, liberal convergence was not viewed as given.

Many scholars worked with this framework and developed it further, suggesting additional types with the aim of permitting the analyses of a greater number of economies that did not fit the initially proposed dichotomous typology. For example, Nölke and Vliegthart (2009) introduce the type of 'dependent market economies' to capture the importance of foreign capital in the socioeconomic configurations of post-socialist Central European countries; Schneider (2009) proposes the type of 'hierarchical market economies' to analyse countries of Latin America; Nölke and collaborators (2015) unite China, India and Brazil under the label 'state-permeated market economies'; for the case of China, McNally even introduces a separate type dubbed 'Sino-capitalism' (McNally 2012); Bohle and Greskovits (2007) as well as Myant and Drahekoupil (2011) propose several types to classify political economies of Eastern Europe and the former Soviet Union.

Ideal types of capitalism can be very useful heuristic tools that help to analyse and compare political economies. However, a typology needs to strike a balance between parsimony and an attempt to capture relevant aspects of empirical reality (indeed this debate has preoccupied the comparative capitalism scholarship, see, for example, Allen 2004). If a new type is developed for every 'unique' case, the typology loses its usefulness. Types become labels and systematic comparisons over time and among cases become impossible.

To overcome this problem, in this dissertation I opt for the 'Open Varieties of Capitalism' approach advocated by Uwe Becker (2007; 2009). It broadens the scope of the analysis and conceives of political economies as open systems, that is, systems open to change. Becker suggests a limited number of ideal types as theoretical models that capture relevant aspects of empirical reality and represent alternative modes of socio-economic organisation. Ideal types do not circumscribe normative ideals (and are not conceived as the best performing

configurations) but rather represent a tool to ease comparative analysis. Becker distinguishes ideal types from real-life political economies, which only approximate types and can exhibit features of several of them. In this way Open Varieties of Capitalism approach allows to systematically integrate emerging economies and in particular Russia into the comparative capitalism debate rather than treating them as cases *sui generis*, and is thus better suitable for capturing change.

The view of political economies as dynamic mixes containing elements of several ideal types is the main difference between the open approach to the VoC mainstream, which traditionally classifies countries as representatives of one or another type and has difficulties grasping and explaining social change. Establishing the proportion of ideal types in the empirical mix, and the change of the mix over time is a way to tackle the long-standing problem of measuring change in political economies. Among the sources of change, covered in the chapters of the dissertation, the open VoC approach names structural forces, the agency of relatively autonomous actors, in particular individual companies, the unintended consequences of action as well as power relations (Becker 2007, Becker 2014). The notion of power, though not explicitly a central concept in the chapters, intersperses the present analysis of the Russian politico-economic form and state-business relations in particular. Power refers both to the capacity of the state to limit the scope of choice of business actors and, in some cases, to subjugate and dominate them, as instances of state predation and informal bureaucratic control over property illustrate; but it also refers to the – arguably underestimated – power of individual business actors to subvert the system through informal practices and in this way to get things done in a hostile business environment and, as an unintended consequence, ultimately to shape and consolidate the variety of capitalism in which they operate.

In this dissertation I use three of the ideal types of capitalism proposed in the open Varieties of Capitalism framework. Two of them are widely used in comparative capitalism scholarship. With slight variations in titling, they are referred to as 'liberal' and 'statist' and can be defined as follows:

- In the *liberal type of capitalism* the market governs the economy, state interventionism is limited, industrial relations are

individualised and workers as well as companies are highly commodified. The USA and other Anglo-Saxon political economies approximate the liberal type.

- In the *statist type of capitalism* the market is restricted by political regulation, which intends to determine the course of the economy and facilitate economic development. State-owned companies may be prominent and industrial relations are organised hierarchically. France, as well as many emerging political economies, features a considerable degree of statism.

The third ideal type of capitalism, *patrimonialism*, is not part of the traditional account but appears central for making sense of the developments of emerging economies such as Russia and the other BRIC countries and needs to be incorporated into the analysis.

