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The institutional implications on long-term economic growth:

The case of Russia's extractive institutions

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Abstract

Russian political economic development since the dissolution of the Soviet Union has been characterized by an initial call for modernization and subsequent return to conservativism, both culturally and politically. Indeed, Russia and other post-Soviet states have endeavored the pursuit of socio-economic reforms, which were undermined by the persistent reliance on extractive political institutions and reliance on informal relations, often giving rise to corruption. This political and economic order proved to be incompatible with the priorities of modernization by dictating the preservation of the status quo through the reinforcement of the hierarchy of patron-client bonds, rent seeking behavior, and conditional property.

The purpose of this dissertation is to analyze the impact of institutions, largely based on clientelistic ties aimed at ensuring the rent seeking by the ruling class, on Russia's political economic development since the 1990s and to determine their impact on the economic trajectory of Russia.

Furthermore, in order to determine the specificities of Russian development, this dissertation includes a comparative analysis with the economic development in China, proving that this type of politico-economic order isn't necessarily incompatible with high economic growth.

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1. Introduction

Following the disintegration of the Soviet Union, Russia undertook a transformation from a centrally planned economy to a market economy, which is still far from being complete. Since the 1990s, a combination of institutional challenges and special interests inherited from the Soviet period has hampered the decisive transition to a new, prosperous, and competitive market economy. Indeed, Russia currently combines weak market institutions, which disregard property rights and cannot foster entrepreneurial activity or limit rent-seeking behaviours, with an authoritarian political system, which hinders the establishment of democratic institutions and diminishes the role of the rule of law. Such a scenario presents a significant risk to Russia’s long-term economic development.

The present dissertation aims to investigate the reasons that prevented Russia from undertaking a path of long-term economic development and reaching a level of income equal to that of the most advanced countries. This is a matter of great importance, given the vastness of the country and the opportunities that have opened up within it in recent years. It is also an extremely topical issue, given the role that Russia has played and still plays in determining international geopolitical balances.

The following research moves from the idea that Russian extractive institutions and informal practices, namely hampered the growth of the state's economic facilitation capabilities and weakened reforms in the 1990s and 2000s.

This dissertation is divided into three chapters: the first provides an institutional framework to understand better what problems were hampering Russia’s rise to economic sustainability; the second gives an account of the evolution of the Russian economy from the dissolution of the Soviet Union until the early 2010s; the third chapter is a comparative analysis of the Russian and Chinese economies, which aims to identify the reasons for the Chinese success, on the one hand, and the Russian failure, on the other. It compares the economic evolutions of the two countries, highlighting their differences and similarities.

Starting from the theories of D. Acemoglu & J. A. Robinson, A. Aslund, U. Becker & A.Vasileva, W. J Baumol, R. E. Litan & C. J. Schramm aims to show how economics and politics constitute closely interconnected aspects in the development processes. In other words, it is the quality of institutions – understood as systems of rules that bind and guide the actions of individuals, organizations and societies – that depends on the long-term growth of a country. For a nation to be able to start a sustainable growth process based on innovation and the development of human capital, it is necessary for political institutions to foster the pluralistic interests of society and to support the creation of inclusive economic institutions, which are capable of guaranteeing respect for property rights, encourage entrepreneurial activity and make possible a fair distribution of resources. On the contrary, it is improbable that extractive institutions, which allow the centralization of power and wealth in the hands of small interest groups, will lead a nation to economic growth and prosperity. In the light of these considerations and an institutional analysis of the Russian economy, an attempt has been made to show that Russia's inability to achieve sustainable growth can be attributed precisely to the presence of extractive political and economic institutions. Indeed, Russian political institutions, although formally democratic, remain, in reality, anchored in an authoritarian logic, creating conditions that foster uncertainty, corruption and predatory attitudes on the part of the elite in power.

Furthermore, an attempt has been made to show how this system of extractive institutions and, most importantly, the informal institutions – such as patron-client relationships and other clientelistic practices – that guide social behaviour, which are therefore the result of a cultural and political process sedimented in the history of a country – can be a limit or an incentive to promote development. Indeed, the dissertation aims to explain how the growth of Russian state potential has been hampered by the prevalence of informal practices such as patrimonialism, which can be described as the informal patron-client relations and private appropriation of the public domain by political and bureaucratic officials. On the other hand, these practices were also widely used in China, which, contrarily to Russia, could carry out a sustained and successful development.

There are evident methodological issues in measuring these practices. To begin, the concealed nature of informal practices makes identification and estimation difficult. Furthermore, researchers must depend on the willingness of participants to expose what they do, which makes data collection challenging. In addition, in various contexts, similar activities may have different interpretations and functions. Nevertheless, with these limits in mind, some interesting assumptions regarding the relevance of informal traditions can also be made.

Lastly, by comparing the Russian and Chinese economic transitions, we consider the causes that brought to the acknowledged success of the Chinese transition and the 'failure' of the Russian one. The first element considered is the policy choice embraced by each government. The other is the initial conditions of both countries. This dissertation compares and contrasts the development of the Chinese and Russian economic systems and processes of economic change over the last few decades in order to identify the determining force in China's relative success and Russia's relative failure.

2. Theoretical framework

2.1 The Concepts of Patrimonialism and Neopatrimonialism

In what terms does patrimonialism offer us a different and more convincing vision in characterizing an institutional regime in which the rule of law and property rights are not enforced? In order to answer this question, we must first briefly analyze what patrimonialism is and its origin.

The scholar Max Weber (1978) coined the concept of 'patrimonialism' in his unfinished work Economy and Society. Here Weber devices the concept of 'ideal type', a methodological, conceptual tool used to explain historical phenomena. We differentiate between ideal types and empirical cases in the Weberian tradition. The ideal types are theoretical models based on comparative empirical information and services to facilitate comparative analysis. On the other hand, empirical cases are hybrids that mimic ideal types to a limited extent and incorporate elements from many kinds of ideal types.

In Weber's patrimonial ideal type, administration and a military force were purely personal instruments of the prince. Indeed, the patrimonium [paternal estate in Latin], was considered part of a prince's household administrations, and he could exploit it as he liked. Such personalism is the defining criterion of patrimonial domination, and it evokes the possibility of bribery and corruption. Therefore, the essential trait of patrimonialism is the overlapping between the public and private spheres of society since both are owned by the ruler as a source of personal wealth. Weber's concept of patrimonialism was used to define a political system in which rulers exert power based on informal personal allegiances such as family and kinship ties or patron-client relations.

Since the 1960s, the idea of patrimonial rule has gained popularity in social sciences, studying Latin America, Asia, and later Africa (Bach, 2011). Eisenstadt (1973) resolved the ambiguity surrounding the adaptation of a principle synonymous with the traditional rule, such as patrimonialism, to modern states by coining neo-patrimonialism. Thus, the prefix 'neo-' came to describe the coexistence between legal-rational and patrimonial components inside a political system. Around the same time, neo-patrimonialism became synonymous with predatory, "anti-developmental" modes of politics, gaining a negative connotation (Bach, 2011).

Following the perspective on patrimonialism given by Becker and Vasileva (2017), the term is used to describe an additional ideal type of state administration or governance, rather than a state administration or governance type. (theoretical model) of capitalism of political economy. Thus, although it is not part of the traditional comparative capitalism framework, it may be considered relevant to understanding the specificities of political economies of the BRICs and Russia, in particular. Becker and Vasileva contend that patrimonialism should be considered as a distinct ideal type for two reasons. First, instead of seeing it as an incidental feature of particular social arrangements, our scholars consider patrimonialism as a specific institutional concept concerning the politico-economic structure of a society as a whole and affecting both requirements for the development of an ideal type – state-economy relationship [1] and capital-labour relationships[2]. Second, because of its prevalence in most political economies outside of North-Western Europe and former American and Oceanian settler colonies, they acknowledge patrimonialism as an ideal type in its own right. In their definition, Becker and Vasileva (2017) position patron-client relations between political and economic elites at the centre of the principle of ideal-typical patrimonial capitalism. Recalling the definition by Weber, they explain how patrimonial capitalism deeply penetrates the social fabric. Thus, for example, the ruling classes view society as their own domain; the lack of separation between office and office-holder allows for the private appropriation of public services for personal benefit; the State intervenes in the economy based on political and particularistic interests, unlike the statist type, where the State controls the market based on universalistic rules; managers, on the other hand, see performing business functions as a legal way of enhancing their personal wealth.

Capital–labour relations are focused on clientelistic arrangements between managers and workers rather than institutionalized collaboration. The economy is traditionally dependent on rents (for example, from natural resources), critical to patrimonial capitalism's preservation since they support the rent-seeking ruling class and their cronies in businesses while still allowing patronage in society. Patrimonialism, consequently, may undermine the common good and economic development: ownership office holding may be associated with corruption. In contrast, the State may become a "vehicle through which rapacious elite groups commandeer the resources and property of others" (Robinson, 2013). Above a certain threshold, patrimonial exchanges are said to erode the coordinating State's capability and competitiveness and meritocratic values and thus can jeopardize the market's and the economy's overall efficacy (Robinson, 2013). However, this point should be used with caution because China, considering its heavy patrimonialism, has shown the potential to spark technical development. Moreover, during times of change, when space for the entrepreneurial initiative was sought by businessmen bribing state officials, Chinese patrimonialism may have aided

[1] involves the nature of economic policy, employment rights, and the welfare component, product-market regulation, company privatization/nationalization, and wage (non-)regulation, as well as supply and demand (Becker and Vasileva, 2017)
[2] involves union–employer and management–employee interactions, as well as corporate governance and stakeholder–shareholder interactions (Becker and Vasileva, 2017)

economic growth. Other examples that indicate the coexistence of patrimonialism and successful economic development are Indonesia and the Asian Tigers (Bach, 2011).

The problem with the concept of patrimonialism is that it can give rise to instability and uncertainty about the future. As stated by Robinson (2017), this uncertainty could be caused by the fact that the building of state capacity poses a threat to the ability of elite groups to use state resources for private ends.

Therefore, the question arising in a patrimonial system is whether regime consolidation can maintain social order and national security even with a weak state. Political development in a patrimonial space faces the difficulty of constructing a functional relationship between regime and State. Hence, building state capacity means to claim resources that might otherwise be used for regime consolidation and, consequently, weakening patronage and personalism. This corresponds to what political science literature identifies as "the problem of weak states" (Acemoglu, 2005). An important difference evidenced by D. Acemoglu (2005) is that we must acknowledge the self-interested behaviour of the rulers and agents controlling the State. Indeed, the problem arises because, with only limited power of the State to raise taxes in the future, the ruler has no interest in increasing the economy's future productive capacity.

2.2 Extractive institutions

There are fascinating insights into the paradigms of "patrimonialism" and "personal rule", particularly regarding the prevalence of extractive politico-economic institutions in the paradigm.

In *Why nations fail* (2013), D. Acemoglu e J. A. Robinson distinguish two types of political and economic institutions: inclusive and extractive institutions. The former is characterized by broad-based economic incentives and opportunities and a strong state, while the latter is not, instead power is narrowly concentrated, and there is a weak state. These institutions are the consequence of social choices heavily influenced by political institutions. Indeed, inclusive economic institutions are the consequence of inclusive political institutions, while extractive economic institutions are the consequence of extractive political institutions. Inclusive institutions foster the recognition of property rights and contracts, thanks to which entrepreneurial activity, education, and the introduction of new technologies to the market are encouraged. Once a state chooses to adopt such institutions, it enters a 'virtuous circle', meaning that the distribution of resources created tends to reproduce the distribution of power that led to it. In this virtuous circle: laws cannot be used by one group to infringe on the rights of others. Instead, laws are used to prevent monopolies' formation, generate a dynamic economy, and allow the emergence of independent media, which informs individuals of possible threats. The State acts with and for the economy, providing those public services — infrastructure, road networks and railways — which require a cost and coordination such that they cannot be provided privately, but they are essential for the proper functioning of society.

On the contrary, extractive institutions deny the protection of property rights, freedom of trade and inhibit individuals to the point of making them unproductive (Acemoglu & Robinson, 2013). Moreover, these institutions do not guarantee the existence of an impartial legal system and are manoeuvred by the elite's will to take possession of the wealth produced by society. Once a state chooses to adopt such institutions, it enters a 'vicious circle' in which: the economic institutions allow those who have access to power to accumulate more economic wealth, expropriating the resources of others and constituting monopolies.

The question which naturally arises is why a state would choose extractive institutions rather than inclusive one's? Acemoglu and Robinson (2000) argue that inefficient economic institutions are usually chosen to solidify the political power of elites. In this regard, the economic institutions that generate growth are advantageous for some but disadvantageous for others. According to the economist Schumpeter, economic growth brings about a process of ‘creative destruction’, producing 'winners' and 'losers' and creating a natural tension within society even when it is growing because the livelihood of industries, firms and even individuals can be destroyed. However, there is a conflict of interests at play since "the distribution of resources cannot be separated from the aggregate economic performance of the economy" (Acemoglu, 2012). This implies that even when institutions fail to maximize their growth potential, an economy can create benefits for some parts of society, namely the elite, who will then favour the reproduction of these institutions, giving rise to a ‘vicious’ circle. This is well portrayed by Acemoglu and Robinson (2000), who, referring to the attitude of the landed aristocracy to the rise of industrialization, say:

"Our hypothesis is that landed interests, which uniformly controlled political power on the eve of the Industrial Revolution, opposed the rise of manufacturing in countries where their political power was threatened, such as Russia and Austria-Hungary, but not in societies where they could maintain their political power, such as in Britain and Germany" (Acemoglu & Robinson, 2000).

Nevertheless, in light of historical examples, we must acknowledge that growth is possible in extractive institutions. This is achievable either because the ruling authority is central and robust enough to control high-productivity economic sectors and channel all the resources needed for those sectors to grow or because extractive institutions allow for even partial development of inclusive economic institutions. Nonetheless, the economic growth generated by extractive institutions is unlikely to be long lasting; it is not sustained growth, nor can it start the ‘creative destruction’ necessary for the technological advancement of the country (Acemoglu & Robinson, 2013).

Stalin's USSR is a clear example, also used by Acemoglu and Robinson (2013), of rapid but not sustained growth. The rapid economic growth, based on the relocation of the workforce towards industrialization and the increase of capital in terms of machinery and factories, was not enough to start a sustainable economic development, obtainable only through technological change.

As a consequence, during the 70s, growth slowed down and then totally collapsed. Moreover, in the presence of extractive institutions, economic growth is temporary due to internal strife generated by these extractive systems. Indeed, this system tends to generate conflict. Oftentimes these internal conflicts can degenerate into civil war, leading to the fragmentation of state power and, in the worst cases, to anarchy. Hence, there is a chance that even if growth takes place in extractive systems, which may leave room for inclusive institutions, these institutions could become more extractive by holding back development (Acemoglu & Robinson, 2013). Those who manage to overthrow the old elite due to domestic struggles, promising radical transformations of society, rarely change the pre-existing system. In some cases, they replace "one tyranny with another" (Acemoglu & Robinson, 2013). This is the basic principle of what Acemoglu e Robinson (2013) define as the "iron law of oligarchy", the new leaders replace the former elite to exploit the same extractive system to their advantage and, even in the presence of partially inclusive institutions, they will, over time, benefit more from restricting the freedoms of individuals, competition, and enrichment through appropriation of other’s property. A classic example is the establishment of communism, which was theoretically meant to generate prosperity in the presence of more humane and less unequal conditions. However, on the contrary, it brought about, even outside the Soviet Union, dangerous dictatorships and extensive violations of human rights. Ironically the logic of the iron law of oligarchies resembles Karl Marx's remark that "history repeats itself—the first time as tragedy, the second time as farce" (Marx, 1994).

Even so, how can an extractive political system become an inclusive system? In the historical path of a country, specific events or a set of factors can radically alter its economic and political balance; these are known as 'critical junctures' (Acemoglu e Robinson, 2013). Each juncture is a 'double-edged sword' since it can represent a positive change, such as breaking a cycle of extractive institutions favouring inclusive institutions or a negative change, which may involve strengthening an authoritarian regime and its extractive institutions. For extractive institutions to break the mould, there must be an interplay between critical junctures and existing institutions. Hence, elements that are already present in the extractive system of the country can either be strengthened or, if these elements are lacking, a coalition of individuals may attempt to overthrow the pre-existing regime and propagate growth mechanisms. Acemoglu and Robinson (2013) also add that we must not undermine the 'luck' factor since "history always unfolds in a contingent way"(Acemoglu e Robinson, 2013).

In Russia, a critical juncture began with the fall of the Soviet Union in 1991 and lasted until the end of March 1992. In this time frame, the Russian Federation has presented the opportunity to end the extractive system that had characterized it for many years and develop more inclusive economic and political institutions. Unfortunately, this opportunity was only partially seized by the Russian Government. The first President of the Russian Federation, Boris Yeltsin, faced with a rampant economic crisis, decided to exploit this opportunity to carry out the economic reforms necessary to dismantle the centrally planned economy and replace it with a market economy. The radical yet straightforward economic reforms had the support of the majority and succeeded; on the contrary, the reform of political institutions in the direction of democracy was postponed and considered less urgent. The same policy was also followed by Yeltsin's successor, Vladimir Putin, who, after taking office in the spring of 2000, took advantage of the fragility of the political institutions to create a strongly centralized and authoritarian state: a 'managed democracy' (*upravljaemaja demokratija*) (Aslund, 2007).

Alas, the recent growth of authoritarian Russia due to the increase in the value of natural resources is unlikely to be long-lasting and give rise to a profound transformation of the political extractive system in the wake of inclusive institutions. Indeed, the Russian Federation will enjoy long-term economic growth only by freeing itself from the serfdom of authoritarianism and moving towards an authentic democracy.

2.2.1 The Resource Curse or the Institutional Curse?

In recent years Russia has been recognized as a prominent example of resource-based development, with the oil sector stimulating strong economic growth. However, as Rudiger Ahrend (2005) points out in his article *Can Russia Break the "Resource Curse"?*, there is still an open debate about whether Russia's resource abundance is a blessing or a curse. Different opinions have been expressed throughout time about the impact of natural resources abundance on the economic performance of countries. While in the 1950s and 1960s, many economists, such as Viner (1952), Lewis (1955) and Spengler (1960), viewed abundant natural resource endowments as facilitating a country's rapid development, in recent decades, many have come to see natural resources as an obstacle to a country's successful development. By the 1980s, a new scholarly view had risen, suggesting that opposing economic, social, and political outcomes may arise from the abundance of natural resources. Later, they were linked to poor economic efficiency, lower levels of democracy, and even civil war. Hence, the expression "Resource Curse" came to emergence.

According to the IMF, a resource cursed country is one where at least 20% of exports or fiscal revenues are due to non-renewable natural resources. Indeed, according to the data illustrated by Ahrend (2005), natural resource industries in Russia accounted for roughly 70% of the increase in industrial output between 2001 and 2004, with the oil sector responsible for just under half of it. Moreover, the oil industry, which expanded by more than 70% between 2000 and 2005, was predominantly responsible for the substantial rise in export volumes.

