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Composition of the ruling elite, incentives for productive usage of rents, and prospects for Russia's limited access order

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ABSTRACT

Vladimir Putin's personal popularity creates the base for sociopolitical stability of regime. However, in the long term, the aspirations of Russia's elite for national sovereignty will come to naught without a new economic development model. Applying the "limited access orders" framework of North, Wallis, and Weingast, this essay analyzes the interactions among three key groups in the ruling elite: the top federal bureaucracy, politically connected big business (oligarchs), and heads of security forces (siloviki). It considers the evolution of rent sources in Russia during the last 25 years and the incentives of elite groups. It argues that under dominance of siloviki after 2012, the ruling coalition could not negotiate a new agreement on rent distribution, nor could it broaden access to economic opportunities and political activity for new social groups. Russia's ruling elite missed the opportunity to avoid a deep shock that will likely destroy the existing "limited access order".

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Introduction

January 2021 marked 21 years of Vladimir Putin's rule. The amendments to the Russian Constitution adopted in the summer of 2020 give him the legal opportunity to stay in power until 2036. Data from the Central Election Commission¹ create the impression of an inviolable regime. However, the Russian economy has actually been stagnating for a decade despite plans for modernization and declarations of a "breakthrough."² Social and political protests have been increasing since 2019 in Moscow, Arkhangel'sk, Yekaterinburg, Bashkortostan, Khabarovsk, and other regions. The Covid-19 pandemic posed a new challenge to the regime. Russia is among the top countries in terms of morbidity, and independent assessments reveal a high rate of mortality from Covid-19.³ Mass political protests in Belarus in 2020 and the Navalny protests in 2021 are further negative considerations.

Taking these factors together raises the age-old question: "Where is Russia heading?" In the 1990s, this question was answered in terms of building a democracy and market economy. The democracy part failed. The economy became a market one, but since the mid-2000s it has been increasingly dominated by the state. The bet on state capitalism has not yielded the desired results, however. After the 2008–2009 global financial crisis and the drop in oil prices it became obvious that Russia was losing in its economic competitiveness both relative to the developed countries and to China. Moreover, the Russian ruling elite proved incapable of building a socio-political model attractive both to the masses and to business. The consequence was confrontation

with the West (leading to a new Cold War in the wake of the 2014 events in Ukraine). However, the shift to a “besieged fortress” model – relying on state propaganda in the media and patriotic social mobilization against the backdrop of Crimea’s accession – did not produce any results either. Russia is still present in the world market as a producer of oil, gas, and other primary commodities, but is highly dependent on imports of technologies and equipment, while Russia’s share in global GDP is sliding.

How is the Russian ruling elite going to meet these challenges? What changes can be expected in Russia over the medium-term horizon? This article will address these questions based on the limited access order framework elaborated by North, Wallis, and Weingast (2009, 2013). The main focus is on the sources of rents used to maintain the stability of the limited access order (LAO), the distribution of rents among the key elite groups, and incentives for the productive use of rents. Extending the LAO framework, this essay shows that to achieve effective agreements on the restriction of violence, it is important for the elites to have common values and a common vision of the future. The lack of a vision of the future shared by different social groups leads to LAO stagnation and risks a systemic crisis of the LAO in the event of the exhaustion of the sources of rents that serve as the backbone for the ruling coalition.

The paper is organized as follows. Section 2 introduces our research approach. Section 3 presents the main changes in the composition of the Russian ruling elite since the mid-1990s as well as the key sources of rents for the elite. Section 4 reconstructs the vision of the future of key groups in the Russian elite and analyzes the changes in their political priorities after 2000. Section 5 shows the new challenges faced by Russia after 2012 and describes the responses of the ruling elite. Section 6 discusses the main results and policy implications.

Research approach

In their 2009 book, *Violence and Social Orders*, Douglass North, John Wallis, and Barry Weingast presented a fresh approach to the analysis of social development,⁴ taking a fundamentally new view of the role of violence and rents. The authors proceeded from the seemingly obvious assumption that every individual always has a choice: either to work hard to provide earnings for themselves and their family or to use force to take away their neighbor’s earnings. In the absence of restrictions on the use of violence, the second option often becomes preferable and this has devastating consequences for development.⁵ From the perspective of North, Wallis, and Weingast, the formation of the state constitutes a social response to these destructive consequences; the state emerges as a tool to restrict violence.

However, such a restriction of violence has its own price. To maintain stable “rules of the game” (without which social development is out of the question), groups with the capacity for violence should receive compensation or rent for “refraining” from violence. The sources of this rent consist of limited access to business activities yielding revenues and to political activity, since politics determines the “rules of the game” for economic entities. This organization of society, defined by North and colleagues as a “natural state” or “limited access order” (LAO), is characteristic of the absolute majority of societies, including contemporary Russia. Nevertheless, alongside the LAOs there is a small group of states with “open access orders” (OAO). North et al. assign to this category some 20–25 modern developed democracies that provide their citizens with broad opportunities for participation in business activity and political life.

In their first book, North, Wallis, and Weingast (2009, 26) consider the transition from LAO to OAO. They proceed from the assumption that relations among the main elite groups are the key factor of development, and describe three “doorstep conditions” enabling the transition to an OAO:

- Transition from personal privileges to impersonal rights, which becomes the foundation for implementing the principle of the rule of law for the elites (but not for citizens);

- The emergence of perpetually lived forms of public and private elite organizations, including the state itself⁶;
- Consolidated political control of organizations with a capacity for violence (including military and police forces).

The United Kingdom, France, and the United States appear to have been on the doorstep in the late eighteenth century and made the transition to OAO between 1800 and 1850, or in the case of France, by 1880 (North, Wallis, and Weingast 2009, 27). However, *open access* does not mean free access to economic and political activity. Transition leads only to a considerable increase in access, but it happens to be sufficient for an OAO to react more flexibly to external shocks and for relevant communities to become more resilient to social and political turmoil.⁷

This transition from LAO to OAO is not possible by simply transferring modern market and democratic institutions from the developed world to developing countries. Such a transfer may stimulate performance, as the barriers preventing access to business and political activity that create rents at the same time restrict efficiency and incentives for development at the level of firms. However, the removal of barriers can also lead to the destruction of the system of relationships and distribution of rents among the key groups within the elite, which deter it from violence. This is precisely why many developing countries that went through a democratization and liberalization phase in the 1980s–1990s faced outbursts of violence in the form of social unrest, a growth in the crime rate, and inter-ethnic conflicts evolving into civil wars.

North, Wallis, and Weingast (2013, 328) see a shift in emphasis in the priorities of development policy as an important consequence. They stress that the first development problem involves improving the social organization of limited access societies so as to enable more economic output, reduced violence, stable political outcomes, and greater individual well-being, even though the societies remain in the limited access mode.

