

STATE, CAPITAL, AND THE TRANSFORMATION OF THE NEOLIBERAL POLICY PARADIGM IN PUTIN'S RUSSIA

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This article traces the evolution of the neoliberal policy paradigm in Putin's Russia. It deals with an apparent paradox: while Putin's rule has always been based on a sharp rhetorical break with the disastrous first decade of Russia's post-Soviet history, he nevertheless continued many of the neoliberal policies of his predecessor, in some areas carrying them out far more consistently than Yeltsin ever could. Despite his criticism of the oligarchs, Putin allowed them to expand their wealth on an unprecedented scale. Since the mid-2000s, the government has increasingly experimented with dirigiste policies, yet this divergence from neoliberalism did not fundamentally threaten the position of the oligarchs. Eventually, the government settled on a combination of neoliberalism and dirigisme that enhances the political stability of the regime at the expense of economic growth. However, lack of growth itself undermines stability, as the unpopular reforms, such as the increase of the retirement age, erode the regime's legitimacy. At the same time, Kremlin's standoff with the West since 2014 puts a serious strain on its relationship with big capital, which is highly integrated into the global economy. These multiple tensions make the future of Russian politics highly uncertain.

Introduction

Though Russia is well-known to have served as a testing ground for the neoliberal 'shock therapy' reforms in the early 1990s, by 2018, when Vladimir Putin's continuous reign neared its 20-year mark, Russia's policy regime appears to be a far cry from the neoliberal orthodoxy. The state is the dominant, though not the sole, actor in the oil and gas sector, which is at the heart of the Russian economy. Whole industries, such as mechanical engineering, nuclear energy, shipbuilding and aerospace production, are managed by state-owned monopolies. Finance is

dominated by public banks. State companies aggressively expand into new sectors, such as the pharmaceutical industry and even consumer retail, with the publicly owned VTB bank acquiring a 30 per cent stake in Magnit, the second-largest network of retail stores, in 2017. Furthermore, social policy is also a field of neo-statist experimentation. The 'maternity capital', a new, universalistic social benefit, was introduced in 2007, ostensibly to improve the demographic situation. Paid to mothers of the second, third, and subsequent children, the benefit amounted to a substantial sum of 453,000 rubles (USD 7,200) in 2018 and could be spent on housing or children's education. Crucially, there is no means test – the benefit is paid to mothers regardless of their income, defying the core principles of the neoliberal welfare regime. Finally, the standoff with the West that begun in 2014 led to the increasing securitization of the Russian economy with a new emphasis being placed on import-substitution policies – a clear departure from the neoliberal paradigm. As early as 2010, Philip Cerny identified Putin – along with Hugo Chavez, Kim Jong-Il and Mahmoud Ahmedinejad – as one of the few non-neoliberal world leaders (Cerny 2010: 152).

A closer look at the Russian case, however, reveals a more complicated picture. Russia has, in fact, maintained a set of core neoliberal institutions and policies, such as the independent central bank focused on inflation-targeting, financial openness, and conservative fiscal policy. The latest IMF report blames the 'large footprint of the state' for poor growth prospects, yet congratulates the authorities with putting in place a 'strong macroeconomic policy framework' based on inflation-targeting and 'ambitious' fiscal consolidation (International Monetary Fund 2018). Characteristically, the report also commends the government's recent decision to raise the retirement age from 60 to 65 years for men and from 55 to 60 years for women, a measure that was met with near-universal disapproval in Russian society. Furthermore, the authorities systematically refuse to reconsider certain 'avant-garde' neoliberal policies introduced earlier, such as the flat income tax (adopted in 2001). In the welfare sphere, statist initiatives coexist with continuing marketization and New Public Management-inspired reforms of the social services. Consequently, 'While becoming more interventionist in certain fields, the Russian state still attempts to

withdraw from many of its previous social obligations' (Kulmala et al. 2014: 540).