Patrimonialism

Patrimonialism as a type of capitalism is based not on the market mechanism (as in the liberal type) or state regulation (as in the statist type), but rather on informal clientelist relations between the state and business actors, as well as between employers and employees, and is based on patronage of the society. Patrimonialism is indicated by state agents who deploy the power of their position for personal gain, and in particular for informal control over private property,

The notion of patrimonialism goes back to Max Weber (1978). He conceived of it as a state-society nexus consisting of personal hierarchical relationships based on loyalty and mutual services between the rulers and the ruled, as he observed in the examples of Imperial China, the late Roman Empire and Tsarist Russia. The patrimonial set-up derives from a household administration by a chief (*pater*) who grants his clients tax-farming opportunities in form of prebends, fiefs and the like. According to Weber, patrimonial domination 'regards all governing powers and the corresponding economic rights as privately appropriated economic advantages' (Weber 1978: 236). Thus the main feature of patrimonialism is the private appropriation of a governmental sphere by those who hold political power. No strict distinction between public and private exists. Weber described patrimonial state administration as based on the interpersonal rather than the impersonal relations of authority and thus

distinguished it from the universalist rational bureaucratic state (ibid.: 217-241).

The concept of patrimonial rule has gained prominence in the social sciences since the 1960s in the study of Latin America, Asia and more recently Africa (Bach 2011). Eisenstadt (1973) coined the concept of neo-patrimonialism, resolving the ambivalence related to the application of a concept associated with traditional rule to modern states. Neo-patrimonialism is defined by the co-existence of legal-rational and patrimonial elements within a political system. At the same time, (neo-)patrimonialism attained a negative connotation as it increasingly came to be associated with predatory and corrupt forms of politics and, more broadly, political economy (e.g., Sakwa 2011, Robinson 2013).

The central proposition of the conceptual framework of this dissertation is that patrimonialism should to be seen as an alternative mode of politico-economic organisation instead of an aberration or a blemish on an otherwise well-functioning economy. I argue that it is not simply an incidental feature of certain social arrangements, but rather a distinct structural principle of economic and social organisation that affects the relationship between the state, business and labour.

I attach no specific normative connotation to the notion of patrimonialism as its aspects can be both facilitating and detrimental. Consider the example of informal practices, widespread in interactions between citizens and state officials in emerging economies. Such practices may compensate for the deficiencies of the formal system, helping to cut red tape or get things done, and may thereby foster reciprocity, trust and even social cohesion. The Soviet practice of *blat* - the use of personal connections to obtain goods in short supply - and the similar Chinese practice of *guanxi* are cases in point (Ledeneva 2008). However, informal practices can also be subversive of the formal system as they may undermine formal institutions and the common good, promote particularism at the expense of universalism and entail exploitation of state resources for personal gain.

The main advantage of incorporating the patrimonial type of capitalism into the analysis, along with the better known liberal and statist types, is that it helps to better capture the empirical reality since its features are

widespread in the politico-economic organisation of most emerging economies, and in fact it is found in many industrialised countries as well. These cases cannot be adequately understood without systematic attention to this informal, particularistic dimension of their politico-economic organisation. At the same time, emerging economies cannot be simply reduced to patrimonialism, even though it is a prominent feature, and we need to grant attention to the liberal and statist dimensions of their political economies, too.

In sum, the conceptual gear shift that the dissertation makes allows us to combine a macro theoretical framework and holistic analysis (Varieties of Capitalism) with empirical work and the study of concrete mechanisms (patrimonialism and 'informality trap'). This adds value to both the theoretical framework and the empirical account. The theoretical framework helps to systematise Russia's development, to examine how its different dimensions interact and to compare it with the economic development of the other BRIC countries. Conversely, the Russian case is a concrete illustration of how a pattern of interaction that is central to the organisation of the economy does not fit either of the patterns of the classic VoC approach. Findings from the Russian case help to refine the conceptual framework by incorporating patrimonialism as a distinct type of socio-economic organisation and permit a better understanding of its nature, functioning, sustenance and origins.

Moreover, the empirical focus on SMEs incorporates an important segment of the economy - in fact the large majority of companies in any economy - into the theoretical framework. The traditional VoC approach focuses only on one segment of the business world - big industrial companies that define the countries' comparative advantage - and does not give due attention to SMEs whose activity, in particular in the services sector, is typically driven by logic other than international competition (cf. Becker 2007: 276). By contrast, this dissertation suggests that the activity of SMEs may shape the national variety of capitalism to a considerable degree and we need to take mechanisms such as the 'informality trap' into account if we are to better understand how varieties of capitalism emerge and reproduce themselves.

