

How Much Can Russia Really Change?

THE DURABILITY OF NETWORKED AUTHORITARIANISM

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The events of recent months, during which a sleepy election season turned into Russia's most heated period of political contestation since 1996, inevitably raise the question: To what degree is change possible in Russia? This is about more than the ability of opposition-minded citizens, activists, and politicians to effect "regime change" – for the time being at least, President Vladimir Putin appears safe in his newly regained office. Rather, this memo is concerned with a broader question: if we conceive of Russia as a system, with interlocking political and economic institutions (formal or otherwise), to what extent is that system capable of change? Given the political, economic, demographic, and other challenges that Russia faces, are there constituencies for change, and how far can they push the system?

This memo takes a step back from the passions of the November 2011 parliamentary and March 2012 presidential elections and the protests that surrounded them. It argues that the consolidation of the underlying Russian political economy over the past 20 years has given rise to a system of rent-seeking and arbitration pursued successfully at various levels and supported by a robust network of interlocking interests. This "networked authoritarianism" supports the status quo and militates powerfully against significant reform. It does so, I argue, at the cost of increasing inefficiencies and social friction, raising the possibility of catastrophic change in the future. This memo will explore the structure of the system, the pressures and constituencies for change, and the limits of reform.

The Political Economy of Networked Authoritarianism

Russia's system of political and economic governance is characterized, first and foremost, by two fundamental aspects. First, politics is dominated by a closed but internally competitive elite, presided over by a nominally elected but publicly unaccountable president who enjoys broad formal and informal power. Second,

economics is dominated by rent-seeking behavior, defined as “activities whereby individuals seek returns from state-sanctioned monopoly rights.”¹ This arrangement—the marriage of authoritarianism and rent-seeking as organizing principles for the political and economic elites—is described by political scientist Joel Hellman as resulting from a “partial reform equilibrium,” in which, “instead of forming a constituency in support of advancing reforms, the short-term winners have often sought to stall the economy in a *partial reform equilibrium* that generates concentrated rents for themselves while imposing high costs on the rest of society.”²

While many reformers and observers may have hoped that such a state of affairs would be a temporary, if protracted, detour on the way to a more efficiently functioning political economy, there are reasons to believe that such a system is in fact internally coherent and stable. Because of the fact that the best way to compete with a successful rent-seeker is to maximize one’s own rent flows, rent-seeking itself tends to be self-reinforcing and to grow over time. Among the stabilizing mechanisms such systems often develop is what one study of Ukraine has referred to as a “rent arbiter”:

...a rent-seeking society may need an authoritarian ruler (“arbiter”) as a second best arrangement to prevent the overappropriation or dissipation of rents. Such an arbiter, in turn, suppresses or crowds out social capital, democratic institutions, and other alternative societal or political mechanisms that could replace him in this role.³

As part of an attempt to examine the dynamics of such rent-seeking competition, a 2010 study by this author compiled and analyzed a network database of 838 key Russian economic actors and 242 organizations (including corporations, organizations, and government bodies).⁴ This analysis found a fluid network of economic actors competing for access to three different categories of rent-generating assets:

- (1) *Freely distributed resources*, primarily in the real and non-extractive sectors of the economy, available to anyone with sufficient financial capital to overcome significant barriers to entry and sufficient political capital to overcome significant barriers to continuation;
- (2) *Semi-distributed resources*, primarily in the oil, metals, mining, and financial sectors, access to which is limited to those with significant political capital, and in which the government maintains significant control; and

¹ Robert B. Ekelund, Jr. and Robert D. Tollison, *Mercantilism as a rent-seeking society* (Texas A&M University Press), 1981.

² Joel S. Hellman, “Winners Take All: The Politics of Partial Reform in Postcommunist Transitions,” *World Politics* 50, 2, 1998.