In effect, far from manifesting a clear break with neoliberalism, the current policy regime in Russia represents a mix of different paradigms. There is a certain tension, but also a certain complementarity between them in producing a distinct mode of political-economic governance. The purpose of this article is to trace the historically contingent evolution of this policy mix, exploring the interplay of ideas, interests and institutions (Blyth 2009). The article is organized chronologically, interrogating the causes and consequences of the 'shock therapy' in the 1990s, the new round of neoliberal reforms in 2000-2003, the turn to *dirigiste*¹ policies in 2003-2008, the failure of the neoliberal resurgence in 2008-2012 and the nationalist turn of 2012-2018. I argue that the neoliberal and the *dirigiste* elements of the Russian policy regime in its current form contribute to political stability, but not to economic growth. Yet poor growth prospects themselves undermine stability, making the political effects of the various parts of the policy mix more unpredictable and uncertain.

'Shock Therapy': Path-dependent or Path-shaping?

The literature on 'shock therapy' in Russia is voluminous,² yet much of this literature falls into one of two extremes: either that 'shock therapy' was the decisive (path-shaping) event in Russia's post-Soviet history or that it did not play a significant independent role, as it was constrained by the previous events of the late 1980s and early 1990s in a path-dependent manner.

Peter Reddaway and Dmitri Glinski's book *The Tragedy of Russia's Reforms: Market Bolshevism Against Democracy* is an example of the former position. According to Reddaway and Glinski, the Russian elite used the ideology of 'market Bolshevism' to 'remold society in its own image', a process akin to the Bolshevik revolution or even the Chinese cultural revolution (Reddaway and Glinski 2001: 632). The top-down imposition of the neoliberal ideology appears to be the key variable in their analysis.

Later contributions, however, pushed against this interpretation. For example, Venelin Ganey claimed that the underlying logic of postcommunist transformation was not that of the imposition of the neoliberal ideology, but rather that of elite

predation in the conditions of the collapse of the Communist state structures (Ganev 2005). In the similar manner, Allen Lynch argued that the debates on neoliberalism in Russia are beside the point, as the choices of the Russian government were highly constrained and Russia's post-Soviet path of development was in any case 'largely shaped by late-Soviet patterns of institutional decomposition and resource reallocation' (Lynch 2005: 93-94). For Kathryn Stoner-Weiss,

To indict only the small clique of Russian 'reformers' surrounding Boris Yeltsin, who were in office for only a year or so, as well as international financial institutions for what ails Russia is really to overlook the genesis of Russia's state-building and later state-capacity troubles (Stoner-Weiss 2006: 23).

Indeed, historical evidence supports Stoner-Weiss's claim that the Russian state's weakness did not begin with the neoliberal 'shock therapy' of the early 1990s. Gorbachev's reforms and the political struggles of Perestroika led to the disintegration of the Soviet state structures. Economic reforms such as the 1987 Law on the State Enterprise and the 1988 Law on Cooperatives allowed state managers to 'remobilize many assets of state enterprises into organizational units less clearly owned by state ministries' (Solnick 1996: 223). In the process, newly created structures 'collaborated with state bureaucrats eager to 'privatize' the functions of the ministries themselves' (Solnick 1996: 223), shaping the pattern of what came to be known as 'spontaneous privatization'. At the same time, Yeltsin's claim for Russia's independence from the Soviet Union led to the similar claims by Russian provincial leaders, entrenching their political and economic power in the conditions of the rapid disintegration of the Soviet party and state hierarchies.

This was the terrain that the post-Soviet reformers inherited. According to many scholarly accounts, the structural constraints essentially shaped the process of market reforms in the early 1990s (Lynch 2005; McFaul 1995; Stoner-Weiss 2006). Coincidentally, this was also the *post hoc* explanation given by the reformers themselves. For example, Anatoly Chubais, key member of the reform team, went as far as saying that mass privatization's chief result was 'to get away from the main danger of those years – spontaneous privatization – without bloodshed' (Chubais 1999: 34). For Chubais, achieving this result justified the concessions to the 'Red Directors'

and other changes to the original plan.³

However, a closer look at Chubais's arguments reveals a different line of thought. Launching mass privatization clearly was not just a matter of necessity for him – it was also a matter of belief. 'We understood perfectly,' he wrote, that

...in the current political and economic situation the state would be a bad owner. Investment, technical progress, rapid reorganization of production following consumer demand would all be beyond its powers. Only the private interest can begin to tackle these long-standing problems. However, in order for such private interest to appear, we needed privatization (Chubais 1999: 27).