The expression "Resource Curse" encompasses a wide range of social, technological, and political interpretations. The expression refers to a group of characteristics that, whether together or separately, pose a threat to oil, gas, and mineral-rich countries. Nonetheless, it does not represent an inevitable faith. Overwhelming possession of natural resource can be either a "curse" or a "blessing".

One of the earliest explanations as to how resource dependency hinders growth was the "Dutch Disease"[3]; the expression stems from the Dutch economic crisis of the 1960s following the discovery of North Sea natural gas. It describes the impact of a foreign currency inflow from commodity exports. Here the country's non-mineral exports are less affordable on the global market due to the local currency appreciation.

In recent years, as more detailed econometric analysis has been undertaken, questions regarding the "Resource Curse" theory have started to arise. Two economists at the World Bank, Daniel Lederman and William Maloney (2006, 2008), questioned the validity of the attempts to generalize the impact of natural capital on growth and development. They argued that some of the measures used in previous studies might have little to do with relative natural resource endowments. They concluded that economists have been attempting to generalize regarding the impact of resource abundance while failing to identify which feature is negatively affecting productivity precisely. While the macroeconomic explanation focused on the Dutch Disease and price volatility, a group of institutional economists formed a counterargument, arguing that institutional weaknesses are the primary constraint to resource economy development.

There are two schools of thought within this institutional approach. The first sees the Resource Curse essentially as an 'institutional curse' (Menaldo, 2016). This is based on the Resource Curse theory and sees abundant natural resources as a cause of institutional decay and corruption within the ruling

[3] The *Financial Times* Lexicon defines it in the following way: "Dutch disease is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country's other products less price competitive on the export market. It also leads to higher levels of cheap imports and can lead to deindustrialization as industries apart from resource exploitation are moved to cheaper locations."

class, affecting growth and development. The second, 'institutionalism', focuses on institutions as well, but the causality is in the opposite direction. Countries with plentiful natural resources are not doomed to create poor institutions; instead, weak institutions are the cause of growth and development declines (Rosser, 2006). These two approaches have a common ground in stressing the vital role of institutions, yet their policy implications are discording. According to the 'institutional curse' theory, natural resources are the challenge, and the solution is ultimately to reduce economic dependence on resource exports. Instead, resources *per se* are not the problem, or at least not the main issue, for the institutionalist approach. Several countries – such as Australia, Canada, and Chile, which are resource economies to a varying degree – show how a significant share of natural resource exports can coexist with a well-developed institutional structure. As a result, policy proposals aim to strengthen the institutional framework, which is seen as a crucial element deciding the growth direction of resource economies.

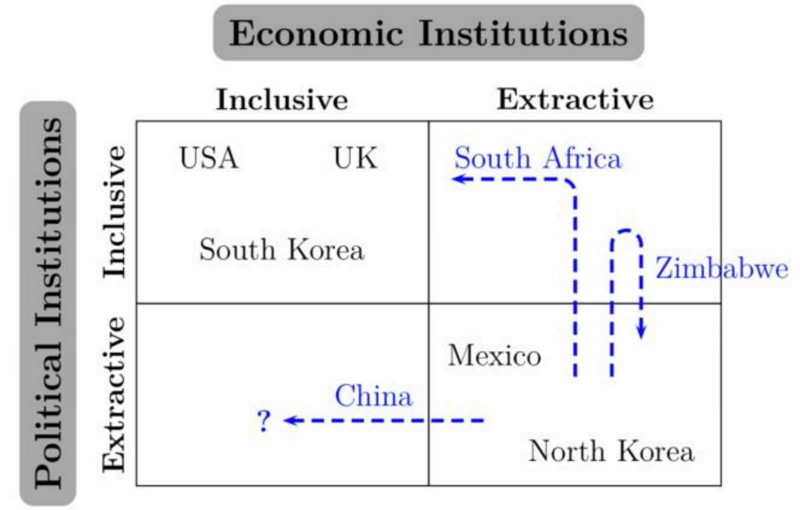
Nonetheless, we must stress how no ultimate consensus arises, and the outcomes of analyses of resource-abundant countries' performances vary significantly depending on the data used and the periods examined. However, the purpose of this dissertation is to emphasize how political and social conditions allow certain resource-rich countries to use their natural resources to support growth while preventing other resource-rich countries from doing so, rather than asking why natural resource wealth has fostered multiple political pathologies and, as a result, encouraged poor development efficiency.

2.2.2 The Institutional Equilibrium

Acemoglu and Robinson (2019) summarize the combinations of political and economic institutions and their possible outcomes by using a simple matrix, as shown in Figure 1. Along the columns are the two different types of economic institutions, extractive and inclusive. While on the rows are the types of political institutions. The bottom right and the top left cells are very stable since, as we have mentioned, they create self-reinforcing systems (vicious and virtuous circles) which tend to reproduce the institutional equilibrium. The question of how to move from the bottom right cell to the top-left cell is exposed in the 'problem of development' (Acemoglu & Robinson, 2019).

The movement through one of the off diagonals seems the most likely option since they combine extractive and inclusive institutions. However, these are unstable, and the probabilities of success depend on the individual cases. As represented in Figure 1, South Africa represents a successful transition from an extractive system to an inclusive one. This was possible because the movement towards inclusive political institutions could lead to momentum for more inclusive economic institutions. Indeed, according to the theory of Acemoglu and Robinson (2019), politics drives

Figure 1. THE INSTITUTIONAL EQUILIBRIUM



Source Acemoglu, D., & Robinson, J. A. (2019). Rents and Economic Development: The Perspective of Why Nations Fail.

economics. Therefore, if the movement towards inclusive political institutions is not consolidated, this may lead to the reversal, as was the case for Zimbabwe, which had to move back to the bottom right of the matrix.

The opposite cell of the matrix, the bottom left cell, is also unstable. Here we can witness the combination of inclusive economic institutions with extractive political institutions. In the figure, China is used as the prime example. Starting from 1978, China was characterized by poverty, low productivity, and backward technology (Acemoglu & Robinson, 2019). . Thanks to successful reforms, it was able to move its economic institutions towards inclusivity and flourish economically. However, China was experiencing what Acemoglu and Robinson (2013) call 'extractive growth' [4]. This was also the case of the Soviet Union between the 1920s and the 1970s.

Unfortunately, these experiences may not hold. The reason is that having extractive political institutions makes it more likely for political power to be unchecked and concentrated. Consequently, this power ends up getting exploited to the detriment of the economy (Acemoglu & Robinson, 2019).

Furthermore, the stability of the bottom right and top left cells is not set in stone. As mentioned previously in section 2.2, institutional change can be caused by 'critical junctures'. These are big shocks that can alter circumstances, power distributions, and trade-offs, leading to substantial institutional alterations depending on a country's initial conditions.

[4] The experience of economic growth under inclusive economic institutions and extractive political institutions.

2.2.3 Key elements of extractive institutions

Let us sum up the three fundamental variables of the patrimonial regime by employing the concept of extractive institutions from D. Acemoglu and J. Robinson (2019). These variables are: personal rule, rent-seeking, conditional property. They could help understand the characteristics of society's political and economic factors and the specificity of its bureaucracy.

1. Personal rule. As mentioned in part 2.1, personal rule is based on material incentives and rewards rather than on the ruler's personal qualification. Here the state-society nexus consists of a hierarchy of informal patron-client relationships. Decision-making is concentrated in one centre of political power and exercised through personal ties. As we have previously mentioned, this makes up an informal 'core', representing Weber's traditional patrimonial form of domination.

   Consequently, the rational-legal bureaucratic system is structured as a by-product of the patron-client resource distribution and is relevant as long as it is instrumental for securing and maximizing rent extraction. Acemoglu and Robinson (2013) define such political arrangements as extractive since they concentrate power in the hands of a selected elite and place few constraints on the exercise of this power. This restricted elite, in turn, provides economic institutions to extract resources from the rest of the society.
2. The Economist defines *Rent-seeking* as "cutting yourself a bigger slice of the cake rather than making the cake bigger." It is the pursuit of economic rent by manipulating the social or political environment, for example, through unions, firms, or lobbies, rather than by creating new wealth. It entails the extraction of uncompensated value from others while not contributing to productivity in any way. Rent-seeking and personal enrichment are the significant goals and substantive purposes for the political class to govern the State at all levels of authority. The ruling groups use the public sphere as their private domain to appropriate public wealth. Thus, the functioning of formal bureaucratic institutions is directed towards the perpetuation and reinforcement of ruling groups' power to maximize rent and safeguard the continuity of its extraction (Erdmann and Engel 2007). In describing extractive institutions, Acemoglu and Robinson (2019) explain that the word 'extractive' is chosen because these institutions have important distributional effects.

   Moreover, they follow the notion of 'rent-seeking' proposed by Tullock (1967), who argues that "the welfare costs of a distortionary economic institution, such as a monopoly, are much higher than the static deadweight losses would suggest" (Acemoglu & Robinson, 2019). This is because while some individuals invest to capture the rents, others invest in order to protect themselves from such rent-seeking. Tullock (1975) further demonstrated that rents tend to be capitalized to benefit only the initial incumbents, thus making future rent holders highly resistant towards reforms which would promote efficiency, "extractive institutions are designed to create and capture rents - induce a return on an asset which is greater than its next best alternative" (Acemoglu & Robinson, 2019).

3. Conditional property. The autonomy of domestic political and economic actors vis-à-vis this neo-patrimonial centre is conditional, meaning that it can be reduced and/or abolished at any given moment by an informal decision which would be afterwards formally legalized by the official institutions (Gel'man, 2015). Political position and influence are the main determinants of any property right, and these exist so long as they possess sufficient personal sway within the informal patron-client network to secure it. In such kinds of extractive institutions, the higher the level of economic engagement, the more necessary to have a well-established patronal network to stay afloat.

2.2.4 Models of capitalism

In order to make the framework more complete, let us proceed to view how successes and failures in human development are joint products of capitalist dynamics and state functioning. The issue is that the functioning of the State and capitalism are jointly determined due to the extent to which both their behaviour is oligarchic, extractive, and exploitative compared to being inclusive, innovative, and effective at mediating distributional conflict. Thus, the paradigm formulated by Acemoglu and Robinson on extractive and inclusive institutions is, in fact, also relevant to forms of capitalism. Indeed, there is an analogous contrast in performance between relatively oligarchic, extractive states and effective, inclusive states depending on the forms of capitalism they adopt.

Despite the tendencies to characterize capitalism as a monolithic form of economic organization, without differentiation between countries in which it is found, the characteristics of capitalism vary profoundly from country to country due to cultural context, historical circumstances, different economic organization, and the role that the Government has on the economy (Baumol et al., 2007). For these reasons, in every country, different forms of capitalism are created, which can be useful for economic development or negatively affect economic performance. The models of capitalism identified by W. J. Baumol, R. E. Litan and C. J. Schramm (2007) are four: state-guided capitalism, oligarchic capitalism, big-firm capitalism, and entrepreneurial capitalism. It should be noted that the present forms of capitalism are not imposed from above by a central authority, and therefore nothing prevents that, through a change in the institutional structure, economies can move from one system to the other, choosing a more or less virtuous model. In addition, the element that unites and makes such systems "capitalist" is the fact that all four recognize the existence of private property.

Firstly, state-guided capitalism claims that the Government, and not private investors, decide which industries should grow and choose the so-called market 'winners' (Baumol et al., 2007). To maximize economic growth, the State directs resources to certain enterprises and sectors. Although this type of capitalism may seem similar to the centrally planned system in the former Soviet Union, state-guided capitalism remains a capitalist economic system. Since the State recognizes and applies property rights and contracts, prices of goods and services drive markets. Some small/medium-sized enterprises remain in the hands of private individuals (Baumol et al., 2007). The State guides the economy through the implicit or explicit ownership of banks, which are the main instrument through which the resources of savers are transferred to investors (Baumol et al., 2007). In addition, the State reserves the right to choose the winning sectors of the market by favouring them through preferential taxes, exclusive production licenses and contracts with the Government itself. Nevertheless, could state capitalism be a model of success and last in the long run? The answer is yes, but only in the case in which state-guided capitalism was to succeed in freeing growth through technological advancement and overcoming some internal weaknesses that distinguish it (Baumol et al., 2007).

Capitalism is instead defined as oligarchic when government policies are aimed exclusively at promoting the interests of a small and wealthy group of the population or the interests of the incumbent autocrat and his circle of family and friends (Baumol et al., 2007). Unlike in state-guided capitalism, where economic growth is not the Government's foremost objective, which is instead committed to maintaining the status quo and the privileges of the oligarchs (Baumol et al., 2007). The only reasons that drive the elites of this system to promote growth are, on the one hand, the interest to curb the manifestations of popular discontent and, on the other hand, the need to extract from society an increasing amount of wealth for personal enrichment (Baumol et al., 2007).

Although oligarchic systems are different depending on the country in which they originate, they share some common characteristics that hinder the growth of the economy (Baumol et al., 2007):

- significant inequality in the distribution of income: The Government allocates resources in an inefficient and distorted way, favouring policies that benefit a few individuals at the expense of the entire population.
- the presence of a large informal sector: oligarchic systems contrast certain economically constructive activities, such as the sale of goods and services and the construction of buildings, which are obliged to operate illegally in the informal sector. These activities are not legally registered and are not taxed. As a result, they decrease the overall wealth of society.

- corruption: it undermines the foundations of entrepreneurial activity by destroying entrepreneurial incentives to introduce technological innovations and start new businesses. The increase in the cost of doing business discourages not only domestic investments but also foreign ones.
- the abundance of natural resources: the rise in oil and natural gas prices channel wealth into oligarchic systems that remain stable and rich at the expense of the population. To describe oligarchic capitalism Thomas Friedman, a famous New York Times journalist, formulated what he calls "the first law of petropolitics", according to which "[…] in oil-rich economies the price of oil and the pace of freedom always move in opposite directions" (Baumol et al., 2007).

Then we have big-firm capitalism. It is an economic system dominated by large companies owned by several shareholders, including insurance companies, universities and foundations (Baumol et al., 2007).

Large companies are supported mainly by the Government as the only entities capable of achieving economies of scale and progress. However, sometimes such a form of capitalism tends to be oligopolistic: characterized by a small number of large companies operating in small markets and can influence prices and restrict competition (Baumol et al., 2007). Such oligopolies generate enormous profits for large companies, but they harm consumers because of the high prices. In the best-case scenario, large companies, thanks to their huge profits, can finance at a low cost the research and development of new products necessary for the growth of society. In the worst-case scenario, because these companies do not have competitors, they are reluctant to innovate, change, and most likely develop rent-seeking behaviour towards the State (Baumol et al., 2007).

Lastly, there is entrepreneurial capitalism. This is the capitalist system in which many actors in the economy have constant incentives to innovate and bear production costs and trade in innovations (Baumol et al., 2007). Such technologies would not be possible without these entrepreneurs, who acknowledge the opportunity to create and sell a good or service that did not previously exist on the market. In this system, entrepreneurs risk innovating because they know they are operating in an economy free from state influence, but where they are protected by an impartial judicial system and by safe laws on fundamental rights (Baumol et al., 2007). According to Baumol (et al., 2007), entrepreneurial capitalism is, therefore, the only model truly capable of making radical innovations and changes in the economy.

According to William J. Baumol (2007), economies that have reached a certain level of development and want to maximize growth will need to have institutions able to meet four essential conditions:

1. Ensure that it is easy to open and close a business without the need for lengthy and expensive bureaucratic formalities. As we learned from the Russian experience, a government that is opposed to or that does not sufficiently favour the development of entrepreneurship creates damage to the economy as a whole. When the State does not protect activities through safe laws, they will not cease to exist, but soon they will find fertile ground in the informal sector, where not paying contributions to the State will subtract resources that could be used to free the growth of society.

2. Ensure rewards for productive business activities, such as granting production licenses, financial support for research and development activities, and large-scale trade in inventions.

3. Deter non-productive activities, which are all predatory activities that allow for the enrichment of a few at the expense of many: rent-seeking attitudes by lobbies, corruption and misuse of antitrust laws.

4. Allow businesses and entrepreneurs to continue to innovate and grow. If society desires to innovate and grow, it is not sufficient to occasionally create new businesses or introduce innovation.

According to Baumol (et al., 2007), the four conditions set out above must be implemented principally in transitioning countries or those countries that do not yet have a virtuous system of capitalism.

3. The trajectory of the Russian political economy reconsidered

3.1 The legacy of Russia's clientelism

Over the last century, Russia's political and economic organization has experienced extensive shifts. First, in 1917, with the fall of the tsarist autocratic monarchy, the Romanov dynasty was overthrown. The Soviet system that came to replace it was meant to liberate humanity from social and economic oppression. However, this era of equality and social freedom never occurred. Instead, Russia was transformed by Stalin's modernization policies. Overall, the political system remained dictatorial, yet there were vast differences with the tsarist regime. The mass party and bureaucracy replaced the old nobility, and the power of the Soviet leader became much greater than that of the tsar. The inability of the Soviet system to adapt and reform caused it to collapse in front of international competition with the 'West'. Therefore it was substituted by a post-Soviet system which was meant to develop a liberal market democracy but instead showed many elements of continuity with its predecessors, becoming increasingly dictatorial and illiberal.

The economy became dominated by the interest of the elite, similarly to its tsarist and soviet ancestors. However, while in the Soviet era, the Communist Party had replaced the Aristocracy, in the post-Soviet era, 'United Russia' replaced the mass-party and loyalty to President Vladimir Putin became paramount. Thus, we can see there are both elements of continuity and change amidst the shifts in the organization. To analyze these elements, we must identify the key factors and institutions that we believe have acted as agents to this change in the past and will shape political development in the future.

This chapter argues that the persistence of wealth extracting practices is a product of institutional path dependence: the system of corruption may or may not have been purposely planned by specific political actors but is, nevertheless, the product of the historical evolution of the Russian state. As stated by North (1994) in a widely cited quote, "If the institutional matrix rewards piracy, then [only] piratical organizations will come into existence".

From a historical perspective, this dissertation hopes to demonstrate how corruption functions persisted across centuries and played similar roles in state governance under all political systems, whether monarchy, socialism, or formal democracy.

3.1.1 Wealth extracting practices in pre-soviet Russia

The legacy of wealth extraction extends back to the origins of Russian statehood. The type of systemic corruption developed in Russia resembled that of countries such as Mexico, the Philippines and

Indonesia (O'Hara, 2015), which was explained by their colonial heritage. Here colonial settlements were characterized by large economies of scale, and the type of technology developed was labour-intensive. As a consequence, the production structure featured work exploitation and slavery. This labour-intensive work brought an unequal distribution of income and a lack of individual rights. The institutions implemented were wealth extracting, non-inclusive and self-reinforcing institutions (Todaro & Smith, 2011). Often, European settlers formed powerful local elites, who engaged in corruption to procure benefits for themselves at the expense of the population.

