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Privatization to putinization: The genesis of Russia's hobbled oligarchy



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ABSTRACT

This article examines how Russian privatization helped create the Putin political system. During the 'who lost Russia' debate in the 1990s, American economic advisors were rebuked for allowing a 'capture of the state' by the oligarchs. A larger time frame reveals that the consequences of Russian privatization were quite different from the forecasted ones. Because the new class of owners were regarded as illegitimate, lacked clear property rights, and ran conglomerates immersed in a command economy these owners, that is, oligarchs, were easily subdued by the state. As a consequence, there is little chance for a coalition of elites to mobilize against Putin.

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"In the 1980s, the economists Sergei Vasil'ev and Boris L'vin proposed a program of Grand Transition: transition from authoritarianism to democracy, transition from a centrally planned economy to a market economy, and transition from an empire to federalism. All of these transitions have failed." ([Illarionov, 2010](#))

1. Russia's abnormal politics

This article challenges the conventional wisdom that Putin's Russia entailed a radical break with the democracy of the 'wild 90s.'¹ Today's authoritarian regime, on the contrary, is a logical result of privatization, a program that was formulated, in part, by U.S. advisers.

A standard criticism of privatization was that it spawned a class of oligarchs who dared usurp the state ([Hellman, 1998](#); [Hoff and Stiglitz, 2004](#); [Sachs, 2012](#)). The privatizers, in rebuttal, contended that oligarchy is typical for societies in transition and actually a token of Russia's path to "normalcy." ([Shleifer and Treisman, 2005](#)) Synthesizing these points of view, this article maintains that privatization created a weak class of tycoons who soon found themselves enmeshed in, and beholden to, a Leviathan resurgent.

Both the 'state capture' and 'normal country' descriptions have become less apt for Russia's brand of authoritarianism. According to such standard notions of modernization as the Lipsett hypothesis, Russia—based on macroeconomic indicators—

¹ Putin's admirers tend to regard his rule as a natural counterbalance to the excesses of the 90s. According to Alexander Rahr, the Russian variant of the "chinesischen Modell" does not entail a return to repression and state-run ideology but rather the circumscription of the power of the oligarchs. ([Rahr, 2000](#)).

should be far more democratic than it is. Indeed the years 1999–2008 witnessed high economic growth, yet creeping oppression.² Some have explained this anomaly with the ‘resource curse’: because the Russian state derives sufficient rents from natural resources to pay off allies, there is little incentive to improve political institutions (Fish, 2005). But these models also suggest that Putin’s approval should have evaporated when resource prices abruptly declined. Some analysts, exploiting conventional models of political survival, predicted Putin’s downfall (Gontmakher, 2008; Åslund, 2005b). But his regime defied the Cassandras. Relying on these faulty models, advisers to the Obama administration mistakenly suggested that bilateral relations be ‘reset’ by backing then-president Dmitri Medvedev and his endeavors to liberalize Russian society (Lander and Barker, 2013). Thus an alternative interpretation of Russia’s governance system is required.

By “putinization,” this article means the regime established by Vladimir Putin that allows him to intervene at will in the governmental, judicial, political, military, cultural, economic, athletic and private spheres.³ This ability is surprising, given the weakness of the state apparatus: Russia is far from being totalitarian. For an American, Russian life, especially far from the big cities, seems almost anarchical. Putinization became possible due to a complete lack of opposition from the Russian power elite, which, in its turn, is determined by the absence of clear property rights making the elite dependable on Putin and his will.⁴

This article provides a partial explanation of putinization’ by demonstrating the role privatization played in creating an oligarchy which, unlike its counterparts in other countries, was unable to rule. The second section holds that reformers, placed the goal of economic reform above democratization. Privatized property, consequently, was regarded as illicit. Privatizers, as detailed in section three, hoped a legal system would arise spontaneously. But the precarious contracts produced in this environment made business even more tenuous. The fourth section finds that privatized enterprises were not autonomous economic units, but interconnected firms reliant on the state for coordination. The fifth section asserts that because property had been doled out to select members of rival clans, the elites were unable to form coalitions and even less to claim popular endorsement. The oligarchs discovered that their best option was to champion a consensus dictator.⁵ The sixth section highlights the futility of oligarchic state capture in Russia. The introduction and conclusion contextualize the paper’s findings.