In his contribution to Chubais's volume on privatization, Maxim Boyko, another key participant in the events, argued that 'the world experience has shown the ineffectiveness of state ownership in the absolute majority of industries, and yet many countries have reached this conclusion only recently – in the 1980s' (Boyko 1999: 63). He proudly announced that 'our program envisioned privatization that was based on a broad list of industries from the start. Telecommunications, energy, air transportation would all have been privatized, albeit on special terms – a result that many European countries still could not achieve' (Boyko 1999: 63).

The arguments of Chubais and Boyko indicate that the course of action chosen by the reformers was defined by a set of ideas about the state, private property and the market – ideas known as neoliberalism – not just by necessity. Emphasis on the extensive and rapid privatization was a deliberate choice. Bernard Black et al. (2000) insist that other choices were available. They claim that the political energy that went into mass privatization could instead be devoted to 'prosecuting raw theft and developing the enforcement institutions needed to attack spontaneous privatization less crude than simply walking off with the assets' (Black et al. 2000: 1778-79). According to Black et al., a combination of institution-building and gradual, controlled privatization was politically as well as organizationally feasible and could indeed produce better results. Michael McFaul similarly argued that Russia's emergent political economy was the product not just of the previous developments, but also of the reformers' ideas:

The state's failure to create [market-supporting] institutions has in part been the consequence of its neoliberal philosophy. Because of their militant belief in the power of the invisible hand, Gaidar's team did not envision a role for

the state in creating market-supporting institutions. Rather, these institutions were to form spontaneously. In Russia, however, this ideological perspective proved to be fundamentally flawed (McFaul 1995: 236).

Two conclusions stem from this discussion. The first is that, contrary to their later pronouncements, the neoliberal reformers were guided by a very specific set of ideas about the state and the market, not just by the necessities of the moment. The second is that the 'opportunity costs' of neoliberalism were very high (and indeed underestimated by many scholars): a different set of ideas and policies could produce vastly different results. The reforms of the early 1990s were to a large extent constrained by the previous developments, but they did have a lasting, path-shaping impact.

In the second half of the 1990s the reforms stalled. On the one hand, dismayed with the results of 'shock therapy', Russian citizens elected a parliament in 1995 dominated by the Communist Party that was able to block many neoliberal proposals, particularly in the area of social policy, during the next four years. On the other hand, the 'oligarchs', the emergent business elite, preferred to establish individual ties with state officials instead of lobbying collectively for all-encompassing reforms. This changed in the new political cycle that began in 2000.

2000-2004: The New Class Settlement

Putin's first term in office (2000-2004) saw something of a breakthrough in neoliberal restructuring, comparable only to the initial period of 'shock therapy' in 1992-1993. The 'Gref Program', named after German Gref, Putin's minister for economic development, envisioned broad reforms in taxation, social assistance, housing, education, healthcare, pensions and labor relations. While the Gaidar reforms corresponded to the 'roll-back' phase of neoliberalism (Peck 2010: 22), that is, the hasty retreat of the state from many of its previous areas of operation, the Gref reforms amounted to a 'roll-out' phase: new, market-based institutions were created in the spheres where they had previously been lacking, such as pension and public welfare systems.

Two factors enabled the new wave of reforms. First, the 1999 parliament was much more manageable for the Kremlin after the successful performance of the new pro-executive party Unity, which benefited from Putin's rising popularity (Cook 2013). Second, the

business elite became a powerful lobbying force for the neoliberal restructuring as part of the new settlement between the oligarchs and the state.

In its narrow form, this new settlement consisted in Putin's rather straightforward proposal to the oligarchs: the business elite could maintain and expand its wealth if it stayed out of politics (Tompson 2004). However, in its broader form it also included the reforms that benefited big business as a whole. Egor Gaidar, who by the early 2000s reinvented himself as a key figure in the parliamentary party Union of Right Forces, admitted that 'one of the reasons for the fact that the liberal reforms are now going so well is that this course corresponds to the interests of big capital' (Gaidar 2001). Specifically, both corporate and personal taxes were capped as a result of the tax reform; Russia became the first large country in the world to introduce flat income tax (Appel, Orenstein 2013). The new Labor Code increased the 'flexibility' of the labor market, making it easier to dismiss workers and allowing broad use of temporary contracts. The pension reform introduced compulsory savings accounts managed by non-state pension funds, a measure strongly supported by the Russian Union of Industrialists and Entrepreneurs (RUIE). The new Land Code created new opportunities for big agricultural companies (Visser et al. 2012). In effect, '[B]usiness and financial interests that had earlier been oriented either toward getting subsidies from the state or toward escaping taxation now became integrated into a pro-market coalition that cooperated with the executive to influence policy outcomes' (Cook 2013: 158).