While Russia was not subject to European colonization, it has a similar experience under the domination of the Golden Horde (1240-1480) and the Mongol rule. According to Schulze et al. (2016), these established a system of rent-seeking that the Russian grand princes later adopted to establish control over broad territories. For instance, the Muscovite and later Tsarist social structure developed the system of *kormlenie*. Literally meaning 'feeding', this was a practice in pre-modern Russia where the local population was officially expected to 'feed' the underpaid officials whom princes appointed to administrate the local regions on their behalf. This practice was different from that of the feudal system, as the right to *kormlenie* was temporary and could be revoked at any time, eroding the private and public property system and fostering abuse by authority. Scholars call this system of revenue 'a legalized bribery'. Indeed, *kormlenie* is believed to be the earliest Russian practice correlated to corruption.

Despite its abolition in the 16th century, *kormlenie* persisted over time, as Hedlund (2005) argued, who offers an account of path-dependence in institutional development from the early days of Kiev Rus to the fall of the Soviet Union and the new electoral authoritarian regime. The persistence of this system of exchange is an example of how official institutions could generate tolerance to informal practices. Indeed, it was convenient for Russian rulers as they could not afford to pay adequate official salaries and also because they could secure loyalty among subordinate officials.

3.1.2 Wealth extracting practices in Soviet Russia

The clientelistic system did not only survive the downfall of the Russian monarchy but became further entrenched under socialism. According to Brovkin (1994), during the revolution, the Bolsheviks reincarnated the familiar *kormlenie* system as a method of governance. "The Bolsheviks divided the local community by promoting some over others, delegating administrative authority to them, knowing full well that they would use that authority to serve their own interests" (Brovkin, 1994). Following the research from Becker and Vasileva (2017), with the establishment of the Communist state, the Bolsheviks set in motion a top-down transformation of social, political, and economic life. All significant property was controlled by the communist state and Party, whose administration was delegated to the *nomenklatura* – a robust hierarchical system in which the Communist Party had to approve the appointments to administrative positions, thus embodying the principle of patronage. Since the Party's rule was above the law, members of the *nomenklatura* enjoyed special privileges and took advantage of the many opportunities for personal enrichment. This gave rise to extensive informal networks, which systematically abused political power for personal gain.

The specificities of the Soviet economic system reinforced exchanges that were not monetized, as in a market economy, but instead based on acquaintance and trust, therefore elite network members may transform power resources into other commodities and services (Robinson, 2012). However, this system of exchanges eventually played an essential role in the downfall of the Soviet system. Instead of reforming the state's institutional structure, which was facing a dysfunctional economy and high costs from the Cold War, the Soviet government often relied on this system of increased corruption, which offered a stable informal alternative to accommodate a diverse array of social interests but at high costs. As a result, apart from the apparent economic damage, there was growing dissatisfaction among the population excluded from this system of privileged networks, and the demise of the Soviet Union could not be avoided.

After the disintegration of Soviet institutions, the clientelistic networks forged by the branches of the *nomenklatura*, practices of *kormlenie* and patronage started being applied with regularity in all spheres of Russian life.

3.1.3 Wealth extracting practices in the transition from Soviet to post-Soviet system

The research from Becker and Vasileva (2017) shows how in the 1990s, Russia attempted to move toward liberalism by privatizing large strips of formerly state-owned economy and liberalizing the labour relations. However, the endurance of clientelistic exchanges arguably hindered the liberalization process, as nationwide privatization became an instrument to transfer public property to the political elite, thus perpetuating the traditionally close link between power and property and creating a wealthy class of oligarchs. The oligarchs were a group of bankers and businessmen who, because of their political ties dating back to the Soviet era, were able to appropriate assets, demonstrating the high level of continuity of patron-client relations. The appropriation of state assets started during Gorbachev's perestroika and paved the way for further appropriation after the demise of the Soviet Union. As we will see in the next chapter, this privatization developed first through a round of privatization in 1992 and then through the 'loans-for-shares" auctions from 1995 to 1997.

Overall, contrary to the reformers' intentions, Russia's privatization program did not create a full-fledged liberal market economy but rather implied two waves of patrimonial asset appropriation by well-connected insiders in the context of a weak state (Becker & Vasileva, 2017).

The endurance and growth of patron-client relations can also be associated with socio-cultural factors. Instead of viewing it as a top-down explanation, it can be seen as a bottom-up response. Indeed, paternalism and social passivity are deeply ingrained cultural attitudes, analogous to the Soviet legacy of “doublethink” and “doubledeed” (Ledeneva, 2013) and, perhaps most critically, to the long-standing predominance of informal practices (Ledeneva, 2006) and the presence of a large shadow sphere in public life.The push from ordinary citizens to engage in informal arrangements and circumvent the law came as a response to the extreme rigidity of the law itself. As expressed by the popular wisdom that reads: "rigidity of our laws is compensated by their non-observance" (Becker & Vasileva, 2017). This illicit activity has given rise to even more rigid laws, further aggravating the vicious circle of informality.

However, with the Putin administration and the increased living standards, the socio-cultural attitude of 'normality of informality' has come to prevail, consequently rendering society inert and helping sustain the continuity of patrimonialism. In their study, Becker and Vasileva (2017) account for some examples that expose how personal, informal relations with local officials are perceived as expected, as they guarantee special treatment and help 'resolve issues'. "One Moscow businessman refers to it as 'administrative resource': 'When you become big [business], you have friends in the procuracy, the investigation committee, the ministry of the interior … No need to pay bribes to anyone.'" (cited from an interview by Becker & Vasileva, 2017).

Russian informal relations changed their form in the periods between Yeltsin's and Putin's presidency. They went from being predominantly society-initiated to predominantly state-initiated. In the 1990s, the largely bottom-up character had at its centre the role of the oligarchs, while in the 2000s, with a top-down character, the central role was that of the *siloviki*, which means "men of force" whom we will further analyze in the following chapters.

3.2 Russia's economic trajectory from the 1990s to the 2010s

The path of the Russian Federation towards a modern market economy has been long and complex and, in several respects, is still unfinished. The 90s represented an era of transition for the Russian Federation, during which the country had to simultaneously rebuild both political and economic institutions, which were both overwhelmed by the collapse of the Soviet Union. In an attempt to analyze the most significant stages in the evolution of the Russian economy, this chapter is based on Anders Aslund's book *Russia's Capitalist Revolution* (2007).

After the collapse of the Soviet Union in December 1991, the newly elected president of the Russian Federation, Boris Yeltsin, was determined to initiate a process of radical reform: he aimed to create a democratic society, free from official ideologies and the government of a single party and based on market economy respectful of private property. However, with the rampant economic crisis and the disastrous state bankruptcy at the end of 1991 – according to estimates by the European Bank for Reconstruction and Development (EBRD[5]) – the Soviet budget deficit amounted to 31% of GDP (Aslund, 2007). Yeltsin, facing this situation, decided to focus on introducing a series of radical economic reforms, also known as "shock therapy", and postponed the reform of the political system, deemed less urgent. Economic reforms aimed at introducing the market economy through an ambitious macroeconomic stabilization program and an accelerated withdrawal of the state from the economy. However, the transition to a market system was not automatic; it implied the dismantling of the old Soviet institutions and creating a new institutional structure capable of welcoming the new market and making it function properly.

During the first years of the transition, most radical policies were mainly inspired by the criteria used by the so-called "Washington Consensus", the neoliberal recipe devised by the International Monetary Fund (IMF) and the World Bank (BM) for economies in transition. The term "Washington Consensus" refers to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries in 1989. It contained ten points that neglected the need for shared growth, the focus on eliminating absolute poverty to achieve development in any meaningful sense, or of reducing inequality, as central ends in themselves and instruments of economic growth. They believed that poverty would be taken care of by growth and was not a significant obstacle to development. The "Washington Consensus" set three fundamental objectives for starting a successful transition: macroeconomic stabilization through the reduction of inflation, the privatization of state enterprises and the liberalization of prices. The philosophy behind this model saw democratization as a consequence of the creation of the free market. For this reason, a policy reform based on the immediate liberalization of prices, economic activities and a rapid dismantling of the planned economy would undoubtedly have led to a deep, yet rapid, crisis which would immediately be followed by a sustained recovery, the transition to a market economy and a democratic regime.

[5] European Bank for Reconstruction and Development (EBRD): http://www.ebrd.com/pages/homepage.shtml

In reality, the first five years of reforms did not yield the expected results in terms of economic restructuring or stabilization. This situation brought to question the validity of the "shock therapy" and policies of the "Washington Consensus" and pushed economists to rely on an alternative approach, the so-called 'gradualist approach’. Gradualism suggested that a more gradual and planned transition would allow both democratic institutions and a market system to be formed and facilitate Russian companies' adaptation to the new economic environment, preventing the development of corrupt behaviours and rent-seeking.

Regardless of the approach followed, we must be kept in mind that the economic and political legacies of the Soviet era made (and still make) Russia a 'special' state, destined to undertake a different transition path, in terms of speed and impact, from the path of any other country. The uniqueness of the Russian economic-political condition made the transition to a modern market economy complicated and tortuous, that characterized itself for moments of advance and others of regression due to the necessity of Russia to create the new institutions in a few years – as opposite to the centuries Western Europe economies had – without being able to count on pre-established rules to be implemented in the wake of other countries.

The aim of this chapter is to analyze the changes in economic strategy from the 1990s to the 2010s. We will first analyze the political uncertainties and macroeconomic difficulties which hampered the adoption of a single and linear transition strategy, and which we will distinguish in three phases: liberalization of prices and mass privatization from 1992 to 1994; the 'loans-for-shares’ program and the financial crisis from 1995 to 1998; the political and economic stabilization of the Putin era from 1999 to 2007. Furthermore, we will analyze the impact of the global financial crisis of 2008-09 on the Russian economy and the limits of an oligarchic capitalist model, based mainly on the domination of large monopolies and the extraction of natural resources.

3.2.1 'Shock therapy': liberalization of prices and mass privatization (1992-1994)

The early 1990s represented an 'extraordinary political moment' for the Russian Federation (Olson, 2000). On the one hand, it was a period of economic hardship, mainly due to the scarcity of consumer goods and high inflation. On the other, it was a time of great opportunity because any action taken by the government would profoundly impact the transformation of society. It was at this time that President Yeltsin decided to form a new type of government, consisting of young economists including Egor Gaidar, Minister of Economy and Finance, and Anatoly Čubajs, Minister of Privatization, intending to start a 'shock therapy' – a series of radical economic reforms aimed primarily at price liberalization, privatization, and financial stabilization.

Thus, on January 2nd 1992, the liberalization of prices, foreign trade and competition began. The price reform involved about 80% of intermediate goods and 90% consumer goods (Aslund, 2007). Energy tariffs and tariffs on other commodities, transport prices and specific necessities were excluded from this reform and remained under public control; they were subsequently liberalized in the following months. Thanks to these measures, food shortages diminished, and previously unavailable goods began to reappear in Russian shops. However, prices, suddenly free of any state control, rose rapidly by about 250%, pushing inflation upwards and causing a drastic decline in real incomes. Companies reacted by accumulating arrears of payments against their suppliers and the state, demanding loans from the authority. Domestic production also abruptly declined; at first, the Central Bank granted the necessary loans to companies, but after May 1992, it cancelled all inter-company debts to contain the decline in output. Overall, in 1992, the issuance of money to companies compensated for losses but favoured interest groups accustomed to receiving public subsidies and renounced restructuring their companies.

Together with the liberalization of prices, the process of liberalization of internal trade began, allowing companies to trade freely among themselves and citizens to sell the most disparate objects in their possession, as stated in the presidential decree signed by Yeltsin on January 29th 1992:

"Enterprises, regardless of their form of ownership, and citizens are granted the right to engage in trade […] without social permission. Enterprises and private citizens may sell things […] in any place of their convenience." (cit. from Aslund, 2007)

Furthermore, there was the liberalization of foreign trade, which led to an almost complete liberalization of import prices by the first half of 1992, while export prices, in particular of oil and natural gas, were kept below world prices at least until the state regulated the reforms of the Fedorov government in 1993 and the quantity exported through quotas and restrictions (Aslund, 2007). Meanwhile, Gaidar also devoted himself to fiscal consolidation and presented a balanced budget in the first quarter of 1992.

Looking at the expenditure side, public investment declined, military spending was reduced by 70%, and much of the direct and indirect subsidies to businesses were eliminated. On the revenue side, however, the rapid change in the tax system, with the introduction of value-added tax (VAT) 28%, and the partial elimination of the old automatic taxation system had the mere effect of incentivizing the informal sector of the economy and spreading the phenomenon of corruption of public officials (Aslund, 2007).

Indeed, we can identify a category of economic actors that could take advantage of the reform – reform 'winners'. Clifford Gaddy and Barry Ickes (2002) explain how most of Russia's economy responded to the reform. In 1992, large segments of industry resisted Gaidar's reformist pressure to commercialize economic activity. Firms were uncertain and therefore decided to carry on, as usual, reaffirming the 'soft budget constraints' – a system used in the Soviet planned economy where losses were written off through subsidies, tax breaks, credits from the state – and employing the networks of informal ties inherited from the past (Robinson, 2019). Relational capital – the trust that factory managers had in one another and the connections with authorities – allowed them to ignore reform. Therefore, firms traded with each other using a credit system and a barter system. These activities masked ongoing inefficiencies in Russian industry, shielded old economic power structures in the economy, and transferred wealth from households and society to factory managers based on false prices. As a result, factories hid their inefficiency and made a profit by coming up with prices that covered their costs and their tax bills. As a result, firms and local authorities colluded with each other. The primary outcome of this was the re-creation of subsidies (Robinson, 2019).

The second manoeuvre by the government of fundamental importance for creating a market system based on private property was mass privatization. The privatization process was characterized by three phases (Benaroya, 2007). Between 1990 and 1991, there was the first phase of spontaneous privatization – outside the control of the state – of some enterprises (*prichvatizacija*) through which several *nomenklatura* members took over the actions of certain state enterprises. This meant that de facto economic power was more firmly rooted than ever in support of networks placed by administrators to safeguard themselves from the perils of the planned economy. These participants acquired economic capital and relational capital, which is a store of personal ties, relationships, and mutual aid, developed over time by contacts with other economic actors. This authority over property provided status and influence on economic administrators (Robinson, 2019).

From 1992 to 1994, there was the second phase of state-regulated mass privatization. Furthermore, from 1994 to 1996, as will be seen in the next paragraph, the third phase of privatization of large strategic enterprises (loans-for-shares privatization) benefited a small circle of businessmen close to powerful oligarchs.

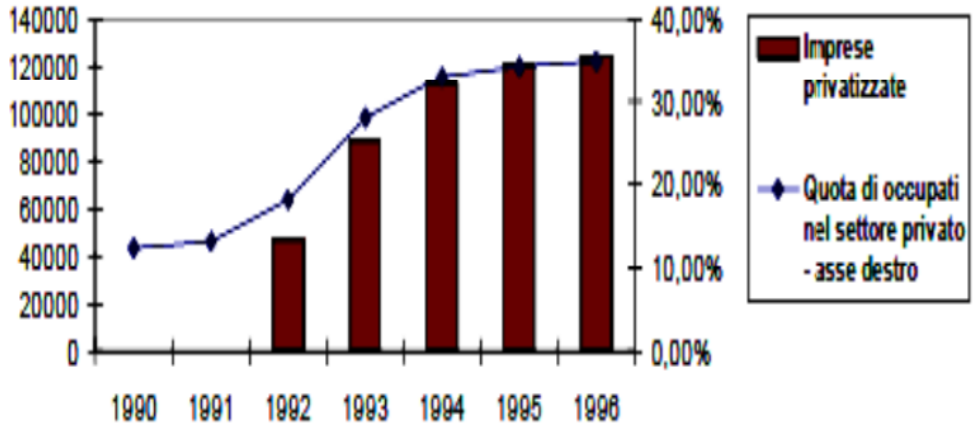
In 1992, the Russian government launched the most extensive privatization program ever attempted: 240,000 enterprises belonging to the state and municipalities were privatized. The primary purpose of privatization was to improve business efficiency, create a competitive market and a large private sector. The initial privatization of small service enterprises (shops, restaurants) was carried out in July 1992. Such privatization was supported by most of the population and succeeded through the sale of these units directly from the state to the dependent workers. By July 1993, between 5000 and 6000 small enterprises had been sold monthly (Aslund, 2007). More controversial was the case of the 15,000 medium and large companies, whose privatization was opposed by more than the majority of the population (Benaroya, 2007). Faced with widespread hostility, the leader of the State Property Committee, Čubajs, decided to proceed with the mass privatization of medium and large companies through the distribution of vouchers worth 10,000 rubles each. In October 1992, each Russian citizen obtained a voucher allowing him to participate in auctioning the assets of the companies in question. Thus over 140 million Russian citizens were directly involved in the implementation of such privatizations. Furthermore, the vouchers could be invested in all those companies that appeared on the list of privatization.

This process reserved privileged treatment to 'internal actors' - workers and managers of companies - who were allowed to buy up to 51% of the shares of their companies at a derisory price (insider privatization). The mass privatization process involved about 90% of small and medium-sized enterprises and 70% of large enterprises and ended on June 30th 1994. This de-statization program had been successful because it had succeeded in radically modifying the ownership structure of the Russian economic system over a short period: already in January 1993, 950,000 new economic organizations could be counted in Russia, two-thirds of which belonged to the private sector, employing 14 million people. Once the mass privatization phase was concluded, the value reached 22 million in 1995, equivalent to 34.4% of the employed population (Luiss Lab 2006), (Figure 2). However, mass privatization did not generate the desired industrial restructuring and contributed to the consolidation of some Soviet-era legacies, which are still visible today.

The 'shock therapy' promised to tackle the legacies of the Soviet period solely through economic policy. However, due to the political struggle under Yeltsin, it was impossible to make a solid commitment to reform (Robinson, 2019).

First, the state did not give up control of the economy altogether and, in most cases, retained for itself the golden shares of the companies, which allowed it to use the veto against most of the other shareholders. Secondly, the purchasing privilege granted to the "internal actors" involved preserving the Soviet direction of the company, the lack of necessary restructuring and the redistribution of income in the direction of greater inequality. Finally, these privatizations were accompanied by illegal practices, most frequently involving irregularities on the part of local authorities in the privatization of small enterprises, extortion of rights by force and organization of auctions in remote places of the Russian territory in order to exclude potential external buyers. The most corrupt behaviour undoubtedly concerned the privatization of large energy companies, such as the sale of shares in

Figure 2. PRIVATIZED ENTERPRISES AND SHARE OF EMPLOYMENT 1992-1996



Source: Luiss University Research and Training Centre (Luiss Lab, 2006)

Gazprom, Russia's leading natural gas producer, which was tainted by illegal practices: 15% of Gazprom's shares were sold at a derisory price to the employees of the company and 35% were negotiated during closed auctions, held in remote Siberian cities to favour some managers at the expense of others (Benaroya, 2007). As a result, the rapid privatization process did not create sufficient conditions for the emergence of a class of entrepreneurs capable of promoting inclusive economic institutions but, on the contrary, in the absence of an appropriate institutional and regulatory framework, the redistribution of the ownership structure of companies allowed those same cohesive groups, which were at the basis of the planned Soviet economy, to get rich by embezzlement. Russia was building a type of oligarchic capitalism, or in Russian *diki kapitalizm*, founded on self-interested relations between a close circle of businessmen and public officials at the expense of transparency - due to corruption of public officials through the use of bribes and extortion – and freedom of enterprise and competition – due to the development of solid monopolies, particularly in the energy sector.

