Political Consequences of Crony Capitalism inside Russia

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INTRODUCTION

It is what we think we know already that often prevents us from learning.

—Claude Bernard

What is the relationship between elections and democracy? What happens if the electoral choices are deemed ineffective for projecting the popular will? What is the link between political competition and democracy? What happens if political competition undermines the legitimacy of political elites and even the government? These are not abstract questions originating behind the protective walls of the academic ivory tower. They trouble, unfortunately, too many countries around the world. Even the United States—a mature democracy that has apparently resolved these issues—has recently been pressed to face some of these questions. After all, the strategy of promoting democracy around the world—the centerpiece of U.S. foreign policy in the past decade—was driven by an understanding of democracy that privileged the electoral mechanism and elite competition for power as its central elements. The striking failures in American foreign policy in different parts of the world in the past few years have stirred widespread criticism of the U.S. strategy and a debate about its underlying assumptions. One of the questioned assumptions is whether the installation of competitive elections in a country results in a democracy and what the United States should do if democratic elections bring to power hostile politicians and governments.2

Russia is another country that had to face these questions, albeit from a different angle. For several years after the collapse of communism scholars and politicians in the West nurtured illusions about democracy
and free markets springing up at the end of the “transition period.” After
all, political and economic reforms undertaken in most countries in the
region instituted elections as the main mechanism for power transfer
and allowed for the flourishing of private property and wealth accumu-
lation. After almost two decades of transition, however, only a handful of
countries—the new postcommunist members of the European Union
(EU)—can claim that democracy and markets are gradually taking shape
in their country. For many others, democratic institutions appear as a fa-
çade legitimizing mostly unaccountable elites, corrupt political-economic
systems, and markets that are not free. The necessity of studying the fac-
tors that turn the wheels of such systems has become by now very obvi-
ous, spurring a wave of innovative scholarship, new concepts, and fresh
approaches. Numerous accounts have tried to explain why and how de-
mocracy got derailed in Russia and in many other postcommunist states.
This book adds to those accounts by attempting to interpret the demo-
ocratic failure in Russia as a reflection of a more general problem of de-
mocracy’s coexistence with crony capitalism: what happens when demo-
cratic institutions are imposed on a political-economic system lacking the
rule of law and stable property rights. Based on the experience of politi-
cal transformation in the Russian regions, I develop new analytical lenses
for understanding the political dynamics in the countries that have not
been “transitioning” but rather got “stuck” between democracy and dic-
tatorship, between corruption and the ongoing struggle for property,
between unfair elections and recurrent crises of succession. To do that I
employ insights from the literature dealing with crony capitalism and in-
formal institutions and explore the consequences of political competi-
tion and electoral struggles in the context characterized by the prevalence
of informal elite networks.

Cronyism in politics is an old problem: public officials have often
used their power to benefit and enrich their friends and supporters out-
side of government. When a close connection between state officials and
economic elites dominates policy making, traditional cronyism becomes
“crony capitalism”—viewed in this study as a distinct institutional order
characterized by the domination of informal elite groups. In such a sys-
tem selected economic elites receive preferential treatment and privi-
leges, making support from the state rather than market forces a crucial
factor for maintaining and accruing wealth. It is not a secret that the years of postcommunist transformation in Russia and many other states undergoing similar transformations resulted in the emergence of such a system. I argue in this book that the coexistence of crony capitalism with such democratic institutions as political competition and the electoral mechanism produced a distinct pattern of political evolution in Russia, its regions, and, possibly, various other states combining democracy with crony capitalism.

The new political system established in Russia after the collapse of communism involved public participation in politics through elections. Neither public participation nor elections per se resulted in the legitimate government, however. Postcommunist economic reforms resulted in elite fragmentation, and the electoral mechanism paved the way for an intense contestation for power among the elites. Massive financial resources flowed into electoral campaigns and the invention of cunning strategies and tools of political struggle. The candidates aspiring to win hired political consultants (referred to as “political technologists” in Russia), who waged informational warfare and created other elaborate tools of public opinion manipulation. The mass media and corruption scandals turned into the most potent instruments used in these struggles. The competing media outlets poured into the public realm tons of compromising materials aiming to discredit the competitors. Eventually, not only specific candidates were discredited but the whole “body politic” as well; the entire system fell victim to such methods of political struggle, with especially damaging effects on the electoral process. Far from being seen as the focal point of democracy building or an exercise of citizens’ right to determine who governs them, the elections were perceived as the means to elite access to power and wealth and an elite tool rather than the means of projecting the public will. As “the baby is thrown out with the bathwater,” the very idea of democracy, political competition, and the electoral process became discredited.