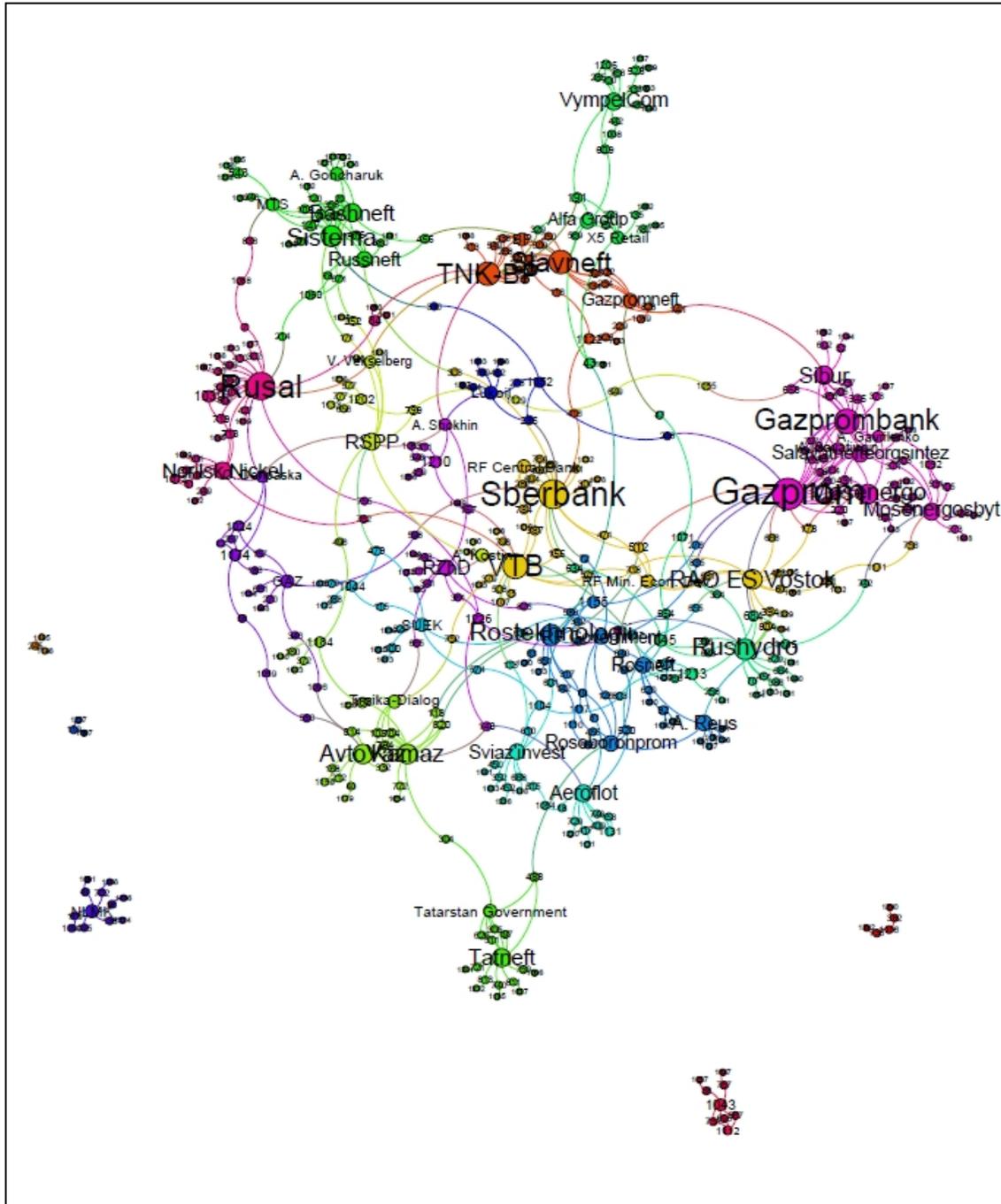
³ Vladimir Dubrovskiy, Janusz Szyrmer, et al, *The Reform Driving Forces in a Rent-Seeking Society: Lessons from the Ukrainian Transition* (CASE Ukraine), 2007.

⁴ Samuel A. Greene, “The Political Economy of Cash Flow: Domestic Politics, Foreign Policy and the Russian Elite,” presented at the 2010 Annual Meeting of the American Political Science Association. For more detail on the study and its methodology, please see the paper and/or contact the author.