Overview of the main findings

The evolution of Russian capitalism in comparative perspective

Chapter 1, entitled 'Continuity and Change in Russian Capitalism', is a historical study of the evolution of Russian state-business relations and capital-labour relations since the collapse of the Soviet Union along three dimensions. The political dimension comprises state capacity and the composition of the dominant political elites; the legal dimension deals with the rule of law and the security of property rights; the economic dimension includes the economic policy of the state towards business. Viewed against the backdrop of the statist, liberal and patrimonial ideal types of capitalism, the chapter finds that the main direction of change in the Russian political economy is expressed in the shift in the proportion of the liberal and statist elements. While between 1992 and 2002 the Russian capitalism can be characterised as largely liberal, after 2003 the trend towards increased statism became clearly pronounced. Etatisation of the Russian capitalism is expressed in the partial increase of the state capacity, in the shift from the liberal to conservative political elites and in the partial nationalisation of the strategic economic assets, coupled with an overall increase in the state's involvement in the economy and labour relations.

The major continuity of the Russian capitalist development was found in the persistence of patrimonialism, expressed in the pervasive weakness of the rule of law; in the endurance of corruption, partial fusion of the state and business and in the spread of the informal state-business and capital-labour relations, which were at odds with the formal regulations governing these relations. Another notable feature of Russia's patrimonialism is found in the informal bureaucratic control of property (dubbed 'power-ownership') and the extraction of administrative rents from it, examined in the following chapters of the dissertation. The chapter leaves open the questions of the scope of the Russian patrimonialism, eventual differences between the 1990s and the 2000s and mechanisms of its working as it is taken up in the later chapters of the dissertation.

Chapter 2, entitled 'Russia's political economy re-conceptualised: a changing hybrid of liberalism, statism and patrimonialism', co-authored

with Uwe Becker, is a study of the evolution of Russia's capitalism in a comparative BRICs context. It is based on the analysis of both historical and statistical data and takes up some of the questions left open in chapter one. In particular, it gives an approximation of the scope of Russian patrimonialism and how it developed between the 1990s and the 2000s.

The chapter proposes a conceptual framework for assessing the impact of patrimonialism on the country's trajectory of change by systematically adding patrimonialism as a third dimension to the better-known liberalism and statism. The chapter conceptualises Russia's trajectory as changing with respect to ideal-typical liberalism, statism and patrimonialism. The main finding of the first, historical part of the chapter is that Russian patrimonialism hindered the rise of the economically facilitating state capacity and undermined both liberalisation in the 1990s and re-etatisation in the 2000s. The second part of the chapter provides a quantitative assessment of these developments based on statistical data and adds a comparative BRICs perspective that clarifies the peculiarity of Russia's development. The data confirm the de-liberalisation of Russia and show an increase of patrimonialism in the 2000s compared to the 1990s. Another finding is that Russia was the only BRIC country that de-liberalised and increased its level of patrimonialism in the period under consideration.

The functioning and origins of Russian capitalism

The remaining two chapters of the dissertation focus on the Russian case and its statist-patrimonial variety of capitalism, aiming to illuminate its working and understand its origins by focusing on the activity of small firms. Chapter 3, entitled 'Trapped in informality: The big role of small firms in Russia's statist-patrimonial capitalism', is a study of the functioning of Russia's capitalism and the mechanisms of its stability. It takes up a question left open in chapter one, namely the mechanisms behind Russian patrimonialism and the factors and circumstances that give bureaucrats the power to extract administrative rent from property under their indirect control.

While predominant accounts focus on the lack of institutional constraints on state predation, the chapter explains the resilience and maintenance of Russia's statist-patrimonial capitalism by exploring the often-overlooked

contribution of small- and medium-sized companies. Drawing on statistical data, the chapter finds a steady rise of SMEs in the 2000s despite increasing state predation, concluding that SMEs are not simply subjugated by the state. In-depth interviews with Russian entrepreneurs reveal that business contributes to the maintenance and functioning of the statist-patrimonial system through the mechanism of the 'informality trap': companies that choose the informal strategy find it difficult to return to the legal sphere and become trapped in the informal economy.