In any democracy politicians are confronted with a strong incentive to use corruption as a political tool for obtaining power. This incentive expresses itself in a milder form through the strategy of negative campaigning, commonly employed in the United States and many other established democracies. As discovered by scholars of American electoral campaigns,
the amount of negativity is determined by the degree of electoral contestation: the closer the race, the meaner the campaign. In crony capitalist systems the degree and character of political contestation is even more intense due to the higher stakes involved in controlling a state office. Political and economic spheres under crony capitalism are tightly intertwined, so access to power means access to property and vice versa. In crony capitalism, a system based on privileges rather than rights, economic elites must maintain connections to the state in order to obtain and keep their privileges. For political elites, on the other hand, obtaining a state office means getting control over rule making, specifically with regard to the ongoing redistribution of wealth. With such high stakes for both political and economic elites, there is a strong inclination to use tricky, conniving methods to obtain victory.

Governed by a winner-takes-all mentality, competitive politics under such a system knows no respect for legal or civil boundaries. The methods of political struggle go beyond mere slandering of opponents, as occurs frequently in more established democracies. Competitors engage in a host of other, blatantly dirty political practices that involve provocation, fraud, and the use of legal means as well as administrative resources associated with the state. The logic of using corruption as a political tool plays out most ferociously in a competitive environment because politicians face electoral incentives to publicize corruption and provoke scandals. In the course of well-publicized and scandalous interelite clashes all parties become discredited, including the official authorities that try to “fix” the vote, or interfere in elections by using all means possible to achieve the desired outcome. Faced with successive dirty electoral campaigns played out as violent information wars among the candidates, the voters turn away from politics, distrusting the elites and the political institutions that are perceived as wasteful political games. The public not only disengages from public politics but also becomes inclined to support an authoritarian “solution,” which seems a more attractive option than a manifestly corrupt system. Ironically, democratic institutions work in such systems but in a perverted way. When functioning in the competitive environment, the electoral mechanism not only ensures power transfer but also, unintentionally, uncovers the predatory nature of crony elites and undermines the legitimacy of the political-economic order crafted by a self-serving and unchecked ruling class.
The authoritarian solution is being now tried in Russia. In its radical expression, the turn toward authoritarianism under Putin manifested itself in the abolition of the gubernatorial elections in September 2004. What was really puzzling about this major reform of regional power formation is that Russian citizens did not seem to mind the change. Judging from the perspective of democratic theory, through this reform, Putin, in effect, deprived the country’s people of their democratic right to elect regional leaders. At the very least, people could be expected to react negatively to this abrogation of their rights. The public opinion polls conducted by the well-regarded Levada Center a few days after this decision, however, produced rather shocking results: 44 percent of the respondents supported Putin’s decision; 42 percent disapproved. The majority of Russians seemed to support the curtailing of their right to participate in regional government formation. This attitude seems especially troubling in the face of studies demonstrating that regional-level elections have actually worked to hold governors accountable. To complicate matters further, public opinion polls have also shown that the Russian people hold dearly the values of freedom and democracy. Why, then, would they relinquish the right to form their own regional governments, which have a great effect on their day-to-day lives and concerns?

Rejecting ideas about the inherent authoritarian nature of Russian political culture, this book investigates more proximate causes behind the development of public attitudes in Russia. It argues that there are more evident factors that contributed to the rise of negative perceptions of regional elections and competition in Russia. The scandal-driven politics during the successive rounds of competitive electoral campaigns, regionally as well as nationally, tended to result in the public retreating into political apathy and protest voting. Reacting to perceived (and real) lawlessness and corruption among the elites promoted by scathing media reports, people voted increasingly for the candidate “against all” or abstained from voting entirely. The act of voting and the elections themselves were being progressively devalued as the arsenal of elite tactics to “manage” the electoral results grew.

Paradoxically, the new political momentum characterized by a rejection of democratic institutions and a desire for a strong central authority brings together the elites interested in self-preservation and the public agitated by the successive rounds of dirty electoral campaigns and
belligerent, unaccountable elites. The common understanding that unhindered political competition cannot or should not be sustained without endangering the very existence of the overall system creates a momentum for a shift away from competition. This is, I argue, what was happening in Russia after the turn of the century and the advent of the new era of Putin’s politics. The authoritarian turn associated with Putin and supported in large part by the public should be viewed as a political response to the exigencies imposed by the interaction between crony capitalism, political competitiveness, and the electoral process.

