Continuity and change in Russian capitalism

Vasileva, A.

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5 Continuity and change in Russian capitalism

Alexandra Vasileva

5.1 Introduction

The development of the Russian political economy presents observers with an intriguing combination: on the one hand, in the wake of the collapse of the Soviet Union, Russia has introduced basic institutions of a market economy. At the same time, the Russian political economy has maintained many features of the old system, in particular clientelism, patrimonialism and a pronounced role of the government and the bureaucracy. The Russian politico-economic system is often referred to as ‘Kremlin capitalism’ (Blasi et al. 1997), ‘patrimonial capitalism’ (King 2007: 314), ‘state capitalism’ (Zudin 2006) or ‘bureaucratic capitalism’ (Petrov 2011: 61).

The objective of this chapter is to analyse change and continuity in the Russian political economy since 1992, focusing on state–economy relations but leaving some space for capital–labour relations. I grant special attention to the elements of continuity in the process of change – an aspect that has not yet received the consideration that it deserves. The main finding is that, after the initial liberalisation in the 1990s and the early 2000s, change in Russian capitalism manifests itself in etatisation, expressed foremost in the increased role of the state in the political economy since approximately 2003. Continuity manifests itself in the persistence of patrimonialism, expressed in the enduring corruption, in the partial fusion of the state and the economy, and in the spread of the informal state–business and capital–labour relations. In the last part of the chapter, I take a look at the endurance of patrimonialism and its influence on the changes in the Russian political economy through the lens of the mechanism of ‘power-ownership’. This mechanism describes how Russian bureaucrats use their positions in the state apparatus in order to control the cash flow from property (e.g. local business) as if it belonged to them.

I follow the critical mainstream of both Russian and international scholars of Russian capitalism (for example, Aslund, Gudkov and Zaslavsky, Kapelushnikov, Kryshantanovskaya, Pappe and Galuhina, Rutland, and Shevtsova, to name a few), but also develop my own distinct argument. Unlike the mainstream, I do not divide the timeframe into the ‘Yeltsin period’ and ‘Putin period’, but rather distinguish the periods of ‘liberalisation’ and ‘etatisation’, which only
partly coincide with the respective presidencies; neither do I treat President Medvedev as a liberaliser but argue that he was an integral part of Putin’s team and continued Putin’s etatist policies. Furthermore, I argue that the often cited interpretation, according to which Russian capitalism underwent a change from ‘state capture’ in the 1990s to ‘business capture’ in the 2000s (Hellman et al. 2000; Fries et al. 2003; Yakovlev 2006), falls short of providing a comprehensive account of the processes that were underway in Russian capitalism in the past two decades. Instead, I emphasise that behind the superficial change from ‘state capture’ to ‘business capture’ lies the continuity of a partial fusion of the state and the economy.

My argument draws on the theory of comparative capitalism, where the state of the art is largely defined by the mainstream and the critical accounts of the Varieties of Capitalism (VoC) approach (Hall and Soskice 2001; Streeck and Thelen 2005; Crouch 2005a; Becker 2009). This framework is best suited for the analysis of the macro level and provides useful analytical tools for capturing change in political economies. Adopting the typology of capitalist varieties by Becker (see Chapter 2 in this volume), I deploy three ideal types of capitalism – the liberal, the statist and the patrimonial type – and emphasise the strict distinction between the ideal types and empirical cases. In this context, my case – Russian capitalism – is understood as a certain mixture of elements of the ideal types of capitalism at any given point in time. The identification of the shift in the proportion of the statist, liberal and patrimonial elements in Russian capitalism in the last two decades is the central endeavour of my account.

The method of analysis is explorative, meaning that it explores an open question – how did the Russian political economy evolve over time? – rather than testing theoretically derived hypotheses. Focusing on one case, the analysis adopts a holistic perspective that seeks to understand the phenomenon as a whole by tackling its complexity, rather than reducing the analysis to a few discrete variables (Vromen 2010: 257). I start the analysis of the Russian capitalist development in 1992, when the first round of privatisation was initiated, and track it to the present day or at least as late as data are available. The analysis draws on both quantitative and qualitative data – their combination helps to ‘unpack’ the complex Russian political economy, in which formal rules are often at odds with actual practice.

Compared to other BRICs countries, Russia is somewhat an outlier: its heavy dependence on hydrocarbons and minerals, the underdeveloped manufacturing as well as some signs of economic decline are not typical of most emerging economies. In this context, a brief note on Russia’s general economic situation seems relevant. The continuous oil boom helped to sustain spectacular gross domestic product (GDP) growth between 1999 and 2008 and secured windfall export revenues. The downside of the reliance on petrodollars has been the lack of diversification of the economy and the neglect of manufacturing. Apart from some promising companies in the defence, aircraft, automobile and metallurgy sectors, many industries remain uncompetitive and desperately need investment. The perils of oil dependency have become
particularly clear since the 2008 financial crisis: the Russian economy shrank by almost 8 per cent in 2009, plunging into a much deeper recession and recovering slower than other emerging economies. The natural resource bonanza has also served as a source of corruption and cronyism (see the Introduction to this volume).

These imbalances, exacerbated by the heavy and often predatory interference of the state in the economy, have produced an unsound business climate. It leads to a short planning horizon, underinvestment and capital flight and may have a negative impact on Russia’s economic development. Some signs of the economic decline are already visible and include an increased occurrence of technical catastrophes and the deterioration of the notoriously old industrial equipment and infrastructure, including oil and gas pipelines on which Russia relies for its exports. Additionally, mismanagement and endemic corruption have led to a degradation of public services such as policing, education and science. The shrinking and ageing population, coupled with the brain drain to Western countries, contribute to a fairly grim economic prospect (The Economist, 14 July 2012; Petrov 2011: 61).

In the following sections, I will turn to the major changes in Russian state–business relations, distinguishing the stages of liberalisation (1992–2002) and etatisation (since 2003). The next sections will address the continuities in Russian state–business relations and then review the development of capital–labour relations. A conclusion and several open questions close the chapter.

For the sake of systematisation I will analyse the state–business relations along three dimensions. The political dimension comprises state capacity (the state’s capability to design and implement policies) 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 comprises the economic policy of the state towards business. It has to be noted that the choice of the year 2003 as a dividing line between the ‘liberal’ and the ‘etatist’ periods concerns primarily the change in the state policy towards business and thus should not be viewed as a sharp dividing line that denotes changes in every aspect of state–business relations.

5.2 Change in Russian state–business relations (1992–2002): liberalisation

The political dimension

Along with the general collapse of statehood in the course of the break-up of the Soviet Union, the Russian state was weak in every aspect of state capacity. The ‘strategic’ state capacity can be characterised as feeble throughout the 1990s since many institutions were dysfunctional or had to be built from scratch, the state apparatus was notoriously underfinanced and a new legal framework had to be developed. Yeltsin, who was elected president in 1991, faced a constant blockade from the communist-dominated Supreme Soviet (parliament)
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so that regular policy formulation was hardly possible. The new constitution, adopted in 1993, endowed the president with much power and helped to overcome the stalemate, allowing Yeltsin to rule by decree and to push through the liberal reforms against the conservative, pro-communist mindset of the deputies in the parliament. As a consequence, many key government decisions, including much of the privatisation programme, were introduced by presidential decrees (Zaznaev 2008: 33).