There was a great deal of continuity in economic management. During privatization, the number of insider takeovers was extremely high, and management turnover was extremely low. External capital that would have balanced out the dominance of managers holding relational capital was rebuffed by insider influence (Robinson, 2019). As a result, large portions of Russian industry have been cut off from investment and technological inflows that might have helped alleviate the country's relative backwardness (Robinson, 2019).

The third manoeuvre of the government to initiate a virtuous transition was that of financial stabilization. In July 1992, Viktor Geraščenko was appointed President of the Russian Central Bank

(BCR), and his policies were anything but in favour of stabilization: currency issuance increased monthly by 28% between June and October, and inflation rose to 26% per month from November to February 1993 (Aslund, 2007).

The main reasons for the failure of the stabilization depended on the rent-seeking that had come to form since the reforms of Gorbachev in the 80s and had consolidated in the early years of the transition. In the 1990s, interest groups formed by state managers were enriched by state support in the form of loans and subsidies, which were transferred to the private accounts of these managers.

During 1993, most of these rents disappeared mainly thanks to the ‘anti-crisis program’ introduced by the new Minister of Finance Boris Fedorov, appointed following the withdrawal of Gaidar. This was possible thanks to an agreement concluded with the International Monetary Fund (IMF) in April 1993 to facilitate the economic transition through appropriate macroeconomic policies, with the help of which Russia reached a positive real interest rate and moderated monetary issues by November of the same year.

However, macroeconomic stabilization and radical reforms were hampered by a group of conservative and organized rent-seekers in the Russian Union of Industrialists and Entrepreneurs (RUIE) which, having joined the government between May and June 1992, had opposed attempts to liberalize prices, especially energy prices, aggravating inflation, prolonging the transition and extracting wealth from society.

3.2.2 The 'loans-for-actions' program and the financial crisis (1995-1998)

At the turn of 1995, state managers, who had grown enormously rich in the early years of transition, began to encounter difficulties in managing their businesses. Since they no longer benefited from direct subsidies from the now insufficient State budget, they did not know how to deal with the continuous decline in production or revive companies in the face of new market conditions and, consequently, engaged in criminal and corrupt activities.

In the spring of 1995, a new group of young, non-corporate, profit-oriented businessmen emerged. The 'new Russians' distinguished themselves from the old business managers for their humble origins, excellent education, and strong business sense. Between 1993 and 1994, the inflationary imbalances and mass privatization through vouchers enabled them to make huge profits and accumulate stocks in many companies. The new businessmen (oligarchs) were, therefore, the product of an economic transition, which in a few years had transformed the Russian social structure and from 1995 onwards allowed the 'new Russians' to gradually replace the public managers, to clean up their businesses of organized crime and start internal restructuring.

"In Russia, 'oligarch' became a popular label for big businessmen around 1994 when the first truly rich people emerged, meaning a very wealthy and politically well-connected businessman, a dollar billionaire, or nearly so, who was the main owner of a conglomerate of enterprises and had close ties with the president." (Aslund, 2007)

In light of the fiscal deficit and the need for funds for the 1996 presidential elections, in 1995, the government launched the program of 'loan-for-shares', promoted by the banker Potanin and supported by the Minister of the Privatization Čubajs. Potanin had devised a debt-for-equity swap strategy, through which the Consortium of Russian Commercial Banks, which included six of the largest banks led by oligarchs, would grant loans to the government – up to USD 2 billion in one year – in exchange for the shares of the best state-owned companies (Aslund, 2007). The banks, and consequently the oligarchs, would manage the strategic enterprises until the state could repay its debts. The auctions of the actions of the great enterprises of the fields of the energy and the raw materials were started at the end of 1995. These auctions were controlled by oligarchs, which, through illegal practices, excluded the participation of foreign competitors and won, at minimum prices, the shares of strategic companies. The companies sold were twelve: five oil groups (Yukos, Sibneft, Sidanko, Lukoil and Surgutneftegaz), the nickel company (Norilsk Nickel), two steel companies (Novolipetsk and Mechel), two transport companies and the oil trading company (Nafta Moskva) (Aslund, 2007). The "loan-for-shares" program consisted of an annual share loan since the state was the owner of the companies and had the power to take them back at any time, repaying the buyers. However, neither the loans nor the shares of the companies were repaid in the time set, which turned the privatizations into a cheap and non-transparent stock-selling device. In fact, following the victory of Boris Yeltsin in the 1996 presidential elections, the oligarchs finally took over the major Russian companies. In exchange for their ownership, the oligarchs formed a political alliance with the government reformers and supported the president's election campaign through the detention of the media and the banking system.

In 1997, the new term of President Yeltsin began with the desire to complete all those economic reforms that had not been successful between 1991 and 1993. Accordingly, a new group of young reformers belonging to the president's circle was formed. The ultimate goal of the reformers was the elimination of the *diki kapitalizm* from society and the launch of a regular and honest market economy, a sort of 'people's capitalism' (Aslund, 2007). In order to achieve an honest market economy, it was necessary to reduce the power of the oligarchs, to reduce their wealth by forcing them to pay taxes and to renounce their privileges. But, of course, this reformist agenda met with the opposition of bankers and industrialists who, unlike the reform government, were the bearers of narrow interests (Olson, 2000) and aimed at improving collective welfare extraction of wealth from society.

Since 1994, the budget deficit was no longer financed by the Central Bank but by foreign and domestic debts (loans granted by the IMF), such as short-term government bonds in roubles, GKO (*Gosudarstvennoe Kratkosročnoe Objazatel'stvo*) (Benaroya, 2007). In addition, through the 1995 agreement with the IMF, the rouble had been pegged to the dollar exchange rate, which became the reference currency for economic transactions and the instrument of conservation of population savings. In reality, such expedients did not serve to restart growth, but, on the contrary, the opening-up of the market to the GKO had made the budget deficit dependent on developments in the international economy, and the dollarization of the economy had created monetary instability and exposed Russia to external difficulties: imports increased. At the same time, exports were affected by price developments in the oil market.

The 'loans-for-shares' inflated the value of banks and their founders, transforming them into financial-industrial conglomerates that dominated a significant portion of Russian industry and export sectors.

Two sets of winners developed from the economic change, the old industrial elites and the new oligarchs. The rise of these winners, combined with the decrease in state spending brought on by rapid economic change, and the deterioration of the government's finances resulted in a widening gap between the wealthy and the poor. This can be seen in the bottom line of Table 1, which uses a standardized metric to show the rise in income inequality in the 1990s (the Gini coefficient). The larger the difference between the top and bottom income groups, the higher this index is on a scale of 1 to 100. This growth in inequality grew faster and higher than in other post-socialist Eastern European countries (Robinson, 2019).

Table 1, RUSSIA, SELECTED ECONOMIC INDICATORS, 1992-8

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Gross domestic product (GDP, %)	–14.5	–8.7	–12.6	–4.2	–3.5	0.8	–4.6
General government balance (% GDP)	–18.8	–7.3	–10.4	–6.0	–8.9	–7.9	–8.0
Industrial production (%)	–18.2	–14.2	–20.9	–3.0	–4.0	1.9	–5.2
Fixed investments (%)	–40.0	–12.0	–27.0	–13.0	–18.0	–5.0	–6.7
Trade surplus (U.S.$ billions)	10.6	15.4	17.9	20.4	26.9	19.8	14.4
Metals, metal products, fuels, and precious stones (% of total exports)	68.5	69.9	71.6	68.0	71.1	71.8	69.7
Wage arrears (U.S.$ millions, end of year)	69	614	1,183	2,884	6,221	6,657	8,240
Income inequality (Gini coefficient)	37.1	46.1	44.6	47.1	48.3	—	—

Sources: Calculated from Bank of Finland Institute for Economies in Transition, *Russian Economy—The Month in Review* 6 (2000): 1, 3; European Bank for Reconstruction and Development, *Transition Report 1995: Investment and Enterprise Development* (London: European Bank for Reconstruction and Development, 1995), 205; European Bank for Reconstruction and Development, *Transition Report 1999: Ten Years of Transition* (London: European Bank for Reconstruction and Development, 1999), 260–61; European Bank for Reconstruction and Development, *Transition Report 2001: Energy in Transition* (London: European Bank for Reconstruction and Development, 2001), 189; Organization for Economic Cooperation and Development, *Russian Federation* (Paris: Organization for Economic Cooperation and Development, 1997), 257; Vladimir Tikhomirov, *The Political Economy of Post-Soviet Russia* (Basingstoke: Macmillan, 2000), 23; and Goskomstat, *Rossiiskii statisticheskii ezhegodnik* (Moscow: Goskomstat, 2000), 582–83.

Source: N. Robinson 2012, p.32

In 1997, Russia seemed to be on the verge of completing the economic transition: it had achieved some price stabilization, it had concluded the last stage of privatization and it had obtained considerable revenue from the export of gas and oil. However, the financial crisis of 1998 revealed that the country was far from being transformed into a stable market economy.

In the summer of 1997, the Asian financial crisis broke out, causing a worldwide recession and hit more violently the economies dependent on exports of natural resources and energy, including Russia, which already raged in economic difficulties. Furthermore, as seen previously, barter and other alternative monetary instruments such as promissory notes did not disappear but proliferated.

By 1998, almost all inter-industrial payments (about 60% on the eve of the 1998 financial crisis) were made through barter, which was mainly used by large state monopolies, such as Gazprom and United Energy Systems, the state holding for public utilities (Aslund, 2007).

At the end of May 1998, the creditors withdrew *en masse* from the Russian market, and the exchange rate pegged to the dollar was put under pressure. Russian bankers, who had been encouraged by the World Bank and the European Bank for Reconstruction and Development (EBRD) to use foreign currency loans, were affected by currency imbalances and began to withdraw their financing from the country. In contrast, some foreign investors were still attracted to the extraordinary returns of Russian bonds. As a result, on October 28th 1998, the Russian stock market plummeted by 19% and the international credit market shrank accordingly (Aslund, 2007).

The government was caught utterly unprepared. The IMF encouraged the Russian government to reduce its budget deficit, and the government agreed that by July 1998, it would achieve a substantial cut in public spending and the imposition of new taxes that would increase revenue. To facilitate Russia's implementation of its commitments, the IMF and the World Bank proposed the issuance of additional credits, secured by strict reform measures, totalling US$23 billion by July 13th (Aslund, 2007). At that point, Russian finances could no longer be saved through the injection of credits, but devaluation and default were necessary. The oligarchs, and consequently their banks, were the most affected by the crisis because they had invested in government bonds that were in default and had received large loans from abroad that they could not repay due to the ruble's devaluation. As a result, nearly half of Russia's commercial banks went bankrupt and Russian savers lost at least two-thirds of their savings. Inflation returned to rise and there was another collapse in GDP of 5.3%, mainly due to declining investments.

The financial crisis hit Russia, which remained in chaos for several weeks due to the closure of the major commercial banks and the cancellation of the population's savings, and the international community, which was convinced that Russia would become insolvent and now faced the risk of default.

Despite the high level of indebtedness and monetary shortage, Russia did not use new currency to avoid hyperinflation and, instead, adopted a strict macroeconomic policy, not allowing prices to rise following the rouble's devaluation. Fortunately, the drastic devaluation allowed to eliminate non-monetary trade – which fell from 54% in August 1998 to 14% in autumn 2001 (Alsund, 2007) – also allowing the restoration of the profit margin of companies that started a virtuous development cycle.

At last, the crisis proved to be healthy. From 1999 the Russian economy began to recover, supported by the increase in fiscal revenues and the greater balance of the federal budget, on the monetary level, by the gradual slowdown of inflation, and, on the political level, from the rise to power of the new President Vladimir Putin.

3.2.3 Political and economic stabilization of the Putin era (1999-2007)

Financial stabilization, the rouble's devaluation, the increase in world commodity prices (mainly gas and oil), the launch of a series of structural reforms and careful use of public finances were the main catalysts of the rapid and sustained growth of the Russian economy. This began to grow at an average annual rate of 7% in 2000-2008, placing itself among the main emerging economies, the so-called BRIC (Brazil, Russia, India, China) (Ambasciata D'Italia a Mosca, 2012). After having reached rock-bottom in 1998, Russia started a period of transformation of its economic institutions, which were still primitive, in the direction of a real market economy. The stabilization and weakening of the main anti-reformist forces – managers of state enterprises, oligarchs and communists who had hindered the adoption of radical economic reforms since 1994 – allowed the adoption of structural reforms and smoothed the path of the future president of the Russian Federation, Vladimir Putin.

Following the events of 1998, Vladimir Putin began a successful political climb. He met and ingratiated with some members of the ‘family’ (*sem'ja*) of Yeltsin and thanks to the right friendships and loyalty to the ‘family’, soon became one of the favourites of Yeltsin, who at first, appointed him head of the Federal Security Service (FSB) in July 1998 and then Prime Minister of the Russian Federation on August 9th 1999 (Aslund, 2007, p. 199). A few months later, Yeltsin announced his withdrawal from office. Meanwhile, Putin's popularity grew among the population and allowed him to win the presidential election with 53% of the vote, surpassing his rivals (Aslund, 2007).

As of May 2000, the new president began his first term (2000-2004) and formed his government by reinforcing his clientelistic ties and recycling old liberal friendships from Saint Petersburg, the oligarchs belonging to the entourage of Yeltsin, former KGB colleagues and militants in the police and armed forces, forming the so-called *siloviki*. Throughout his first term, Putin focused on strengthening the state and the consolidation of the president's political power.

Politically, Putin favoured creating an authoritarian and highly centralized system – the so-called "vertical of power" – departing from the idea of liberal democracy that had characterized Yeltsin's Presidency. The turn to statism was encouraged by a rise in global oil prices, as well as support from the Russian people, who linked the economic problems of the "wild 1990s" to the defeat of democratic reforms and saw the new regime as effective in restoring stability and achieving economic development (Becker, 2013).

First, the dialogue between state and entrepreneurs, gathered in the Russian Union of Industrialists and Entrepreneurs (RUIE), came back to favour the state. Before the advent of Putin, the state was in the hands of the oligarchs, who from 1998 had begun to use the RUIE as a lobby, representing and defending their interests and those of their large companies at the expense of other sectors of society. When Putin took the reins of the state, for the creation of a centralized state, he established the Presidential Administration as the only dominant political institution and severely limited the power of the oligarchs, whose weakness became apparent to all with the outbreak of the Yukos[6] case in July 2003.

The confiscation of the Yukos company also revealed the weakness of the rule of law. The president's ultimate goal was to create a dictatorship of the law': The Constitution of the Russian Federation of 1993 and federal norms, as supreme and superior laws to regional and local laws, were to be applied and respected uniformly throughout the territory of the Federation (Ross, 2003). This entailed some legal improvements to the Civil Code and the Criminal Code to decrease the dependence of judges on regional authorities. Within a few years, most of the legislative powers of the regional governors were abolished, and a highly unified and centralized federal system was formed. For the sake of unity, civil liberties and democracy were sacrificed and strongly challenged by the president's extensive powers. Despite these legal improvements, law enforcement remained weak, relying on political loyalty of business and policymakers' personal interest. Consequently, businesses preferred to rely on

[6] Yukos was an oil company born from the merger of two Soviet companies (Yuganskneftegaz and Kuibyshevneftorgsintez) a substantial share of which was auctioned in 1995, as part of the "loans-for-shares" program, to an oligarch very close to the Kremlin: Mikhail Khodorkovsky. With the rise to power of Putin and the implementation of the anti-oligarchic campaign, some of the company's shareholders, including Platon Lebedev and M. Chodorkovskij himself, uncomfortable to the new president, were arrested on charges of tax fraud. In the autumn of 2006, the company was dismantled, its shares were acquired mainly by the state-owned oil company Rosneft, and Yukos was deleted from the Moscow business register.

informal personal networks rather than on the regulative institutional pillar. Thus, perpetuating the vicious circle of the weakness of the rule of law.

Moreover, Putin sought to create a single economic and legal space within the Federation and to strengthen the federal government's controls over the regions. In fact, during the previous presidency, the 89 regions of the Russian Federation had been freed from the control of the Kremlin and, consequently, not only each regional parliament had adopted its own laws according to its own needs, without taking into account the non-compliance with federal laws, but this legislative disorder had also favoured the corruption of regional governors who had enriched themselves by aggravating the federal budget deficit (Aslund, 2007). Thus, during his first term, Putin succeeded in convincing the Duma and the oligarchs that the only means available to Russia to avoid plunging into anarchy and ethnic turmoil consisted in the radical revision of the federal system, in particular the reduction of the powers of the regional governors and the strengthening of vertical power (Ross, 2003).

Despite this strengthening of powers, as explained in the research from Becker (2013), the Russian state remained weakly institutionalized, with clans and informal patronage networks serving as the basic unit of the state system, just as they did during the Soviet era. The state also maintained its inadequate strategic capacity. Excessive centralization also made the state inert, inflexible, and less responsive to crises. Instead of dealing with issues as they arise regularly, the state has always resorted to the intervention of the highest political authority. Overall, the situation comprised, on the one hand of the paradox of the state's enhanced central authority and coercive capability, and on the other of the state's persistent weakness. As we have seen in the previous chapter, these elements can be referred to as "consolidation of the weak state".

Economically Putin encouraged market reforms. The reform program, which was adopted from 2000 to 2003, is known as the "Gref Program" – named after the Minister of Economic Development and Trade in May 2000. The "Gref Programme" was a comprehensive and detailed program of about 200 pages, which aimed to stimulate economic growth at an annual rate of 8% through fiscal reforms, banking reforms, liberalizations, privatizations, social reforms, accession to the World Trade Organization (WTO), judicial reforms and state reforms (Aslund, 2007).

The political strategy of Putin was based on a system of unitary and centralized power that, for the first time, managed to make the state apparatus efficient and rational and more corrupt. Once he had limited the power of oligarchs and regional governors, the state and, in particular, the president were endowed with extensive powers recognized by the Constitution of 1993. As a result, they had returned to hold the greater force in both the economy – moving increasingly towards a model of state-led capitalism – and in politics – sacrificing civil liberties and democracy in favour of unity.

This led to the Duma elections of December 7th 2003, and the presidential elections of March 14th 2004, both of which were seen by most Russian citizens as controlled by the Duma. The anti-oligarchic campaign undertaken by the Kremlin and culminating in the dismantling of the oil company Yukos, was supported by Russian citizens, tired of corruption and continuous misappropriations by oligarchs, and was one of the main reasons for Putin's renewed election victory. Putin's party "United Russia" won against rival parties with 37.6% of the vote at the Duma elections, a victory that made the outcome of the subsequent presidential elections completely obvious (Aslund, 2007). Again under Putin's leadership, the Russian government continued with the strategies employed during the first term and soon became a conservative government, mainly consisting of corrupt and passive *siloviki*.

