

# The Rigidity of the Russian Partial Reform Equilibrium

Written by Sophia Mård

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The contemporary Russian policy package has been marked by an entrenched mixture of liberal and illiberal policies (Mouliokava, 2015). The long-term stability of this system has recast traditional theoretical expectations regarding partially reformed polities between the statist and liberal antipodes (Brooks and Kurtz, 2007). A particularly prominent explanation for this confounding phenomenon has been found in Hellman's work, which attributes the stability of the system to rent-seeking 'transient winners' benefitting from the distortionary market opportunities afforded by incomplete reform (1998). If these elites have (informal or formal) veto power, then this line of theory predicts that the reform process will not advance decisively, and the economy enters a stable partial reform equilibrium (ibid). Hellman's theoretic fits well with the Russian empirical experience: a rapid redistribution of income to a narrow elite network, the recodification of elite interests into the regulatory framework of the economy, and evident inequalities in political influence (Hellman, 1998; Slinko et al, 2003; Stoner-Weiss, 2001). However, making explanatory inferences about Russia's developmental trajectory from a rough fit with the patterns of Hellman's aggregate analysis is problematic (Robinson, 2001: 9). Most notably, the theory fails to further develop other potential sources of influence in sustaining the equilibrium: for example, whether it is, perhaps, partially produced by a strategy of elite appeasement by the executive.

This essay seeks to extend Hellman's two-agent equilibrium model of losers and winners to three: the executive, the transient winners, and actors of civil society. In doing so, it will put forward the argument that the former two are marked by an "absence of incentives to change" (Coleman, 1994: 168) and the latter is marked by a lack of opportunity to consequentially do so in the coming decade. In what follows, each source of potential (dis)equilibration will be analyzed in turn.

### **Disequilibria from Above? The Executive Executing Partial Reform**

The 'solutions stream', or the propositions for policy change, of the contemporary Russian political process has been confided to the executive branch of the government (Taylor, 2013: 227). Given the current institutional arrangement, this implies that the capacity for reform is at least partially driven by the relative presidential endorsement for a given policy issue (Cook et al, 2017: 10). In this context, this section seeks to explore the potential of the executive as a possible driver of the reform process.

Borrowing from the literature on the Chinese Partial Reform Equilibrium (see e.g. Zhang et al, 2017), we may stipulate that a strategy of 'adaptive power-sharing' may be one way of solving the electoral authoritarian's power-sharing dilemma. Indeed, adaptive power sharing, here understood as stalling reforms in an equilibrium of rent-seeking to appease economic and political elites, allows the incumbent to introduce a mechanism whereby this narrow elite constituency can credibly commit to exercising joint rule (Zhang et al, 2017; see also Bueno de Mesquita et al 2002). In other words, the fruits of the partial economic development are turned into a 'club good' (see Greene, 2014: 62-69) for the selectorate in order to prevent challenges for power.

These theoretical propositions naturally beget the question: Is there evidence that this strategy of adaptive power-sharing may be pursued by the Russian executive? There is notable evidence that Putin has pursued reform "tools to help undercut the part of the state apparatus that would undermine the president's agenda" (Soshkey, 2017: 116; see also Tompson, 2002: 948). In particular, the strengthening of state capacity and centralization of governance

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undermines the possibility for external interest group interests in the policy-making process (Gel'man and Starodubtsev, 2016: 7). This relative dominance of the state vis-a-vis business interests (see Yakolev, 2006) indicates that for the current partial reform equilibrium to hold the executive must also be incentivized towards an alliance with the transient winners.

At this conjecture some may inject that these executive incentives may be reoriented towards reform if the polity experiences an exogenous shock or crisis (see e.g. Haggard and Kaufman, 1992; Weyland, 1996). While these types of forces may well serve to destabilize the current equilibrium (see e.g. Slantchev, 2005: 282-283), this type of event does not necessarily imply that we should automatically assume that a liberal economic or political reform will be seen as the required antidote (Brooks and Kurtz, 2007: 709; Garrett, 1996). For example, the 1982 debt crisis in Latin America contradictorily resulted in a solutions stream of capital market closure, nationalization and further regulation (Diaz-Alejandro, 1985; see also Treisman, 2015: 928). It is therefore possible that an exogenous shock may push Russia out of its current system, but we can stipulate very little about its eventual destination.

On a final note, even if we explicitly assume this type of liberal reform-reorientation of the executive, it is arguably not necessarily the case that full-scale policy implementation will inevitably follow. This argument is founded in the principal-agent problems innate to the current institutional arrangement. In particular, the inefficiencies related to centralized control and weak political accountability “pushed bureaucratic officials to minimize their efforts to implement policy changes approved by the president” (Gel'man and Starodubtsev, 2016: 6) The principal-agent problem is especially acute when policy implementation requires a large-scale coordination involving both federal and regional bureaucracies (ibid.). To illustrate this argument, a doubled financing of the healthcare sector failed to result in any noticeably improvement in the quality of provided services (Alyab'eva, 2014) Efficient, full-scale reform progress is thereby a possibility likely constrained to 'low-hanging fruits' requiring one-off decisions, and those given full policy priority by an executive assisted by an administratively-skilled team of reformers (ibid: 7, 10).