The ‘administrative’ state capacity was also low in the 1990s as the federal state was losing control over the increasingly autonomous regions. The 89 provincial executives were making use of President Yeltsin’s initial proposal ‘to take as much sovereignty as they could swallow’ and increasingly resisted Moscow’s policy, refusing to pay taxes to the federal government and issuing their own laws and even currencies. The fact that the policy-making authority quickly devolved from the centre to the regions arguably brought Russia to the brink of disintegration and led in the case of the Republic of Chechnya to a civil war. Furthermore, the Russian state could not effectively collect taxes due to rampant corruption, the spread of barter and the sprawling shadow economy (Stoner-Weiss 2006: 109).

The ‘coercive’ state capacity decreased as the Russian government attempted to dispose of the compromised secret service, the KGB – the embodiment of Soviet coercive practices – in an effort to build a democracy. Having restructured the KGB and dismissed more than 300,000 of its employees, Yeltsin curbed the power of this formidable agency. At the same time, the state was unable to cope with the surging crime rate (not least because the police force was underfinanced and corrupt) and was hardly capable of enforcing the rule of law and guaranteeing the protection of the nascent private property (Kryshantovskaya 2005: 125f).

The Russian political elites in the 1990s were fragmented but generally comprised two groups of people. ‘The liberals’ were young, progressive economists and reformers around President Yeltsin, many of whom were newcomers to politics. ‘The conservatives’ had their background in the communist party nomenklatura: these genuinely Soviet elite groups were not confronted by a rising counter-elite in the course of transition and thus managed to retain their positions (Gelman and Tarusina 2000: 320). The conservatives included the so-called siloviki, or ‘power-agents’ – individuals and networks with a background in the armed forces, law enforcement bodies or intelligence agencies. Having been the backbone of the Soviet regime, the siloviki continued to constitute a shadow political elite in post-Soviet Russia, not acting on the political surface yet being very influential (Shevtsova 2007: 97).

The balance of power between the liberals and the conservatives changed in the course of Yeltsin’s presidency. In the first half of the 1990s, the young liberal elites headed by Prime Minister Gaidar were dominating (Higley et al. 1998: 22f). By the second half of the 1990s, Yeltsin’s team began losing popularity due to the painful effects of the radical reforms such as the dramatically declined living standard and the loss of personal savings. The unpopular war in Chechnya and the 1998
financial crisis exacerbated the situation (Gudkov and Zaslavsky 2011: 67, 73). Confronted with the waning support, Yeltsin was looking for a stable power base and a trustworthy successor who would guarantee the security of Yeltsin’s clan. Having ultimately chosen the former KGB officer Vladimir Putin, Yeltsin shifted the power base from the liberal elites to the *siloviki* (Aslund 2007: 189). Eager to compensate for the missed opportunities during the privatisation, the *siloviki* gradually expanded their influence in politics and the economy in the course of the 2000s, as will be shown later.

**The legal dimension**

Although Yeltsin’s liberal government gave high political priority to the establishment of a stable legal environment, the rule of law remained weak throughout the 1990s, which was a manifestation of the low state capacity. The adoption of laws crucial for the establishment of a new politico-economic order was delayed by the confrontation between the parliament and President Yeltsin in the early 1990s and complicated by the resistance of the first Russian businessmen who understood how to take advantage of the opaque legal situation. Negotiation of exemptions from rules between the bureaucrats and their crony businessmen often required more time than the drafting of the general rules of the game. Once adopted, laws could not always be enforced in a proper way since the largely dysfunctional state could hardly claim a monopoly over the use of force (Schröder 2008: 5ff; Pappe and Galukhina 2009: 76).

In the early 1990s, more than 14,000 criminal groups with about 57,000 members took advantage of the legal vacuum, which led to a surge of crime and violence. Business relied on these gangs and various private ‘violence-managing agencies’, responsible for racketeering, contract murders, protection and contract enforcement functions. The physical survival of Russian business in the early 1990s often depended on such criminal groups providing protection services – the so-called ‘roof’. Criminal ‘roofing’ virtually substituted the missing rule of law in the 1990s (Volkov 2002; Myant and Drahokoupil 2010: 152f).

Ownership rights were opaque throughout the 1990s and could not be guaranteed by the state. Ownership did not imply automatic control over business, let alone the entitlement to profit. Moreover, stock owners were supposed to be ‘useful’ for the company, ensuring good relations with the bureaucracy, negotiating exemptions from rules or the like. ‘Idle’ owners could be forced to sell their shares or would be edged out. By the same token, the rights of ‘not useful’ minority shareholders were virtually ignored (Pappe and Galukhina 2009: 69ff).

**The economic dimension**

In the wake of the break-up of the Soviet Union, Russia faced a deep economic recession, coupled with hyperinflation and the spread of the shadow economy. In this environment, the team of young reformers around President Yeltsin
endorsed a radical liberal economic policy (the so-called ‘shock therapy’) that
aimed at a rapid transition to a market economy. By mid-1994, the first stage of the
liberal reforms had been finished and a market economy had been formally intro-
duced. The reforms included a macroeconomic stabilisation, the liberalisation
of most domestic prices and foreign trade, and large-scale privatisation. The first
informal round of privatisation, the so-called ‘spontaneous privatisation’, occurred
already in the last years of the Soviet Union under Gorbachev (1989–91)
and served as a source of early fortunes (Aslund 2007: 57ff). Yeltsin’s team
continued with the voucher privatisation programme in 1992.

Every Russian citizen received a voucher that represented a share in the
whole national economy and could trade it or use it at voucher auctions to bid
for shares in former state enterprises. As a result, approximately half of the for-
merly state-owned firms had been transferred to private hands. However, the
voucher privatisation did not lead, as expected, to the dispersion of ownership
throughout society, but to its concentration, as vouchers accumulated in the
few hands of people who had benefited from Gorbachev’s reforms – foremost
the former enterprise managers – and had enough start-up capital at their disposal
and bought up the vouchers (McCarthy et al. 2000: 260f).

Thereafter, between 1995 and 1997, the major trend of the state’s policy
towards business was further liberalisation and privatisation. In order to under-
stand the mode and the result of the reform, we need to be aware of the new
business actors who had a profound and lasting impact on the Russian political
economy – the so-called oligarchs. These billionaires, whose resources typically
combined banking, sections of industry and the mass media, had both economic
power and a considerable political influence.1

The future oligarchs typically originated in the Soviet nomenklatura (notably
the cadres of the youth communist organisation Komsomol) and started accu-
mulating their wealth in the course of Gorbachev’s Perestroika of the late
1980s, profiting from insider information and access to the financial resources
of the communist party, coupled with waning state control and partial trade
liberalisation. Banking was a particularly lucrative source of early fortunes since
it allowed the accumulation of profits from currency speculation and export
arbitrage.2 Furthermore, in the absence of a strong treasury system, banks
owned by the oligarchs ensured enormous profits by becoming ‘authorised’ to
manage state funds for a wide variety of government agencies (Aslund 2007:
57f; Hoffman 2007: 345).

In the absence of strong institutions and a firm legal environment, political
ties allowed the oligarchs to shape the reform process and the distribution of
wealth in the nascent Russian market economy. The channels of influence
included participating in agencies such as the Government Committee for
Questions of Economic Reform, buying votes of the members of parliament
and, most importantly, directly approaching the decision makers and especially
Yeltsin’s inner circle (Schröder 1999: 972–78). Some of the oligarchs formed
an integral part of this circle and exercised informal yet decisive influence on
policy making, appearing to have ‘captured’ the state (Hellman et al. 2000).
However, this was rather a relationship of mutual dependence – the dubious loans-for-shares privatisation and Yeltsin’s subsequent re-election in 1996 are the most striking examples.