The argument advanced in this book goes against the conventional wisdom. The widely used and respected institutional theories of democracy view competitive elections as one of the cornerstones of the democratic system of government. The classic procedural view of democracy advanced by Joseph Schumpeter, for example, defines the democratic method as an “institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote.” People’s vote (i.e., elections) and political competition are thus the bedrock of democracy. Such a view expects the electoral mechanism to fulfill several functions. Elections are supposed to legitimize the political system and the government in the eyes of the citizens, encourage mass participation, and enhance popular interest in politics. Elections are also meant to ensure government accountability by keeping the elected officials under the threat of being removed from office. Political competition, on the other hand, is supposed to give voters a chance to choose among alternative candidates, alternative programs, and alternative priorities and to elect a government responsive to their needs. This is the dominant theory and the prevailing expectation as to how these institutions should work. The puzzle presented by post-communist Russia has been that the institutional forms are not always invested with the expected content and, therefore, do not result in the expected outcomes. At least in the short run, political competition and elections in the case of Russia did not ensure governmental accountability, encourage political participation, and legitimize the political system. Even when present—thus allowing theorists to refer to Russia of the 1990s as a democracy—these institutions were not sufficient to make the citizens believe that they live in a true democracy. To the contrary, played out in
the context of crony capitalism, their functioning resulted in their own imperilment and devaluation. In the absence of legitimizing elections, the ruling elites had to look for other sources of legitimacy. The consequences for a fragile Russian democracy were devastating. The devaluation of democratic institutions opened the door for political centralization aimed at enhancing the system’s stability and sustainability.

Legitimacy under Crony Capitalism

Crony capitalism confronts governments with special challenges for maintaining their legitimacy and exercising political authority. As cogently stated by Rose in 1978, “The central concern of every political system, however its leaders are chosen, is the exercise of political authority.” Political authority is closely linked to power but differs from it in one respect. Authority is power that is accepted and recognized as legitimate by those over whom it is exercised. This implies that any political leadership or government has to care about its legitimacy, or at least some minimal acceptance by the public, some minimal degree of voluntary compliance and consent. The reasons for this are simple. In the absence of consent, the government needs to spend more resources and develop additional enforcement mechanisms to ensure compliance. In the absence of generalized consent, the government will find it much more difficult to govern. Without legitimacy there is no political authority.

Although the ideas expressed above do not appear controversial, the scholarship on postcommunist politics and especially that focused on Russian transformation, tends to ignore the inherent link between the government and the governed in accounting for political change in the region. There is a strong preference given to elite-centered explanations of political change, which do not leave any space for the role of the masses. The transition paradigm focused on the elites and pacts among them; the more recent cyclical approach to explaining the dynamics of political change also focuses on elite-level analysis. Such a tendency seems understandable, especially with regard to Russia, which historically has been ruled by autocratic leaders and lacked democratic traditions. However, the central political dilemma of any government, as noted above,
concerns the exercise of political authority and, therefore, ensuring some level of public consent or legitimacy. In Robert Michel's words, even "the despotism of the leaders does not arise solely from a vulgar lust of power or from uncontrolled egoism, but is often the outcome of a profound and sincere conviction of their own value and of the services which they have rendered to the common cause." This inherent link between the rulers and the ruled needs to be integrated into our understanding of the dynamics of political change in the postcommunist region, especially because the examples of and the problems posed by delegitimized postcommunist governments such as Yeltsin's in Russia or Kuchma's in Ukraine abound.

The term legitimacy is frequently used in political analysis but is infrequently defined (except in political theory) and is even less frequently agreed on. Because both concepts—authority and legitimacy—involves the relationship between the government and the governed, I rely on Lipset's conception of legitimacy as "a capacity of the system to engender and maintain the belief that the existing political institutions are the most appropriate ones for the society." Such an understanding aptly brings to our attention two sides: legitimacy is about people's beliefs about rulers and institutions, and it is also about claims made by rulers. As posited by Beetham, "a given power relationship is not legitimate because people believe in its legitimacy but because it can be justified in terms of their beliefs." In its search for legitimacy, a government has the choice of justifying its rule in terms of existing popular beliefs or trying to mold those beliefs. In either case, it faces a challenge. With regard to the first option, popular beliefs change as the socioeconomic and political situation changes, making the old claims for legitimacy outdated or mismatched. The second option requires special circumstances that would enable the government to play a significant role in shaping popular beliefs and perceptions. In the absence of the "ministry of truth" or "thought police," this indeed is a daunting task. However, this task becomes much easier if the government controls the media, which play a powerful role in shaping citizens' perceptions and attitudes and, therefore, the regime's legitimacy. The media's role becomes especially crucial during elections; this factor therefore has to also be integrated into the analysis of postcommunist regime dynamics.
What happens when legitimacy wanes? One immediate impact of low legitimacy is on governmental performance, specifically with regard to such governmental functions as law enforcement and tax collection. Another consequence of diminishing legitimacy is the opening of the political system to challengers. When people do not trust or consent to the government, there is an opportunity for outsiders to step in and offer an alternative vision. Hence waning legitimacy indicates a changing political opportunity structure for other political actors. Furthermore, depending on their understanding of the reasons for declining legitimacy, the new political actors have a window of opportunity for making corrections in the system. There is an opening for redefining the political system and transforming the political regime, if that is seen as necessary for avoiding the problems of the previous political system.