To summarize, the current equilibrium is not necessarily purely the construct of the group of transient winners, but also the recognition of the reality that one way of ensuring regime stability requires putting reform secondary to an alliance with this sector of the economy. It thereby seems very unlikely that the “secret of success” lies within a “handful of [executive] heroes” determinedly propelling the country towards a more Pareto-efficient long-term equilibrium (Harberger, 1993: 343; Schamis, 1998: 1).

## **Disequilibrium from Within? The Continuous Cohesive Expression of Winner Preferences**

The continued influence of Hellman's (1998) transient winners in Russia's economy of partial reform is ultimately dependent upon their ability to cohesively and continuously express their preferences. This implies that winner-driven disequilibria could occur in two-fold: through fragmentation in the transient winners' ability to express their preferences, or through a reorientation of preferences towards the need for reform. This section seeks to evaluate the relative prospects for these two trajectories.

Firstly, it is important to note that Putin's role as the rent seeking society's arbiter militates forcefully against elite fragmentation and defection (Dubrovskiy et al, 2010). This stabilizing mechanism helps overcome coordination dilemmas (especially the potential for the destabilizing over appropriation of rents), balances expectations, alleviates elite conflict, and reinforces the perception of a cohesive constituency consensus (see Barrowman, 2015; Dubrovskiy et al 2010; Greene, 2012). The weak point of these centralized systems thereby logically lies in uncertainties related to the above-noted arbiter. In particular, elite cohesion is likely to be challenged around potential points of power transfer or through the gradual deterioration of elite control (Barrowman, 2015: 34; Dubrovskiy et al, 2010; Reuter and Szakonyi, 2017).

In the Russian case, the latter source of system disruption is relatively unlikely given that 'gaps of control' do not necessarily yield systemic reform over a recentralization of control – especially given a functioning system where “those who prosper ... are [ultimately] those who have learned to manage it” (Greene, 2012: 6; see also Dubrovskiy et al, 2010: 10). In terms of potential points of power transfer, there is no evident indication that Putin is imminently stepping down – especially given the six-year term now initializing (Krashev and Pavlovsky, 2018). Furthermore,

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unless elites are severely myopic they are likely to foresee the dangers to their individual rents posed by letting the system fall casualty to uncertainty and attempt to mitigate it by assigning an arbitering replacement (Fish, 2018: 329; Wood, 2018: 20).

Secondly, even if we assume that Russia's transient winners reorient their preferences towards reform, it should not automatically be assumed that they will seek to express them. Indeed, reformative transient winners have an incentive to continue acting out a preference for stalling reforms unless they are confident that their counterparts are similarly inclined (Kuran, 1995; see also Persson et al, 2012). This tendency towards preference falsification emerges from the political function of rent-seeking outlined in the section above, which renders doing otherwise akin to subjecting oneself to sanctions (Barrowman, 2015: 38-39). In other words, this elite constituency can essentially only challenge the arbiter *collectively* (ibid: 34).

For Kuran, this collective challenge is likely to occur as an 'informational cascade' (1989). At this point, the proportion of reform-oriented elites have reached a critical threshold and collectively express their preferences for reform (Barrowman, 2015: 34; Hale, 2017: 322-323). However, as Greene points out, the elites must have "sufficient certainty that the process of change will controlled and manageable, and that it will not sweep away the entirety of the elite" (2012: 6). Herein, lies the problem in theorizing reformative elites steering Russia towards systemic change: a rewriting of the system is likely to mean a rewriting of its constitutive elites, and a more modest process of gradual change is likely to incur new rent-seeking opportunities and thereby the potential for a new, slightly progressed, partial reform equilibrium to solidify. Elites are likely to be aware of this considerable degree of uncertainty of their own trajectory in the reform process, which prominently raises their individual thresholds for regime defection (see Hale, 2017: 324). This suggests that elites strongly preferring reform are more likely to opt for exit over voice, and over time this phenomenon gradually reduces the relative possibility for reaching the collective cascade threshold.

In brief summary, this section has argued that the cohesive elite network built and solidified by Russia's transient winners is likely to be an entrenched variable of high social cost in Russia's developmental trajectory. This undermines the possibility for an escape out of the equilibrium: winner interests will either have to be neutralized through democratic or repressive means. The following section will consider prospects for the former.