Organized labor was much weaker than organized business: the Federation of Independent Trade Unions of Russia (*Federatsiya nezavisimyykh profsoyuzov Rossii*, FNPR) that united Soviet-era unions lacked strong connection to its membership, while the independent unions, created after 1991, were too small to successfully resist neoliberal restructuring. The strongest opposition mounted by both the FNPR and the independent unions was to the new Labor Code. However, the government was able to split their alliance by granting an important concession to the FNPR at the expense of the independent unions: a 50 per cent membership requirement was introduced for collective bargaining. At the plants where the FNPR unions 'inherited' their local organizations from the Soviet period, they automatically became eligible for collective bargaining. Yet the

independent unions had to earn membership from scratch, and the requirement was highly detrimental to them. The new Labor Code also made it extremely difficult to organize a lawful strike, and strikes were the weapon used more often by the independent unions than the FNPR. Consequently, the labor reform solidified the FNPR's position as an organization close to the Kremlin and hampered the development of independent unions. The parliamentary conflict surrounding the adoption of the new Labor Code also pushed the Kremlin to merge Unity with its former rival, Fatherland-All Russia party, and thus create the United Russia, a 'party of power' which became the backbone of the emergent authoritarian regime (Grigoriev, Dekalchuk 2017). Thus the connection between neoliberalism and authoritarian tendencies characterized not just the period of 'shock therapy', but the period of Putin's early reforms as well.

Importantly, the reform course in 2000-2003 reflected not only the business interests, but also the global hegemony of the neoliberal policy paradigm. John Williamson et al. point out that the government chose the World Bank-supported semi-privatized pension model over other proposals because of the desire to gain international legitimacy and to bolster Russia's image as 'a nation amenable to foreign investment and an active participant in world trade' (Williamson et al. 2006: 169). In this sense, the neoliberal course of Putin's first term dovetailed with his accommodative policies towards the West in this period.

2004-2008: The Turn to *Dirigisme*³

Several events marked a watershed in government policies during Putin's second term in office (2004-2008). The attack on Yukos, the largest private oil company, in 2003 set the stage for the expansion of state ownership in the economy. Mass protests against the welfare benefits reform in the winter of 2004-2005 demonstrated the limits of neoliberal welfare restructuring (Cook 2013: 182). And Russia's opposition to the war in Iraq started a period of much less accommodative policies towards the West, with certain implications for domestic reforms.

The *dirigiste* turn primarily expressed itself in industrial policy. The state consolidated its role in the resource sector, in particular

by making state-owned Rosneft the largest oil company in Russia and expanding its role in the natural gas producer Gazprom. It also created 'state corporations' for defense and high-tech sectors, such as nanotechnologies and the nuclear industry. Aerospace and ship-building assets were consolidated in the newly-created state companies as well. The state's share in the oil sector rose from 19 percent in 2004 to 40 per cent in 2008, while its share in the market capitalization of the stock market rose from 24 per cent to 40 per cent in the same period (Hanson 2009; Sprenger 2010).

Many scholars see the expansion of state ownership during Putin's second term essentially as redistribution of lucrative assets to regime loyalists, particularly with a background in the security services (Remington 2008; Hanson 2007; Davisha 2014). However, the evidence does not fully support this 'kleptocratic' thesis. For example, in her statistical study of the re-nationalizations in 2004-2008, Lucy Chernykh (2011) did not find any evidence that the state systematically targeted best performing companies or companies in the most profitable industries. Instead, the state seemed to target companies in the sectors that were legally defined as 'strategic', leading Chernykh to conclude that the government attempted 'to correct' spontaneous privatization mistakes in strategically sensitive sectors' (Chernykh 2011: 1250). Similarly, based on the detailed case studies, Andrew Yorke found that at least some re-nationalizations in the gas and nuclear industry were motivated by genuine developmental concerns, not by rent-seeking (Yorke 2014).