During the second term, the significant reforms promoted by Putin were only two and achieved little results: the administrative reform in 2004 and the reform of the welfare state in 2005 (Aslund, 2007). With the administrative reform, the number of Ministries was drastically reduced, the office of Deputy Prime Minister was reserved for one individual and an attempt was made to reorganize the state administration, subdividing it according to the functions carried out, as in the West, and not according to the industrial sectors represented, as was the case in the Soviet Union. However, this administrative reorganization caused chaos and limited the scope of the young Reform Ministers while strengthening the position of the old Conservative department directors. Most of the power was transferred to the Presidential Administration, within which the *siloviki* strengthened their opaque and corrupt administrative control.

Even the reform of the welfare state, launched in January 2005, did not have the expected outcome: The Government's objective was to dismantle the old Soviet welfare system through the abolition of benefits in kind aimed at pensioners and their replacement with a partial compensation in money, able to cover the benefits only by 25%. However, at the same time, politicians, including the president, quintupled their wages without giving up any benefits. This situation sparked a massive wave of popular discontent and forced the Kremlin to increase pensions and put an end to reform efforts.

From 2004 onwards, Putin's economic strategy changed dramatically and there was a significant increase in state interventionism in the economy. Although the president had always shown his inclination towards a free-market economy and private enterprise, the state, together with small interest groups, had returned to hold the greatest power in all areas of action and was moving towards an oligarchic model of capitalism (Baumol et al. 2007). The main objectives of Putin remained macroeconomic stability and economic growth at an annual rate of 7%, but the strategies for achieving these objectives had changed. The state returned to intervene heavily in the economy, control the prices of goods and trade, and impose tariff barriers on imports and taxes on exports, causing an increase in political uncertainty and a blurring of property rights. In addition, since 2004, a process of nationalization of private strategic enterprises began, clearly aimed at enriching and consolidating the power of state officials.

Nationalization proceeded in stages. Firstly, the men of Putin took over the major state enterprises in the fields of energy, transport, military industry and banks (Aslund, 2007). Secondly, state holding companies were formed by acquiring private companies by state-owned companies or at high prices through voluntary agreements, often characterized by bribes or at a derisory price through extortion. As a result, the share of Russian GDP produced by private companies declined from 70% in 2004 to 65% in 2005 (Aslund, 2007).

Nevertheless, the recurrence of patron-client relations undermined Putin's administration main statist initiatives, such as the nationalization in the key industries and accumulation of strategic economic assets in state corporations. These actions do not seem to be genuine statist initiatives aimed at promoting long-term sustainable growth. Rather, they tend to be a clientelistic redistribution favouring the existing bureaucratic elites, similar to Weber's granting of revenue and income opportunities: loyal and trustworthy members of the executive branch – primarily the *siloviki* – were appointed to the boards of state corporations, giving them access to budget funds and, as a result, an overabundance of rent-seeking benefits. (Sakwa, 2013).

In fact, the *siloviki* government, the centralization of power in the presidential administration, the appointment of regional governours by the president himself and the allocation of shares of the largest private companies to state officials only worsened the degree of state corruption, already at very high levels since the beginning of the transition period. As Aslund explains (2007), Putin's rise to power and the adoption of a centralization policy, even corruption, had been centralized. According to estimates by the International Non-governmental Organization Transparency International, in 2007 Russia was among the most corrupt countries globally, ranking 143rd on a list of 179 countries, with an index of perception of corruption (Corruption Perception Index, CPI) of 2.3[7].

During the second term of his presidency, the management of international politics also changed: Putin found himself having to deal with the coloured revolutions in the CIS countries (Commonwealth of Independent States), particularly in Georgia, Ukraine and Kyrgyzstan, and distanced himself from the West. Moreover, the intrusion of Putin in the Ukrainian elections made

[7] The CPI varies from country to country from 0 (very corrupt) to 10 (not corrupt at all). See Transparency International, Corruption Perception Index 2007.

the Russian government appear undemocratic and anti-Western, damaging relations with the United States and the European Union, which allied against Russia. As a result, Putin distanced himself from the West, fearing that the United States and the European Union could instigate a democratic revolution in Russia. Nevertheless, until the end of the second term, the Russian president thought of international politics as a 'theatre for the masses' (Aslund, 2007) capable of conveying the image of a country with growing power and unexpected development.

However, what kind of Russia was Putin's Russia between 2000 and 2008? Furthermore, especially with the looming global economic crisis of 2008, could the transition to a modern market economy be concluded? Examining the policy and reforms introduced by Putin between 2000 and 2008, it is clear that the president's main objective was to radically transform the institutions of the country to create a highly authoritarian and centralized system. Thus, Putin's regime, characterized by the suppression of civil liberties and the dismantling of those few democratic institutions that arose under Yeltsin's presidency, has minimized the check-and-balances system on which all the rule of law rest, depriving all formal government institutions of any real power.

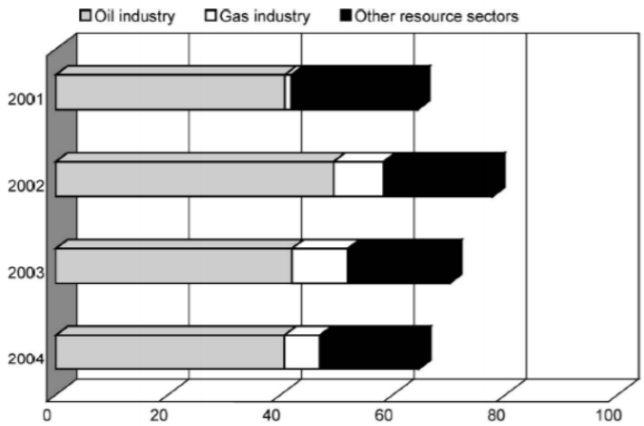
As Prime Minister Sergei Ivanov stated in 2006, the values on which Putin's Russia rests are "sovereign democracy (*upravljaemaja demokratija*), a strong economy and military power", which evoke not so much the Soviet regime as the tsarist empire, in which all power was centralized in the hands of one man, the Tsar (Aslund, 2007).

Paradoxically, from an economic point of view, the 2000s represented for Russia a period of sustained growth and improvement in the living standards of the entire population. This, however, did not depend on the development of a model of "good" capitalism, which could promote long-term growth (Baumol et al., 2007). The reasons can be found in the increase in domestic demand after the 1998 crisis and the expansion of oil companies' output, supported by the rise in world crude oil prices. Although the combination of a "polarization" of the economy and a strong state presence had enabled a seemingly unstoppable growth to start, these factors restrained the development of other sectors and made the Russian economy highly unstable and dependent on fluctuations in international commodity prices (Intesa Sanpaolo, 2009). For all these reasons, on the eve of 2008, Russia had not yet transitioned to a modern market economy. On the one hand, it was characterized by an obsolete, authoritarian and centralized state. On the other, it was characterized by oligarchic capitalism, capable of producing growth only in the short to medium term and highly dependent on the extraction of natural resources.

3.2.4 The impact of the global economic crisis of 2008-2009

As has already been pointed out, the successes achieved by the Russian economy during the economic boom of the 2000s are undeniable. However, they are based on some peculiarities inherited from the Soviet past and strongly related to the wealth of natural resources and energy, which have prevented Russia from becoming a full-fledged market economy and starting long-term stable economic growth. During Putin's two presidential terms, between 1999 and 2007, Russia's GDP had grown at an average annual rate of 7%, much higher than expected[8], supported by several factors, both economic – such as the increase in foreign demand for hydrocarbons, the growth of the oil industry and the construction industry, the increase in Total Productivity of Factors (PTF) and domestic consumption – and political – as the prudent management of finances, the reduction of public expenditure and the introduction of tax reform. All these elements contributed to the development of the Russian economy in the 2000s, but the real driving factor was the production and refining of gas and oil. These resources were present in large quantities on Russian territory, provided almost two-thirds of export earnings and generated 70% of the country's total tax revenue (Intesa Sanpaolo, 2009). Indeed, after 1998, companies in the natural resource extraction sectors benefited from the devaluation of the exchange rate and the fall in energy prices and domestic wages, thus contributing to 1/3 of GDP growth and the increase in industrial production between 2001 and 2004 (figure 3).

Figure 3: PERCENTAGE WEIGHT (%) OF NATURAL RESOURCES SECTORS ON THE GROWTH OF INDUSTRIAL PRODUCTION (2001-2004)



Source: Ahrend, R., Russia's post-crisis growth: its sources and prospects for continuation, Europe-Asia Studies, Vol. 58, N. 1, 2006, p. 7

8 According to forecasts by economists, between 2000 and 2003 GDP was expected to grow by 3.2% per year (it actually grew by 6.8%) and in 2004 by 5.6% (it actually grew by 7.1%) (Ahrend, 2006)

Revenues from exports of raw materials led to a surplus in the current account of the Balance of Payments (Robinson 2013), allowing the accumulation of large foreign reserves (Intesa Sanpaolo, 2009), and filled the treasury of the state, allowing it to reduce the share of public debt and to repay the debts contracted with foreign creditors at the time of the Soviet Union. In addition, thanks to these revenues, productivity, wages, national income and the purchasing and credit capacity of households and businesses grew.

Nonetheless, the impact of the 2008 crisis was equally severe – the decline of Russia's industrial output and GDP was much more serious than that of other emerging economies (BRIC) and OECD countries (The World Bank 2009) – and was aggravated by the fact that the growth of the Russian economy was heavily dependent on the rise in oil prices and therefore stemmed more from "temporary factors" than from the introduction by the state of the necessary structural changes (Robinson, 2013). It was only when Russia was hit hard by the global economic crisis in the autumn of 2008 that it became aware of the extreme vulnerability of its economy and the unsustainability of the development model that had been formed in the 2000s and was based on the weak link between high oil prices and economic growth. Between July 2008 and the beginning of 2009, the oil price fell by USD 90 per barrel, and government revenues also contracted by pushing the budget into deficit and reducing public spending finances (Robinson, 2013).

The economic crisis of 2008, unlike the crisis of 1998, had hit Russia at a time of stability and strong economic expansion, breaking the certainties of the government and undermining the country's future growth prospects. The Russian political class was slow to react and attributed the reasons for the crisis mainly to exogenous factors due to the instabilities originating in the United States, without realizing that the severity of the crisis also affected internal structural elements. Attempts to restructure and diversify the economy in the aftermath of the financial crisis were unsuccessful. The Russian economic environment was not competitive enough to be restructured due to the inadequacy of the credit system and the lack of protection of individual and intellectual property rights. Indeed, in 2009, Russia occupied 63rd place in the ranking drawn up by the World Economic Forum (WEF) based on the Global Competitiveness Index (GCI), 12 positions lower than the previous year[9]. Not even the diversification of the economy was prospering. It was hindered by three factors: the policy of excessive security of the government that prevented the redistribution of resources to more efficient

[9]As we can see from World Economic Forum, Global Competitiveness Index (GCI) http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2009-10.pdf

use, the link between politics and large state companies, and the lack of adequate infrastructure that made it difficult to move the skilled workforce to more dynamic areas.

The anti-crisis measures, together with the rise in world oil prices since mid-2009, rapidly improved the Russian economic situation and by the end of 2009 restarted the country's growth, whose GDP started to grow again, no longer at the pace before the crisis, but at an average annual rate of 4% in 2010 and 2011 (Robinson, 2013). Thus, the financial crisis resolved quickly and successfully from an economic point of view, not degenerating into a prolonged depression as it had happened in many other countries. However, we can see how this crisis was only a consequence of deeper structural problems, which had long been rooted in the economic and political fabric and, having never been resolved, left Russia in a state of political vulnerability and stagnation. Moreover, the incorrect functioning of the institutions had prevented the country from supporting effective radical reforms that, instead, had been implemented in other capitalist economies. Thus, the crisis of 2008-2009 was the manifestation of a more profound and more lasting crisis that the political class had not been able to remedy.

Moreover, the management of that crisis had been in the interests of the economic elite, particularly strategic companies in the energy sector, by perpetuating the vicious structures – such as monopolies and close relational links between political authorities and oligarchic groups – which had led to the crisis itself. As a matter of fact, the crisis had not changed in any way the state priorities, but, on the contrary, and in open contrast with the agenda of institutional change promoted by Medvedev, it had helped to strengthen the interference of the state in the economy and to consolidate the selective approach applied to industrial policy. The government had assumed, directly or indirectly, the debts of the *Goskorporacij* – large strategic companies owned by oligarchs – granting them subsidies, facilities, preferential tariffs on imports and exports. In addition, with the increase in the share of state participation in the economy, from 35% before the crisis to 50% in 2009, corruption had also intensified (Malle, 2009). As we can see from the World Economic Forum (WEF) report based on the Global Competitiveness Index (GCI), the top problematic factor for doing business with the Russian Federation was corruption, scoring 19.0 per cent of responses. Moreover, according to the 2009 Transparency International report, Russia's status in terms of corruption had worsened since the 2000s, and the country ranked 147th in the ranking of 180 countries[10].

Following the financial crash in 2009, the Russian economy gradually recovered and grew again while continuing to depend on world energy prices and rely on natural resources. However, its

[10] See Transparency International, Corruption Perception Index 2009, https://www.transparency.org/en/cpi/2009

hardships were renewed in 2014 with a rise in inflation and decline in GDP (+0.5% in early 2014, compared to 1.3% in 2013 and 3.4% in 2012) (OECD 2014), as we can see from Table 2.

Overall, we can acknowledge that the Russian economic development model cannot ensure steady and long-term growth. It is precisely the limits and weaknesses rooted in this oligarchic model that led to the instability of 2008, then aggravated by the world crisis. These have generated a condition of 'enduring crisis' (Robinson, 2013), which continues to hold back Russia's development. To eliminate the vulnerabilities inherent in the model of Russian capitalism (oligarchic capitalism), the government must promote a series of policies aimed at improving the institutional structure, modernization and diversification of the economy. Only through the reduction of state intervention in the economy and the presence of formal and predictable rules to protect economic actors on the market, Russia will eliminate the structural weaknesses that still characterize it today and unlock its enormous growth potential.

Table 2: RUSSAIN FEDERATION: MACROECONOMIC INDICATORS

	2011	2012	2013	2014	2015
Real GDP growth	4.3	3.4	1.3	0.5	1.8
Inflation (CPI), period average	8.4	5.1	6.8	6.0	4.6
Fiscal balance (per cent of GDP)[1]	4.2	0.5	-0.5	0.0	0.2
Current account balance (per cent of GDP)	5.1	3.6	1.6	2.7	2.8

1. Consolidated budget.
Source: OECD Economic Outlook 95 database.

Source: OECD Economic Outlook, Volume 2014 Issue 1

4. Comparative analysis of Russian and Chinese transitions

After the planned economies, leaders of the economic transition to market economies must find their paths to new economic systems. This section will examine two countries – China and Russia – and the strategies chosen for their transition. Following their respective communist revolutions, both countries developed planned economies based on Karl Marx's ideas. State control of capital and land was at the forefront of the communist ideology. While analyzing the two countries, we must remember that Russia had been under a planned economy for nearly 80 years, while China had experienced a planned economy for about 30 (Marsh, 2005).

The fall of the Soviet Union came quickly and unexpectedly. The immediate cause of the breakdown was political. However, various economic and social factors played a role in it – economic recession, an upsurge in crime and lawlessness, a falling birth rate rise and rising death rate, and the war in Chechnya (Rutland, 2005). As we saw in the previous chapter, Russia began a swift and progressive transition to private property and free markets in 1991, known as 'Shock Therapy'. Furthermore, the role of the Communist Party was seen as an impediment and necessitating political change.

China's market reforms, on the other hand, started in 1978 in an unorthodox and incremental fashion known as "Gradualism" or "Controlled transition" (Sachs and Woo, 1994). China, unlike Russia, pursued economic reforms under the stern guidance of its Communist Party. It believed that a communist regime and a capitalist economy could coexist and be compatible. Hence, China has maintained its state-owned enterprises while promoting the growth of competing for private enterprises.

China's transformation from a planned socialist economy to a capitalist economy has been generally accepted as much more successful than Russia's. Scholars studying this topic are primarily concerned with two major causes of the different outcomes: firstly, the governments' policy choices; secondly the countries' initial conditions. The two countries' initial conditions were vastly different, resulting in incentives and constraints that had a significant impact on the outcomes of the economic transformation. These countries' initial conditions can be grouped into three broad categories: economic structure, political condition, and foreign influence. This dissertation will further focus on the persistence of informal patrimonial relations in the two countries.

4.1 Economic Structure

China began its transition in the late 1970s, when it was still an underdeveloped and overwhelmingly agricultural economy. About 70% of the Chinese population was employed in the agricultural sector (see Table 3). However, its industrial base was small and uncompetitive, and its research capability was restricted. As a result, China struggled with overcrowding; there was excess population relative to the available land and excess labour supply relative to the demand (Kim, 2015). However, by the 2000s, this became a pool of cheap labour, and the number of workers in agriculture had dropped to about 5% (Rutland, 2005). Above this, China was also endowed with scarce resources, as opposed to Russia. At the start of the transition, China's GDP per capita was just $150, while Russia's was $3,427 (World Bank, 2015).

Table 3: ECONOMIC STRUCTURE IN CHINA AND RUSSIA: EMPLOYMENT BY SECTOR (%)

China			Russia		
Year	**Agriculture**	**Industry & Construction**	**Years**	**Agriculture**	**Industry & Construction**
1978	71.9	15.8	1991	12.9	42.3
1995	53.4	22.7	1994	14.9	37.9

Source: Kim, Y. C. (2015). Economic transition in China and Russia. European Scientific Journal.

On the opposite end of the spectrum, we have Russia, which by the 1980s was a military superpower competing with the United States. Russia was a developed industrial economy with a well-educated labour force and a pioneer in science and technology. According to Table 3, less than 15% of the Russian population worked in the agricultural sector. Despite its abundant natural resources, Russia faced a decreasing population and a persistent labour shortage (Rutland, 2005). Its economy has typically been governed by big central ministries, while China's economy had traditionally been governed by regional governments (Sachs and Woo, 1994). Because of the Russian economy's highly industrialized nature, labour was excessively specialized and challenging to reorganize (Kim, 2015).

Corruption was a crippling factor for both nations, constraining productivity and deterring international investment (Rutland, 2005). According to the Transparency International Corruption Perceptions Index (Table 4), Russia ranked 126th out of 159 countries surveyed in 2005, scoring 2.4 out of 10. China, instead, was seen as less corrupt, ranking 78th with a score of 3.2. The situation has not changed much since 1998; bribery and clientelism appear to be the binding agents of the political system, because corruption is so widespread at both high and low levels (Sun, 2018). After 1992, when marketization took hold, and the position of relations (*guanxi*) began to decline, the nature of corruption in China changed (Sun, 2018). Both Moscow and Beijing say that fighting corruption is a top priority, but their efforts have made just a smidgeon of a dent in the issue (Rutland, 2005).