Rents and rent-seeking, regarded by mainstream economic theory as a departure from the standard, should be perceived within that narrative as a necessary element of a functioning LAO. Naturally, in order to analyze concrete LAOs it is important to understand how the elites agree on the distribution of rents to deter violence and ensure the maintenance of sociopolitical stability. How much of their rents the elites use for production purposes is also important for LAO progression (from fragile to basic and from basic to mature). However, North, Wallis, and Weingast stress that societies are as capable of regression as progression (2009, 49). Regression is manifested in the destruction of impersonal rights and institutions and a return to violence. It occurs when rent sources are exhausted and/or increasing external pressure on the elites of a particular LAO make them unable to reach a new agreement on rent distribution and on the inclusion of new groups in the ruling coalition.

It is precisely in this vein that we will use the LAO framework to consider the actions of the Russian ruling elite during the past decades. In the analysis of the evolution of the Russian LAO, we will pay special attention to the preferences of different elite groups in respect to rent usage. We will proceed from Baumol's (1990) concept of productive, non-productive, and destructive entrepreneurship and will follow his broad understanding of entrepreneurship as any initiative, not only in private business but also in the public sector or bureaucracy. Within this context, there are three options for rent usage by the elites:

- *productive*, such as expenditure on entry into new markets, the creation of new products, or investment in new technologies leading to enhanced performance; investment in the creation of public goods, including infrastructure, the security system, education, and public health, appropriate business regulation;
- *non-productive*, such as expenditure on conspicuous consumption or on an expansion of the bureaucratic staff without entailing an increase in performance, or ambitious projects enhancing the prestige of the elites but not resulting in real improvements for society, as well as rent redistribution efforts;

- *destructive*, such as an overt struggle among different elite groups over rent sources leading to a decline in the overall rent volume; military aggression in order to capture new sources of rent in other countries.

We presume that different elite groups will have different preferences regarding these options, which may change over time depending on the elite's priorities, the volumes of available rent, and the challenges in domestic and foreign policy. We are talking about the priorities of the top elite rather than the personal priorities of Vladimir Putin, because despite the significance of individual leaders in personalist systems, a political leader always expresses the interests of certain groups in the elites and in society.

National development priorities can certainly be analyzed by reviewing the effective strategic documents and public declarations of key politicians. However, it is important to realize that not all publicly declared priorities have the same weight for the ruling elite. For example, the fight against corruption within the bureaucracy has been declared for years on end as one of the top political objectives, but very limited progress has been achieved in this area. In addition, far from all priorities have adequate mechanisms for their practical implementation; e.g. since the end of the 2000s, Russian politicians have regularly talked about stimulating investment and innovation, but no tangible success has been achieved in these areas either. Unlike anticorruption activities, there are no groups within the top elite whose interests would be infringed by stimulating investment and innovation. A more probable reason is the absence of a particular influential elite group directly interested in attaining these goals; as for all the other groups, they are less important and provide fewer rent-seeking opportunities. However, there is a whole range of priorities that have been declared publicly and implemented. These include maintaining macroeconomic stability, ensuring food security, and raising the military efficiency of the armed forces. These were achieved not because of the leader's political will but because of the coinciding interests of different elite groups.

It is no less important to understand that far from all real priorities are declared publicly. For instance, as the existence of unsettled territorial conflicts directly limits the possibility for NATO accession, Russia's foreign policy has for many years been targeted at maintaining hotbeds of tension in countries of the former Soviet Union (Ukraine, Georgia, Moldova) that considered joining NATO.

Therefore, an analysis of the practical implementation of the declared goals is important in revealing the true priorities in the actions of the elite. For this purpose, we will use well-known reports analyzing progress in implementing the Gref Program, as it is widely known, and Strategy-2020 (Dmitriev and Yurtaev 2010; Polterovich et al. 2017). Personal contacts with the CEOs of large companies, entrepreneurs, and high-ranking officials are a no less important source of information to understand the significance of particular priorities for various elite groups.

A specific feature of the Russian elite after 2000 is the broad presence of former military and law enforcement officers. Kryshtanovskaya and White (2003) even introduced the term "militocracy" to describe the increasing influence of military and security services personnel (or *siloviki*) under Vladimir Putin's rule. Other scholars considered their estimations of the *siloviki* share in the top elite to be overestimated (Renz 2006; Rivera and Rivera 2014), but there is overall agreement about the active role of *siloviki* in political decision-making in Russia after 2000 (Rivera and Rivera 2018; Petrov and Rochlitz 2019). However, both incumbent and former officers of the security services traditionally do not make such personal contacts with researchers. For this reason, contacts with expert analysts on the Russian security services were important in understanding the possible logic in the actions of the *siloviki* group in the top elite (Soldatov and Rochlitz 2018). Valuable material also came from studies analyzing the phenomenon of "violent pressure" on business and the evolution of the Russian community of criminal defense lawyers (*advokaty*), who regularly interact with investigators, prosecutors, and the police and many of whom previously served as officers in law enforcement agencies (Kazun 2020; Kazun and Yakovlev 2017, 2019).

Another source of our information is public interviews of business leaders (including émigrés) and former and incumbent high-ranking bureaucrats. Respondents may not always tell the truth in such interviews and personal conversations, and also tend to whitewash their actions. Nonetheless, we believe that drawing from the various information sources described above we can paint a comprehensive portrait of the preferences and priorities of the main elite groups, describe their change over time, and show in what measure these preferences and priorities contributed to Russia's social and economic development during the past two decades.

Composition of the ruling elite and key sources of rent

Researchers studying the composition of the Russian elites traditionally focus on two groups: first, business leaders with political connections – the so-called oligarchs (Pappe 2000; Guriev and Rachinsky 2005), whose influence reached its peak in the second half of the 1990s; and second, the heads of the military and security forces (the so-called *siloviki*). Their extended presence in the top elite and their growing influence on decision-making was observed after 2000 with the coming to power of Vladimir Putin who is himself a representative of that group (Kryshtanovskaya and White 2003).

The focus on the activity of oligarchs and *siloviki* produced the impression of major changes in the configuration of the top elite. However, during all these years top bureaucrats have also been playing a very significant role in decision-making. And if the point at issue is not individual people but groups performing certain functions within the ruling coalition, it has to be admitted that since the mid-1990s the Russian ruling elite has been represented by the same three groups: top bureaucrats, oligarchs, and *siloviki* (see Table 1).

This table does not include representatives of regional elites because even in the 1990s, when the leaders of large regions played an important role in the country's political life, all key decisions were made in the Kremlin. The three elite groups mentioned above had a strong influence on those decisions.