The 1995–97 loans-for-shares privatisation was pivotal for the rise of the oligarchs. It allowed them to obtain the country’s most valuable assets at favourable conditions set up by themselves. According to the scheme, devised by the oligarch Potanin, the cash-strapped Russian state auctioned off valuable shares of 29 major oil and mineral producers and received loans from the winners in return. The winners would be entitled to keep or to sell the shares if the state failed to repay the loans after one year. Given their political connections, the oligarchs organised and controlled the auctions and, by using shell companies, made sure that banks owned by themselves could win. As the government failed to pay back the loans, the oligarchs were able to keep the shares. As a result, a favoured group of insiders acquired the shares of the country’s leading enterprises – such as Norilsk Nickel, Yukos and Sibneft – at a fraction of their potential market value.

Yeltsin, who was gradually losing support, turned a blind eye to this manipulation since he preferred to foster powerful allies among business instead of achieving the highest price possible. Indeed, the oligarchs provided massive financial and media support to Yeltsin’s election campaign and ensured his re-election in 1996 (Hoffman 2007: 353–57). In the same year, Yeltsin launched the second wave of the loans-for-shares privatisation, widely perceived as a payback for the election support. Apart from that, dozens of businessmen were appointed to positions in the state apparatus, thus demonstrating the interpenetration of business and government that defines an oligarchy (Aslund 2007: 161–64).

The result of the privatisation programme was an extreme concentration of ownership: by 2001, the country’s 23 largest firms, controlled by a mere 37 individuals, were estimated to account for 30 per cent of Russia’s GDP, while large parts of the population did not profit from the privatisation (Rutland 2008a: 1055). The ownership and management relations in the business empires of the 1990s were often non-transparent, mostly involving offshore affiliates, which gave numerous opportunities for asset stripping and tax evasion (Pappe and Galukhina 2009: 71ff).

Although the bulk of the state-owned firms (70 per cent) was transferred into private ownership in the course of the privatisation, many of them were essentially operating in the same way as they did in Soviet times, remaining inefficient, overstuffed and heavily reliant on government subsidies – particularly in the energy and defence industries. Some economic sectors were preserved as ‘natural monopolies’, such as the Russian Railways or the gas giant Gazprom. The small and medium-sized enterprises (SMEs) developed sluggishly given the weak legal environment and the excessive tax burden. The number of SMEs registered each year declined from 1994 on, so that in 1997 SMEs accounted for barely 12 per cent of GDP, while in the advanced market economies the number is close to 50 per cent (Gustafson 1999: 110). The state budget was in trouble due to massive tax evasion and the ramifications of the 1998 financial meltdown.
The financial crisis of August 1998, caused by heavy government borrowing and the slump of world oil prices that eroded Russia’s account surplus, was a significant blow to the oligarchs. They had been profiteering from high-interest treasury bonds that helped trigger the crisis, but lost much of their fortunes when the state defaulted on its debts and the rouble lost 75 per cent of its value (Aslund 2007: 173–80). In this way, the pervasive influence of the oligarchs on policy making decreased, symbolically marked by the denial of admission into the government building. On the whole, in the wake of the crisis the government of Prime Minister Primakov (1998–99) pursued a liberal, market-oriented policy and thus the state did not increase its presence in the economy, contrary to some assessments (Pappe and Galukhina 2009: 92).

President Putin’s assumption of power in 2000 coincided with an improvement of the economic situation. Backed by the surging world oil prices and a rouble depreciation that boosted exports, the economy had averaged 7 per cent growth from 1999 until 2008, resulting in an increase of wages and real disposable incomes, the reduction of unemployment and the emergence of a nascent middle class. Given this favourable economic situation, Putin enjoyed great popularity and was able to continue the market reforms. He endorsed a liberal economic programme, which put the primary emphasis on deregulation and the improvement of the business climate (Gudkov and Zaslavsky 2011: 77).

The programme included a tax reform, which alleviated the overall tax burden and was supposed to boost tax revenues, a new Land Code that legalised the private ownership of land and liberal reforms targeted primarily at the SMEs. Instead of having to be approved by several government agencies in a lengthy process that could easily take weeks, a business could be registered with one agency within only five days. Furthermore, new laws cut the number of mandatory inspections for business and reduced the number of business activities that required licensing (Rutland 2008a: 1053ff).

From the beginning of his presidency, Putin attempted to strengthen the state’s authority over business and to formalise relations. He urged business to join associations such as the Russian Union of Industrialists and Entrepreneurs, which were supposed to channel the consolidated information from business to the government. However, business associations contributed to the institutionalisation of state–business relations only marginally and gradually lost their significance in the course of the 2000s. Most business lobbying in the 2000s, as in the 1990s, took the form of direct approaches to government officials by particular businessmen or business groups. Many ‘deals’ seemed to be concluded in a shadowy way (Pappe and Galukhina 2009: 160).

Contrary to Yeltsin’s relations with the oligarchs, Putin created a centralised hierarchical system of relations in which the government assumed the dominant position. This re-alignment was fostered by the weakening of the ‘first generation’ oligarchs in the wake of the 1998 financial crisis and by the advancement of new, more cautious business players. At the same time, following the unwritten ‘deal of equidistance’, the state appeared to guarantee the inviolability of the oligarchs’ businesses and immunity from prosecution over privatisation as long
as they stayed loyal to the Kremlin and did not interfere with politics (Sandschneider 2001: 23). Those magnates who respected the new unwritten rules multiplied their fortunes – by 2008, there were more than 80 oligarchs with combined assets worth US$455 billion.⁴ Oligarchs who did not comply were forced into exile, like the media tycoons Gusinsky and Berezovsky, or were prosecuted, like Khodorkovsky, the owner of the oil giant Yukos (Rutland 2008a: 1057).

In this context, in the 2000s, big business appeared to be ‘captured’ by the resurgent state (Yakovlev 2006: 1033f). However, the renegotiation of the government’s relations with business did not imply a dissolution of the partial fusion between the state and business typical of the 1990s. Many of the loyal businessmen were co-opted into politics (Kryshtanovskaya and White 2005: 303ff), while others continued to rely on clientelist networks and informal modes of interaction with the authorities. At the same time, some politicians became full-blown ‘state oligarchs’ on boards of state corporations, managing whole swaths of the economy at their discretion and extracting rents (see below).

5.3 Change in Russian state–business relations since 2003: etatisation

The political dimension

President Putin saw the strengthening of the state as his political priority. Putin’s attempt to improve the capacity of the Russian state was focused on the consolidation of the political power of the president. The creation of the so-called ‘vertical of power’ implied a centralisation and the co-optation of the regional leaders (Stoner-Weiss 2006: 109f), but also included the control of the independent sources of power such as the mass media and non-governmental organisations (NGOs) as well as the subordination of the parliament and the establishment of the pro-Kremlin ‘party of power’ United Russia (Shevtsova 2007: 174). Although formally committed to democratic principles, the government gradually compromised on them under the pretext of national security and the danger of terrorism – the war in Chechnya providing an ideal breeding ground for this discourse (Gudkov and Zaslavsky 2011: 182). The ‘rise of the state’ was bolstered by the surge in world oil prices and was backed by the Russian public, who associated the economic hardships of the ‘wild 1990s’ with the failures of the democratic reforms and perceived the new regime as successful in attaining economic growth and restoring order.