Table 4. CORRUPTION INDEX IN CHINA AND RUSSIA (1996-2005)

Year	Country	Rank	CPI Score (1-10 scale)
1996	China	50	2.43
	Russia	47	2.58
1997	China	41	2.88
	Russia	49	2.27
1998	China	52	3.5
	Russia	76	2.4
1999	China	58	3.4
	Russia	82	2.4
2000	China	63	3.1
	Russia	82	2.1
2005	China	78	3.2
	Russia	126	2.4

Source: Transparency International, The global coalition against corruption, 2008

4.2 Political Conditions

Before 1980, the political evolution of the two nations was considerably different, as were their economic situations. Despite the fact that the Communist Parties of China and Russia were similar in organization, with centralized bureaucratic authority, a great Party structure, and a tight state/party administration, there were significant variations in the systems.

The Chinese Communist Party (CCP) was reconstructed following the Cultural Revolution (1966-76), which severely harmed the party's structured cohesion, governing competence, and popular legitimacy (Aslund, 1995). Following Mao's death, pragmatists within the Communist Party, headed by Deng Xiaoping, embarked on a reform program that encouraged a more market-oriented economy while the Communists maintained political influence. In 1989, a massive rally in Beijing's Tiananmen Square opposed this policy combination. Following this event, there was a period of recessions in the reform process, which lasted many years. There was no longer a contest for power in China, and there were no alternate power centres. This strong leadership was needed to carry out economic reforms because it prevented the party bureaucracy from shallow measures to further their interests.

Unlike Russia, where authority was fragmented and concentrated in the hands of a few high-ranking party bureaucrats, the CCP's middle ranks were ruled by a parallel system in which government officials were overseen by party committees (Shirk, 1993). Furthermore, the CCP formed "Party groups" that took over government administration and supervised business managers. This strategy served in preventing business executives from using reforms to their benefit. As a result, the CCP was able to prevent what happened to its Russian comrades. Unlike Russia in the 1990s, the CCP never allowed big business to take over politics (Kim, 2015).

As we saw in the previous chapter, in Russia, power was distributed across the former Soviet Union's top bureaucracy, with very little power in the hands of the top leadership to implement successful reforms. Most of the economic influence was concentrated in the hands of enterprise administrators who were given ample leeway to behave independently (Aslund, 1995). The Soviet Union, compared to China, had experienced 20 years of stability under General Secretary Leonid Brezhnev. However, most of his political authority was assigned to the industrial ministries and regional party secretaries. As a result, the *nomenklatura*, rather than the leadership, held a significant amount of actual political influence. Hence, increasing corruption, bureaucratic ossification, economic instability, and a series of expensive foreign policy adventures (most importantly, the invasion of Afghanistan and a renewed arms race with the US) marked this period (Rutland, 2005). Gorbachev began reforms in 1985 that were quite close to Deng Xiaoping's. A gradual, state-led shift to the market began by allowing small enterprises to operate independently. However, as Russia accelerated pace in the early 1990s, China's and Russia's paths diverged.

4.3 Diverging Paths

Rutland (2005) attributes to the sequencing of reform the critical difference between Russia and China. He argues that Gorbachev's big mistake was to prioritize political liberalization over economic reform. The Chinese leadership cannot be accused of committing that error. However, it can be argued on Gorbachev's behalf that economic change without political reform has been sought by a succession of Soviet leaders since the 1950s – and was tried again by Gorbachev in 1985-87. Indeed, it was due to the failure of these previous economic reforms in the face of bureaucratic intransigence that induced Gorbachev to adopt political reform (Rutland, 2005).

Rutland (2005) also recognizes how there was a contrast in the pace of reform. Indeed, China followed a gradual path while Russia embraced shock therapy. However, again, an explanation can be found in their pasts. After a century of unsuccessful attempts at fundamental reform, the Chinese developed a philosophical commitment to incrementalism (Fewsmith, 2001). On the other hand, Moscow had grown weary of decades of gradual transition, and the early 1992 crisis appeared to leave Yeltsin with no choice but to pursue fundamental reform (Gaidar 1999).

Nevertheless, neither the sequencing nor the pace of reforms was the natural source of the problem. The question was more straightforward than that – the need to maintain political power and state capacity.

By prioritizing economic reform, the Chinese government was able to maintain political control over the process. Minxin Pei, on the other hand, claims that it provided the political elite with the support they needed to sustain their oppressive regime (Pei, 2008). Whereas in Russia, the result of the reform was the breakdown of economic coordination. Gorbachev threw out the very tools with which he hoped to promote economic reform. Gorbachev shattered the Communist Party's organizational cohesion and directly questioned its ideological authority (Hua, 2006). As a result, the Soviet elites were dissolved, pressuring Russia to speed up its economic reforms. Both Gorbachev and Yeltsin used divide-and-rule tactics to maintain dominance, dividing the elite and fragmenting state structures (Rutland, 2005).

Despite – or possibly because of – the fact that the CCP leadership was traditionally even more riven by factionalism than its Soviet equivalent, Chinese leaders seem to have avoided such divisions. The Cultural Revolution and the disintegration of the Soviet Union taught the Chinese a valuable lesson. Despite not agreeing on policy issues (such as over Tiananmen), they have maintained a united front in public (Zhang, Nathan and Link, 2001). They have already been through two reasonably successful leadership changes (the succession from Deng Xiaoping to Jiang Zemin in 1997, and then to Hu Jintao in 2002) without facing a constitutional crisis (Nathan 2003). Russia has not been able to do this. Putin's election as Yeltsin's successor in December 1999 was a relatively smooth transition, although it coincided with the second Chechen war. The same cannot be said about the transition from Putin to Dmitry Medvedev.

Surprisingly and ironically, in both Russia and China, the highest level of democratic debate occurred in the late 1980s and up until the last year of the Soviet Union, during the early experimental period, when the national leadership debated different reform directions. Indeed, as the economic reforms took hold, the space for political opposition shrank (Rutland, 2005). This is the complete opposite of what modernization theory predicts: new constituencies (workers, middle class, and businessmen) want a voice in decision-making due to socioeconomic growth (Pei 2006). In Russia, after an ugly standoff between a reformist president and an opposition-dominated parliament in 1992–96, the level of competition slowly declined from election to election after 1996 (Rutland, 2005).

The Freedom House Democracy Index (2005) is the most well-known democracy index; it grades the level of political rights (PR) and civil liberties (CL) on a 1–7 scale, with 1–2 being "free" and 6–7 "unfree" (Table 5). Freedom House regarded the new Russian Republic as "partly free," ranking it 3 for PR and 4 for CL from 1993 through 1997. Russia's grade then slipped to 4/5 in 1999 and again to 5/5 in 2000–2003. In 2004 Russia was defined as "unfree," scoring a 6 for PR and 5 for CL, which was kept up until 2008. On the other hand, China experienced much less variation in the political climate, especially since 1989. From 1972 to 1977, Freedom House assigned to China a 7/7. In 1989 it was scored again 7/7 until 1998 when it rose to 6 for civil liberties and 7 for political rights. China has kept that score through 2008.

Table 5. POLITICAL RIGHTS AND CIVIL LIBERTIES, CHINA AND RUSSIA (1975-2005)

Year	Political Rights in China	Civil Liberties in China	Status	Political Rights in Russia	Civil Liberties in Russia	Status
1975	7	7	Not Free	7	6	Not Free
1980	6	6	Not Free	6	7	Not Free
1985	6	6	Not Free	7	7	Not Free
1990	7	7	Not Free	5	4	Partly Free
1995	7	7	Not Free	3	4	Partly Free
2000	7	6	Not Free	5	5	Partly Free
2005	7	6	Not Free	6	5	Not Free

Source: Freedom House, Freedom in the World Country Ratings: 1972-2005, 2006.

Traditions of one-party rule in both countries have developed a society hostile to pluralism, in which politics is seen as a "winner-take-all" game (Rutland, 2005). As a result, both countries have maintained one-party systems focused on clientelist networks, with particularism rather than pluralism serving as the organizing concept of national life (Rutland, 2005).

In 1992, Russia began the "shock therapy", but the government could not manage monetary and fiscal deficits, resulting in high inflation and macroeconomic uncertainty until 1999, when it was fully stabilized. In addition, a tiny number of well-connected insiders manipulated the privatization scheme, leaving the Russian people betrayed and the state treasury empty. By 2001, Russia's 23 biggest companies accounted for 30% of the country's GDP, and these companies were effectively owned by only 37 people (World Bank 2004). Moreover, many regional economies were dominated by local monopolists in addition to national oligarchs.

China's transformation began in 1978 when peasant farmers were freed from plan restrictions. This increased productivity while also freeing up workers for factory work. Then local government officials were permitted to establish profit-seeking town and village enterprises (TVEs). State-owned enterprises (SOEs) were also allowed to be more entrepreneurial. As a result, China's annual growth rate was 9.4% between 1978 and 2003, with per capita income increasing from $150 in 1978 to $1,700 in 2005 (Rutland, 2005). China kept the state-owned business sector afloat by providing social guarantees, first through budget subsidies and soft loans from the four state-owned banks. As a result, the state sector's share of the industrial labour force dropped from 80% to 29% between 1978 and 2000 due to the rapid growth of the private sector (Pei, 2008). Small and medium SOEs started to be privatized in 1994, but the government preferred to use the words "restructuring" and "asset transfers" instead (Rutland, 2005). A new reform initiative for SOEs began in 1997, resulting in pay arrears and layoffs. The government cushioned the blow by offering three years of severance pay at 60% of the former salary. Overall, the state planners were cautious and flexible in their implementation of these changes. Fixed prices on grain, for example, were removed in 1993 but reinstated in 1995 after the change resulted in shortages and predatory pricing. Controls in grain-consuming regions were relaxed once more in 2001 (Pei, 2008).

In the case of banking, there was a difference between the two countries in the rate of change in the opposing direction. The Chinese government maintained tight regulation over the banking system while easing sanctions in Russia resulted in the establishment of 1,500 private banks, many of which failed during the 1998 financial crisis (Rutland, 2005). Russia's mass privatization policy transformed state-owned businesses into legally independent businesses. China took a different approach: instead of mass privatization, it developed a hybrid paradigm of profit-seeking SOEs and TVEs with vague property rights (Rutland, 2005).

In reality, the Russian solution struggled to achieve the reformers' stated objective of transparent and stable property rights. Hundreds of cases of organized criminal organizations taking possession of businesses by force were recorded, as well as thousands of cases of state officials seizing businesses by tax arrears and other instruments.

Finally, rather than being an element of divide between the Russian and Chinese examples, property rights' weakness unites them. Furthermore, neither Russia nor China have given up ownership of main strategic sectors like telecommunications or power generation (Pearson 2005). In both countries, small steps have been taken to encourage competition in these sectors and establish a new regulatory system, but political dirigism still reigns supreme. Another correlation is that the central state's revenue capability declined and then improved through the reform process in both countries. For example, China's central government income dropped from 31% of GDP in 1978 to 10.7% in1995, before rebounding to 17.1% in 2001. (Yang, 2003). Similarly, Russian federal taxes fell to 9.2% of GDP in 1998 before rebounding 17.1% in 2001 (OECD, 2004). However, after 2001, the two countries drifted apart, with China's state revenues falling to 10% and Russia's rising to 28%, thanks to the oil boom.

As we saw, the new oligarchs in Russia had a more significant capital accumulation than the new oligarchs in China. This was due to the unchecked nature of privatization, the weakness of law enforcement authorities, and the economy's resource-based nature (Rutland, 2005). By 2006, Forbes magazine reported that Russia had 33 billionaires, while China had 'just' eight[11]. By 2008, their number had grown to 87, placing Russia in the second position behind the United States. Unlike Russian oligarchs, who effectively controlled the political establishment from 1993 to 2000, Chinese businessmen remained in the political shadows, colluding with provincial political bosses but resisting something that resembled a direct threat to the national state.

4.4 Foreign Influence

External integration was a common engine of China's and Russia's economic transformations. Their contacts with foreign powers, though, was somewhat different. The success of China's growth was dependent on foreign investment (Kotz, 2001). In the late 1970s, China had a labour surplus simultaneously as Hong Kong and Taiwan had a low-wage labour shortage. Because of their proximity and shared culture, China was able to merge Hong Kong and Taiwanese supply chains, allowing them to expand their industrial sector. As a result, China has established itself as the region's leading source of low-cost labour and paved the way for special economic zones near Taiwan and Hong Kong. These achievements contributed to the progress of China's reforms. (Sachs and Woo, 1994). Capital from Japan and the United States helped China develop its transport, technology, and tourism capabilities. Foreign investment has increased significantly since 1991, from $7 billion to $25.76 billion. Also, at the time of the transition, China had a small foreign debt (Nolan, 2004). An expansion of manufacturing assembly plants in coastal areas, importing products and raw materials, exporting finished products to international markets, and tapping into China's almost unlimited pool of cheap labour, contributed to China's economic revival.

On the other hand, the strategic instability that pervaded Russia's political landscape harmed foreign investment and support during the country's economic transformation. Compared to the West's responses to the Baltic States, Russia received insufficient assistance to guarantee that complete economic liberalization was based on sound financial foundations (Aslund, 2007). To make things worse, commerce collapsed as a result of the political collapse. Russia's share of world trade dropped from 3.4 % in 1990 to 1.5 % in 2000, recovering marginally to 1.8 % in 2005, due to the 1990s recession and the breakup of the Council for Mutual Economic Assistance trading bloc. On the other hand, China's economy has tripled per decade, its share of global trade had risen from 0.8 % in 1978 to 7.7% in 2005(Rutland, 2005). Furthermore, Russia was heavily in debt at the time of transformation, with debt levels ranging from 10% of GDP in 1990 to 33% in 1995, and to 95% in 2000 (Rutland, 2005).

[11] Forbes, April 2006, at http://www. forbes.com/billionaires/

Unlike Russia, the Chinese depend on foreign direct investment (FDI) while holding portfolio holders at a safe distance. From 1985 to 1995, China received an average of $12 billion in FDI per year, rising to $78 billion in 2006 (Huang, 2003). Russia received just $1.3 billion in FDI per year on average from 1985 to 1995 and $12.5 billion in 2006, including a massive annual outflow of capital above those estimates (Rutland, 2005). China also maintained strict capital controls. Since 1995, the Chinese Yuan was fixed to the dollar at around 25% of buying power parity (PPP). As a result, China has kept its low-cost labour advantage and avoided the speculative capital inflows and outflows that have caused chaos in other emerging economies due to these restrictions. Thanks to this, China escaped the Asian financial crisis of 1997 relatively unscathed (Rutland, 2005). On the other hand, Russian reformers primarily pursued Western advice to seek external liberalization because IMF loans were contingent on it (Stone, 2004). In 1992-1994, Russia lifted several capital controls, allowing dollars to flow in, creating a counter currency for most of the 1990s (Rutland, 2005).

Thus, the initial conditions in China and Russia at the start of the economic revolution were very different. China's economic and political systems were more decentralized, with agriculture accounting for a significantly greater share of overall jobs and a lower degree of economic growth. These factors ensured that China had a much greater chance of achieving a faster growth rate after the move, regardless of how it was carried out (Rutland, 2005). In Russia, however, initial circumstances, especially political collapse, hampered the country's economic transformation. Nevertheless, despite their disparate beginnings and divergent paths, the two countries are now convergent on a parallel paradigm of state-led growth in the face of shared global challenges and opportunities (Rutland, 2005). Table 6 well summarizes some of the elements we have so far exposed.

Table 6. Reform Paths in China and Russia

	Sequence	***Pace***	***Initiative***	***Spirit***	***Western advice***
Russia	Politics First	Rapid	Top-down	Shock therapy	Strong influence
China	Economy first	Gradual	Middle-up	Controlled transition	No influence

Source: Rutland, P. (2005)

4.5 Informal practices: *guanxi* vs. *blat*

Another substantial similarity between the Chinese and Soviet cases is the very existence of idioms – *guanxi* and *blat* – to define personal networks for 'getting things done' The former is associated with Chinese culture. In contrast, the latter is associated with Russian culture. According to the study by Ledeneva (2008), *guanxi* and *blat* are flexible terms with context-specific boundaries (Ledeneva

1998; Wank 1996; 1999; Yang 1994). *Guanxixue* – the "art of guanxi" – entails exchanging gifts and favours, establishing personal relationships and reciprocal dependency networks, and creating commitments and indebtedness to one another. The importance and strength of personal relationships and their significance in fulfilling the needs and wishes of daily life guide these activities (Yang, 1994). In a time of scarcity, making friends becomes a required survival strategy, strengthening the mutual responsibility in personal relationships to the point that one feels obligated to participate and use one's *guanxi* contacts to assist friends.

Similarly, *blat* uses informal ties and personal networks to access products and services in limited supply while avoiding official procedures (Ledeneva, 1998). In times of scarcity and a privileges-based society, *blat* practices support the personal consumption needs of the population while also reorganizing the official allocation of material welfare by an illicit sharing of "favors of access" (Ledeneva, 2008).

There is a moral ambiguity to *guanxi* and *blat*. As we have understood, they are helpful to people in times of scarcity, yet they work at the expense of society. People are compelled to break formal laws by the normative obligations exerted by these social relationships. Indeed, not by chance, both these practices developed under socialism and became associated with shortage. In fact, beyond producing scarcity, the centrally planned economies also limited the individual needs of people. Hence, *blat* was instrumental in Soviet Russia for the acquisition of four different types of needs: 'regular needs' such as food, clothes and household goods; 'periodical needs' such as holidays; 'life cycle needs' such as schools, jobs, housing and hospitals; and 'the needs of others' (Ledeneva, 1998). The same classification can be applied to the use of *guanxi* (Yang, 1994).

Significantly and contrarily to contemporary times, the needs satisfied with the help of *guanxi* and *blat* practices usually did not exceed the level of modest personal consumption, at least by Western standards (Ledeneva, 2008).

Given the over constraining socialist system, these practices were indispensable for the Soviet system to function, but they were also helping undermine the same system (Ledeneva, 2008). Indeed, informal practices subverted the institutional order, especially its ideological and moral basis, and simultaneously created a unique, mutually exploitative relationship between formal institutions and informal practices within the Soviet regime. Thus, although *blat* practices profited from state resources, the state itself relied on informal practices to solve problems such as distributing scarce resources. As a result, *blat* became a well-kept Soviet secret, a taboo in political and scholarly circles.

As we saw in the previous chapter, the questionable disposition of state property, together with the totalitarian nature of the Soviet state, resulted in widespread cheating and outwitting of the authorities. These practices revealed not only the public's perception of the Soviet state as parasitic, owing to its profoundly exploitative existence but also the state's and citizens' mutual tolerance (Ledeneva, 2008).

