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Varieties of Capitalism: Which Model Did Russia Choose?

Theoretical framework

Variety of capitalism – as line of research in International Political Economy (IPE).

Peter Hall & David Soskice (ed.) “Varieties of Capitalism: The Institutional Foundations of Comparative Advantage” → two basic models: liberal market economies (LME) vs. coordinated market economies (CME)

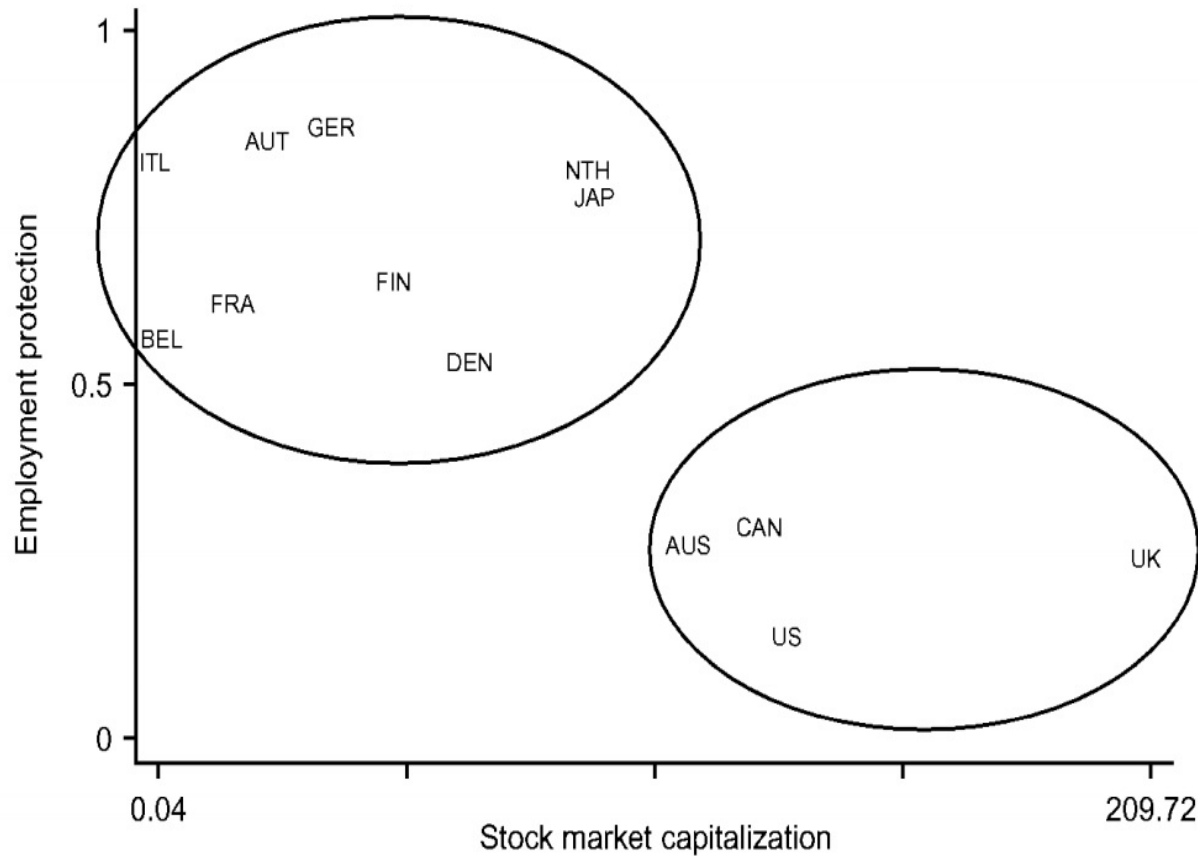
Legal origins theory – as line of research in Economics.

Papers of La Porta, Shleifer, Glaeser, Vishny → explanation of differences in development of market economies by in-depth study of legal systems: English-common law vs. French-civil law.