The accounts for declining legitimacy in such postcommunist countries as Russia or Ukraine in the 1990s have most often focused either on the effects of a “shock-therapy-type” economic reform, resulting in sharp economic dislocation for the population,20 or on the inadequacy of the state to deliver collective goods.21 The political mechanisms that could affect popular beliefs and perceptions have been accorded less attention. In this study I draw attention to the role of political factors—in particular, the workings of political competition and its reflection through the media—in shaping popular perceptions and, therefore, the legitimacy of ruling elites and political institutions.22

Political competition under crony capitalism undermines the legitimacy of elites and institutions via two channels. First, the rulers’ potential to claim legitimacy gets undermined as a result of widespread blackmailing and negative campaigning in a “war of all against all,” so that no credibility can be attached to any claim. Second, popular attitudes and beliefs about the system and the rulers spiral down, driven by revelations and claims leveled by political opponents against each other. In the end, after repeated rounds of political competition played out in public through competitive elections in the atmosphere of widespread corruption and its use as a political tool, the public sees no other alternatives but to opt for so-called color revolutions or support a shift toward authoritarianism.

The argument advanced here opposes the objectivist-type analyses of the sources of regime legitimacy that draw a direct link between popular
dissatisfaction and objective conditions such as worsening material conditions or the state’s failure to deliver public goods. Popular perceptions, including those concerned with regime legitimacy, are mediated by various mechanisms that affect the type of information available to the public, as well as the individual’s capacity to process information. These mechanisms include, for example, the impact of elites and the media, both of which have the power to limit public access to information, manipulate the type of information publicized, or frame information in specific ways, thus setting the agenda for the public. In addition, institutions and social context have an impact on how the public perceives objective reality. As I argue in this book, for example, political competition in the context of crony capitalism constrains the capacity of the government to claim legitimacy as competing elites try to undermine each other using compromising materials and dirty tricks. The coexistence of crony capitalism and the electoral mechanism for power transfer creates, at least in the short term, a strong destabilizing dynamic that undermines public faith in the system.

Methodological Considerations

Why Russian Regions?

The argument advanced in this book originates in the analysis of scenarios of political-economic transformation playing out in the regions of the Russian Federation. The testing of the argument is also done on the subnational level. I used the subnational comparative method mostly for practical reasons. Investigating the informal relationships that play a key role in politics is a challenging task. Its accomplishment is more manageable on the subnational than national level. The type of knowledge required for this study is more accessible on the lower political level, which has a more restricted number of key players, than on the level of the federal center in Moscow. At the same time, looking at the subnational rather than national level enables a comparative study of postcommunist transformational outcomes in which many key variables (e.g., history, culture, and institutional legacies) can be kept constant. No comparative
state-level study can allow for such a degree of similarity as the comparative study of regions. The potential problem with generalizability from a within-nation comparison is addressed in this study by using the subnational comparative method in conjunction with cross-national comparisons. The argument developed here is not limited to the subnational level, however; it is also applied to the analysis of political transformation in Russia at large.

Even after the collapse of the Soviet Union, Russia remains huge. It is organized as a federation that is currently divided into eighty-three constituent units. In the aftermath of the Soviet implosion, during the 1990s, the Russian Federation decentralized greatly. The terms regionalism and asymmetrical federalism were widely used to describe Yeltsin’s Russia and discuss challenges to the country’s territorial cohesion. Indeed, the sweeping process of regionalization and the devolution or in some cases even seizure of decision-making prerogatives by the regions made it difficult to treat Russia as a monolithic entity. The reforms of the 1990s resulted in national disintegration and subnational integration. As the central government divested itself of many previous obligations, the regional level has become the primary field in which state and society encounter each other. Absent a strong unifying influence from the federal center, regions went their own separate ways both in political and economic development. Even a quick look into the internal political developments at the regional level reveals a wide diversity of political trajectories. As noted by Moses, “a weak central Russian government since 1991 has provided both the incentives and opportunities for the leadership of regions to strike out on their own and to develop their own political identity and unique combination of political models.” These varying regional political models and identities have attracted much scholarly attention. An entire subfield of Russian regional studies came into being that treated regions as separate political entities, not unlike states.