In effect, the new *dirigiste* strategy could not be reduced to the logic of patronage and corruption. Nevertheless, it never took the programmatic form comparable to the neoliberal 'Gref's plan'. The authorities were reluctant to recognize the shift in government policy: on multiple occasions Putin denied that Russia was building 'state capitalism' and promised that the newly-created state companies would eventually be privatized. Rhetorically at least, neoliberalism was still dominant.

Lack of programmatic cohesion of the *dirigiste* policies translated into poor institutional design: sprawling goals, absence of clear focus, problems of coordination between different government agencies and state companies (Yorke 2014). Furthermore, even though rent-seeking probably was not the driving force behind most of the new

measures, it certainly appeared to be their by-product. The same policies that were supposed to increase the efficiency of state corporations by granting them freedom of action (i.e. formal protection from many forms of government oversight) resulted in burgeoning cronyism and corruption in the state-owned sector of the economy.

Furthermore, while the industrial policy took increasingly *dirigiste* turn, the macroeconomic policy remained neoliberal. According to Anders Åslund, 'Since 2004, Russia's economic policy has been characterized by an intricate dualism between microeconomic and macroeconomic policies' (Åslund 2013: 375). In 2006, the government lifted all the remaining restrictions on international capital mobility. High oil prices allowed the authorities to repay public debt and run steady budget surpluses. Furthermore, oil profits above a certain level were 'sterilized' in a Stabilization Fund with an explicit purpose of decreasing inflation – a policy based on monetarist economic reasoning.

Social policy during Putin's second term represented a mix of neoliberal and statist initiatives. In 2004, the government announced a plan to replace the vast system of in-kind benefits, inherited from the Soviet Union and expanded during the 1990s, with direct cash payments. The authorities perceived this as a necessary first step in the process of moving from the universalistic Soviet-era benefits to the targeted (means-tested) benefits characteristic of the neoliberal welfare regime. Importantly, the reform 'was passed in a period of fiscal surpluses, driven not by austerity but by the desire or perceived need to rationalize welfare. An underlying element of liberal fundamentalism informed the project' (Cook 2013: 181).

The initiative was met with massive, mostly spontaneous protests, particularly involving pensioners. In response, the government increased the size of cash payments, introduced many exceptions and in some cases allowed the recipients to choose between money and in-kind benefits. Nevertheless, Putin's approval rating slid downward, making the authorities weary of such large-scale welfare upheavals in the future. Later during Putin's second term, the government experimented with statist, expansionist welfare measures. Priority National Projects in education and healthcare, launched in 2006, involved significant additional spending on schools and hospitals. Furthermore, the government

adopted a host of new measures in order to improve the demographic situation. They included the Maternity Capital, increased spending on birth centers and antenatal clinics as well as extended maternity leave. However, neoliberal restructuring continued alongside various statist initiatives, if only on a reduced scale. For example, in 2008 the government introduced the mechanism of incentive pay in the public welfare sector, increasing the precarity of public employees such as teachers and doctors and their dependence on the administration.

Overall, the turn to *dirigisme* and the divergence from neoliberalism in 2004-2008 did not threaten the settlement achieved between the state and the business elite in previous years. In the context of high oil prices and easy availability of credit on the global financial markets, the number of Russian billionaires increased dramatically, from zero in 2000 to 87 in 2008, rivaled only by the United States and China (Treisman 2016). The case of Mikhail Khodorkovsky, the owner of Yukos, proved to be an exception. Other oligarchs who, unlike Khodorkovsky, observed the rules set by Putin in the early 2000s and made handsome gains from the expansion of the state sector. For example, Roman Abramovich sold the oil company Sibneft to Gazprom for 13 billion dollars in 2005, even though he bought the very same company from the state for a mere 100 million dollars during the notorious 'loans-for-shares' auctions in 1995.

2008-2012: Medvedev's Interregnum and the Failed Neoliberal Resurgence

The new political cycle (2008-2012) was defined by two events: the election of Dmitry Medvedev as president and the economic crisis of 2008-2009. Putin, who was constitutionally barred from serving the third consecutive term, chose Medvedev, one of his long-standing associates, to assume his place, while he himself became prime minister. Many observers doubted that Medvedev's presidency could be more than a façade, yet others claimed that the changes were more substantial. For example, Gleb Pavlovsky, a long-time Kremlin insider, pointed out that Medvedev's election did lead to the emergence of two separate administrative teams that were engaged in a careful balancing act. As a result, according to Pavlovsky, 'All the [Putin-Medvedev] tandem's efforts went into

ensuring its own stability' (Kolesnikov 2011). The informal 'tandemocracy' had major implications for the policy process.