In both cases: analysis of competition between different models of market economy and not “plan vs. market” – due to collapse of Soviet Union

Comparative Economics (focused on economic systems analysis) started to study the transition from plan to market – and differences between emerging market economies.

Basic differences between LME и CME



Hall & Soskice (2001), p.19

- Not only legal institutions but also:
- Financial system and corporate governance
 - Interfirm relations (more competitive vs. more cooperative)
 - Industrial relations
 - Training and vocational education

Expansion of LMEs in framework of globalization of 1980-1990s and internal changes of CMEs

Critical comments and extensions of VoC theory

Main critical arguments: focus of VoC on developed markets economies → inclusion of other countries: Eastern Europe, Latin America, large emerging economies (China, India etc)

Main results:

Dependent Market Economies (DME) for CEE, and also Hierarchical Market Economies (HME) for Latin America, Patrimonial Market Economies (PME) for Middle East and FSU. But in broader sense they all are **DME+** because they are dependent on the decisions of global players and can not represent alternative model of economic development (like LME, CME or plan economy before).

State-Permeated Market Economies (SME) in China, India, Brazil, South Africa as response to limitations of DME+ → national control on key assets and strong influence of state on economic development. However in the case of China: absence of political competition and democracy

Dynamics of SMEs and their higher stability in crisis times (especially after 2008-9 global crisis) → broader *perception of SME model as alternative to LME and CME* not only from economic but also from political point of view

VoC system of coordinates

LME

USA, UK, ...

CME

Germany, Japan, France...

DME +

DME, HME, PME – Eastern Europe, Latin America, Africa, Middle East...

SME

China, India, ...

The place of Russia in VoC coordinates?

Becker & Vasileva (2017), Schedelik et al (2021): with all state captures and clientelism it is only patrimonial capitalism and no more. But it is static view – not able to explain transition to another model (for instance South Korea in 1950s). Dynamic approach: elites in emerging market economies tried to search for appropriate model of development – with many failures and few successes.

Application to Russia → three time periods with focus of elite on different models

Time period	Target model	Outcome
Early 1990s – 2003	LME	DME
2004 – 2011	SME	DME
Since 2012	Search for alternative – with lower dependence on external influence	???

Specifics of 1990s – 2003

- **1990s:** declaration of move to LME, trade openness and integration of country into global market. However weak state unable to control rent-seeking interest groups → specific DME with limited control of global companies on domestic assets but high influence of international organizations on political decisions and high dependence of economy on global markets
- **2000-2003:** strengthening of the state, a second, much more deliberate and consistent attempt to put Russia on the path to LME. However: conflict between the oligarchs and top bureaucracy for the control over natural rent → Yukos affair.
- But also internal limitations of LME model - the state should only play the role of a 'night watchman' responsible for rules and infrastructure. domestic companies lost positions in competition against global corporations which had superior technologies, competencies and access to capital → turn to active industrial policy as rational choice for the country needed catch-up development. SME as target model since 2004.

Why SME model failed in Russia?

Quality of government and quality of elite as key factors for success of this model. Ability elites to serious self-restrictions in the face of external and internal challenges. However elite that came to power in 2000s was not ready for such self-restrictions or playing by the rules and abiding by the standards it prescribed for society and business.

Two citations from 2021 book of Dmitry Trenin on Putin's elite:

- *«Когорта силовиков, призванная им во власть и получившая доступ к собственности, оказалась крайне неустойчивой к материальным соблазнам»;*
- *«...верхушка и сегодня остается в основном группой лиц, не только ставящих свои корпоративные интересы выше национальных и государственных, но и живущих в отрыве от своей страны, фактически за ее счет».*