The process of regionalization was reversed under Russia’s second president, Vladimir Putin, who aimed to recentralize the Russian Federation under the new “power vertical.” Although different regional models still remain, their number has decreased considerably as the role of the federal center and its interference in regional politics has increased progressively starting in 2000. The diverging regional developments of
the 1990s, however, enable a comparative study of the various economic-political models that emerged under Yeltsin. This study undertakes that task by examining two regions of Russia: Nizhnii Novgorod oblast (region), and the Republic of Tatarstan.

I argue that regional polities in Russia are best comprehended using the concept of economic-political networks (EPNs). These informal elite groups are the key actors and structures on Russia’s regional political scene. Characterized by close ties between government officials and big-business representatives, they are the embodiment of crony capitalism and manifest the systemic character of cronyism. The main feature of such a system is the absence of the rule of law and an impartial state that is capable of providing and enforcing a uniform set of rules for the various political and economic actors and of maintaining stable property rights. This political-economic system represents a distinct institutional order that entails a strong role played by informal institutions and relations and that must therefore be assessed on its own terms. The various elements of this system interact differently from what could be expected in the systems characterized by the rule of law and an impartial state based on the domination of formal institutions.

In the politically fragmented Nizhnii Novgorod region the intensifying political competition in the late 1990s became expressed primarily in dirty politics, media wars, and public scandals involving regional elites. Within a few years public attitudes toward the regional government and regional elites deteriorated, and people retreated either into political apathy and absenteeism or protest voting, that is, supporting antisystem political actors or, even more radically, voting against all candidates. Political dynamics were very different in the noncompetitive Republic of Tatarstan, where elites avoided political fragmentation and the government maintained a higher degree of legitimacy using a “socially oriented” model of economic transformation. In this noncompetitive regime elections did not introduce the uncertainty and power struggle experienced in Nizhnii Novgorod. The dominant elite network had a greater influence over the election results through the control of public opinion, which was enabled by the government’s control of the mass media, lower-level government officials, and the major economic elites in the region. The authorities did not have to resort to force, blatant manipulation, and dirty tactics to try to change voting outcomes. The public by and large sup-
ported the incumbent government and perceived the social and political situation in the republic as more stable than in other regions.

My investigation revealed that a crony capitalist institutional order might be present in both competitive and noncompetitive political systems. However, the degree of institutionalization or the degree to which it is taken for granted by the population differs depending on the political dynamics and, specifically, the presence of acute political competition. It is not simply the existence of informally colluding elite networks that is consequential for discrediting elites and the electoral mechanism but the fact that the public expects the political and the economic sphere to be dominated by such networks and that the public believes that private interests dominate the state. This perception that public authorities represent and promote the interests of particular informal networks instead of advancing public goals reflects the degree of institutionalization of these EPNs. The greater that perception is, the more institutionalized these EPNs and the crony system as a whole are. Public apathy and the rejection of the entire political system, including some of its democratic elements, are consequently greater in systems where cronyism and corruption are perceived more acutely.

Why Tatarstan and Nizhnii Novgorod?

The choice of Tatarstan and Nizhnii Novgorod for this study was determined by several factors. The Russian Federation consists of units with differentiated status, and the main dividing line is between ethnically and nonethnically defined units. My earlier research on regional political competitiveness has found that ethnic republics in the 1990s tended to be less competitive than the rest of Russia’s regions. Evidently, the institutional structure of the Russian Federation played a substantial role in determining political outcomes. Based on this finding, selecting an ethnic republic and a nonethnic region was the best strategy for studying more closely the emergence of competitive and noncompetitive political regimes as well as the impact of competition on the political-economic realities of the Russian Federation. At the same time, I looked for regions that would be similar in terms of economic and social development and would have in common other structural characteristics such as territory and population size, geographic location, and economic diversification.
Tatarstan is one of the ethnic republics in the Russian Federation that has always attracted great attention from analysts and outside observers. Two main factors account for this. First, it is one of the more economically advanced regions, featuring developed oil-extracting, petrochemical, automobile, aircraft, and other industries that add to its political significance. Second, the Tatarstani elite has been a pioneer in advocating regional autonomy and genuine federalism in Russia, thus setting a path for other constituent units of the Russian Federation to follow. Over the past fifteen years the Tatarstani elite has been able to construct one of the most stable and enduring noncompetitive political regimes in Russia; it is supported by the majority of the republic’s population and recognized by the federal center as a party to be reckoned with. In fact, it could be seen as an ideal-type noncompetitive regime viewed as an example to be followed by Russia’s other republics and regions. It appears possible to argue, therefore, that the main strategies undertaken by the republican elite with the purpose of consolidating their power base vis-à-vis the federal center and domestic sources of opposition represent not simply idiosyncratic factors that affected the evolution of relationships between Kazan, the capital of Tatarstan, and Moscow and the evolution of Tatarstan’s political regime. Analyzing these strategies should help to uncover the micro-causal mechanisms of building noncompetitive political systems in other republics as well.

