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Russian Patrimonial Capitalism and the International Financial Crisis

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Abstract

The international financial crisis brought Russia's run of economic growth to a halt and has given a greater sense of urgency to President Medvedev's calls for modernization. This, however, does not mean that crisis has changed Russia or its political economy. Russia's economic system is a form of patrimonial capitalism, a particular form of patrimonialism created when patrimonial systems reform under the influence of global economic forces. Russian patrimonial capitalism developed in the 1990s and stabilized under Putin. This type of capitalism is hard to change and does not tend to promote economic modernization or diversification. The crisis has so far not fatally wounded this system, and this will make future reform harder to secure.

Notes

See Justin Robertson (ed.), *Power and Politics after Financial Crises: Rethinking Foreign Opportunism in Emerging Markets* (Basingstoke: Palgrave, 2008), for a general discussion of how crises in emerging markets have changed the way that they relate to the global economy and the balance of power in these markets.

Other examples abound: see, *inter alia*, Medvedev's article, 'Forward Russia!', of 2009, available at

<http://eng.kremlin.ru/text/speeches/2009/09/10/1534_type104017_221527.shtml>,

accessed 14 Sept. 2009; his 'Opening Remarks at Meeting of Commission for Modernization and Technological Development of Russia's Economy', 23 March 2010, available at

<http://eng.kremlin.ru/text/speeches/2010/03/23/1953_type82913_224939.shtml>,

accessed 24 March 2010; or the interview with Elvira Nabiullina, the economy minister, in Charles Clover, 'Interview: Elvira Nabiullina, Russian Economy Minister', *Financial Times*, 27 Oct. 2009, available at <<http://www.ft.com/cms/s/0/a2d03e64-c2f1-11de-8eca-00144feab49a.html>>, accessed 28 Oct. 2009. For a longer Russian academic treatment see I. Diskin, *Krizis ... i vse zhe modernizatsiya* [Crisis – and modernization all the same] (Moscow: Yevropa, 2009).

Dmitrii Medvedev, 'Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii, November 12, 2009' [Address to the Federal Assembly of the Russian Federation, 12 November 2009], available at <<http://news.kremlin.ru/transcripts/5979>>, accessed 13 Nov. 2009).

See 'Ekonomicheskii krizis v Rossii: ekspertnii vzglyad' [Economic crisis in Russia: an expert view], *Voprosy ekonomiki*, 2009, No.4, pp.4-30, or G.V. Osipov and V.V. Lokosov (eds.), *Rossiya v usloviyakh global'nogo krizisa: Sotsial'naya i sotsial'no-politicheskaya situatsiya v Rossii v 2008 godu* [Russia in conditions of global crisis: the social and socio-political situation in Russia in 2008] (Moscow: ISPI RAN, 2009). For an official assessment at the start of the crisis, see A. Kudrin, 'Mirovoi finansovyi krizis i ego vliyanie na Rossiyu' [World financial crisis and its influence on Russia], *Voprosy ekonomiki*, 2009, No.1, pp.1-27.

The dividing line between these two concepts is thin and they are sometimes used together and interchangeably. Variations of these arguments have been made academically and in popular commentary on Russia since at least 2004: see Richard

Sakwa, *The Quality of Freedom* (Oxford: Oxford University Press, 2009), p.344; A. Radygin, 'Rossiya v 2000–2004 godakh na puti k gosudarstvennomu kapitalizmu?' [Russia in 2000–4 on the way to state capitalism?], *Voprosy ekonomiki*, 2004, No.4, pp.42–65; Anders Åslund, 'Russia's Energy Policy: A Framing Comment', *Eurasian Geography and Economics*, Vol.47, No.3 (2006), pp.321–8; David Lane, 'From Chaotic to State-led Capitalism', *New Political Economy*, Vol.13, No.2 (2008), pp.177–84; Peter Rutland, 'Putin's Economic Record: Is the Oil Boom Sustainable?', *Europe-Asia Studies*, Vol.60, No.6 (2008), pp.1051–72. Indeed, developments in Russia have been portrayed as a leading edge of a global rise in state capitalism that is being reinforced by the crisis and the failure of neo-liberalism, and as a rediscovery of a Russian national model of development that does not slavishly follow Western liberal market models: see National Intelligence Council, *Global Trends 2025: A Transformed World* (Washington, DC: US Government Printing Office, 2008); Ian Bremmer, 'State Capitalism Comes of Age', *Foreign Affairs*, Vol.88, No.3 (2009), pp.40–55; Ian Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* (New York: Viking, 2010); M. Wolnicki, 'The Day After Neoliberal Triumphalism', *International Journal of Social Economics*, Vol.37, No.7 (2010), pp.476–87. On Russia's national model of development see the very useful summary in Joachim Zweynert, 'Conflicting Patterns of Thought in Russian Debate on Transition: 2003–2007', *Europe-Asia Studies*, Vol.62, No.4 (2010), pp.547–70 (pp.550–54).