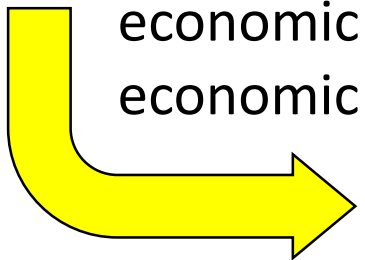
Specifics of 2004-2011

- **2004-2008:** the concept of an 'energy superpower' suggesting that Russia admittedly cannot win a technology race (*inter alia*, because the solution of this task would require considerable investments and self-imposed restrictions from the ruling elite, for which the elite was not ready). Energy supply to Europe – as a leverage in bargaining with 'Western partners'
- **2008-2009 crisis:** instability of this model. Oil prices can decline and Europe's existing dependence on supplies of the Russian energy sources will decrease over time
- **2009-2011:** modernization attempt in the period of Dmitry Medvedev's presidency, with the creation of new innovation support mechanisms (the Skolkovo project), stimulating investment, restricting violent pressure on business, and reform of the state governance system. 'Reset' of US-Russia relations. WTO accession. Important point: despite tensions with the West, Russia continued integration with the global economy (which was compliant with the logic of the SME model)
- **Mass protests of 2011-2012 →** fear of catastrophic scenarios in the spirit of the 'Arab Spring'. New swing not only in foreign policy but in the economy as well.

New priorities after 2012

- Lowering dependence on external environment (with focus on security issues) → Fighting 'foreign agents' in politics and import substitution in the economy. Broader state intervention in the market.
- Lowering social tensions – with direct transfers to important social groups ('May decrees' of 2012). After 2018 – focus of selective support for the most poor groups and poor regions combined with broader preferences for 'siloviki'.
- Pressure on elites with idea to increase efficiency of governance system: anti-corruption campaign with arrests of high-level officials; renewal of regional elites – not only loyalty but also competence are required now.

Results: increase of 'operational efficiency' of the system (much higher tax collection despite economic stagnation; Industrial Development Fund and import substitution projects). But economic growth is not priority (annual growth rate below 1% in 2012-2019)