## Disequilibration from Below? Considering Constituencies for Change

The encodification of interest group preferences into the legal and regulatory framework (see e.g Hellman et al, 2000; Slinko et al, 2003, 2004) subjects those outside of this narrow elite constituency to an *a priori* disadvantage in their economic and political dealings. This constitutes a theoretical grievance for those excluded, and we would thereby expect there to be chance of interest groups advocating for change emerging. In this context, this final section seeks to evaluate the prospects for the pressure for reform to emerge from below.

Given the contemporary imbalance between state and society (Clement, 2008), it is relatively unlikely that sufficient civic social capital will develop within the considered timeframe to pressure the executive to adopt a critical mass of reforms. As partially earlier noted, needed "enabling actors" (Greene, 2014: 37) are overwhelmingly excluded from the executive-dominated solutions stream of the Russian policy process (Taylor, 2014; see also Kornai et al, 2004). In terms of the political stream, the diminution of possibilities for legitimate political participation stemming from regressive reforms of the social sphere (see e.g. Flikke, 2016; Lipman, 2016) has constrained the extent to which the rise of Russian social movements and opposition activism has been able to exert influence on the policy process (Gel'man, 2015: 177). This civic opposition momentum is further limited in its potentiality by its internal disisive character and its 'growing pains' difficulties in reaching a clear, 'positive' consensus on the way forward in the face of coercion (ibid.). This has resulted in a negative view of momentous reform: a political environment wherein even regime critics consider preserving the status quo to be the lesser evil (Ross, 2017; Rose et al, 2011). However, these factors do not exclusively imply that prospects are dismal, but rather more aptly describes the development of effective reform advocacy in Russia as a time-consuming process.

The "creeping" facet of this needed development can partially be casually linked to the influence of Hellman's transient winner coalition on the political process. In particular, it should be noted that the rational transient winner will

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not only seek to limit movement towards further market-orientation, but will also seek to prevent the strengthening of market-enhancing institutions that may undermine their sources of rents (Malesky, 2009: 132-133; McMann, 2009). This is the vicious, self-sustaining circle of partial reform equilibria: weak institutions facilitate rent-seeking, and rent-seeking counteracts efforts to strengthen the needed institutions (Dubrovskiy et al, 2005). In other words, partial reform equilibria are more realistically depicted as stalling the evolutionary process of the state *system*. This severely problematizes prospects for extensive reform progress emerging from below.

The case should not be overstated, however. A vital variable that has not yet entered into the current analysis is the potential of the 'rent-neutral' sector of the Russian economy (see Connolly, 2015). Economic agents – primarily small to medium sized businesses in transportation, software, retailing, and services – active in this sector are independent of state expenditure or protection for survival and face hard budget constraints and higher competition (ibid.). In this context, it is arguable that this emerging constituency could increasingly influence the local 'rules of the game' (Yakolev et al, 2006). However, medium-term prospects are bleak given the current state of affairs: potential influence is severely limited by representing a marginal part of state tax revenues, and proffering a lack of access to key players in the executive branch (Connolly, 2015; Hellman et al, 2003). That is not to deny that progress could occur as a result of these players opting for 'voice' over 'exit', but rather it is to recognize that this progress is likely to be confined to marginal "pockets of efficiency" (Geddes, 1990, 1994; Gel'man and Starodubtsev, 2016; Hirschman; 1970). This kind of minor to modest reform progress in relatively unimportant sectors of the economy will not push Russia out of its Partial Reform equilibrium.

These preceding characteristics suggests that Dubrovskiy's 'constructive phase' of the reform process – wherein a movement emerges to actively protect nascent market institutions and subordinate the state to the interests of society – is a relatively improbable development for the coming decade (2005: 8-10).

## The Great Escape? Russia's Prospects for Leaving the Partial Reform Equilibrium

The preceding analysis has argued that Russia has no claim to a plausible exit out of its current Partial Reform Equilibrium in the medium-term. Indeed, the inclusion of additional influence variables to Hellman's model allows us to assign further determinism to this conclusion; The Russian partial reform equilibrium is forcefully and mutually sustained by an executive seeking regime stability, a group of transient winners taking advantage of concentrated streams of rent, and a rent-neutral sector of public and business life of differing interests both unable, and partially unwilling, to *effectively* counteract the former two. The degree of path dependency attained by the above-noted implies that disequilibrium necessitates a severe strain on the current system equilibrium to induce the critical mass of systemic reforms needed.

Prospects in the long-term may offer more promise for those pining for reform progress. Indeed, such an analysis allows us to enter more variables into the analysis – for example, the relative success of the rent-seeking system in the Post-Putin era; the trajectory of opposition activism; the impact of a possible widening of the discussed "pockets of efficiency"; and the potential for developments in public consciousness. These could make a wealth-creating equilibrium substantially more likely.

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