See, for example, Medvedev's call for changes to Russia's 'development paradigm' made to United Russia on 28 May 2010, or the call of the Institute for Contemporary Development (widely recognized as Medvedev's think-tank and sounding-board) for political change to take place alongside economic modernization. Medvedev's comments are at <http://eng.kremlin.ru/text/themes/2010/05/282033_226327.shtml>, accessed 29 May 2010; Institute for Contemporary Development, *Rossiya XXI veka: obraz zhelaemogo zavtra* [XXI-century Russia: the shape of a desirable tomorrow] (Moscow: Ekon-Inform, 2010).

On Russia and political capitalism see Philip Hanson and Elizabeth Teague, 'Russian Political Capitalism and its Environment', in David Lane and Martin Myant (eds.), *Varieties of Capitalism in Post-Communist Countries* (Basingstoke: Palgrave, 2007), pp.149–64.

See Neil Robinson, 'The Global Economy, Reform and Crisis in Russia', *Review of International Political Economy*, Vol.6, No.4 (1999), pp.531–64, and 'August 1998 and

the Development of Russia's Post-communist Political Economy', *Review of International Political Economy*, Vol.16, No.3 (2009), pp.433-55.

Hence his explicit rejection of state capitalism as a developmental choice in an interview in April 2011: see 'Interv'yu Dmitriya Medvedeva Tsentral'nomu televideniyu Kitaya' [Dmitrii Medvedev's interview with Central Television of China], at <<http://kremlin.ru/transcripts/10911>>, accessed 13 April 2011.

Oliver Schlumberger, 'Structural Reform, Economic Order, and Development: Patrimonial Capitalism', *Review of International Political Economy*, Vol.15, No.4 (2008), pp.622-49, especially pp.233-6; see also his *Patrimonial Capitalism. Economic Reform and Economic Order*, unpublished doctoral thesis (Tübingen: University of Tübingen, 2004).

For reviews of these issues, see Jean-Francois Médard, 'The Underdeveloped State in Tropical Africa: Political Clientelism or Neo-patrimonialism?', in Christopher Clapham (ed.), *Private Patronage and Public Power* (London: Pinter, 1982), pp.162-92; Gero Erdmann and Ulf Engel, *Neopatrimonialism Revisited: Beyond a Catch-All Concept* (Hamburg: GIGA Working Papers, 2006). My thanks to Paul Chaisty and Patrick Köllner for passing on these two references.

Schlumberger, 'Structural Reform, Economic Order and Development', p.622.

One further benefit of using patrimonial capitalism is that it enables us to talk about Russia as patrimonial but at the same time not simply lump it together in an undifferentiated mass with other post-Soviet polities that are more dictatorial and economically less open, but that have also been labelled patrimonial. This deals with one complaint about labelling Russia patrimonial: it is not Uzbekistan or Kazakhstan. Of course it is not: Uzbekistan would be further along the spectrum of patrimonialism, somewhere between traditional patrimonialism and neo-patrimonialism, with a tendency towards the former; Kazakhstan would be between traditional patrimonialism and neo-patrimonialism with a tendency towards the latter.

These are adapted from Schlumberger's longer list of ten features: see Schlumberger, 'Structural Reform, Economic Order, and Development'.

Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge, MA: Belknap, 1962), p.13.

For more on this as a general problem, see David Waldner, *State Building and Late Development* (Ithaca, NY: Cornell University Press, 1999), esp. pp.50–1.