Despite the partial strengthening, the Russian state remained weakly institutionalised, with clans and informal networks of patronage being the basic unit of the state apparatus, just as they were in Soviet times. The state also maintained its poor strategic capacity: it was not successful at promoting a comprehensive modernisation strategy or at diversifying the economy, and tax collection remained difficult. The implementation of ambitious national projects and programmes for socio-economic development suffered from administrative
weakness, bureaucratic inertia and corruption (Bertelsmann Foundation 2010: 18). Furthermore, excessive centralisation has made the state inert, inflexible and less responsive to crisis situations. Instead of routinely addressing arising problems, the state has often resorted to ‘manual steering’, which requires the involvement of the top political authority (Petrov 2011: 55). All in all, the paradox combination of the increased authority of the central state and of its coercive capacity on the one hand and the persisting weakness of the state’s strategic capacity on the other hand can be called ‘consolidation of the weak state’ (Gudkov and Zaslavsky 2011: 95).

The constellation of the dominant political elites changed dramatically in the course of the 2000s. From the beginning of his presidency, Putin faced a rivalry between different factions and was eager to establish his own reliable team consisting of people who were personally devoted to him. Putin recruited both the liberals and the conservatives, most notably people from the former KGB, who shared with Putin the professional background. The remaining members of Yeltsin’s elite left the government in the wake of the Yukos affair in 2003–04, marking a shift in the balance between the elite groups in Putin’s administration. By Putin’s second term the siloviki, in particular their ex-KGB wing, had clearly become Russia’s dominant political elite, occupying influential positions in virtually all political spheres (Sandshneider 2001: 12; Krystshtovanskaya 2005: 150–55). Once in power, the siloviki made an effort to catch up on property redistribution and significantly shaped state–business relations, as will be addressed in more detail later.

The election of President Medvedev, who can be viewed as an integral part of Putin’s team, allowed the incumbent elite to stay in power, Putin’s return to the president’s office in May 2012 being a testimony. Despite his liberal rhetoric, President Medvedev contributed to the consolidation of the political regime that emerged under Putin. For example, Medvedev extended the duration of the presidential term by two years and considerably expanded the power of the KGB’s successor FSB to control the population (Kynev 2012: 35). In a similar vein, much of the liberal rhetoric regarding human rights and fundamental freedoms was not put in place (Rogoza 2011: 15).

**The legal dimension**

Putin’s announcement to establish the ‘dictatorship of the law’ indeed entailed some legal improvements. Major amendments to the Civil Code and the Criminal Code were adopted, jury trials were introduced in all Russian regions and the resources allocated to courts and judicial bodies were greatly increased (including judges’ salaries), reducing the dependence of judges on regional authorities in terms of basic needs and premises (Frye 2011: 121f; Hendley 2010). The activity of the ‘violent entrepreneurs’ and criminal ‘roofing’ were pushed back. The attitude of business to the establishment of the rule of law changed, too: while in the ‘wild 1990s’ many businessmen became rich overnight and were not interested in transparent laws, after 2000 they had a vested interest in
a functioning judiciary in order to legalise and protect their wealth (Gudkov and Zaslavsky 2011: 95).

However, despite formal legal improvements, law enforcement remained weak throughout the 2000s. The judicial practice was highly selective and often depended on the political loyalty of business, on the personal interest of policy makers and on the compliance of the courts with the political will (Myant and Drahokoupil 2010: 151, 158). The confiscation of the oil company Yukos in 2003 and the legal prosecution of its owner Khodorkovsky, widely perceived as politically motivated, is a case in point. The Yukos affair demonstrated that business could count on legal security only in return for political loyalty and gave rise to the term ‘telephone justice’, referring to the political interference into the judicial process and the dependence of the courts (Ledeneva 2011). As a consequence, business preferred to rely on informal personal networks rather than on the regulative institutional pillar, which perpetuated the vicious circle of the weakness of the rule of law.

The Yukos affair paved the way for the interference of the authorities with business and put the violations of property rights, raids and expropriations back on the agenda. However, the hostile illegal takeovers of the 2000s were carried out not by criminals like in the 1990s but by corrupt state agents who deployed intelligence networks, state prosecutors and armed forces to intimidate business or to persecute business rivals (Golovshinskii et al. 2004: 27f). In this sense, the practice of ‘roofing’ de facto remained intact.

Legal uncertainty was exacerbated by corruption: litigant parties could influence the judge’s decision by competing to pay a bigger bribe, or business could bribe the law-enforcement authorities to prosecute the undesirable competitor (Satarov et al. 1998: 32). Even the lowest, municipal level of law enforcement was corruption-prone due to legal ‘loopholes’: blanket provisions (legal provisions that have a general character), subject to the discretionary power of local authorities, provided numerous opportunities for extortion (Golovshinskii et al. 2004: 16).

Overall, judicial rules and legal procedures became formally more institutionalised in the 2000s compared to the 1990s. However, even though thousands of mundane cases had been resolved without political interference, the rule of law remained fragile, selective and susceptible to manipulation by the authorities. Law enforcement remained weak, too. In this context, unwritten rules, informal arrangements and illicit actions continued to shape the Russian state–business relations and often appeared more important than the legislation.

**The economic dimension**

While Putin’s economic record during his first term can be characterised as largely liberal, the dominant stance of Putin’s policy towards business during his second term was etatisation. In particular, the state increased its stake in strategic economic sectors via nationalisation and created vertically integrated state corporations.
The partial re-nationalisation occurred primarily in the lucrative hydrocarbon sector. The government re-asserted its control by acquiring the assets of companies that had been privatised under Yeltsin, by limiting foreign investment and by putting pressure on private companies to sell the majority stake to the state-owned companies. As a result, by 2007, the state controlled over 50 per cent of the oil sector, compared to less than 20 per cent in 2004, and brought the controlling stake in the gas monopoly Gazprom under its control (Cooper 2009: 13).

Between 2004 and 2006, the government took control of several private companies in other strategic sectors such as aviation, power generation and machine building. At the same time, the state increased its stake in firms where it already had shares: the percentage of firms in which the federal government held a majority stake increased from 25 per cent in 2005 to 61 per cent in 2008 (OECD 2011d: 80). The overall percentage of state ownership in the economy increased from 30 per cent (1994–2004) to 35 per cent (EBRD n.d.).

Another measure concerned the creation of vertically integrated state conglomerates called goskorporacii. Governed by separate laws and exempt from most auditing and reporting obligations, goskorporacii included many state-owned companies in strategic economic sectors such as nuclear energy, nanotechnology and defence, but also absorbed some private firms. The directors, appointed by the president, had considerable leeway to manage the assets of the corporations (Luzan 2009: 280). Putin ensured that the leading state corporations were headed by the people loyal to him, placing the incumbent members of the executive branch – foremost the siloviki – on corporate boards (Treisman 2007: 143ff). In this way, whole swaths of the economy were entrusted to the ‘state oligarchs’. Even though most of them had to leave their positions on corporate boards following an order by President Medvedev, their aides filled their positions, securing the control of the incumbent clan (Rogoza 2011: 17).

I suggest considering the emergence of the state corporations and the ‘state oligarchs’ from the perspective of ‘power-ownership’, a concept by Runov and Tambovtsev (2009) largely unknown to Western scholars. Vlast-sobstvennost, literally power-ownership, is essentially a factual property right tied to the position in the state bureaucracy. Thus, power-ownership refers to the power of the bureaucrats to control property (business) as if they owned it. Such de facto property rights apply only as long as the incumbent is in office and concern primarily the cash flow from property, but not the debts, liabilities and risks associated with legal ownership. Most importantly, factual property rights, which obviously lack a legal status, appear to be better protected than the legal rights since the latter can be successfully contested by the state in a dependent court. At the same time, state agencies are able to prevent or manipulate a lawsuit brought against corrupt bureaucrats or raiders. As part of a vicious circle, the factual property right – power-ownership – becomes strengthened in the long run at the expense of the legal ownership (Runov 2009: 69ff).