2. De-politicization or re-politicization?

This section explains how privatization undercut the legitimacy of businesspeople. Privatization remains acutely detested among Russians (Frye, 2006). By 2012 a record low, less than 4% of the population, planned on starting a business (Global’nyi, 2013, 15). Some blame the Soviet legacy or a ‘low-trust’ society for this result (Aghion et al., 2010; Denisova et al., 2012). But much of this burden must lay with the reformers.

Initial plans naively assumed that free privatization, rather than auctions, would be popular. “The Reform’s slogan: ‘Give people’s property to the people!’ All the enterprises of the country: stores, cafeterias, factories, plants, kolkhoz, sovkhoz,⁶ automobile works and other property will be handed to the people: to you and to us!” (Naishul, 1985).

Early Western plans for transition “avoided political questions.” Even gradualist approaches assumed that the Soviet Union was in collapse so there was no time for disputations. In “a classic case of measures for the general good invoking the opposition of specific losers,” top-down macroeconomic reforms—price liberalization, slashing budgets and free trade—were to be implemented immediately (Nordhaus, 1991, 15). These transition plans were elaborated by such economists as Rudiger Dornbusch, William Nordhaus, Ian Blanchard, Jeffery Sachs, and Laurence Summers. Mostly Keynesians, they believe that intellectuals are essential to correcting unreliable democratic and economic orders.⁷ (Nordhaus, 1975; De Long et al., 1990; Thurston, 2011).

Later plans claimed that although experts knew how to fix the economy, ‘rent-seekers’ would try to thwart indispensable reforms (Åslund, 2002). It was simply assumed that opposition to reform lacked any righteousness. Certain economists even implored Russians to surpass the West by entirely demoting the political sphere (Boetke, 1993, 73–87). For Summers’ protégée, Andrei Shleifer, democracy’s banes are pressure groups. This is especially true for Russia, “where something close to the majority of the population benefits from state subsidies to inefficient industrial enterprises, and is also vastly better organized through industrial lobbies than the remainder of the population. This majority can then extract tremendous resources from the rest of the population at a huge cost to efficiency.” (Shleifer and Vishny, 1986, 175) Reformers, according to

² From 2003 to 2008, Russia’s Gross National Income rose from 8970 to 19,850 dollars (World Bank).

³ “Putinizacja” has become a popular term in the Polish press. It can be noted that “Stalinization” was first used by Trotskyites in the Russian emigrant press in the 1930s and is now accepted as an academic definition. The focus of this paper is not on Putin, the man. With some justice, such Russia experts as Stephen Cohen, Paul Robinson, and Gordon Hahn have criticized the demonization of Putin. There is no question that over the last seventeen years, everyday life has improved for most Russians and that Putin enjoys popular support. Another issue, however, is the ability of the Putin system to provide long-term growth.

⁴ Besides property rights, there are many other systemic factors which underpin the Putin system (Monday, 2011).

⁵ Konstantin Sonin has formulated mathematical models, where the oligarchs, after capturing the state, strategically favor dictatorship over weak rulers. This article, in contrast, stresses the inherent weakness of the oligarchs. (Gurieff and Sonin, 2008).

⁶ Kolkhoz was a collective farm; sovkhoz was a government-run farm.

⁷ This article is not suggesting any direct Keynesian influence on “Shock Therapy.” Rather, it is suggesting that Keynesians—predisposed to see markets as flawed—assigned a key role to expert intervention (Monday, 2012).

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