A patrimonial capitalist system is thus vulnerable to the instability that is normal for any limited access order, that is to the instability that can affect any political system that rests on a coalition held together by rent distribution: see D.C. North, J.J. Wallis and B.R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge: Cambridge University Press, 2007).

On patrimonial communism, see Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markovski and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Inter-Party Cooperation* (Cambridge: Cambridge University Press, 1999), especially pp.21–4; Henry E. Hale, ‘Correlates of Clientelism: Political Economy, Politicized Ethnicity, and Post-communist Transition’, in Herbert Kitschelt and Steven I. Wilkinson (eds.), *Patrons, Clients, and Policies: Patterns of Democratic Accountability and Political Competition* (Cambridge: Cambridge University Press, 2007), pp.227–50. On the USSR specifically see Michael E. Urban, ‘Conceptualizing Political Power in the USSR: Patterns of Binding and Bonding’, *Studies in Comparative Communism*, Vol.18, No.4 (1985), pp.207–26; Neil Robinson, *Russia: A State of Uncertainty* (London: Routledge, 2002), Ch.2.

S. Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge, MA: Harvard University Press, 1998).

Robinson, ‘The Global Economy, Reform and Crisis in Russia’, pp.533–46.

Robinson, ‘August 1998 and the Development of Russia's Post-communist Political Economy’, pp.444–6.

See, for example, Julian Cooper, ‘Of BRICs and Brains: Comparing Russia, China, India and Other Populous Emerging Economies’, *Eurasian Geography and Economics*, Vol.47, No.3 (2006), pp.255–84, and ‘Can Russia Compete in the Global Economy?’, *Eurasian Geography and Economics*, Vol.47, No.4 (2006), pp.407–26; R. Connolly, ‘The Structure of Russian Industrial Exports in Comparative Perspective’, *Eurasian Geography and Economics*, Vol.49, No.5 (2008), pp.586–603; O. Garanina, ‘What Beyond Oil and Gas? Russian Trade Specialization in Manufactures’, *Post-Communist Economies*, Vol.21, No.1 (2009), pp.1–29; H. Balzer, ‘Obuchenie innovatsiyam v Rossii i v Kitae’ [Learning to innovate in Russia and China], *Pro et Contra*, Vol.14, No.3 (2010), pp.52–71.

Organization for Economic Co-operation and Development (OECD) Economic Surveys, Russian Federation (Paris: OECD, 2009), p.21.

For example, Cyprus has consistently been a major source of foreign direct investment in Russia.

Cameron Ross, Local Politics and Democratization in Russia (London: Routledge, 2008), pp.116-18; I. Sinitina, Experience in Implementing Social Benefits Monetization Reform in Russia: Literature Review (Warsaw: Case Network Studies & Analyses, 2009).

The democratic governance score here is a composite of the scores for Voice and Accountability, and Political Stability. The public and economic governance score is a composite of the scores for Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption.

Clifford Gaddy and Barry Ickes, Russia's Virtual Economy (Washington, DC: Brookings, 2002).

I.N. Ustinov, Mezhdunarodnye ekonomicheskie otnosheniya Rossii. Entsiklopediya statisticheskaya [Russia's international economic relations: A statistical encyclopedia] (Moscow: Ekonomika, 2004), pp.136-7.

Rudiger Ahrend, 'Russia's Post-crisis Growth: Its Sources and Prospects for Continuation', Europe-Asia Studies, Vol.58, No.1 (2006), pp.1-24 (pp.15-16).

Eteri Kvintradze, 'Russia's Output Collapse and Recovery: Evidence from the Post-Soviet Transition', IMF Working Paper No.89 (Washington, DC: IMF, 2010).

International Monetary Fund, Russian Federation: 2007 Article IV Consultation – Staff Report: Staff Statement and Public Information Notice on the Executive Board Discussion (Washington, DC: IMF, 2007), p.6.

OECD, Russian Federation, p.28.

The sectors were retail banking, housing construction, retailing, electricity generation and steel production: see McKinsey Global Institute, *Effektivnaya Rossiya: proizvoditel'nost' kak fundament rosta* [Efficient Russia: productivity as the foundation of growth], available at <http://www.mckinsey.com/mgi/publications/lean_russia>, accessed 24 April 2009.