The Nizhnii Novgorod region (Nizhegorodskaya oblast) is a non-ethnically defined unit that has also been a visible part of the federation. I selected it for this study because it represents the closest to the ideal-type competitive political system characterized by the domination of several, easily identifiable EPNs. The political conflicts that played out in the region’s capital city of Nizhnii Novgorod (known as Gor’kii until 1992) in the past decade and a half are representative of interelite clashes in other regions of Russia with competitive political systems. Therefore, the study of the emergence and the outcomes of competitive politics in this region could uncover the political dynamics in many other regions in Russia.

These two regions share important structural similarities, which makes it possible to represent this comparative case study as following the model of “most-similar” systems (table 0.1). Both are heavily industrialized and economically diversified. Similar to Tatarstan, the Nizhnii Novgorod region has an extensive industrial potential, especially in the
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<th>Republic of Tatarstan</th>
<th>Nizhnii Novgorod Region</th>
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<tbody>
<tr>
<td>Territory (sq. km)</td>
<td>68,000</td>
<td>76,900</td>
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<tr>
<td>Population (1998)</td>
<td>3,774,000</td>
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<td>Urban population (1998, %)</td>
<td>73.6</td>
<td>78.2</td>
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<td>Ethnic breakdown (1989, %)</td>
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<tr>
<td>Tatars</td>
<td>48.5</td>
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<td>Russians</td>
<td>43.3</td>
<td>Mordvins 1.0</td>
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<tr>
<td>Chuvash</td>
<td>3.7</td>
<td>Ukrainians 0.9</td>
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<tr>
<td>Student population</td>
<td>198 per 10,000</td>
<td>182 per 10,000</td>
</tr>
<tr>
<td>(Sept. 1, 1997, %)</td>
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<tr>
<td>Pensioner population (1997, %)</td>
<td>25.07</td>
<td>28.89</td>
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<tr>
<td>Proportion of people with higher education (%)</td>
<td>9.5</td>
<td>9.6</td>
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<td>Number of telephones per 100 families</td>
<td>38.9 (cities), 13.6 (villages)</td>
<td>46.2 (cities), 14.3 (villages)</td>
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<tr>
<td>Average monthly personal income (July 1998, rubles)</td>
<td>686.3</td>
<td>627.4</td>
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<tr>
<td>Industrial production as % of all Russian production (Jan.– Aug. 1998)</td>
<td>2.81</td>
<td>2.4</td>
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<td>Economic structure (1999, %)</td>
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<td>Agriculture 6.0</td>
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<td>Industrial structure (1999, %)</td>
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<tr>
<td>Electricity</td>
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<td>Food industry 9.3</td>
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fields of machine building and automobile production and in the petrochemical sector. Both belong to a small group of donor regions in Russia that contribute more to the federal budget than they receive in transfers from the center. They are similar in size and are geographically proximate. The choice of two economically strong regions was determined by the consideration that the existence of power decentralization and elite differentiation requires diversified economies. Competitive politics can hardly be maintained when structural preconditions are absent. Therefore, the puzzle to be explained is why some diversified economies end up with monolithic power structures while others take the path of a competitive polity. According to structural theories of power distribution, both of these regions could be expected to have competitive polities with differentiated elites. Yet the variation in the political processes in each of them is drastic. Tatarstan is characterized by an authoritarian-style, monolithic polity with a unified elite integrated under a single EPN and an absence of any meaningful opposition. Nizhnii Novgorod has evolved in the 1990s into a fragmented polity with recurrent conflict among several EPNs. In addition, state-society relations and popular perceptions of regional elites and political institutions in these two regions differ drastically. The residents of Nizhnii Novgorod grew increasingly frustrated with regional elites and competitive elections as they played out in the region. The Tatarstani elites, on the other hand, were able to maintain solid popular support for the government and used elections mostly as a mechanism for legitimizing the regime.