To sum up, *guanxi* and *blat* practices have contrasting effects on political, economic, and social spheres: on the one hand, they compensate for institutional rule flaws and thereby uphold the declared values of centralized state systems; on the other hand, they negate and subvert these same principles and ignore the formal rules. *Guanxi* and *blat* are distinguishing features of their respective civilizations and critical components of the economic and political regime, where reciprocity plays a central role. Furthermore, by downplaying traditional values, *guanxi* and *blat* may have led to the long-term viability of these markets and political regimes (Ledeneva, 2008).

What are the political implications of these informal practices? As we pointed out previously, while market reforms in China were partial and gradual, reforms were abruptly implemented in Russia and affected both political and economic institutions. China is characterized as "the union of the developmental state with capitalism," with a *guanxi* culture leading to increased corruption in the business-government domains, which is as significant as the much-publicized state rational-legal interventions (Yang 2002).

On the other end of the spectrum, due to the reforms enacted by the Yeltsin government, the local systems of socialist guarantees collapsed. This eroded formerly prevalent structures of industrial business cooperation and mutual aid, as well as social welfare. People were misled by the government and were left to their own devices under the new economy, helping themselves to whatever they could find. The accelerated enrichment of the political and economic elite gave more impetus and credibility to public funds' misappropriation and corruption at all levels. These reforms weakened the economic structures that supported *blat* activities (Ledeneva, 2008).

There have been three significant shifts in *blat* practices worth mentioning. Firstly, there has been a "monetization" of *blat* activities. Indeed, money has been the focal point of "shortage" and the driving force behind the reorientation of *blat* relationships. Therefore, the non-monetary nature of the *blat* exchanges had been undermined (Ledeneva, 2000). Secondly, the post-Soviet privatization of state property transformed the function of "favor of access" of *blat*. In a centralized state economy, official "gatekeepers" granted access on two conditions:(1) the "gate" itself belonged to the state, and (2) gatekeepers had some assurance that they would remain in charge of re-distribution (Ledeneva, 2008). This resulted in creating a parallel currency that met the needs of both citizens and the government daily. The scenario shifted dramatically in the 1990s, with most "favors of access" requested from officials centred on privatizing services or turning them into cash through permits, licenses, or tax breaks (Ledeneva, 2008). Not by chance, collusion and corruption of representatives of state and market sectors became so prevalent, resulting in a wide variety of unethical activities that went way beyond *blat* practices. Commissions, percentages, stocks, and company shares have become common ways to compensate for "favors of access" (Ledeneva, 2008). Thirdly, in the post-Soviet economy, the size of *blat* trade has changed.

On the one hand, recently monetized *blat* exchanges have extended into the private market, transcending the extent of personal consumption and its relation to the state sector (Ledeneva, 2008). Also, the constituency of *blat* practices, on the other hand, has diminished. To put it differently, in the light of the planned economy, *blat* served as a means of making the state's strict conditions more tolerable for ordinary citizens who were motivated by socialist ideals (Ledeneva, 2008). However, in the light of market reforms, *blat*-turned-corrupt activities, motivated by profit and calculating nature, benefit the protagonists of the market transition – businessmen, state authorities, and the criminal underworld – rather than the majority of its citizens and are thus closely correlated with societal damage (Ledeneva, 2008).

Similarly, there are debates about the role of *guanxi* in the course of the Chinese reforms. Some scholars emphasize *guanxi* change by registering increases or decreases in its frequency, while others argue for its stability and measure its adaptation to change using qualitative approaches (Ledeneva, 2008).

According to Guthrie (1999), the *guanxi* practice as an institutionally established framework is declining in the urban-industrial sector as procedural law becomes respected. Analyses of the role of networks in the industry provide some evidence for this point. Wang (2000) points out one of *guanxi's* flaws in the business world: networks can be challenging to maintain and expensive to create. Companies that use *guanxi* will raise market size but not net income, according to Kee and Kiong (1998).

Although these scholars accept *guanxi* as a cultural fact that forms reciprocal trade and the production of indebtedness and duty in Chinese culture, they conclude that *guanxi* is incompatible with a sound legal system. On the other hand, Commodifying Communism (2001) by David Wank contends that the resurgence of free enterprise would not contribute to the decline of patron-client relationships but rather to the growth of modern commercialized modes of clientelism. He demonstrates how entrepreneurs use pre-existing links and forge new ones to sway city government officials.

After comparing informal traditions such as *guanxi* and *blat*, we may infer that they are a uniform solution to similar problems around communities with centralized state regimes. At the same time, they also display culture-specific features. Corrupt activities, for example, are thought to be less harmful in China than in Russia (Sun, 1999), and China's gradual and partial reforms and its communist rulership do not preclude foreign investment and economic success. Moreover, since informal practices navigate between formal and informal sets of rules and norms, they alter their habits when those rules and norms shift, especially when changes are as drastic as those in Russia.

The concept of *guanxi* has been maintained and has become a label for the Chinese system – *guanxi* capitalism – in contemporary China, where changes have been much slower, and *guanxi* policies are more culturally and traditionally based. There is much more research and discussion about the importance of *guanxi* in Chinese studies than there has ever been in Russian studies about *blat*. In Russia, kleptocratic, crony, or oligarchic corruption are used more often (Ledeneva, 2008).

Overall, both *guanxi* and *blat* were helpful to ordinary citizens before the changes, helping them fulfil their personal needs and organize their own lives, whereas now their shift into corruption benefits the official business classes while harming the rest of the population. To compensate for the flaws in the market structure, new trends emerge: corporate insiders use personal networks in both the public and private sectors of the economy.

To conclude, Ledeneva (2008) proposes that informal practices are not only the cause or the result of traditional organization flaws, but they are also the solution to those flaws. Their assisting position should be investigated further, and policies should be updated accordingly. Informal activities can be considered both a hindrance and a resource from the standpoint of the economy as well. Informal methods expose flaws in formal institutions, and they serve as a critical example of how formal restrictions are implemented. Furthermore, informal activities often reveal societal developments and people's reactions to them. These developments reveal Russia's or China's success in solving socialism's economic flaws and how they are participating in broader global informatization processes.

5. Conclusions

The aim of this dissertation was to analyze the characteristics of the Russian economic model after the fall of the Soviet regime, trying to answer a very current question: Why a country with an extraordinary endowment of natural and energy resources and which seemed to have embarked on the path of the market economy did not succeed in consolidating an ongoing process of growth and economic prosperity? This dissertation argues that the fundamental causes can explain the difficulties of long-term economic development in the institutional structure. The institutions and, most importantly, the informal institutions – such as patron-client relationships and other clientelistic practices – that guide social behaviour, which are therefore the result of a cultural and political process sedimented in the history of a country – can be a limit or an incentive to promote development. However, as the work of D. Acemoglu and J. A. Robinson (2012) has highlighted, not all countries have inclusive institutions capable of accepting new ideas and new subjects, guaranteeing political pluralism and promoting freedom of initiative. In some countries, including Russia, extractive institutions tend to prevail, governed by small groups that, once they reach power, prohibit others from competing for government and economic initiative, enriching themselves at the expense of the majority. Even if covered by a resemblance of democracy, the political institutions that prevail in Russia are in reality marked by authoritarian behaviour and predatory strategies, effectively denying the rule of law. These political institutions are accompanied by equally extractive economic institutions, which hinder the protection of property rights, the freedom of trade and inhibit entrepreneurship. The capitalism that derives from it is oligarchic (Baumol et al. 2007), characterized by a resource curse and rent-seeking. Hence it is incapable of maintaining that process of 'creative destruction', which is a prerequisite for widespread innovation and sustainable growth for the benefit of society as a whole.

Although Russia has experienced periods of rapid expansion and relative prosperity – as, for example, in the years 2000-2008 and 2010-2012 – the economic growth that the country was able to start was weak and uncertain. While extractive institutions hindered liberalization in the 1990s, turning the country into a sell-off to rent-seeking insiders, the same institutions inhibited the rise of statism in the 2000s. The state's oppressive power grew instead, allowing elite groups like the siloviki to prosper through private enrichment. Furthermore, state control of strategic industrial sectors has altered the incentives for more efficient resource allocation, exposing the country to excessive dependence on the energy sector. This choice has made the Russian economy too dependent on the fluctuation of hydrocarbon prices on international markets, triggering strong economic power mechanisms.

It is precisely the limits and weaknesses rooted in this oligarchic model that led to the instability of 2008, then aggravated by the world crisis. These have generated a condition of "enduring crisis" (Robinson, 2013), which continues to hold back Russia's development. To eliminate the vulnerabilities inherent in the model of Russian capitalism (oligarchic capitalism), the government must promote a series of policies aimed at improving the institutional structure, modernization and diversification of the economy. Only through the reduction of state intervention in the economy and the presence of formal and predictable rules to protect economic actors on the market Russia will eliminate the structural weaknesses that still characterize it today and unlock its enormous growth potential.

In order to explain the difficulties encountered in the Russian development, this dissertation also included a comparative analysis with China, which bared many similarities with Russia, firstly in the heritage of the centrally planned economy, and secondly in the persistence of informal practices – guanxi and blat.

China began market reform before Russia, and it was focused on 'Gradualism' rather than 'Shock Therapy'. De-collectivization of agriculture, the establishment of township and village enterprises, market reforms, the establishment of privately owned urban enterprises, and the corporatization of state-owned enterprises were all core elements of China's economic reform. As a result, China's real productivity and per capita income has risen at an annual rate of 9% since the start of market reform. Nonetheless, the Chinese economy continues to be plagued by issues such as insufficient property rights, underdeveloped financial institutions, and significant regional disparities in growth.

The former Soviet economy failed under the weight of low economic growth, a scarcity of consumer products, a heavy military strain, and inefficient agriculture. Since 1992, Russia has been committed to being a capitalist market economy. However, Russia's transformation to a market economy has been plagued by decreasing productivity, and living conditions increased income disparities, and social costs such as corruption, organized crime, and shorter life expectancy. Nevertheless, even though Russia is still experiencing economic difficulties, it has made significant strides in the transition from communism to capitalism.

Russia and China aim to be leaders and not merely followers on the world level. However, are the two countries' respective development paths sustainable? As we mentioned in the first chapter, China experienced what Acemoglu and Robinson (2013) call 'extractive growth'. However, having extractive political institutions makes it more likely for political power to go unchecked and be concentrated, giving rise to the issues that plague Chinese society. Consequently, this power ends up getting exploited to the detriment of the economy. Hence, it may seem that China's path of dictatorship and gradualism is superior economically to Russia's path of swift transformation to capitalism. Indeed, while Russia has suffered years of declining output and income, China has experienced very high economic growth rates. However, we must not jump to this conclusion too quickly. China's extractive political institutions and inclusive economic institutions may or may not maintain their equilibrium. Economic freedom, history shows, frequently lead to demands for political freedom, free elections, and so forth. Is China's tumultuous moment yet to come? Or was the gradual path toward political reform by Chinese leaders the best viable solution?

Finally, we must recognize that the globalized world is not uniform: in response to its challenges, a vast and diverse set of feasible models have arisen, and there is no 'one size fits all solution. While the gradual approach was successful in China, it is not to say that it would have been so in Russia.

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Appendix of figures and tables

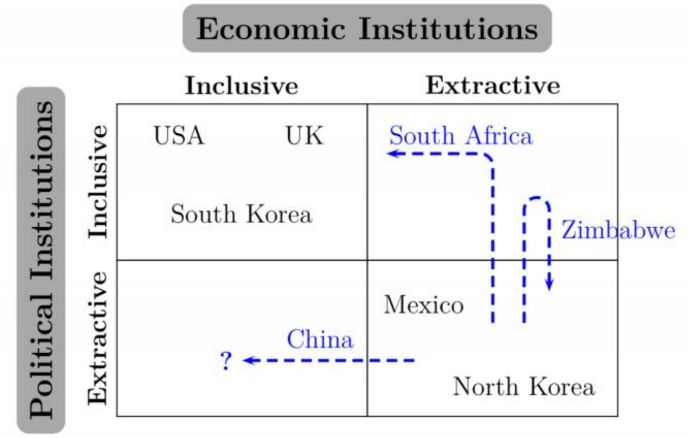

Figure 1. THE INSTITUTIONAL EQUILIBRIUM. *Source Acemoglu, D., & Robinson, J. A. (2019). Rents and Economic Development: The Perspective of Why Nations Fail.*

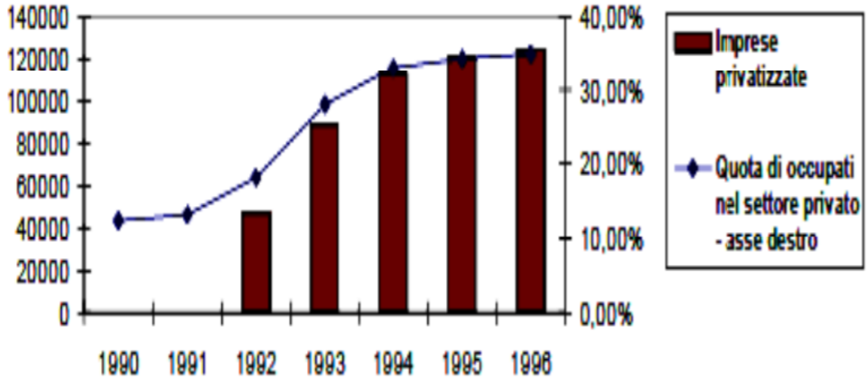

Figure 2. PRIVATIZED ENTERPRISES AND SHARE OF EMPLOYMENT 1992-1996. *Source: Luiss University Research and Training Centre (Luiss Lab, 2006)*

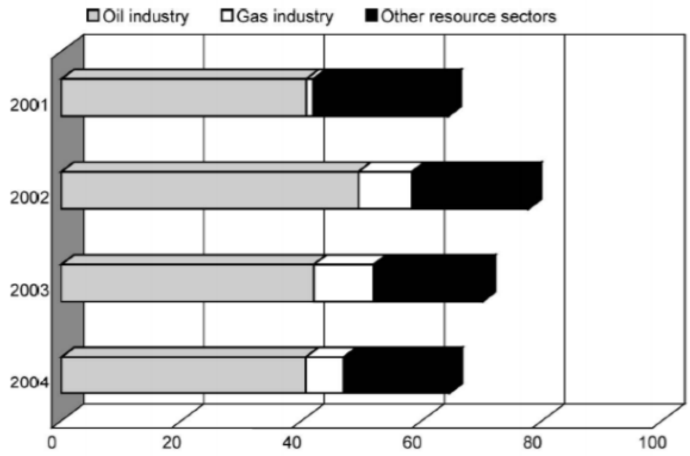

Figure 3: PERCENTAGE WEIGHT (%) OF NATURAL RESOURCES SECTORS ON THE GROWTH OF INDUSTRIAL PRODUCTION (2001-2004). *Source: Ahrend, R., Russia's post-crisis growth: its sources and prospects for continuation, Europe-Asia Studies, Vol. 58, N. 1, 2006, p. 7*

	1992	1993	1994	1995	1996	1997	1998
Gross domestic product (GDP, %)	−14.5	−8.7	−12.6	−4.2	−3.5	0.8	−4.6
General government balance (% GDP)	−18.8	−7.3	−10.4	−6.0	−8.9	−7.9	−8.0
Industrial production (%)	−18.2	−14.2	−20.9	−3.0	−4.0	1.9	−5.2
Fixed investments (%)	−40.0	−12.0	−27.0	−13.0	−18.0	−5.0	−6.7
Trade surplus (U.S.$ billions)	10.6	15.4	17.9	20.4	26.9	19.8	14.4
Metals, metal products, fuels, and precious stones (% of total exports)	68.5	69.9	71.6	68.0	71.1	71.8	69.7
Wage arrears (U.S.$ millions, end of year)	69	614	1,183	2,884	6,221	6,657	8,240
Income inequality (Gini coefficient)	37.1	46.1	44.6	47.1	48.3	—	—

Sources: Calculated from Bank of Finland Institute for Economies in Transition, *Russian Economy—The Month in Review* 6 (2000): 1, 3; European Bank for Reconstruction and Development, *Transition Report 1995: Investment and Enterprise Development* (London: European Bank for Reconstruction and Development, 1995), 205; European Bank for Reconstruction and Development, *Transition Report 1999: Ten Years of Transition* (London: European Bank for Reconstruction and Development, 1999), 260–61; European Bank for Reconstruction and Development, *Transition Report 2001: Energy in Transition* (London: European Bank for Reconstruction and Development, 2001), 189; Organization for Economic Cooperation and Development, *Russian Federation* (Paris: Organization for Economic Cooperation and Development, 1997), 257; Vladimir Tikhomirov, *The Political Economy of Post-Soviet Russia* (Basingstoke: Macmillan, 2000), 23; and Goskomstat, *Rossiiskii statisticheskii ezhegodnik* (Moscow: Goskomstat, 2000), 582–83.

Table 1, RUSSIA, SELECTED ECONOMIC INDICATORS, 1992-8. *Source: N. Robinson 2012, p.32*

	2011	2012	2013	2014	2015
Real GDP growth	4.3	3.4	1.3	0.5	1.8
Inflation (CPI), period average	8.4	5.1	6.8	6.0	4.6
Fiscal balance (per cent of GDP)[1]	4.2	0.5	-0.5	0.0	0.2
Current account balance (per cent of GDP)	5.1	3.6	1.6	2.7	2.8

1. Consolidated budget.
Source: OECD Economic Outlook 95 database.

Table 2: RUSSAIN FEDERATION: MACROECONOMIC INDICATORS. *Source: OECD Economic Outlook, Volume 2014 Issue 1*

China			Russia		
Year	**Agriculture**	**Industry & Construction**	**Years**	**Agriculture**	**Industry & Construction**
1978	71.9	15.8	1991	12.9	42.3
1995	53.4	22.7	1994	14.9	37.9

Table 3: ECONOMIC STRUCTURE IN CHINA AND RUSSIA: EMPLOYMENT BY SECTOR (%). *Source: Kim, Y. C. (2015). Economic transition in China and Russia. European Scientific Journal.*

Year	Country	Rank	CPI Score (1-10 scale)
1996	China	50	2.43
	Russia	47	2.58
1997	China	41	2.88
	Russia	49	2.27
1998	China	52	3.5
	Russia	76	2.4
1999	China	58	3.4
	Russia	82	2.4
2000	China	63	3.1
	Russia	82	2.1
2005	China	78	3.2
	Russia	126	2.4

Table 4. CORRUPTION INDEX IN CHINA AND RUSSIA (1996-2005). *Source: Transparency International, The global coalition against corruption, 2008*

Year	Political Rights in China	Civil Liberties in China	Status	Political Rights in Russia	Civil Liberties in Russia	Status
1975	7	7	Not Free	7	6	Not Free
1980	6	6	Not Free	6	7	Not Free
1985	6	6	Not Free	7	7	Not Free
1990	7	7	Not Free	5	4	Partly Free
1995	7	7	Not Free	3	4	Partly Free
2000	7	6	Not Free	5	5	Partly Free
2005	7	6	Not Free	6	5	Not Free

Table 5. POLITICAL RIGHTS AND CIVIL LIBERTIES, CHINA AND RUSSIA (1975-2005). *Source: Freedom House, Freedom in the World Country Ratings: 1972-2005, 2006.*

	Sequence	***Pace***	***Initiative***	***Spirit***	***Western advice***
Russia	Politics First	Rapid	Top-down	Shock therapy	Strong influence
China	Economy first	Gradual	Middle-up	Controlled transition	No influence

Table 6. REFORM PATHS IN CHINA AND RUSSIA. *Source: Rutland, P. (2005)*

Abstract in Italian

Lo sviluppo economico politico russo dopo la dissoluzione dell'Unione Sovietica è stato caratterizzato da una prima richiesta di modernizzazione e successivo ritorno al conservatorismo, sia culturalmente che politicamente. In effetti, la Russia e altri Stati post-sovietici hanno cercato di perseguire riforme socioeconomiche, che sono state minate dalla persistente dipendenza da istituzioni politiche estrattive e dalla dipendenza da relazioni informali di tipo clientelistico, spesso dando luogo a corruzione. Questo ordine politico ed economico si dimostrò incompatibile con le priorità della modernizzazione dettando il mantenimento dello status quo attraverso il rafforzamento della gerarchia dei legami patrono-cliente, i comportamenti di *rent seeking* e la proprietà condizionata.