It is also important to explain the criteria for referring individuals to specific top elite groups. All these individuals control major assets and are in a position to make decisions. From the view of institutional theory and the LAO framework, the key to determine their social status is the difference between private and public ownership. Top bureaucrats, security services generals, and the CEOs of large state-owned companies can leverage the resources at their disposal to promote their interests. However, from a formal perspective they all represent the interests of the state. They are appointed to their positions by decrees of the president or Government and can likewise be relieved of their powers and authorities by presidential or governmental decrees.⁸ The distinguishing feature of owners of big private businesses is their considerably greater autonomy from the state, and the far greater effort required to exclude them from the top elite (as a rule through initiating criminal cases).⁹

Following this logic, only the owners of the biggest companies fall into the category of oligarchs, such as Mikhail Fridman, Petr Aven, Vladimir Potanin, Vagit Alekperov, Vladimir Evtushenkov, Oleg Deripaska, Roman Abramovich, and other tycoons of Yeltsin's period, and Gennadii Timchenko, Yurii Kovalchuk, the Rotenberg brothers, and Ziyavuddin Magomedov, who obtained their assets during Vladimir Putin's or Dmitry Medvedev's presidencies. Yet we do not view in this capacity Rosneft CEO Igor Sechin, Sberbank CEO German Gref, Rostec Corporation CEO Sergey Chemezov, VEB.RF Chairman Igor Shuvalov, former Rosnano CEO Anatoly Chubais, and some other heads of major government corporations. While working for large state-owned companies they continue to be members of the elite groups to which they had initially belonged. Moreover, their initial background is important in making a distinction between bureaucrats and *siloviki*. Specifically, experience with the security services has a very strong impact on the priorities of government officials in their further activity.

Key groups of the existing "ruling coalition" in Russia were formed during the crises of the mid-1990s. The conflict with the parliament in autumn 1993 and the Chechen War led to an alliance between the top federal bureaucracy and *siloviki*. The 1996 presidential elections and the acute need for financial support for Boris Yeltsin's election campaign opened the doors to deals with big business (in the form of "loan-for-shares" auctions) and the creation of oligarchic business groups.

Table 1. The role of different elite groups in the ruling coalition in Russia.

Main groups	1996–1998	1999–2003	2004–2011	2012–present
Oligarchic business	Major partner	Main partner	Junior partner	Limited influence
Top federal bureaucracy	Junior partner	Main partner	Main partner	Junior partner
<i>Siloviki</i>	Limited influence	Junior partner	Main partner	Major partner
Main sources of rent	Export and import deals based on price gaps between the domestic and external markets; gambling on currency exchange rates; access to assets of privatized firms; budget expenditure financed by external loans (from the IMF and World Bank) and domestic borrowing (on the short-term treasury bills market – GKO)	Fast economic growth – due to the 1998 ruble devaluation and later due to the predictability of economic policy, elimination of regional trade barriers, and better tax system	High incomes from exports of oil and gas (due to price increases on the world market); budget expenditure on public procurement and large construction projects (Sochi, etc.); growing demand on the domestic market	Reduced income from oil and gas exports (due to the decline in world prices); public procurement and other government spending; some rents created by the Russian food embargo; limited competition with preferences for politically connected firms; redistribution of large assets of private owners
Incentives for productive use of rent	Low, due to macro-economic instability and high political uncertainty	High, due to high expectations after improvements in law enforcement, the achievement of macro-economic stability, and opportunities for new businesses in the domestic market	Moderate, due to preferences for politically connected firms and increasing risks of expropriation by the <i>siloviki</i> and bureaucracy for non-connected firms	Low, due to high uncertainty about the future, risks of expropriation and restrictions in access to new technologies imposed by international sanctions after 2014
Political influence of elites	Moderate	High	Moderate	Weak
Political influence of other groups (regional elites, media, NGOs, SMEs, foreign business)	High	Moderate	Weak	Weak
Constraints for national leader	Moderate	High	Moderate	Weak

This coalition was supported by rents inherited from the Soviet planned economy (price gaps between the domestic and external markets, gambling on currency exchange rates, and assets of privatized enterprises) as well as external loans (from the IMF, the World Bank and the Paris Club) and domestic borrowing (on the short-term treasury bill market – GKO).

Business played a key role in the coalition, as in a weakened state it was business that was more capable of leveraging various rent-seeking opportunities. However, due to the extremely high macroeconomic instability and political uncertainty, business had no investment incentives, which is why rents were mainly used unproductively (for conspicuous consumption and large-scale asset stripping). The resulting economy of redistribution could not be sustainable and the 1998 financial crisis put a predictable end to this model. The default and devaluation of the ruble in August 1998 inflicted substantial losses on the urban middle class and medium-sized business. The top elite did not suffer (with rare exceptions). However, the financial turmoil also led to political crisis: for the first time since 1991 communists joined the government. Yurii

Maslyukov, a former member of the CPSU Political Bureau and the last chairman of the USSR State Planning Committee, became the deputy prime minister for the economy in Yevgenii Primakov's government.

In these circumstances the new business elites recognized that a new wave of the crisis could be dangerous for them and they might lose the assets gained in the 1990s. In view of this, the crisis gave an impetus to negotiating "rules of the game" that could help restore order in the economy and society and at the same time satisfy the interests of the main elite groups.

A vivid example of agreements was the radical tax reform carried out in 2001–2002. Luong and Weinthal (2004) show that the main negotiating parties were the top bureaucrats (who needed sources of budget funding) and big business (interested in tax cuts). However, the reform had wider implications as it created uniform rules for the entire national market. The same effect was produced by the cancellation of regional regulations contradicting federal legislation, restoring federal government control over the regional law enforcement agencies, and ousting crime syndicates from important economic sectors.

In the terms of North et al., these measures represent the development of a more mature form of LAO with the introduction of rules (and rent) for the elites and the establishment of political control over the use of violence. Institutional progress has become visible in the shift from individual contacts to collective deals between the authorities and business. At this time all oligarchs were invited to join the Bureau of the Board of the Russian Union of Industrialists and Entrepreneurs (RSPP), while associations of medium and small business – Business Russia and OPORA – were created. As far as an LAO is concerned, this quickened the transfer from individual privileges to the collective rights of elite groups. At the same time, given the effects of the 1998 devaluation, which opened gaps for domestic producers due to the growing costs of imports, these measures stimulated economic growth and the entry of new players into the market, i.e. "extended access" within the LAO.

The main source of rents in that period was high economic growth providing both profit and extended scope of activity for business and increased tax revenues for bureaucrats. A relative balance of forces and degree of competition between top bureaucrats and oligarchs necessitated regular contacts among the main groups in the ruling coalition. This reduced political uncertainty and generated incentives for the productive use of rents. However, the rents created by rapid economic growth could not be captured by the elites only. Moreover, further institutional reform was required to maintain high rates of growth. To implement these reforms, the top bureaucracy had to conduct costly negotiations with many actors, and reforms themselves often contradicted the personal interests of members of the elite.