One important structural factor that differentiates these cases is related to the presence of oil in Tatarstan and its absence in the Nizhnii Novgorod region. This factor was very important in the context of economic transformation in the Russian regions. As I discuss in chapter 3 the Tatarstani elites used oil resources along with institutional privileges conferred by the Russian Federation as a major foundation for constructing a noncompetitive regime. The oil factor, however, is neither a necessary nor a sufficient condition for the diverging political outcomes in the two cases explored here. As exemplified by the political regime built by Mayor Yuri Luzhkov in Moscow, regional political elites in Russia had resources other than oil and ethnic federal status to construct a noncompetitive regime very similar to that in Tatarstan. These factors should
therefore be viewed as structural and enabling rather than explanatory. The difference in political competitiveness levels and, especially, in how political competition played out during the electoral campaigns in the regions were in the end the driving force behind the changing popular perceptions of regional elites and political institutions.

Data and Measurement

Studying crony capitalism is not an easy task. It is a topic commonly reserved for investigative journalism. The biggest challenge is tracing cronyism and identifying EPNs, since by default these informal structures are hidden from public eyes. In my research, therefore, I relied on detailed case studies, combining eclectic methods for data gathering. The more competitive political environment in Nizhnii Novgorod proved better at producing data on informal networks. Unavoidably, well-publicized scandals in the competitive environment allowed for tracing patterns of relations and influence in the region. Competing media outlets produced a wealth of information that was used for this study, verified in interviews with regional experts and cross-checked using different media sources.

The noncompetitive polity in Tatarstan is less penetrable because the conflicts are hidden, the opposition is co-opted or “exiled,” and the media are tightly controlled. “Soaking and poking” in the republic over the period of many months and even years, reading regional periodicals and interviewing local journalists, experts, and business and government officials allowed for gathering the data on informal relations underlying the republican politics and the economy. These data revealed the cronyism embedded in the political-economic system and made it possible to discuss its political implications in both cases.

The data on voting results in both regions, on the other hand, are publicly available. I used the publications of the Central Electoral Commission of the Russian Federation to trace the results of regional elections. Data on public attitudes on the regional level were more difficult to find. In Nizhnii Novgorod I could rely on published research by local sociologists to investigate the developments in public attitudes and evaluations of regional authorities. In the more closed and controlled political environment of Tatarstan such publications were not readily available. Instead,
I had to use the results of sociological studies sponsored by various government agencies in combination with more informal surveys of public opinion conducted during electoral seasons. Data on regional perceptions of corruption in Russia were produced by a well-known Moscow-based think tank, INDEM, in conjunction with Transparency International.

**Theoretical Contributions**

This study, an attempt at theory-building, explains the dynamics of post-communist politics by illuminating the vulnerabilities of a politically competitive system in the context of crony capitalism. In a departure from earlier studies and theories, it is not elite centered. It incorporates into the analysis the role of elites and the masses and uses the concept of legitimacy as an important element in the survival of a political system. The main argument is nonlinear. It derives political change from the contradictions of various interacting parts of the system: formal democratic institutions and informal elite structures. In the end, the analysis of political regime transformation advanced in this study tries to integrate the role of the masses, elites, and institutions (both formal and informal), highlighting the role each element plays in effecting political change.

This study illuminates the limits of earlier approaches to explaining crony capitalism and informal institutions and advocates the use of historical institutionalism to understand the origins of postcommunist crony capitalism. The informal institutions that emerged in postcommunist Russia are not simply the legacy of corruption, or blat, prevalent under the Soviet system, and neither do they arise automatically in the absence of limited government. There are identifiable new incentive structures that emerged as a result of political and economic reforms and that conditioned the behavior of postcommunist elites confronted with new challenges and new opportunities. An understanding of crony capitalism that integrates this historical aspect allows for a more nuanced analysis of its different manifestations in different parts of the world and in different historical contexts.

This book advances the analysis of crony capitalism in other ways too. Most previous studies of crony capitalism have investigated its eco-
nomic impact. The phenomenon itself, however, is clearly of both a political and an economic nature. The political implications of crony capitalism might be even more consequential than its economic effects. This study therefore focuses on the political implications of crony capitalism.