OECD, Russian Federation, pp.25-6.

Richard Connolly, 'Financial Vulnerabilities in Russia', Russian Analytical Digest, No.65 (2009), pp.2-6 (p.4).

On the fund's foundation and some of the principles involved, see A. Kudrin, 'Stabilizatsionnyi fond: zarubezhnyi i rossiiskii opyt' [Stabilization fund: foreign and Russian experience], Voprosy ekonomiki, 2006, No.2, pp.8-45; E.T. Gurvich, 'Formirovanie i ispol'zovanie Stabilizatsionnogo fonda' [Foundation and utilization of the Stabilization fund], Voprosy ekonomiki, 2006, No.4, pp.31-55, O. Dmitrieva, 'Formirovanie stabilizatsionnykh fondov: predposylki i sledstviya' [Formation of stabilization funds: assumptions and consequences], Voprosy ekonomiki, 2006, No.8, pp.17-30.

Vladimir Putin, 'Speech at Expanded Meeting of the State Council on Russia's Development Strategy through to 2020', Johnson's Russia List, 2008, No.29, 11 Feb. 2008.

Ya. Pappe and A. Zudin, 'Chto razvivayut "instituty razvitiya"?' [What do 'development institutes' develop?], available at <<http://www.politcom.ru/article.php?Id=6708>>, accessed 22 Jan. 2009.

B. Makarenko, 'Vozmozhna li v Rossii modernizatsiya?' [Is modernization possible in Russia?], Pro et Contra, Vol.12, Nos. 5-6 (2008), No. 29, pp.33-47.

See, for example, the discussion of the 'Long-term fiscal sustainability of the Russian Federation' in the World Bank's Russian Economic Report, No.16 (2008), pp.17-20, published just as the international crisis was about to hit Russia.

For a description of how crisis hit Russia, see Krizisnaya ekonomika sovremennoi Rossii [The crisis economy of contemporary Russia] (Moscow: Institut ekonomiki perekhodnogo perioda, 2010), esp. pp.10-19.

See the list of beneficiaries in Gosudarstvenii universitet – Vysshaya shkola ekonomiki (GU-VES), Mezhvedomstvennyi analiticheskii tsentr (MATs) [State University – Higher School of Economics, Interdepartmental Analytical Centre], 'Otsenka antikrizisnykh mer po podderzhke real'nogo sektora rossiiskoi ekonomiki' [Assessment of anti-crisis measures for support of the real sector of the Russian economy], Voprosy ekonomiki, 2009, No. 5, pp.44-6.

Charles Clover, 'Russians Resort to Bonds and Barter', Financial Times, 26 March 2010, available at <<http://www.ft.com/cms/s/0/3e4690ae-38f0-11df-9998-00144feabdc0.html>>, accessed 27 March 2010.

See World Bank, Russian Economic Report, No.21 (2010), p.11.

N.K Akindova, S.V. Alekashenko and E.G. Yasin, 'Scenarios and Challenges of Macroeconomic Policy', Report at XII International conference on economic and social development, Moscow, 5-7 April 2011 (Moscow: HSE Publishing House, 2011), p.5.

Ibid, p.13.

See, for example, the assessment in Gosudarstvenii universitet – Vysshaya shkola ekonomiki, 'Otsenka antikrizisnykh mer'.

S. Dzarasov, 'The Russian Crisis: Sources and Lessons', Problems of Economic Transition, Vol.52, No.5 (2009), pp.52-73 (p.66).

Medvedev, 'Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii, November 12, 2009'.

Additional information

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Neil Robinson teaches at the University of Limerick, Ireland. Recent publications include *State-building: Theory and Practice* (2007; edited with Aidan Hehir), and *The Sage Handbook of Comparative Politics* (2009, edited with Todd Landman). Some of the ideas about patrimonial capitalism in this essay were floated at a seminar at St. Antony's College, Oxford, in January 2010, and at a European Consortium for Political Research workshop in March 2010. My thanks to participants at these two events for their comments and thoughts, and especially to Paul Chaisty, Patrick Köllner and Steffen Kailitz.

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