In this setting the growth of oil prices in 2002–2003 triggered the emergence of a new significant source of rents and ignited a conflict within the elite between oligarchs and top bureaucrats for control of this rent source. Control over natural resource rents provided the top bureaucracy with far greater opportunities and entailed fewer costs. However, the top bureaucracy could win the fight against the oligarchs only in alliance with the *siloviki*. A manifestation of such an alliance was the Yukos affair, which led to a change in the balance of forces within the ruling coalition; after Yukos, top bureaucrats and *siloviki* became the main (or senior) partners while oligarchs had to settle for the role of a junior partner.

The next period was characterized by extraordinary proceeds from oil exports, which were accumulated in the budget through taxes, including the mineral extraction tax. With the growth of budgetary expenditure (e.g. for development purposes) these financial resources were reinvested into the economy, raising demand on the domestic market, which became a major business development driver. However, during the same period the strengthened positions of the *siloviki* led to intensified violent pressure on business, when officers of law enforcement agencies and regional bureaucrats started seeking rents by seizing assets from successful companies (Firestone 2008; Rochlitz 2014; Kazun 2015). As a consequence, investment incentives started slipping as many entrepreneurs chose not to expand their businesses above a certain margin to avoid coming into the

spotlight. Those who decided to expand their businesses had to invest heavily in building political connections to safeguard them from raider attacks. As a result, in spite of the high GDP growth, economic efficiency did not improve and Russia could not close its technological gap with the developed countries.

The 2008–2009 economic crisis, leading to tighter budget constraints, compelled the bureaucratic elite to resume dialogue with business. Interestingly, the main counterpart for the authorities at this new stage was not the RSPP, largely connected with the oligarchs, but Business Russia, which represented the collective interests of successful medium-sized businesses (Yakovlev 2014). A step was made toward extending the ruling coalition and building up the resilience of the existing LAO. This dialogue had the following outcome: the introduction of amendments to the Criminal Code to make arrests of entrepreneurs more difficult; the creation of the Agency for Strategic Initiatives; and the launch of the National Entrepreneurial Initiative, envisaging a program of measures to improve the business environment (Freinkman and Yakovlev 2015). During the same period, the top bureaucratic elite started talking about the need for economic innovation and modernization – with the launch of the Skolkovo project, invigoration of the activity of the Rosnano state corporation, etc. However, these modernization attempts were inconsistent, as their implementation required the *siloviki* to end their heavy-handed treatment of business. This prompted a negative response from the *siloviki* as it would limit their rents.

The events of 2011 proved to be a landmark in this respect, starting with a series of revolutions in the Middle East (the Arab Spring) and ending with mass protests in Moscow in December against fraud during parliamentary elections. These events engendered in the elites a fear of losing their assets and power as a result of sociopolitical upheaval, and resulted in the *siloviki* responsible for the security of the existing system becoming the dominant group within the ruling coalition. With the leveling off, and subsequent slide, of oil prices, the volume of rents available to the elites also started shrinking, intensifying the struggle within the elite for control over business assets and streams of public funds.¹⁰ In addition, incentives for the productive use of rents diminished quite substantially, because of higher asset expropriation risks and restricted access to capital and technologies. The restrictions were the result of the international sanctions imposed on Russia by the United States and Europe in 2014, following Crimea's accession and the armed conflict in Eastern Ukraine.

Vision of the future and priorities of the ruling elite

If the rent use typology presented in Section 2 is applied to the main groups in the Russian top elite described in Section 3, we come up with the following picture (see Table 2). It is important to highlight the distinction between the business elite, top bureaucracy, and *siloviki*. The first two groups can create value as part of the productive use of rents – in the form of new products and technologies, public infrastructure, or human capital. The third group can only protect the value created by others (or mitigate the risks of its destruction) but does not create value itself.

As mentioned earlier, the different elite groups within an LAO may change their preferences for the use of available rents depending on external settings and the priorities motivating the elite in general. From this point of view, the results of country case studies in the project “Non-Standard Institutions: Conditions and Tools of Successful Structural Changes (Political and Economic Aspects)” may be important.¹¹ To be more precise, the cases of South Korea, Malaysia, and other countries provide strong evidence that the successful economic and political transformation of an LAO occurs when the process is initiated by a strong charismatic leader capable of presenting a vision of the future, which unites different social groups. However, the sustainability of the results gained depends on the extent to which the strong leader manages during their term in office to build a system of institutions capable of continuing the process of transformation and ensuring the productive use of a substantial part of the rents at the disposal of the elites. Incentives for reaching the necessary agreements among the key elite groups and shaping common “rules of the game”

Table 2. Options for rent use by the main elite groups in the Russian LAO.

Use of rent	Oligarchic business	Top federal bureaucracy	<i>Siloviki</i>
Productive	Investment in creating new enterprises, new products, implementing new technologies	Creation of public goods (education, healthcare, infrastructure, appropriate business regulation)	Risk management in the broad sense: creation of security systems mitigating risks for society and business
Non-productive	Struggle for preferential access to resources; conspicuous personal consumption (as a symbol of high social status)	Expanding the government staff; ambitious projects enhancing the prestige of their initiators but not resulting in real improvements for society	Growth in the strength of the army and security forces; costly programs for their re-equipment not leading to risk mitigation for society
Destructive	Investment of resources in the capture of private or public assets	Use of power and influence to capture public and private assets	Use of violent potential to capture private assets; military aggression against other countries

emerge in those countries only in a situation of enhanced pressure on the elites due to serious external economic and political threats. Only in this case are the elites ready to sacrifice their private interests and follow national priorities.

We can consider from this point of view the different crises faced by Russia during recent decades. Russia managed to survive 1991 and 1998 because society had a vision of the future: naïve and romantic in 1991 and much more pragmatic in 1998. Nevertheless, in both cases the point at issue was a market economy, openness to the global world, and political freedom. An important role in developing such sentiments among the public was played by consensus among the elites, which took shape in 1991, as there was no alternative to transition to a market economy.

The 1990s were a period of deep transformational recession in Russia. However, the sense of a sustainable system of global coordinates set the development vector. It was clear that the planned economy and command administration system embodied by the Soviet Union had lost their competitive struggle against the market economy. There was a global liberal order to which no alternatives existed – and Russia could either try to blend into it or remain on the fringes. This became especially clear and vivid after the 1998 crisis, when the elites who by that time already had something to lose began to realize that if they started thinking in the long term, stopped squandering assets, produced adequate laws and regulations, and actually abided by them, the country could become “normal” and successful.