Finally, this book adds to conceptual innovation. Most arguments dealing with regime change assume the existence of separate political and economic spheres and the possibility of analyzing politics (the political) as an autonomous sphere. Economic factors enter the analysis at best as exogenous variables. This assumption often appears invalid in the postcommunist context and results in the proliferation of “shallow” explanations that do not take into account the more fundamental realities of life in this part of the world. At least in the type of system that emerged in postcommunist Russia, one must recognize the fusion of political and economic power and incorporate such an understanding in the analysis of political developments. If anything, this realization was probably the biggest motivating factor for the analysis advanced here.

Outline of the Book

To address the issue of the implications of political competition in the context of crony capitalism, I divided my work into four tasks. The first task involved the analysis of crony capitalism, its nature and its emergence in postcommunist Russia. The first chapter therefore examines what crony capitalism is, reviews various approaches to explaining the origins of crony capitalism, and advocates historical institutionalism as the best approach to make sense of the postcommunist path to cronyism. Based on Russia’s experience with postcommunist transformation, I argue that the process of privatization and the newly introduced electoral mechanism created incentives for political-economic collusion that was not checked by the institutions responsible for the rule of law. The first chapter also introduces the concept of informal economic-political networks as the main embodiment of crony capitalism.

The remaining tasks concerned political competition in the context of crony capitalism. In particular, I had to address the questions of who the main actors in political competition are, what the prevailing form of
political competition is, and what the implications of political competition are. Chapters 2, 3, and 4 answer these questions. Chapters 2 and 3 extend the analysis of crony capitalism to the regional level in Russia. Based on the analysis of political and economic transformation in Nizhni Novgorod and the Republic of Tatarstan, I examined two political models of crony capitalism: a fragmented, competitive system and a centralized, non-competitive system. It emerges that the main actors competing for state resources in the regions are informal economic-political networks. I trace the emergence of main informal elite networks in these two regions and advance an explanation for their different political trajectories.

Chapter 4 focuses on how competition plays out in the regional elections and develops the main argument about the implications of political competition under crony capitalism. It combines two methods for doing that. First, based on the examination of electoral campaigns held in Nizhni Novgorod and Tatarstan, I illustrate that competitive elections have the unintended effect of undermining the legitimacy of elites and the overall political order because the methods of political struggle rely on publicizing corruption and the use of other manipulative strategies aimed at shaping public opinion. Even the electoral process itself gets delegitimized as a mechanism for elite struggle rather than an institution for promoting public good.

Second, I analyze statistically one of the implications of this argument using the data from forty regions of Russia. Specifically, I test whether political competition is responsible for public perceptions of corruption in the regions while controlling for several other factors that might also influence perceptions of corruption. This analysis illustrates that public perceptions of corruption are indeed higher in more competitive regions.

Chapter 5 examines the evolution of political competition in post-communist Russia. Consistent with the findings from the previous chapters, the competitive regime under Yeltsin proved unsustainable. The changes in public attitudes toward government and democracy and public perceptions of corruption provide strong support to the argument about the interaction between crony capitalism and political competition. The authoritarian turn under Putin is best comprehended as a logical response by the Russian political elite to the challenges that emerged under
Yeltsin’s competitive crony system. Putin broke away from the vicious, destabilizing cycles of rival elites clashing over property and state power and undermining the legitimacy of state authorities and political institutions in the process of these clashes.

The sixth, concluding chapter draws policy implications from this study and situates the argument advanced in this book in the context of broader developments in the postcommunist region. I extend the analysis to other post-Soviet countries, positing the existence of two alternative scenarios of development after the collapse of communism. Those countries in Central Europe and the Baltic region that aligned themselves with the European Union are gradually breaking free from the logic of democratic perils under crony capitalism and evolving in the direction of functioning market economies and sustainable competitive systems. Belarus, on the other hand, after the initial confrontation with competitive crony capitalism, turned in a noncompetitive direction, erecting an authoritarian system based on controlling the economy, mass media, and security forces. Finally, Ukraine represents a special case of a country divided between East and West, between the European Union and Russia. Initially repeating the Russian path of development and facing the problems of competitive crony capitalism, Ukraine in 2004 advanced an alternative scenario of political developments that diverged from the Russian path. The Ukrainian Orange Revolution does not fit fully the pattern identified in this book that highlights an authoritarian solution to the problems of competitive cronyism. It rather draws attention to the role of other factors, national identity related and geopolitical, as crucial for understanding regime transformation. In this last chapter I also discuss the causes and assess the consequences of the Orange Revolution and the potential for Ukraine to overcome the logic of democratic perils under crony capitalism.