The chapter finds that the drivers of informality comprise institutional constraints such as overregulation and bureaucratic extortion, which represent a power resource on the side of the state and compel companies to opt for informal behaviour. However, informality is also driven by some company-specific factors that offer a degree of choice and thus agency. Firstly, depending on the characteristics of a company (such as size and sector), a small enterprise may face incentives to choose informal behaviour. Secondly, socio-cultural factors dubbed 'normality of informality' matter in this regard too: viewing the formal costs of doing business and informal expenditures such as bribes as comparable expenses, for subjective reasons, some SMEs may prefer cutting corners to legal compliance. Though this power to subvert the system may sometimes help companies to get things done or protect their interests, it often has an unintended adverse long-term effect on the security of property rights as the companies may get locked into informality. In sum, the mechanism of the 'informality trap' highlights the agency of SMEs in Russia's political economy and their contribution to its functioning.

Finally, chapter 4 provides a historical analysis of the origins of Russia's variety of capitalism, entitled 'Digging their own graves: how small companies contributed to the emergence of Russia's statist-patrimonial capitalism'. The chapter traces in historical perspective how for a variety of reasons Russian companies embarked on informal practices back in the 1990s and, by falling into the informality trap in the following decade, co-created the foundation of insecure property rights and informal particularistic state-business relations that define patrimonial capitalism today.

The main finding of this chapter is that statist-patrimonial capitalism is not only the result of a top-down activity of the state sovereign, its

corrupt agents or cronies in big business, as is commonly perceived, but that it is also a system that rests on the bottom-up activity of the bulk of economic actors - the SMEs. They are not simply passive victims of state threats to property rights, rather in many cases they also contributed to the emergence of these practices. This resulting contribution - often inadvertently made - was linked to some of the informal business practices undertaken by the SMEs that locked them in the long run in the informality trap. Back in the 1990s some of those informal practices were not the only choice available to companies, but were taken up by SMEs out of expediency. In the 2000s, when the state grew more powerful, the informal behaviour of these companies backfired as the corrupt state took advantage of the informality of some companies and exploited it to violate the property rights of virtually any business actor at will. Thus the advent of statist-patrimonial capitalism in the 2000s, marked by state threats to property rights, was made possible and in fact facilitated, among other factors, by the informal choices and practices of business actors in the previous decade.

As the dissertation is article-based, its chapters are intended for publication as stand-alone pieces. The first chapter is published as a chapter in an edited volume by Uwe Becker entitled 'The BRICs and Emerging Economies in Comparative Perspective' (Vasileva 2014). The second chapter is co-authored with Uwe Becker. I wrote the first, historical part of the chapter analysing Russia's trajectory, while Uwe Becker contributed the second comparative BRICs part. Here I contributed to data interpretation and drew the figures. The introduction and the theoretical background were written jointly. After Uwe's passing I heavily revised the whole manuscript and published it in *Journal of Eurasian Studies* (Becker and Vasileva 2017). The third chapter is published in *New Political Economy* (Vasileva 2017). The fourth chapter is being prepared for submission to *Post-Soviet Affairs*.

In conclusion, this dissertation investigates facets of Russia's political economy dubbed 'statist-patrimonial capitalism': its evolution from the early 1990s in the wake of the collapse of the Soviet Union up to the present; the quantification and specificity of this development compared to other BRICs countries; the mechanisms of sustenance and reproduction

of Russia's particular variety of capitalism; and finally, the origins of the system and in particular the role that business played in the creation of statist-patrimonial capitalism.

The main contribution of this dissertation is two-fold. Empirically, it allows us to better understand how Russia works, and where its political economy stands compared to the other members of BRICs. It also suggests why Russian statist-patrimonial capitalism functions the way it does, and how it came to be this way. Another empirical contribution is the suggestion of a tool for quantifying and comparatively mapping the trajectories of change in emerging economies, applicable beyond the BRICs to other emerging economies and time periods.

Conceptually, the dissertation refines the Varieties of Capitalism debate by a systematic incorporation and a detailed study of patrimonialism. The findings of the dissertation corroborate that patrimonialism is more significant than an incidental feature like corruption or a blemish on a particular type of capitalism. Instead, patrimonialism should be viewed as a competing logic of economic and social organisation, without which political economies beyond the OECD world cannot be adequately understood. By studying the reproduction of patrimonialism on the example of Russia the dissertation adds knowledge about reproduction of institutions more generally. By giving attention to bottom-up forces generating and sustaining patrimonialism, the findings of this dissertation also speak to a broader state-society debate in the literature, to be addressed in the concluding chapter.