In the early 2000s the Russian elites followed this logic. The government and business agreed on implementing major reforms in the economy and bringing to order the system of public administration and law enforcement. The policy of macroeconomic stabilization was the consequence of this approach. The interests of all three key groups of the “ruling coalition” paradoxically coincided in this matter. Big business and the top bureaucracy needed a capable government machine to support the agreed “rules of the game” in the economy and tax collection for the budget. As for the *siloviki*, financial stability for them was a national security issue. The loans borrowed by the Soviet government from the West actually provided the opportunity to exert pressure on the country’s political course, which was definitely perceived as a threat to national sovereignty. But the point at issue was more than external threats. One of the lessons learned in the 1990s was that cash was in short supply not only to pay salaries to teachers or mine workers, but also to police and security forces. As a result, in the regions the police were controlled in the best case by regional governors who scooped some money out of their local budgets to top up policemen’s salaries, at the same time influencing personnel appointments. For the center this meant actual loss of control of local police forces. In the worst case, these forces came under criminal control. Having lived through the 1991 and 1998 crises, the elites learned well that macroeconomic and financial destabilization can lead to serious political problems. As a result, a reasonable macroeconomic policy has been considered a political priority since 1998 until the present time.

Another area of consensus among the elites was orientation towards a “development state” based on the Southeast Asian experience (Johnson 1982; Amsden 1989). It is worth mentioning Singapore leader Lee Kuan Yew, who was highly respected in the senior Russian establishment in the 2000s. While setting up the Investment Foundation and state corporations and launching grand construction projects in Sochi and Vladivostok, the ruling elite was obviously not building a free market economy but, rather, state capitalism involving the close merger of business and bureaucracy, which, in fact, was the case in South Korea, Taiwan, Hong Kong, and Malaysia. Nevertheless, the pivotal idea was to build an economy capable of competing on global markets. The book with the revealing title *The Russian Economic Miracle: We Will Make it Ourselves (Rossiiskoe ekonomicheskoe chudo: sdelaem sami)*, written under the guidance of Andrei Belousov¹² and published in 2006, is remarkable in this respect.

In the international arena, Russia in the early 2000s was open to cooperation with Europe and the US – Russia’s reaction to the 9/11 terrorist attacks in New York in 2001 and subsequent support of the US anti-terrorist operation in Afghanistan are characteristic of that time. This policy reflected the aspiration of the Russian elite to join the “Global Club.” But Russia was not accepted. This became clear after the second wave of NATO accession of Eastern European countries in 2004 and the “color revolutions” in Georgia, Ukraine, and Kyrgyzstan. The Russian political elite regarded US and EU support of the “color revolutions” as a threat to Russia’s interests in its traditional “area of influence.”

In a situation of rising oil prices the reluctance of the Western countries to accept Russia into their “club” caused a fresh twist in Russian foreign policy – an attempt to convince the West to “respect” Russia. The key argument at that stage was: despite the technological inferiority, Russia is an “energy super power” and the West (particularly Europe) depends and will continue to depend on Russia’s oil and gas supplies. Moreover, the proceeds from energy exports will be sufficient to provide resources for the economic development of the country and allow Russia to pursue an independent foreign policy. Another line was cooperation with other major developing countries (above all, the BRICS group) whose interests strongly differ from the interests of the developed countries but are close to Russia’s interests.

This policy culminated in Vladimir Putin’s speech at the Munich Security Conference in 2007. The war with Georgia in August 2008 and the “gas conflict” with Ukraine in January 2009 (resulting in a two-week suspension of gas supplies to European consumers) showed that Russia had “risen from its knees” and was ready to use force and fight for its interests. A no less significant element of that policy was Russia’s continued aspiration – in spite of everything – for integration into the existing global order, insisting only that account be taken of its national and geopolitical interests.

However, the crisis of 2008–2009 showed that the “Korean style” state capitalism model was no longer workable in the dynamic global economy of the twenty-first century. Attempts to modernize this model were made during Dmitry Medvedev’s presidency. They involved the resumption of dialogue with business (first of all via the Business Russia association representing successful medium-sized business), and efforts to improve the regional investment climate, and “reset” relations with the United States.

The Russian ruling elite’s policy vector started to change direction after the Arab Spring in 2011, when the overthrow of the Mubarak and Gaddafi regimes (with personal implications for both leaders) was perceived as a signal that any concessions in response to “intrigues of the liberal West” could lead to political catastrophe. This particular moment was the turning point toward the “besieged fortress” model; Crimea’s accession and the conflict in Ukraine resulting in the acute escalation of tensions with the West were only the next stages in the process. At that particular moment the *siloviki* became the dominant group within the ruling coalition after pushing the oligarchs to the role of “junior partners” back in 2003, and doing the same from 2014 to the top federal bureaucracy through the anti-corruption campaign and arrests of top-level officials.

From the LAO framework perspective this development can be seen as regression from the existing LAO. The dominance of one group of the ruling coalition led to infringement of the interests of other groups and at the same time reduced the aggregate influence of elites on the leader. In this respect the period after 2014 has much in common with the period of 1996–1998, although the 1990s were characterized by the considerably stronger influence of other groups (including regional elites, media, NGOs, SMEs, and foreign business).

In eight years of actually ruling the country the *siloviki* could not offer society any consistent positive vision of the future. There was only the Izborsky Club scenario, which in 2013 presumed that in five to seven years (which was in fact 2018–2020) the global financial oligarchy would unleash a third world war against Russia and other developing countries, leaving the country with the only option of transitioning to the “besieged fortress” regime.¹³ For some people in the Russian elite this looks to be a comprehensive picture of the world, but the majority of Russians (including many members of the elite) do not want such a future for themselves and their children. If the elite cannot propose a development model for the country – and this has been the case since 2012 – there will be no development whatsoever.

Post-2012: sovereignty without development?

From the late 1990s, public sentiment was strongly focused on the country’s independent foreign policy status. In many ways this was a reaction to Russia’s explicit dependence on the West during the previous decade. Nevertheless, until the events of 2011–2012, the Russian ruling elite tried to combine the stake on sovereignty with integration into the contemporary world order.

After 2012 the political choice was made for confrontation with the West, as such a policy could help the ruling elite stay in power and safeguard its assets in a situation of failure in global economic competition. This choice became the basis for the “Crimea consensus” among the public that ensured the restoration of support for the authorities after Crimea’s accession, despite the population’s falling incomes. Already in 2013, this policy led to a slowdown in economic growth. After the start of the military conflict in Ukraine and the imposition of international sanctions, Russia came face to face with a new economic crisis and overall economic stagnation (in 2012–2019 the Russian economy grew at less than 1% per year).

The slowdown in economic growth combined with tumbling oil prices resulted in a decrease in the volume of rent available for distribution and a narrowing of the room for maneuver in the ruling elite’s relations with other social groups. As a consequence, pressure on the elite intensified, manifesting itself in bans on foreign bank accounts and dual citizenship for bureaucrats, restriction of foreign travel for *siloviki*, and a fresh crackdown on corruption. Since 2014, it has become common practice to arrest incumbent governors, federal ministers, Interior Ministry and Investigative Committee generals, and Federal Security Service colonels on charges of corruption.