Viewed from the perspective of power-ownership, the policy of the 2000s seems to be not a nationalisation but rather a redistribution of property to the
benefit of the incumbent clan. The *siloviki*, having been weak as an elite group up until the late 1990s, for the most part failed to take part in the distribution of property in the course of the privatisation of the 1990s. Once in power, they were eager to compensate for the lost opportunities. Having acquired key positions in the state bureaucracy under President Putin, the *siloviki* profited from the nationalisation of lucrative economic assets and their concentration in state corporations. Viewed from the perspective of power-ownership, in this way the *siloviki* obtained factual property rights, or access to the cash flow from property under their control. In other words, the state’s economic policy in the late 2000s appears not as a genuine *nationalisation* in the sense of a return of strategic economic assets into state ownership as part of a particular development strategy, but rather as a *re-privatisation* in favour of the *siloviki* (*Tucker* 2010: 172ff). Thus, the concept of power-ownership offers an interpretation of the changes in the Russian political economy in the 2000s, revealing the underlying continuity of the partial fusion of the state and business.

The state policy towards business since late 2008 can be seen as a continuation of Putin’s statist policy, despite President Medvedev’s verbal commitment to the reduction of the state’s role in the economy. The economic record comprised the anti-crisis programme and the pursuit of large-scale national projects, such as the Sochi Winter Olympic Games, Skolkovo innovation centre or Asia-Pacific Economic Cooperation Leaders’ Summit in Vladivostok (*Rogoza* 2011: 29).

The 2008–09 financial crisis hit Russia particularly hard as oil prices plummeted and the foreign credits upon which Russian banks and firms relied dried up. The crisis invariably entailed an increase in the state’s interference in the economy. Tapping the vast reserves accumulated during the boom years, the government launched rescue and stimulus packages for troubled banks and companies and later reduced the corporate tax rate to stimulate investment (*Cooper* 2009: 19). As a result, the share of budgetary subsidies and transfers reached 7.1 per cent of GDP in 2009, compared to 3.7 per cent in 2004 (*EBRD* n.d.).

State support was given primarily not to the SMEs but to large ‘system relevant’ firms such as Gazprom or Russian Railways in order to prevent large-scale job losses, especially in single-industry towns (see section 5.4 below). The military and defence sector alone accounted for one quarter of governmental support (*Gudkov* and *Zaslavsky* 2011: 163). More recently, an upsurge of inflation driven by food and energy prices has resulted in a number of ad hoc interventions by the authorities, such as the prevention of real increases in electricity prices, a ban on the export of grain and the imposition of a prohibitive tax on petrol (*OECD* 2011d: 80).

The new wave of privatisation announced in 2010 did not reduce the overall share of state ownership since the privatisation concerned only minority shareholdings in state-owned companies (*OECD* 2011d). Other liberalisation attempts by Medvedev, including the attempt to liquidate state corporations, were de facto not implemented. The SMEs continued to develop slowly – Russia has seven SMEs per 1,000 inhabitants, while the European Union has about 45.
Also the share of the GDP generated by the Russian SMEs – 12 per cent – remains low (OECD 2011d: 69). Most of the ‘natural monopolies’ as well as the subsidisation of parts of the economy have endured, too. For example, domestic energy prices are kept artificially low, allowing the cross-subsidisation of domestic manufactures (Rutland 2010: 168).

5.4 Continuity in Russian state–business relations

The legacy of patrimonialism

Entrenched patrimonialism has been traditionally characteristic of the Russian political environment. In a patrimonial system, the state does not pursue the public good but operates in the interest of clans and informal networks that ‘privatise’ the state institutions for personal enrichment. This implies a system of government administration in which state officials are responsible to the top political leadership but at the same time are given wide leeway and treat their jobs as income-generating property (Brinkerhoff and Goldsmith 2002: 40).

In Russia, a system of personalised exchange relationships and clientelist politics has flourished since tsarism, blurring the distinction between politics and the economy. The Soviet patrimonial system was marked by hierarchical chains of personal dependence between party leaders and their underlings, who extracted economic rents from the state property under their control (Jensen 2001: 34). Since the old Soviet elite largely remained in control of the state apparatus after the collapse of communism, Russia has inherited the patrimonial character of the Soviet public administration.

At the heart of Russian patrimonialism lies the tradition of entrenched paternalism, rooted in social passivity, the legacy of forced labour and the ingrained respect of authority. For instance, the Russian workers prefer to rely on informal, paternalistic relations with the enterprise managers rather than join collective action to defend their interests (see the next section). By the same token, having ‘made friends’ with the authorities or having agreed on a kickback scheme, businessmen are eager to retain informal contacts with the bureaucrats instead of following the official rules. In a similar vein, the Russian public, accustomed to being patronised by the ‘father state’ and at the same time disbelieving that anything could be changed ‘up there’, seldom attempts to contest the official rules of the game but rather seeks unofficial ways to circumvent them. This has resulted in particularism and the pursuit of private gain as the guiding social principles in Russia, as opposed to universalism and the pursuit of the common good.

The dominance of particularism has led to the society-wide spread of informal relations, unwritten rules and ad hoc arrangements that count more than laws and written contracts. Договорица – a Russian verb that refers to all kinds of ‘private solutions’ negotiated between the bureaucrats, businessmen and workers – affects virtually every aspect of the Russian political economy and, most importantly, is regarded as ‘normal’ by large parts of the Russian public.
According to a recent poll, virtually nobody in Russia believes that all court decisions are made in accordance with the law (OECD 2011d: 78). All in all, the persistence of paternalistic attitudes and the dominance of informal ways of interaction sustain and reproduce Russian patrimonialism. One of its most salient manifestations is the enduring corruption.

Corruption

Corruption, or abuse of public power for private gain, goes back to tsarism and to the informal activities (‘blat’) and the shadow economy under state socialism (Pleines 2001: 283; Ledeneva 1998). Given the weak legal environment and payment arrears in the state bureaucracy in the aftermath of the collapse of the Soviet Union, corruption flourished and basically served as a substitute for the universal rules of the game (Satarov et al. 1998: 24f). Rampant but somewhat ‘randomised’ corruption of the 1990s gave way to systemic and ‘institutionalised’ corruption of the 2000s. While in 2002 14.7 per cent of firms identified corruption as a major constraint to doing business, in 2009 the figure reached 50 per cent (BEEPS 2009). According to one estimate, the monetary value of corruption flows equals up to one quarter of Russian GDP (Nemtsov and Milov 2010).

Despite the formal ease of the administrative burden under President Putin, bribery and extortion persisted and even increased in the 2000s. When interacting with the Russian authorities, businessmen occasionally give ‘gifts’ for obtaining licences, for receiving preferential treatment or for letting the bureaucrat turn a blind eye to illegal conduct. Thereby it is estimated that the amount of an average ‘gift’ in 2001 equalled the cost of a 30 sq.m flat, whereas four years later an average bribe already ‘bought’ a 200 sq.m flat (INDEM 2005: 14).