Lo scopo della presente tesi è quello di analizzare l'impatto che le istituzioni di tipo estrattivo, ovvero quelle in gran parte basate su legami clientelistici volti a garantire *rent seeking* da parte della classe dominante, hanno sullo sviluppo economico-politico della Russia dagli anni '90 e a determinarne l'impatto sulla traiettoria economica della Russia.

La presente tesi è organizzata in tre capitoli. Nel primo, vengono presentate le teorie più accreditate nell'ambito dell'economia istituzionale. L'obiettivo è comprendere il ruolo fondamentale svolto dalle istituzioni nello sviluppo economico e provare ad individuare i principali ostacoli alla crescita di lungo periodo della Russia. Nel secondo capitolo, viene preso a rifermento lo studio *Russia's Capitalist Revolution* di A. Aslund (2007), per discutere l'evoluzione dell'economia russa dalla disintegrazione dell'Unione Sovietica alla crisi economica globale del 2008-09, mettendo in evidenza come molti retaggi di epoca sovietica, a partire dalla pratica di relazioni estrattive di tipo informale quale il patrimonialismo, siano ancora presenti nella struttura istituzionale russa e costituiscano gravi ostacoli alla crescita. Il terzo capitolo comprende un'analisi comparativa con lo sviluppo economico cinese. Infatti, entrambi i paesi, Russia e Cina, hanno abbandonato il modello sovietico di economia pianificata e hanno intrapreso la strada verso un'economia di mercato. Nonostante alcuni elementi in comune, le transizioni economiche nei due paesi hanno avuto risultati discordanti. Mentre la transizione della Cina dal socialismo è generalmente considerata un successo, quella della Russia al contrario è spesso definita un fallimento.

A partire dal concetto di 'patrimonialismo', coniato dallo studioso Max Weber come un '*ideal type*', un modello teorico basato su informazioni empiriche comparative che servono come strumento per facilitare l'analisi comparativa. Proseguiamo col seguire la prospettiva sul patrimonialismo data dallo studio di Becker e Vasileva (2017), i quali pongono le relazioni patrono-cliente tra élite politiche ed economiche al centro del principio del capitalismo patrimoniale ideale-tipico. Ricordando la definizione di Weber, spiegano come il capitalismo patrimoniale penetri profondamente nel tessuto

sociale. Per esempio: le classi dominanti vedono la società come un proprio dominio; la mancanza di separazione tra l'ufficio e il funzionario permette l'appropriazione privata dei servizi pubblici per il beneficio personale; lo Stato interviene nell'economia sulla base di interessi politici e particolaristici.

Il patrimonialismo, di conseguenza, può minare il bene comune e lo sviluppo economico: il possesso di proprietà può essere associato alla corruzione, mentre lo Stato può diventare un veicolo attraverso il quale gruppi di élite requisiscono le risorse e le proprietà degli altri (Robinson, 2013). Tuttavia, questo punto dovrebbe essere usato con cautela perché la Cina, considerando la pesante presenza di patrimonialismo, ha dimostrato il potenziale per innescare uno sviluppo economico di successo.

Il problema del concetto di patrimonialismo è che può dar luogo ad instabilità e incertezza sul futuro. Come affermato da Robinson (2017), questa incertezza potrebbe essere causata dal fatto che la costruzione della capacità statale rappresenta una minaccia alla capacità dei gruppi d'élite di utilizzare le risorse statali per fini privati. In effetti, il problema sorge perché con limitato potere dello Stato, il ‘sovrano’ non ha alcun interesse ad aumentare la futura capacità produttiva dell'economia.

Questo problema può essere ben illustrato dalla teoria istituzionale (Acemoglu e Robinson, 2013), secondo cui, le istituzioni politiche giocherebbero un ruolo primario all’interno della crescita economica di un paese. È infatti necessario che le istituzioni offrano incentivi corretti al fine di introdurre le innovazioni necessarie al progresso economico. Da qui l’importanza di un sistema che garantisca la tutela dei diritti di proprietà, di strutture economiche capaci di rendere i mercati competitivi e dello sviluppo del capitale umano della società. Nel caso in cui tali istituzioni mancassero ci troveremmo con un grave ostacolo agli investimenti, allo sviluppo e all’innovazione: in sintesi, sarebbe dannoso alla crescita economica.

Dunque, le istituzioni politiche ed economiche stanno al centro dello Stato. Il funzionamento di ogni società è dettato da regole create e applicate da chi sta al potere. Di conseguenza, le istituzioni politiche e quelle economiche interagiscono al fine di creare incentivi allo sviluppo, ed è proprio in questa relazione tra forze politiche ed economiche che vengono generate le differenze di ricchezza tra un paese e l’altro (Acemoglu e Robinson, 2013). Tuttavia, non in tutti i paesi le istituzioni riescono a cooperare correttamente ai fini della crescita dell’economia. In presenza di istituzioni economiche cosiddette ‘virtuose’, come ad esempio quelle presenti nei paesi ricchi dell’Europa Occidentale e dell’America Settentrionale, viene garantita la protezione dei diritti individuali e si generano incentivi alla crescita economica; al contrario, in presenza di istituzioni economiche non virtuose, come quelle dei paesi poveri dell’America Latina e dell’Africa, lo spirito imprenditoriale, la produzione, gli investimenti e il commercio con l’estero sono scoraggiati (Acemoglu e Robinson, 2013). Per questa ragione Acemoglu e Robinson (2013) distinguono tra due generi di istituzioni politiche ed economiche: le istituzioni inclusive ed estrattive.

Le istituzioni economiche sono definite ‘inclusive’ quando impediscono l’accentramento del potere nelle mani di un solo individuo o di un’élite e producono un sistema politico pluralistico. Nel caso in cui uno Stato adottasse tali istituzioni, si crea un circolo cosiddetto ‘virtuoso’, poiché le istituzioni politiche inclusive tendono a favorire istituzioni economiche inclusive (Acemoglu e Robinson, 2013).

Le istituzioni economiche sono invece definite ‘estrattive’ quando negano la tutela dei diritti di proprietà, la libertà di scambio, e inibiscono gli individui al punto di renderli improduttivi. Inoltre, esse non garantiscono *the rule of law* e sono manovrate a piacimento dai leader politici ed economici, che approfittano dell’attività di *rent seeking* per impossessarsi della ricchezza prodotta dalla società per il loro arricchimento personale. Proprio come per le istituzioni politiche inclusive, le istituzioni politiche estrattive generano un circolo cosiddetto ‘vizioso’ che alimenta a sua volta le istituzioni economiche estrattive (Acemoglu, Robinson, 2013).

Le istituzioni si sviluppano e interagiscono seguendo il processo storico di ogni paese, creando circoli virtuosi e viziosi. Come spiegato da Acemoglu e Robinson (2013), tuttavia il processo storico di un paese non è predeterminato, né cumulativo. In esso, determinati eventi o un insieme di fattori – *critical junctures* – possono radicalmente alterare gli equilibri economici e politici di un paese. Ognuna di queste *critical junctures* può determinare un cambiamento positivo, come ad esempio la rottura di un circolo vizioso, o negativo, ad esempio rafforzando le istituzioni estrattive. Una transizione efficace da un sistema estrattivo ad uno inclusivo è stata possibile per il Sud Africa, che implementò un movimento verso istituzioni politiche inclusive accompagnato da una spinta verso istituzioni economiche più inclusive. Infatti, secondo la teoria di Acemoglu e Robinson (2019), la politica guida l'economia. Pertanto, se il movimento verso istituzioni politiche inclusive non viene consolidato, questo può portare all'inversione del movimento, come è stato il caso per lo Zimbabwe, che non avendo consolidato lo spostamento verso istituzioni inclusive, è dovuto tornare a istituzioni estrattive. Il problema di come pervenire a migliori istituzioni riguarda soprattutto quei paesi in via di sviluppo o in transizione, quale la Russia post-sovietica.

Qui un’opportunità di cambiamento si presentò con il crollo del sistema sovietico nel 1991. Durante questo periodo la Federazione Russa ebbe l’opportunità di sviluppare istituzioni politiche ed economiche inclusive e porre fine al sistema estrattivo che l’aveva per anni contraddistinta. Come si è visto in maggior dettaglio nel secondo capitolo, tale opportunità fu parzialmente colta dal Governo russo. Dopo il crollo dell'Unione Sovietica nel dicembre 1991, il primo Presidente della Federazione Russa, Boris Yeltsin, era certo che un processo di riforma radicale fosse la via migliore verso un’economia di mercato: egli mirava all’eradicazione dello stato sovietico attraverso la creazione di una società democratica, libera da ideologie ufficiali e dal governo di un solo partito, fondata sul rispetto della proprietà privata. Tuttavia, si trovò di fronte una crisi economica dilagante aggravata dalla disastrosa bancarotta statale alla fine del 1991. I cambiamenti economici miravano a creare un'economia di mercato attuando un ambizioso programma di stabilizzazione macroeconomica. Il passaggio a un sistema di mercato, tuttavia, non è stato semplice; ha richiesto la decostruzione delle vecchie istituzioni sovietiche e la creazione di un nuovo quadro istituzionale in grado di accettare e gestire il nuovo mercato. Il cosiddetto "Washington Consensus", modello neoliberale creato dal Fondo Monetario Internazionale (FMI) e dalla Banca Mondiale (BM) per i paesi in transizione, ispirò le iniziative più estreme durante i primi anni della transizione. L'idea alla base di questa strategia considerava la creazione del libero mercato come un catalizzatore per la democrazia. Le riforme si concentrarono principalmente sul lato economico e furono contraddistinte da un’implementazione radicale e semplice, nota con il nome di “Shock Therapy’” incontrarono l’appoggio dalla maggioranza della popolazione. In realtà, i primi cinque anni di riforme non hanno fornito la ristrutturazione economica prevista o i risultati stabilizzanti. Questo mise in dubbio l'efficacia della "Shock Therapy" e le politiche del "Washington Consensus".

Al contempo la riforma delle istituzioni politiche che venne rimandata poiché ritenuta di minore rilievo. Una delle manovre di maggiore importanza fu la privatizzazione di massa, divisa in tre fasi (1990-1991, 1992-1994, 1994-1996). La prima fase di privatizzazione fu al di fuori del controllo dello Stato e riguardò alcune imprese (*prichvatizacija*) attraverso la quale diversi membri *nomenklatura* hanno assunto le azioni di alcune imprese statali. Ciò significava che il potere economico di fatto era più saldamente radicato che mai a sostegno delle reti poste dagli amministratori per proteggersi dai pericoli dell'economia pianificata. Questi partecipanti hanno acquisito capitale economico e capitale relazionale – una riserva di legami personali, relazioni e aiuti reciproci, sviluppati nel tempo da contatti con altri attori economici. La seconda fase di privatizzazione di massa fu regolamentata dallo Stato mentre la terza riguardò la privatizzazione delle grandi imprese strategiche (“*loans for shares*”) beneficiò principalmente le cerchie ristrette di imprenditori vicini a potenti oligarchi.

Il seguente Presidente della Federazione Russa, Vladimir Putin, seguì le orme del suo predecessore e dopo essersi insediato nel 2000, approfittò delle fragili istituzioni politiche per creare uno stato fortemente centralizzato ed autoritario: una “democrazia sovrana” (*upravljaemaja demokratija*) (Aslund, 2007). È chiaro che la strategia politica di Putin era basata su un sistema di potere unitario e centralizzato che per la prima volta è riuscito a rendere da una parte l'apparato statale più efficiente e razionale, ma dall’altra anche più corrotto. Infatti, lo Stato russo rimase debolmente istituzionalizzato, affidandosi a clan e reti di relazioni patrimoniali come unità di base del sistema statale. Ad esempio, durante la Presidenza Putin, i *siloviki* (un termine gergale con cui ci si riferisce a forze armate sotto il controllo statale), vennero nominati nei consigli di amministrazione delle società statali, dando loro accesso a fondi di bilancio e, di conseguenza, un eccesso di rendita alla ricerca di benefici. Di conseguenza, rafforzarono il loro controllo amministrativo opaco e corrotto. Gli innegabili successi ottenuti dall'economia russa durante il boom economico degli anni 2000, dovuti principalmente all'aumento del valore delle risorse naturali, hanno dunque poche probabilità di essere duraturi e di originare una profonda trasformazione del sistema politico estrattivo nel solco di istituzioni inclusive. Sono proprio i limiti e le debolezze radicate in questo modello oligarchico che hanno portato all'instabilità del 2008, poi aggravata dalla crisi mondiale. Questi hanno generato una condizione di "*enduring crisis*" (Robinson, 2013), che continua a frenare lo sviluppo della Russia. Per eliminare le vulnerabilità insite nel modello del capitalismo russo (capitalismo oligarchico), il governo deve promuovere una serie di politiche volte a migliorare la struttura istituzionale, la modernizzazione e la diversificazione dell'economia. Solo attraverso la riduzione dell'intervento statale nell'economia e la presenza di regole formali e prevedibili per proteggere gli attori economici sul mercato, la Russia eliminerà le debolezze strutturali che ancora oggi la caratterizzano e sbloccherà il suo enorme potenziale di crescita.

Il terzo capitolo mette a confronto le rispettive transizioni economiche intraprese dalla Russia e dalla Cina. A seguito delle rispettive rivoluzioni comuniste, entrambi i paesi svilupparono economie pianificate basate sulle idee di Karl Marx, dove il controllo statale del capitale e della terra era alla base dell'ideologia comunista. Tuttavia, le strategie di transizione furono molto discordanti tra i due paesi. La Russia implementò una transizione rapida e progressiva, la "Shock Therapy", in cui il ruolo del Partito Comunista era visto come un ostacolo e richiedeva un cambiamento politico. D'altra parte, la transizione cinese iniziò nel 1978 in un modo non ortodosso e incrementale noto come "Gradualismo" (Sachs e Woo, 1994). La Cina, a differenza della Russia, perseguì riforme economiche sotto la severa guida del suo Partito Comunista. Credeva infatti che un regime comunista e un'economia capitalista potessero coesistere ed essere compatibili. Di conseguenza, la Cina ha mantenuto le sue imprese statali promuovendo allo stesso tempo la crescita di imprese private concorrenti.

Nell'analisi comparata tra i due paesi gli studiosi si occupano principalmente di due aspetti: in primo luogo le scelte politiche adottate dai governi; in secondo luogo, le condizioni iniziali dei paesi. Le condizioni iniziali erano molto diverse, con conseguenti incentivi e vincoli che hanno avuto un impatto significativo sui risultati della trasformazione economica. Le condizioni iniziali di questi paesi possono essere raggruppate in tre grandi categorie: struttura economica, condizione politica e influenza estera.

La Cina ha iniziato la riforma del mercato prima della Russia, e si è concentrata sul "gradualismo" piuttosto che sulla *"shock therapy"*. La de-collettivizzazione dell'agricoltura, la creazione di township e di imprese di villaggio, le riforme di mercato, la creazione di imprese urbane di proprietà privata e la corporalizzazione di imprese di proprietà statale erano tutti elementi fondamentali della riforma economica cinese. La produttività reale e il reddito pro capite della Cina sono aumentati a un tasso annuo del 9% dall'inizio della riforma del mercato. Ciononostante, l'economia cinese continua ad essere afflitta da questioni quali l'insufficienza dei diritti di proprietà, le istituzioni finanziarie sottosviluppate e le notevoli disparità regionali in termini di crescita.

L'economia dell'ex Unione Sovietica fallì sotto il peso di una bassa crescita economica, una scarsità di prodotti di consumo, una pesante tensione militare e un'agricoltura inefficiente. Dal 1992, la Russia si è impegnata ad essere un'economia di mercato capitalista. Tuttavia, la trasformazione della Russia in un'economia di mercato è stata afflitta dalla diminuzione della produttività e delle condizioni di vita, dall'aumento delle disparità di reddito e dai costi sociali come la corruzione, la criminalità organizzata e la riduzione dell'aspettativa di vita. Anche se la Russia è ancora in difficoltà economiche, ha compiuto progressi significativi nella transizione dal comunismo al capitalismo.

Russia e Cina mirano ad essere leader e non semplici seguaci a livello mondiale. Tuttavia, i percorsi di sviluppo dei due paesi sono sostenibili? Come abbiamo detto nel primo capitolo, la Cina ha sperimentato quella che Acemoglu e Robinson (2013) chiamano 'crescita estrattiva'. Tuttavia, avere istituzioni politiche estrattive rende più probabile che il potere politico sia incontrollato e concentrato, dando origine alle questioni che affliggono la società cinese. Di conseguenza, questo potere finisce per essere sfruttato a scapito dell'economia. Quindi, può sembrare che il percorso di dittatura e gradualismo della Cina sia economicamente superiore al percorso di rapida trasformazione della Russia. Infatti, mentre la Russia ha sofferto anni di calo della produzione e del reddito, la Cina ha conosciuto tassi molto elevati di crescita economica. Tuttavia, non dobbiamo saltare troppo rapidamente a questa conclusione. Le istituzioni politiche estrattive della Cina e le istituzioni economiche inclusive potrebbero non essere in grado di mantenere il loro equilibrio. La libertà economica, la storia dimostra, porta spesso a rivendicazioni di libertà politica, libere elezioni, e così via. Dunque, il momento tumultuoso della Cina deve ancora venire? O il percorso graduale verso la riforma politica da parte dei leader cinesi era davvero la soluzione migliore?

Infine, dobbiamo riconoscere che il mondo globalizzato non è uniforme: in risposta alle sue sfide, un ampio e diversificato insieme di modelli fattibili sono sorti e non vi è alcuna soluzione *'one size fits* *all'*. Mentre l'approccio graduale ha avuto successo in Cina, non è da dire che sarebbe stato così in Russia.