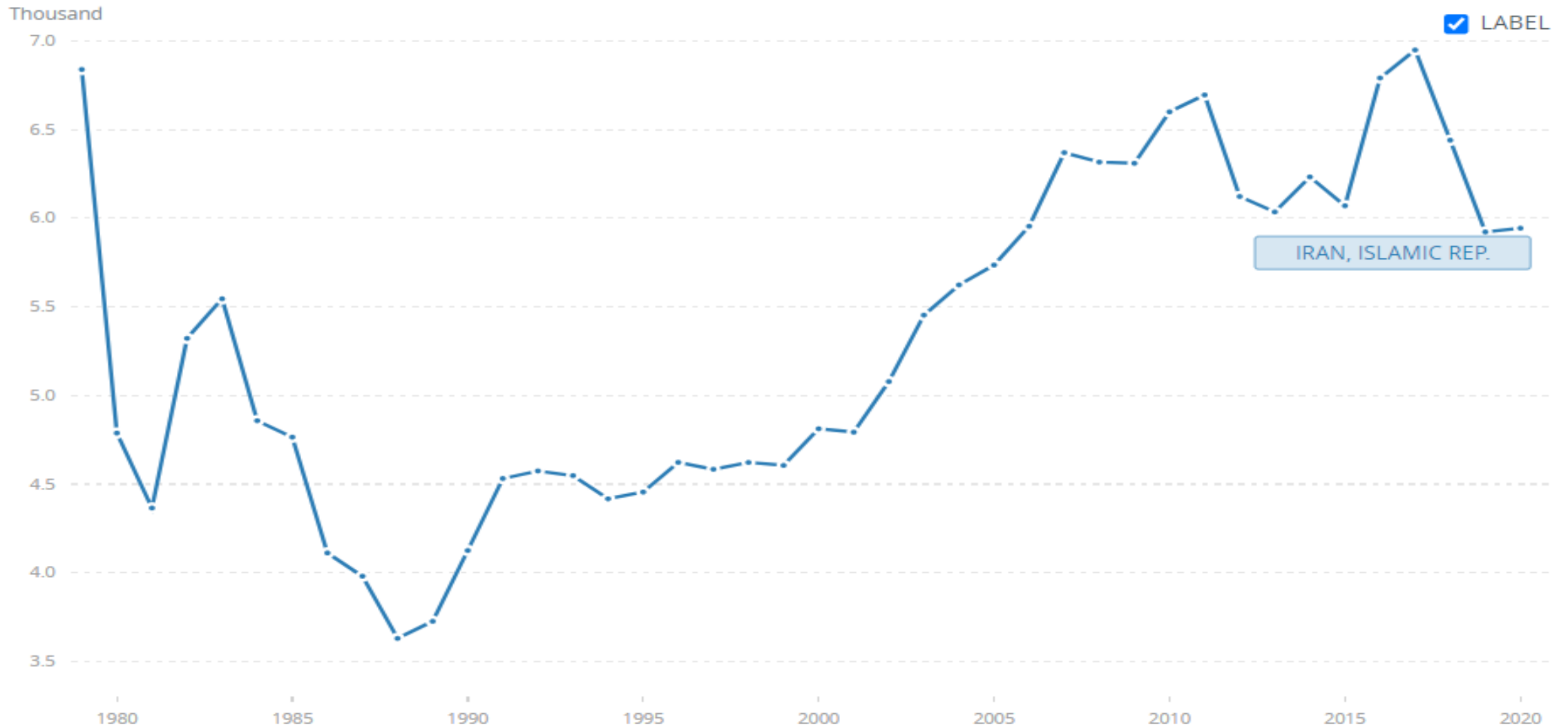


To which economic model is corresponding all this?

‘Besieged fortress’ and ‘resistance economy’

- **Autumn 2012:** Izborsk Club and its 'Major Breakthrough Strategy' - with arguments on Third World War in 5-7 years and total mobilization of economy.
- **2017:** academic delegation from Iran in Moscow with series of presentations on ‘resistance economy’. The experience of Iran shows that such model is capable of sustaining the current political regime for a considerably long time. But it has to be born in mind that per capita incomes in Iran in 2017 were practically the same as in 1979.

Iran - GDP per capita (constant 2010 US\$)



Scenarios for Russia with this economic model before February 2022

Since 2012 Russian elite is not talking on development (contrary to USSR in 1950-60s or China now) and it can not compete with LME, CME or SME. Therefore only two scenarios were probable before February 2022:

- In the best case (under assumption that sociopolitical stability is maintained in the country and there are no serious external shocks) Russia will be losing the economic competition with other countries over time and will inevitably be pushed to the periphery of the global economy and politics.
- In the worst case — if tensions stirred by a high level of social inequality build up and/or the country becomes tangled in external conflicts requiring increasing amounts of financing — such economic model will lead to bankruptcy of the existing governance system and a severe crisis comparable with 1991.

Scenarios for Russia after February 2022

Decision of Putin to start war with Ukraine pushed Russia to the second (worst) scenario
➔ Experience of 'resistance economy' in Iran as the closest one to Russian 'besieged fortress'. But there are important differences at least in two dimensions:

- **The scale of dependence on global markets.** International sanctions against Iran were introduced at very early stage of current wave of globalization. At this time all economies were much more autonomous. Iran did not gain from globalization but its economy remained independent. Russian economy became extremely open in 1990s and continued to be open in 2000s, foreign technologies and equipment was the base for modernization in 2000s and 2010s. It is not clear how Kremlin will manage this problem now.
- **Ideology.** 'Vision of future' proposed by Islamic leaders of Iran was very important for consolidation of elites and society (especially in first decades after 1979 revolution). There is no such factor in Russia now.

Collapse of existing model as an inevitable outcome + high uncertainty about next model