On the whole, such a political turnabout can be regarded as a shift from a decentralized to a centralized corruption model (in the terms of Shleifer and Vishny 1993), which on the whole is less detrimental to society. This policy can reduce the non-productive use of rents by the elites and increase efficiency in particular areas.¹⁴

It would be appropriate to mention the renewal of the bureaucracy. This process was launched in 2017–2018 with changes in the governor corps. At that time the Kremlin started appointing to regional leadership positions young technocrats, educated as part of the Presidential Cadre Reserve. The appointment of a new government in January 2020 took this approach towards federal ministers. The general trend is that in addition to loyalty (which was the case in the mid-2000s) the new appointees are required to show the ability to tackle problems within their area of responsibility, disposing of the limited resources available. This is quite an important signal to the incumbents.¹⁵ The tightened budget constraints and strong dependence on the import of technology that became apparent after the imposition of international sanctions brought changes to industrial policy. The Ministry of Industry and Trade set up a number of new development

institutions (especially, the Industrial Development Fund – <https://frprf.ru/>), which were described as quite efficient already in 2016–2017 in the course of our interviews with managers of manufacturing firms. The introduction of the federal and regional industrial policy coordination mechanisms began to pick up speed. Significant growth was registered at the sector level (including output and export growth) in agriculture and IT, in part, owing to new programs in support of these sectors.

One more example is the implementation of the National Entrepreneurial Initiative announced by Vladimir Putin during his presidential election campaign in January–February 2012. The official goal of this program was to improve Russia's position in the World Bank's Doing Business ranking. Against the backdrop of the mass political protests of early 2012, the program was obviously designed to prevent medium-sized business from supporting the opposition. Nevertheless, the Kremlin and the government made serious efforts to improve technical conditions for doing business. Roadmaps were drawn up to simplify regulations for construction, export, and access to electricity in 2013–2014, and in 2015 the Agency for Strategic Initiatives announced a national rating of the investment climate with the annual benchmarking of all Russian regions. As a consequence of this policy, Russia improved its position in the Doing Business ranking from 120th place in 2012 to 28th place in 2020.

Government also tried to increase the efficiency of public services through digital technology. Some regions (especially Moscow and Tatarstan) and some ministries (first of all the Federal Tax Service led by Mikhail Mishustin, who was appointed prime minister in January 2020) were the leaders in this process.

However, without a positive vision of the country's future these measures were insufficient to drive economic development. This can be clearly seen in the investment dynamics and the volume of deposits in the Russian banking system (see Table 3). According to the data, investments grew 75% in nominal terms over eight years, but denominated in US dollars they turned out to be 20% less in 2019 than in 2011, and 30% below the maximum registered in 2013. If the ratio of the total value of deposits to investments in 2011 was 1.6, from 2015 it varied between 2.5 and 2.6¹⁶ – in other words, despite the continued macroeconomic stability, firms and households preferred not to invest their funds, which is a manifestation of growing economic tension and a lack of trust in economic policy.

In addition, to understand the economic situation it would be useful to compare state reserves with private sector reserves. According to the Russian Ministry of Finance, as of 1 December 2020 the National Wealth Fund totalled 13,299 billion rubles,¹⁷ while according to the Central Bank the total value of deposits on the same date was 53,465 billion rubles. This means that the overall funds held by individuals and legal entities were four times higher than the reserves held by the state. Moreover, these data show the significant role of the private sector (notwithstanding the tendency toward enhanced state control of the economy) and the limited financial muscle of the state compared to the capacity of firms and households.

It would be wrong to state that the Russian elite is unaware of these constraints. In the spring of 2016 Aleksei Kudrin returned to the public political arena. This was followed by a rebound in “economic discussions” with the participation of the Stolypin Club and the Center for Strategic Research. This produced the impression that after the geopolitical euphoria of 2014–2015, the Russian top political elite had “sobered up” to a certain extent. One of the reasons was the dramatic fall in oil prices at the end of 2015 and an understanding of the scarcity of reserves. Both business and society expected changes in the political direction after the parliamentary and especially presidential elections. However, in 2017 these expectations already began to fade after a new hike in oil prices.

Within this context it is important to correctly understand the actual mission of Dmitry Medvedev's government. Apparently, in 2012–2014 it tried to implement the 2012 May decrees (although this was already mainly being done at the expense of regional budgets). But starting from 2014, Medvedev's government – judging from its practical actions rather than its declarations – pursued different goals. We can recall the refusal to support the ruble in the autumn of 2014 and the unprecedented hike in the CBR rate, the shrinking of social commitments in the federal budget during the pension system reform, and the “optimization” of the public healthcare system. At the same time, the Ministry of Finance and Central Bank reduced dollar-denominated

Table 3. Investment in fixed assets and the value of private deposits in the Russian banking system in 2011–2019.

Year	Investment in fixed assets (RUB billion) ^a	Banking deposits of legal persons (RUB billion at year end) ^b	Banking deposits of households (RUB billion at year end) ^b	Average official currency exchange rate (RUB/USD)	Investment in fixed assets (USD billion) ^a	Banking deposits of legal persons (USD billion at year end) ^b	Banking deposits of households (USD billion at year end) ^b
Year	1	2	3	4	5	6	7
2011	11,035.7	6,318.9	11,630.6	29.39	375.5	215.0	395.7
2012	12,586.1	7,493.1	14,222.6	31.08	405.0	241.1	457.6
2013	13,450.2	7,897.7	16,938.4	31.85	422.3	248.0	531.8
2014	13,902.6	11,152.9	18,683.1	38.61	360.1	288.9	483.9
2015	13,897.2	13,151.4	23,259.5	61.07	227.6	215.3	380.9
2016	14,748.8	11,564.0	24,303.4	66.08	223.2	175.0	367.8
2017	16,027.3	13,665.0	26,092.6	58.29	275.0	234.4	447.6
2018	17,595.0	17,672.7	28,577.8	62.69	280.7	281.9	455.9
2019	19,318.8	18,485.1	30,668.6	64.73	298.5	285.6	473.8

^aSource: Rosstat digest *Investment in Russia*, 2019, p. 36, Table 2.2 (https://rosstat.gov.ru/storage/mediabank/Invest_2019.pdf). Data for 2019, Rosstat information dated 25 August 2020, *Investment in Fixed Assets in the Russian Federation in 2019*.