The authorities in their turn treat business as a ‘cash cow’, resorting to corrupt methods such as unofficial charges or arbitrary fines. Most infamous are the state agencies authorised to register and inspect firms, such as the fire-fighting service and the sanitary-epidemiological agency. Controlling authorities often impose arbitrary fines, drop in for an unofficial check-up on the eve of a holiday and expect ‘gifts’, demand expensive ‘training’ for the employees as a condition for obtaining business permits or impose more expensive and less efficient solutions, for instance forcing the purchase of security equipment from specific suppliers. The same applies to the police force, which is authorised to undertake practically any kind of business check-up (Golovshinskii et al. 2004: 24–28).

In the environment of corruption, administrative decisions turn into goods that are traded on a shadow market. Creating an artificial shortage of rights (such as the right to open a business), bureaucrats generate a source of rents. In this way, any Russian firm becomes a forced joint venture with the local bureaucracy. Beyond bribes or extortion, the state officials are eager to institutionalise this profitable ‘partnership’ by imposing ongoing obligations on business, such as the renovation of the bureaucrat’s office or organisation of a banquet. The existence and survival of firms often depend on the fulfilment of these obligations.
In this context, firms treat the expenses associated with the maintenance of ‘good relations’ with the authorities as a reasonable investment (Kliamkin and Timofeev 2000: 94–97).

The Russian energy sector represents a particularly lucrative source of rents that happen to end up in the pockets of the state officials and their crony businessmen. Hydrocarbon trading is one of the most conspicuous examples of the enduring corrupt practices. Both private and state-owned exporting energy companies have been using shell companies, shadowy subcontractors and offshore banking for selling oil and gas at low prices and then re-selling it via subsidiaries at higher prices, embezzling huge profits. This corrupt practice extends back to the 1990s but became even more entrenched in the 2000s. Today about 30 per cent of Russian oil exports are channelled through a Swiss-based intermediary Gunvor, which is owned by Putin’s close associate Timchenko (Rutland 2008a: 1058).

A form of corruption that became prominent in Russia in the 2000s is the so-called raspil, literally ‘sawing-through’, or a system of institutionalised kickbacks in public procurement. The mechanism behind raspil is that public contracts are awarded not according to the best price or quality, but as a result of collusion between state officials and their crony businessmen. For instance, firms owned by persons with close ties to Putin or to the ministers get awarded lucrative procurement contracts for constructing large infrastructural facilities. Thereby the cost of the service exceeds the market price while the government allows itself to be overcharged. The resulting price difference is the kickback. The scope of kickbacks in Russian public procurement is estimated at 30 to 60 per cent of the contract volume, leading to the embezzlement of billions of dollars annually (Rogoza 2011: 18; Makarov 2011).

5.5 The transformation of capital–labour relations

In the Soviet centrally planned economy, labour relations were regulated primarily by the state, which guaranteed full and stable employment in exchange for labour peace. The Soviet labour model represented an ‘organised consensus’ and included secure jobs, largely egalitarian incomes and a ban on strikes. The trade unions never fulfilled the function of institutionalised channels for the workers’ interest articulation but rather formed part of the Soviet authoritarian enforcement and control machine in charge of labour discipline and mobilisation of workers for fulfilling the plan. In this context, Soviet workers had to rely on informal relations with the enterprise managers to address their needs and problems. Thus, paternalism was at the heart of the Soviet labour model and represents perhaps the most enduring continuity in Russian industrial relations (Sobolev 2010: 22f; Gudkov and Zaslavsky 2011: 31, 39f).

The Russian labour model that emerged in the 1990s and consolidated in the 2000s differs from the Soviet model given the social, political and economic changes that accompanied the transition from the planned economy. Yet at the same time Russian labour relations were shaped by Soviet legacies and enduring continuities,
and arguably underwent an ‘adaptation without restructuring’ (Kapelushnikov 1999: 91). The core elements of the Russian labour model, which will be discussed in detail below, are:

- stable employment loosely correlated with GDP fluctuation;
- a small role for trade unions and low strike activity;
- the spread of informal capital–labour relations instead of reliance on institutionalised channels; and
- a gap between the rigidity of formal regulations and the flexibility of their application.

**Partial liberalisation in the 1990s**

The economic breakdown and the ‘shock therapy’ of the early 1990s made high unemployment (at least 25 per cent) seem inevitable. Mass layoffs were bound to happen given that the Soviet enterprises were notoriously inefficient and overstaffed, experts warned. However, things turned out differently. Unlike the transition economies of Central and Eastern Europe, Russia experienced a much deeper recession but at the same time a disproportionately low and slow rise of unemployment. Bankruptcies were rare and official unemployment reached its peak of just 13 per cent in 1998 and has decreased ever since. There is no doubt that the factual unemployment figure was considerably higher than the formal one, let alone the proportion of people who registered as unemployed, since many troubled enterprises continued to employ excess workers only nominally, pushing them into the informal economy. However, on the whole, the nascent Russian labour model proved to be successful at amortising shocks and crises, as will be discussed below. Yet at the same time the Russian labour model has hampered the transformation of labour relations in the long run, encouraging informal relations between the managers and the workers at the expense of the institutionalisation of labour relations (Kapelushnikov 1999: 71ff, 92).

President Yeltsin sought to free the workers from state control and to democratise relations between the tariff partners. In the course of the 1990s, a new labour legislation was issued. It included a right to strike and to form independent trade unions; a process through which firms could legally dismiss workers; a minimum wage; basic unemployment benefits; rules for tariff negotiations; and a tripartite system of social partnership (Sil 2005: 7; Gudkov and Zaslavsky 2011: 26, 40).

However, the institutionalisation of labour relations remained largely nominal. Just as many other legal provisions in the 1990s, formal regulations governing labour relations were often at odds with the actual practice – given the weakness of the legal system and the low enforcement capacity of the Russian state. In this context, the ‘Russian labour miracle’ can be explained rather by the informal adaptation strategy adopted by the troubled enterprises and their workers under adverse economic conditions of the 1990s. The adaptation strategy, which
decisively shaped Russian labour relations, comprised two fundamental elements: first, the prevention of mass unemployment via flexibilisation of working time and wages; and second, the spread of informal labour relations (Kapelushnikov 1999: 91ff).

The first component of the adaptation strategy implied the retention of excess workforce at the cost of economic efficiency. Russian enterprises were reluctant to initiate mass layoffs and continued to keep redundant workers on the payroll, reducing labour costs by cutting both the working time and the wages. The wage-reduction strategy included real wage cuts, exacerbated by galloping inflation (real wages fell by 60 per cent between 1991 and 2000), mounting payment arrears (at their peak in 1998 wage arrears encompassed three quarters of Russian workers), the cancellation of bonus payments, which used to constitute up to 20 per cent of the wage, the spread of in-kind payments and cuts in social benefits. The average yearly working time decreased between 1991 and 1996 by one month, or 12 per cent (15 per cent in industry). Many workers were routinely sent on unpaid leave (Kapelushnikov 2009: 12–16).

Concerned over labour unrest, the Russian government supported the adaptation strategy of the enterprises for the sake of social stability. This decision – possibly rather spontaneous than considered – was not in line with the liberal reforms, especially with the minimum wage provisions and the regulations authorising dismissals. However, the government used carrots and sticks to make factories retain personnel, continued to subsidise many enterprises and avoided mass layoffs in the public sector by drastically cutting wages. As a result, the continuity of over-employment endured: in 1997 of 75 million people of working age, 8 million were unemployed and an additional 12–13 million constituted excess personnel (Gudkov and Zaslavsky 2011: 19, 24–27). In this context, wages decreased, often falling below the subsistence minimum in the public sector, thus providing a fertile breeding ground for corruption and at the same time serving as an excuse for low wages in private companies (Sobolev 2010: 26).