(3) *Non-distributed resources*, primarily in gas and strategic infrastructure, access to which is restricted to the state and its direct representatives.

Economic (and, often, political) actors engage in a particular division of labor, alternately capturing, hoarding, sharing, defending, surrendering or re-distributing sources of rent.

Figure 1: Russia's Economic Elite (2010)



While the coalitions that Russian high-level economic and political actors form for the purposes of rent-extraction or policy lobbying are fluid and opportunistic, the resulting network (see Figure 1) is highly interlinked, with two key attributes. First, virtually all significant actors are tied one way or another to the rest. And second, while subgroups are clearly identifiable and, indeed, automated clustering algorithms easily reproduce existing corporate structures, the links within subgroups are not all that much more intensive than the links between them. This resulting picture of “networked authoritarianism,” I argue, illustrates the self-reinforcing durability of the Russian political economy of rent-seeking as described above: all players depend crucially on the continuation of the system (even more than on their own position in the system, which is changeable), and the plethora of redundant links and pathways means that the cohesion of the network cannot easily be threatened by individual defections.

Thresholds, Tipping Points & Cascades: Networks in Crisis

The challenges that Russia faces as Putin begins a new six-year term as president hardly need repeating. Economically, the government must come to grips with spiraling inefficiency, which has led to growing budget deficits despite strong oil prices and threatens to undermine the populist largesse that Putin promised during his campaign. Demographically, the prospect of losing 10 million workers over the next 15 years raises the price of both inefficiency and populism. And politically, if the government is to have any success at “modernizing” the country it will need the support and participation of younger, forward-thinking, and economically mobile Russians, a preponderance of whom have, in recent months, come to see the government as democratically illegitimate and ideationally bankrupt. At the moment, there is little evidence that the incoming government is preparing to tackle any of these challenges in a concerted way.

It is worth noting that the cause of friction in all three of these areas of state-society relations is the fundamental inefficiency of a political economy organized primarily around rent-seeking: a sticky logic that robs the budget (and thus taxpayers), raises marginal prices, depresses entrepreneurship, disincentivizes capital investment, and so forth. The question thus becomes: at what point does the aggregate of these challenges lead to the emergence of constituencies for fundamental change? Or, seen from a different angle, how broad are the change agendas of those constituencies that have already emerged?

Is there a possibility of the network presented in Figure 1 dissolving? After all, the picture from the mid-1990s would have looked very different, as elites competed fiercely for control of the system itself. With Putin’s rise, the combination of a strong arbiter and booming rent flows from oil, gas, and other commodities made possible the construction of an inclusive network within a system that served the interests of the elite as a whole. It is thus not unreasonable to postulate that this arrangement could fall apart.

Network theory, while it spends considerable time exploring how social and elite networks form, grow, solidify, and shape their members’ behavior, has remarkably little

to say about how and why networks disintegrate. The limited amount of empirical research on elite network collapse suggests that two important and interwoven dynamics are often at work. First, the network begins to fragment into “tightly-knit cliques and factions” that develop their own sets of preferences and hoard information about those preferences. Second, the network’s nominal or real leadership, faced with the emergence of these cliques, begins to recentralize authority. The result is a fracturing of both horizontal and vertical ties within the network and a growing disruption of communication, leading to a vicious circle of poorly informed actions and reactions throughout the network until total dysfunction emerges; this dynamic has been most convincingly demonstrated in the collapse of the American energy giant Enron Corp.⁵ There is, however, little evidence that any of this is occurring in Russia today (although the opacity of the system could make it difficult for us to know if such phenomena were occurring); indeed, the return to elected governors, even if circumscribed, suggests a *decentralization* of authority.

A second approach to change in networks involves the concept of “thresholds” or “tipping points,” according to which innovations spread rapidly through a network only after reaching a critical number of early adopters. Political or economic reform could indeed be seen as an “innovation,” a preference for which could, in theory, spread through Russia’s elite networks until reaching a tipping point, after which it quickly could become dominant. Because preferences for large-scale reform are likely to be falsified until that tipping point is reached, it is also difficult to gauge the degree to which this sort of dynamic may be taking place. But it is worth noting that the prevailing opinion among Moscow political pundits well before the most recent elections was that the majority of the political and economic elite had long since come around to the need for sweeping reforms – and yet none seem to be in the cards.