^bSource: CBR Statistics, "Funds of Organizations, Deposits, and other Funds of Legal Entities and Individuals (total for the Russian Federation)," as of 30 November 2020 (https://cbr.eng/statistics/bank_sector/sors/). To present the accumulated deposits, the table uses CBR statistics for 1 January of the following year (the exception is 2011, which uses statistics for 1 February 2012). The data on deposits of individuals exclude the funds of individual entrepreneurs.

assets and increased the share of gold in the hard currency reserves. All these actions can be considered components of a consistent economic policy if the government goal was to accumulate reserves against possible emergencies. These may include potential threats to national security – from the tightening of Western sanctions and Russia's involvement in new military conflicts to a drop in oil prices on global markets and mass-scale social protests inside the country.

However, this policy has a fundamental flaw. The dominance of security priorities in the course of strategic decision-making and the orientation towards risk mitigation and maintaining sociopolitical stability in the short term impede development opportunities and generate social tension. As a result, the authorities lose their ability to ensure stability in the long term, which, in turn, is fraught with serious political risks for the ruling elite in the near future.

Discussion and implications

Following the troubles and crises of the 1990s, Russia had a two-decades-long development opportunity. The preconditions for this were connected with the effects of devaluation in 1998 and the economic recovery of the early 2000s – with exceptionally high oil prices in the mid-2000s followed by the readiness of ordinary people to "tighten their belts" from 2014 for the sake of the national interest. The beginning of that period was marked with dialogue among the main groups within the elites and an attempt to build institutions, which, in the terms of the limited access order framework, meant movement from a basic to mature LAO. However, in 2003 this process was frozen as a result of an acute conflict caused by mutual mistrust and competition between oligarchs and top bureaucrats for control over oil export proceeds. This process culminated in the Yukos affair and a change in the balance of forces in the ruling coalition – big business lost its former positions while the *siloviki*, who have always inclined more towards violent solutions than negotiations and compromise, increased their role. This conflict returned Russia to the stage of a basic LAO. Nevertheless, until 2012 the Russian ruling elite was driven by developmental aspirations (mostly oriented towards the East Asian experience of the 1960s–1980s). Yet the ruling coalition remained narrow and the ruling elite could not control the huge bureaucracy due to the lack of appropriate accountability mechanisms. Therefore, most of the resources allocated to development projects were spent inefficiently. The failures in catch-up development were accompanied by rampant corruption.

Against this backdrop, the events of 2011–2012 (not only mass political protests in Moscow but first of all the Arab Spring) changed the priorities of the ruling elite. The inability to compete in the global space in terms of attractive models of social organization and soft power stirred in the elites a fear of losing their positions. In addition, the inability to agree with external counterparts led to acute foreign policy confrontations with the United States and European Union. Nevertheless, the “patriotic mobilization” and people’s readiness to “tighten their belts” left a door open to modernization, if only the elites could agree to extend the ruling coalition and include active representatives of other social groups. This did not happen: time and resources were wasted on “technological improvements” in some elements of the existing system without its fundamental reform and without formulating any sort of comprehensible vision of the future for business and society.

To a certain extent, this resembles the experience of the late USSR. Towards the end of the 1960s the failure in the competition with the United States and Europe in terms of the population’s living standards combined with the inability to produce a meaningful response to the social request for “socialism with a human face” expressed during the Prague Spring of 1968. As a result, the ruling elite chose to sweep everything under the carpet by conducting “economic experiments” that did not change the essence of the planned economy and squandering resources on the arms race and risky foreign political initiatives (such as the war in Afghanistan). The increase in oil prices after the 1973–1974 energy crisis and the start of oil production in Western Siberia provided enough revenue to maintain social stability (by importing grain and consumer goods) and to continue supporting all sorts of socialist experiments throughout the world. The tumble in oil prices in the mid-1980s triggered the collapse of this model and led to a deep system-wide crisis in the USSR by 1991. Another, even more dire example is 1917. After all the losses sustained during the First World War and the fall of the tsarist regime, the ruling elites turned out to be incapable of agreeing with each other and with active representatives of other social groups. As a result, the country was embroiled in a destructive civil war followed by social experiments that cost tens of millions of human lives.

The current political situation in Russia seems fairly stable at first glance. The Kremlin has learned the lessons of the Arab Spring of 2011 and the 2013 events in Ukraine. Leveraging mass propaganda, the ruling elite is making maximum efforts to thwart (or defile) any form of collective action, as it perceives it as a potential threat. Another important circumstance: living standards in the country grew during the 2000s and after 2014 did not fall to the level of the mid-1990s.¹⁸ The majority of the population are not politically minded; they are concerned with everyday matters, including the quality of education and medical services, housing and utilities, environmental issues, etc. Therefore, most experts in 2018 did not see the potential for mass political protest. Their views were confirmed when the protests against the pension system reform declared in 2018 fizzled out by autumn the same year, resulting merely in a slight softening of the reform.

However, the negative trends started accelerating as early as 2019: mass protest in support of journalist Ivan Golunov, protests during the Moscow City Duma elections, followed by protests against the landfill site in Shiyes, protests in 2020 in Bashkortostan against the Bashkir Soda Company investment project, and rallies in Khabarovsk against the dismissal and arrest of Governor Sergey Furgal. In all these cases, the tension and protests were actually brought about by the mistakes of the authorities and resulted in growing sociopolitical destabilization. The next phase was connected with the mass protests in Belarus after the falsification of the results of the presidential elections in August 2020. The Kremlin’s reaction to the events in Belarus shows that the Russian ruling elite is increasingly drifting towards the Lukashenko-style heavy-handed approach. This tendency is illustrated by Navalny’s attempted poisoning and the tightening of the legislation on “foreign agents”, public meetings and the spread of information via social media at the end of 2020 as well as the suppression of Navalny protests in January 2021.

It seems that the aging political elite has passed the “point of no return” and missed opportunities for a transition of power without fundamental shocks to the existing system. Moreover, the point at issue was not decades but just a few years of stagnation that would be followed by a deep systemic

crisis, because the regime is increasing the tensions in society and not proposing any solutions. Therefore, the question is: can Russia evade an all-out collapse (which was the case in 1917) and embark upon a route similar to 1991, considering that in 1991 the country was on the verge of an abyss?

Of course, many things are different now. The Soviet leadership at the end of the 1980s had no clear idea of what to do and their chaotic actions only made the economic situation worse. In addition, directors and employees of state-owned enterprises, workers in local administrations, militia officers, the military, teachers, and doctors were unprepared for the new reality in principle, because unlike the population of the East European countries they had absolutely no experience of living in a market economic setting. Under such circumstances the social connections developed during the Soviet period played a very important mitigating role (this particular factor was not in place in 1917 in a situation of general exasperation and devastation caused by Russia's three-year-long involvement in the First World War).

Compared to 1991, the current situation has both positive and negative elements. On the one hand, there are a considerable number of competent people in business and in the public sector, who could work efficiently in a normal environment. The bureaucracy also has fundamentally different experience than the Communist Party functionaries had in the USSR. On the other, the growing social inequality and social injustice have brought about a bitterness that undermines horizontal social connections.