The second equally important aspect of the adaptation strategy was the spread of informal labour relations. As real wages were decreasing and payment arrears skyrocketing, the dramatically deteriorating living standard of the workers left them at the mercy of enterprise managers, who granted workers access to shadow salaries constituting up to 40 per cent of official wages, non-wage supplements and informal mechanisms that allowed the workers to earn additional income. The tangible benefits from covert earning schemes promoted a personal dependence by workers on the enterprise managers and thus strengthened the paternalistic ties that used to be at the heart of the Soviet labour model (Sobolev 2010: 22f; Birdsall 2000). As a result, the workers, who often had no alternative to their current employment, notably in single-industry towns, did not rely on the trade unions as defenders of their rights and were reluctant to join a strike despite their deteriorating economic situation (Gudkov and Zaslavsky 2011: 41ff; Sil 2005: 10).
The fact that the workers preferred to turn to enterprise managers rather than to the trade unions to address their problems and pressing needs, coupled with a low level of trust in the unions, certainly hampered the transformation of the trade unions into viable workers’ organisations in the course of the 1990s. Unions that belonged to the newly established Federation of Independent Trade Unions of Russia, which was carved out of the Soviet trade union apparatus, were afraid to lose members and continued the old practice of distribution of social benefits, although they lacked the resources. New, genuinely autonomous trade unions struggled for members and often faced difficulties and even harassment since both the state and business continued to view the trade unions as nuisances (Sil 2005: 11). As a result, the traditional paternalistic alliance between the enterprise managers and the workers has endured at the expense of the institutionalisation of Russian labour relations and has decisively shaped their further development.

Adaptation without restructuring in the 2000s

The 2000s witnessed an improvement in the economic situation of the workers along with the general recovery of the economy. Unemployment was steadily decreasing and fell to 6.3 per cent in 2008. The average working hours increased, having grown by 16 per cent in the industry by 2008. Real wages increased threefold between 1999 and 2008, and wage arrears almost disappeared, affecting merely 1 per cent of workers (Kapelushnikov 2009: 13–18). However, wages were lower than the cost of the reproduction of labour and were in decline as a proportion of production costs, a study by Sobolev (2010: 34–37) shows. At the same time, Russia’s senior managers were much better paid than their counterparts both in the West and in the other BRICs, indicating a huge gap between the workers’ and the managers’ salaries (The Economist, 11 September 2008).

Just as in the 1990s, in the 2000s, enterprises attempted to keep labour costs as low as possible, reducing the share of fixed payments and increasing the ‘black’ part of the so-called ‘black-and-white salaries’ that were widespread both in private companies and in the public sector, where the black cash originated in kickbacks or from rasпil in public procurement. Not fixed in any contract, the ‘envelope payments’ could be cut at any time, keeping labour costs flexible and at the same time enhancing the personal dependence of the workers on the employer. In this context, it is not surprising that strike activity remained low in the 2000s (with the exception of the traditionally well-organised mining industry). Similar to the 1990s, workers preferred to rely on personal informal relations with the management instead of collective bargaining (Sobolev 2010: 37; Kapelushnikov 2009: 63).

In terms of legislation, the Putin government pursued the institutionalisation and formalisation of labour relations. A new Labour Code adopted in 2001 can be considered rigid as compared to international standards, granting the state a great role in the control of capital–labour relations (Ashwin and Clarke 2002:
111–14). For instance, under the new Labour Code, enterprises had less leeway to cut wages and working hours, and layoffs became a particularly costly and sophisticated undertaking. Also the enforcement of the labour legislation improved in the 2000s compared to the 1990s in line with the general increase in state capacity. A successful fight over wage arrears and the improved observance of collective agreements are the most telling examples (Kapelushnikov 2009: 20f, 55).

These improvements were put in perspective by the 2008–09 economic crisis. The preference of the state for employment stability, the informal adaptation strategies of enterprises and the low strike activity of the workers revealed the continuity of the labour model that emerged in the 1990s.

In the wake of the crisis, the Russian labour market showed its resiliency yet again. While GDP dropped dramatically, unemployment increased considerably, reaching 8.7 per cent in 2009 and already decreasing again the following year. The state was again concerned over social unrest and interfered heavily in the economy to prevent mass layoffs. The case of the Russian single-industry town Pikalevo became emblematic of the Russian crisis response. In 2009, three concrete plants owned by the oligarch Deripaska were to be closed down, leaving 4,500 people (almost the whole working-age population) without jobs. Demands by the trade unions were ignored by the local authorities. Thereupon, the workers started massive protests and blocked one of the main federal roads. In a demonstrative rescue operation, Putin arrived in the troubled town by helicopter and forced Deripaska to resume the work of the factories and to guarantee employment to the citizens of Pikalevo in front of running cameras. The very same day the state compensated wage arrears equivalent to $1.3 million from the federal budget (Vremia Novostey, 5 June 2009; Izvestiya, 30 December 2009).

Just as in the 1990s, firms reacted to crisis with flexible working hours and wages, although the room for manoeuvre was clearly limited under the new rigid legislation. However, it was perhaps the very rigidity of formal regulations that encouraged firms to seek new, often illegal ways to circumvent the regulations and to cut labour costs. This pushed labour relations further into the shadows in line with the popular Russian wisdom that reads ‘the imperfection of our laws is compensated by their non-observance’ (Ledeneva 2001: 2). For instance, employers cut wages by cancelling bonuses and shadow payments. Another popular method was the proliferation of unpaid ‘voluntary’ leave and ‘voluntary’ layoffs, which did not require financial compensation. Under informal agreements, the employees continued to work and received their salaries ‘in envelopes’. This de-formalisation of labour relations has strengthened the paternalistic interdependence of the workers and managers (Kapelushnikov 2009: 61ff).

To conclude, the Russian labour model was formed in the 1990s and, having undergone an ‘adaptation without restructuring’, consolidated in the 2000s. Russian labour relations are marked by stable employment achieved through flexible wages and working hours; by feeble development of the trade unions and a low level of industrial conflict; and finally, by the spread of informal,
paternalistic relations between the workers and managers, at odds with the rigid labour legislation.

Similar to the development of state–business relations, the main direction of the adaptive change of Russian capital–labour relations was etatisation, expressed in the somewhat enhanced enforcement of labour legislation, coupled with the increased involvement of the state in labour relations. The pronounced role of the state became conspicuous during the 2008–09 crisis when policies directed at employment stability were pursued. The main continuity of Russian labour relations is – similar to state–business relations – entrenched patrimonialism, expressed foremost in the de-formalisation and individualisation of capital–labour relations. Instead of stable institutions and independent organisations of entrepreneurship and interest representation, Russian labour relations are based on a web of paternalistic and semi-legal relations of personal dependence.

The paradox of the Russian labour model lies in the contradiction between the rigid formal regulations and the largely informal, paternalistic relations between the managers and the workers that allow a flexible adaptation to crises. The gap between the formal rules and the actual practice indicates yet again the weakness of the rule of law, the low level of enforcement of the general rules of the game and the dominance of particularistic, patrimonial practices. This tendency echoes the theory–praxis gap in state–business relations and thus appears to be typical of Russian capitalism as a whole.