In considering the history of political revolutions – and with particular attention to the fact that most such revolutions tended to be unheralded – economist and political scientist Timur Kuran famously emphasized precisely these information imbalances. He thus described periods of sweeping political change (put more bluntly, regime failures) as informational cascades, in which all or at least the majority of political actors are assumed to falsify their preferences until a critical threshold is reached, involving either the credibility of the regime or the number of open dissidents or both, after which actors switch sides *en masse* and the system collapses. From this perspective, it will by definition be impossible to know if Russia is headed toward revolution until it is, so to speak, too late.

***Raskoryachka* and the Logic of Self-Limitation in Networked Authoritarianism**

Ahead of his first visit to Russia, then new U.S. President Barack Obama said he believed Russia had one foot in the (democratic) future and one in the (authoritarian) past. In response, Putin famously quipped that Russians – unable to stand in

⁵ Joseph Davis, Liaquat Hossain, and Shahriar Hasan Murshed, “Social Network Analysis and Organizational Disintegration: The Case of Enron Corporation” presented at the 2007 International Conference on Information Systems.

raskoryachka, a presumably untenable pose with one's feet spread uncomfortably far apart— most certainly had their feet planted firmly in one place (he did not elaborate as to precisely which one). Members of the Russian elite, however, are permanently in *raskoryachka*, keeping hold simultaneously of their rent-producing assets with one foot and navigating treacherous political waters with the other in order to stay afloat.

Despite the inefficiencies of such an arrangement, the reality is that those who prosper in this system today are those who have learned to manage it most successfully over the past two decades. As a result, while there may be a large (or perhaps even dominant) passive constituency for sweeping change, the transition to active support for change requires two things: first, the potential benefits of the reformed system (and the likelihood of receiving them) must be greater than the benefits provided by the current system; and second, there must be sufficient certainty that the process of change will be controlled and manageable, and that it will not sweep away the entirety of the elite. The crux of the matter is precisely in that second requirement. If we assume, as Kuran does, that Russian political and economic elites are hiding their preferences for reform, and that they are doing so because the regime remains credible, we must also assume that they are aware of the possibility of a cascading regime failure should too many of them challenge the system.

A view of the Russian political-economic elite as a network reveals a largely undifferentiated mass of rent-seeking actors, brought together by a system that enriches and empowers all of them and the collapse of which will disenfranchise all of them. But if such an analysis does not reveal powerful constituencies for sweeping change, are there constituencies for gradual or marginal change? To a great extent, the fear of cascading failure is likely to discourage elites from pushing even a modest reform agenda, particularly in the political realm; of course, the constant lobbying for sectoral or regional preferences and privileges that has gone on for some two decades will continue, but that is far from constituting a demand for systemic reform.

There may be, however, two other constituencies for gradual change that are hidden in the linkages of the network. The first are high-level government officials and bureaucrats, recently deprived of their posts on corporate boards, and thus of their formalized inside access. In addition to potentially making business more autonomous of the state and reducing corruption (the stated goals of the reform), this may have the unintended positive effect of creating a constituency within the government for greater business transparency, which could be achieved both through financial market reforms and through the greater institutionalization of property rights. This, were it to occur, would be driven by officials' need to maintain effective oversight of the economic actors under their purview -- even if at least partially for the purpose of rent extraction -- and compensate for the loss of insider access, which had heretofore underpinned informal "regulatory" arrangements.

The second constituency is, oddly enough, the arbiter himself— Vladimir Putin. There are clear incentives for Putin to cull the least efficient (from his point of view) actors out of the network and undertake careful changes aimed at boosting overall efficiency and liquidity. Increasing inefficiencies create more friction not only between

the elite and society, but within the elite. This increases demands on the arbiter's services, saps the liquidity of the system, and raises the potential of a return to all-or-nothing competition among elites. And in all-or-nothing competition, no one needs an arbiter.