Against this backdrop, one of the missions of the thinking part of society is to cultivate horizontal social ties and all sorts of engagements between people to help those who are far from politics solve their pressing issues. These social connections are important, because at a time of system-wide crisis they can help safeguard the country from collapse.

At the same time, a larger question remains unanswered: if Russia manages to overcome this new systemic crisis without catastrophic consequences, what lies ahead? One of the key problems is the deficit of ideas on how to emerge from the dead-end in which the Russian elites and Russian society at large have found themselves.

An important distinction from 1991 is that at that time (as well as in 1998) a clear "system of coordinates" existed in the world, shaped by the most developed countries and providing the elites and society at large with a desirable vision of the future. It could be used as the basis for formulating policy priorities in each country and translating them into practice. However, the dilution of the former system of coordinates in the global world order and the high level of uncertainty of the external environment, escalated by the development of technologies, dramatically complicates the processes of balancing the interests of key elite groups and society and the elaboration of an adequate development policy.

Case studies of countries which in different periods faced problems similar to those currently confronting Russia show that successfully overcoming a crisis always involves unconventional solutions based on new ideas. These solutions are almost always unique to a particular country at a particular time. In other words, contrary to the illusions of the 1990s or early 2000s (some of which are still widespread in the Russian expert community), there are no universal formulas. There are only some "common principles," while it is always up to the local stakeholders to develop ideas and practical solutions to create development opportunities for each particular country. This conforms with Dani Rodrik's (2014) arguments about the role of ideas in economic development: new economic policy ideas can mitigate political constraints in the same way that technological innovation helps address the problem of limited resources for business.

All ideas about the country's development should be addressed to the new elite, as the incumbent elite has exhausted its credit of confidence during its 25 years of rule. The new elite may comprise representatives of new business and new bureaucracy for whom the current top elite was unable to provide opportunities for upward social mobility with co-option into the ruling coalition. This scenario would be closer to the 1991 model and would extend access to economic and political activity for new players. However, the stubborn reluctance of the ruling elite to enter into dialogue

with other groups makes the 1917 model increasingly more realistic: a future crisis would fully destroy the existing limited access order and a new LAO would be created by radicals causing serious damage to the whole of society. The choice between these trajectories will depend not on the ruling elite but, rather, on the ability of the other social groups to acknowledge the risks of impending turmoil and launch multilateral negotiations about the country's new development model. Moreover, the shaping of constructive and pragmatic ideas about the future of Russia by the expert community may become an important factor in triggering these negotiations and social consolidation.

Notes

1. The data show 78% of votes for the amendments with a 65% voter turnout, which is very close to the results of the presidential elections in March 2018: 77% for Putin with a 67% turnout.
2. The last time the annual pace of GDP growth exceeded 4% was in 2011 (though the growth in 2010–2011 merely compensated for the 2009 recession). After that, in 2012–2019 the Russian economy grew less than 1% per year.
3. According to demographer Aleksei Raksha, the real numbers of excess mortality in Russia in 2020 are much higher than in the US and UK and close to those in Latin America (<https://www.business-gazeta.ru/article/488438>).
4. North, Wallis, and Weingast further developed this approach in their next book (2013), as did other researchers in a variety of papers. Webb (2015), Wegner (2015) and Zweynert (2015) applied the theory to Germany, while Yakovlev (2014), Kluge (2017), and Yudanov and Yakovlev (2018) applied it to Russia.
5. In this aspect, North, Wallis, and Weingast's approach is very close to the concept of productive, non-productive, and destructive entrepreneurship proposed in Baumol's seminal paper (1990).
6. In the logic of North, Wallis, and Weingast, the state as an institution emerges as a result of the interaction of elite groups, and the sustainability of the state depends on the level of sustainability of agreements within the frames of the ruling elite coalition. This is an important distinction from the theory of inclusive and extractive institutions of Daron Acemoglu and James Robinson (2012), which considers the elite as a single actor.
7. Neither of the two books by North, Wallis, and Weingast (2009 or 2013) discusses the role of common values and convictions, although without these reaching agreement among different elite groups would be problematic and it would hardly be possible to provide enforcement of these agreements. Another important issue left without due attention by North, Wallis, and Weingast is the role of technologies in destroying old sources of rent and thus impacting the balance of forces between different elite groups. However, North discussed both these factors – the existence of common values and technological development – in his earlier works.
8. A typical example is Vladimir Yakunin, who was appointed CEO of Russian Railways in 2005 and was among Vladimir Putin's close friends. However, after his dismissal as CEO in 2015, he was actually excluded from the top elite. A similar example is Sergei Stepashin, who was minister of internal affairs in the 1990s, then prime minister in 1999, and was in charge of the Accounts Chamber until 2013.
9. The most notorious examples are the criminal cases against the owners of Yukos in 2003–2004. However, even having lost the company and spent 10 years in prison, Mikhail Khodorkovsky continues to have influence on politics in the country.
10. We can mention the conflict between Rosneft and AFK Sistema in 2014 over the control of the Bashneft company, and criminal cases against Gleb Fetisov in 2014, the Magomedov brothers in 2018, and Mikhail Abyzov in 2019. The existence of old sources of rent (such as public contracts) or the emergence of new rents in some sectors (e.g. the Crimea bridge construction or growth of agriculture in connection with the Russian food embargo) did not change the overall volume of economic rent.
11. See the 2019 joint seminar of the Association of Russian Economic Think Tanks (ARETT) and the HSE University on Social Orders: Nature and Dynamics (<http://www.aret.ru/conference/hse2019/>) and Yakovlev (2020), Bogdanov (2020), Busygina and Klimovich (2020), Prozorovsky (2020), Vasil'ev (2020), and Viktorov (2020).
12. Andrei Belousov was Russian presidential aide on the economy in 2013–2019 and has been first deputy prime minister since 2020.
13. See <http://www.dynacon.ru/content/articles/975/> and Laruelle (2016) for analysis.
14. Describing the phenomenon of bad governance, Vladimir Gel'man argues that this model should preserve certain "pockets of efficiency" to demonstrate at least some results from the regime to public and external observers (Gel'man and Starodubtsev 2016; Gel'man 2018). However, in our view his approach did not explain the dynamics in the development of such "pockets of efficiency."
15. However, it should be mentioned that the personnel shifts covered the government's "economic cabinet" but practically left the "security cabinet" unchanged.

16. Importantly, the point at issue is only the deposits in Russian banks – i.e. it excludes the population's savings in cash and the funds moved by firms to foreign accounts.
17. Russian Finance Ministry, https://minfin.gov.ru/ru/document/?id_4=27068-obem_fonda_natsionalnogo_blagosostoyaniya.
18. The average monthly salary in Russia was 79 USD in 2000, 935 USD in 2013, and about 700 USD in 2017–2019.

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