5.6 Conclusion
The development of the Russian political economy is a complex interplay between continuity and change. ‘Capitalism Russian style’, which emerged in the wake of the collapse of the Soviet centrally planned economy, has undergone a transformation in the course of the last two decades but has maintained some Soviet-era characteristics that continue to shape the Russian political economy.

Viewed against the backdrop of the statist, liberal and patrimonial ideal types of capitalism, the main direction of change in the Russian political economy is expressed in the shift in the proportion of liberal and statist elements. While between 1992 and 2002 Russian capitalism can be characterised as largely liberal, after 2003 the trend towards increased statism became pronounced. The etatisation of Russian capitalism was expressed in the partial increase in state capacity, in the shift from the liberal to conservative political elites, and in the partial nationalisation of strategic economic assets, coupled with an overall increase in the state’s involvement in the economy and labour relations.

The major continuity of Russian capitalist development was found in the persistence of patrimonial elements. The continuity of patrimonialism is expressed in the pervasive weakness of the rule of law, in the endurance and perhaps even increase in corruption, in the partial fusion of the state and business, and in the spread of informal state–business and capital–labour relations, which are at odds with the formal regulations governing these relations.
Continuity & change in Russian capitalism

My analysis has pointed out that the continuity of Russian patrimonialism underlies the change towards increased statism: behind the etatisation of Russian state–business relations in the second half of the 2000s was arguably a redistribution of property to the benefit of the incumbent clan of the siloviki. This process was facilitated by the feeble rule of law, by the insecurity of property rights, by the dominance of particularism and corruption and, finally, by the political environment in which clans and networks of patronage and informal exchange supplanted formal state institutions.

In order to understand the mechanisms behind Russian patrimonialism, we need to address factors, contexts and circumstances that serve the bureaucrats as power resources and enable them to extract administrative rents from property under their control. We also need to research the scope of Russian patrimonialism and the eventual differences between the 1990s and the 2000s. All in all, considering change in the context of continuity may contribute to a better understanding of the changing capitalism in Russia and possibly in other emerging countries.

The final remarks regard Russia’s possible trajectory in the future. Recent developments provide a mixed picture. On the one hand, given World Trade Organization (WTO) accession, Russia may be exposed to the pressure to liberalise its economy. Additionally, the diminishing Russian hydrocarbon reserves and the lack of diversification may soon reveal the limits of the resource-driven rentier development and ultimately push for change; at the same time, the discovery of shale oil and gas in the USA may reduce the importance of Russia as a gas supplier for Europe and bring the gas price down, which would be a serious challenge for Russia’s budget (see also Chapter 9 in this volume).

On the other hand, Putin’s return to the president’s office in May 2012 and the continued political dominance of the siloviki point to the likely perpetuation of the trajectory that Russia has taken since the second half of the 2000s. However, public approval of Putin, though still comparatively high, was at an historic low of 62 per cent in January 2013, down from over 70 per cent throughout Putin’s first two presidencies (Levada Centre n.d.). The public protests since the December 2011 Duma elections and the timid awakening of civil society also point to the limits of Putin’s consensus based on loyalty to the incumbent regime in return for oil-driven economic growth. In this context, it is unclear whether there is a prospect for change or whether Russia will rather face the consolidation of the statist-patrimonial regime.

Notes

1 Among the most influential oligarchs of the 1990s were Alekperov (Lukoil, oil), Potanin and Prokhorov (Interros-Oneksim, nonferrous metals), Khodorkovsky (Yukos-Menatep-Rosprom, banking/oil), Vinogradov (Inkombank group, banking), Berezovsky and Abramovich (SBS-Agro-Sibneft-LogoVaz, banking/oil/automobile), Fridman (Alfa group), Ivanishvili (Bank Rossijskij Kredit group, banking), Gusinsky (Most media group, TV) and Yevtushenkov (AFK Sistema, telecommunications) (Pappe and Galukhina 2009: 53f).

2 The partial trade liberalisation in the late 1980s allowed the ‘nomenklatura capitalists’ to make use of the highly varied exchange rates as well as to purchase commodities at
government-controlled prices and to re-sell them at great profit on foreign markets. Export arbitrage in metals, oil and gas accounted by 1992 for approximately 30 per cent of Russia’s GDP (Aslund 2007: 58; Rutland 2010: 163).

3 The number of taxes that residents and businesses faced was reduced from about 200 to 16; a progressive income tax that peaked at 30 per cent was replaced by a flat tax of 13 per cent in 2001; the payroll tax was cut to an average rate of 26 per cent and the corporate profit tax was cut from 35 to 24 per cent; four social taxes were compressed into one; finally, tax collection was centralised into one agency (Cooper 2009: 10).

4 Among the influential oligarchs of the 2000s were Deripaska (Base Element–Rusal, aluminium), Abramovich (Sibneft, oil), Alekperov (Lukoil, oil), Potanin and Prokhorov (Interros–Norilsk Nickel, nonferrous metals), Abramov (Evrazholding, steel) and others. While the 1998 crisis weakened the position of the Moscow-based oligarchs, many of whom were engaged in banking and finance, it paved the way for the rise of the provincial oligarchs who headed new industrial groups, for example Mordashov (Severstal, steel) and Lisin (Novolipetsk metallurgical combine, metallurgy) (Guriev and Rachinsky 2005: 133; Kryshantovskaya and White 2005: 302ff).

5 For instance, Putin’s public harassment of the private metallurgic giant Mechel (2008), accused of dumping, cost the company 30 per cent of its value on the Russian stock exchange (Vesti broadcasting station, 28 July 2008; www.vesti.ru). Prominent cases of hostile illegal takeovers include the expropriation of three subsidiaries of the international investment fund Hermitage Capital in 2008 as well as the corporate raid on Yevgeny Chichvarkin’s mobile communication company Evroset, carried out by several police officers (Frye 2011: 123; OECD 2011d: 78).

6 For instance, the Russian government forced Royal Dutch Shell (2006) and British Petroleum (2008) to cede controlling stakes in major gas fields to the state-owned Gazprom by claiming environmental violations or revoking licences (Rutland 2008a: 1059).

7 It has to be noted that this figure includes only formal state ownership. According to other estimates that include informal state control, by 2008 state ownership had reached 40–45 per cent (Kudrov 2009: 44), or even 60 per cent (Gudkov and Zaslavsky 2011: 161).

8 For example, in 2011, the company Stroygazmontazh, controlled by Putin’s aide Rotenberg, became the general contractor for the construction of the Nord Stream pipeline; Rotenberg’s Mostotrest received contracts for building the Olympic facilities in Sochi and other sports facilities worth $100 million (Rogoza 2011: 18). Similarly, between 2008 and 2010, a construction company that belonged to a friend of the transportation minister won 30 tenders with a cumulative volume of more than $3.6 billion (Makarov 2011).

9 A survey conducted by Hay Group, a consultancy, calculated the disposable incomes of top chief executive officers (CEOs) in 51 countries, having adjusted the salaries for taxes and living expenses. Russian CEOs are ranked ninth in the survey, while managers from Japan and the USA rank 39th and 41st, respectively. China is ranked 17th in this survey, Brazil 23rd, South Africa 36th and India 38th (The Economist, 11 September 2008).

10 Apart from the adaptation strategies to crisis chosen by the Russian state and enterprises, other factors prevented the explosive rise of unemployment in the wake of the 2008–09 crisis. Among them is the smaller share of excess workforce as compared to the 1990s, the structural change of the Russian economy towards services and the expansion of the non-corporate and informal sectors (Kapelushnikov 2009: 60ff).