The global crisis hit Russia harder than other countries: GDP declined by 8 per cent in 2009, compared to 4 per cent on average in OECD countries. Russia's performance during the crisis was the worst among the G20 nations. Medvedev framed the crisis as an opportunity for substantial changes in Russia's economic model. In his programmatic article 'Go Russia!' he called for wide-ranging economic and even political 'modernization' of the country (Medvedev 2009). His program had a distinct neoliberal dimension. However, the realities of 'tandemocracy' and the existing patterns of elite influence mostly thwarted its realization.

A key element of Medvedev's project was the wide-ranging privatization effort that went contrary to the *dirigiste* turn of 2004-2008. In 2009 deputy prime minister Igor Shuvalov spoke of the need for the new 'structural privatization'. In November 2010 the government approved a privatization plan for 2011-2013 with the predicted revenue of USD 30 billion, comparable in scale only to the 'loans-for-shares' auctions of the 1990s. Yet in the summer of 2011 Medvedev requested to expand the plan even further. At the peak of the government's ambitions, Shuvalov suggested that the state could sell its full stake in Rosneft as well as Zarubezhneft, an oil company operating outside Russia. As a result, Gazprom Neft (formerly Abramovich's Sibneft) would be the only state oil company left. The expanded plan, adopted in June 2012, included the full privatization of Rosneft, RusHydro, Rosselkhozbank, Zarubezhneft and several other companies (Radygin and Entov 2013).

However, the real pace of privatization in no way matched the plan. The only major deals in 2011 and 2012 were selling 10 per cent stake in VTB and 7.6 per cent stake in Sberbank. In the case of VTB, the government had previously expanded its share in the bank's capital after the crisis, so the privatization was a partial post-crisis exit. In April 2012 Medvedev expressed his frustration with the progress of privatization, claiming that it was stalled by lobbyists: 'The decisions are made, and then the country's leadership is confronted with a stream of lobbyists driven by different considerations – some sincerely believe privatization is not necessary at all, others think the time's not right... Nothing's implemented'

(RIA Novosti 2012).

Apparently, the most influential opponent of privatization was Igor Sechin, the head of Rosneft and one of Putin's closest associates. *Forbes* reported that he sent several letters to Putin suggesting not to sell shares in state companies (including Rosneft) when their market price was lower than the initial offering, to postpone the privatization of Transneft and to cancel completely the privatization of Zarubezhneft. According to *Forbes*, it was Sechin who was responsible for the non-implementation of the government's privatization plan during Medvedev's years in office (Ivanitskaya 2012). Other state managers opposed privatization as well, for the obvious reason that they could lose control over 'their' companies as a result of it. In the end, Putin seemed to agree with them. The reason could be ideological, but politics played an important role as well. Privatization could have provided Medvedev with loyal clients among the new owners of the privatized companies. Indeed, some journalists speculated that the whole project was in fact the way to consolidate Medvedev's own 'pool of businessmen', thus providing him with a degree of autonomy from Putin (Rosbalt.ru 2012). Naturally, it was not in Putin's interests, and thus he vetoed Medvedev's initiative.

Not all of Medvedev's plans fit into the neoliberal paradigm though. For example, his dramatic rearmament program, worth 20 trillion roubles (680 billion dollars in 2011) over 10 years, threatened fiscal stability and thus faced strong criticism from the finance minister Alexey Kudrin, chief proponent of the neoliberal financial policies in Russia. Kudrin strongly supported Medvedev on privatization, but the issue of the rearmament program led to an open conflict between them. The program was eventually adopted despite Kudrin's objections, and Kudrin himself had to resign over his disagreement with Medvedev – who, on this particular issue, had the support of Putin.

2012-2018: Crisis Tendencies and Nationalist Fixes

With Putin's return to the presidency in 2012, Medvedev's privatization program was largely scrapped. Although rhetorically Putin reaffirmed his support for the reduction of the state's role in the economy (Putin 2012), the new, revised privatization plan for

2014-2016, adopted in July 2013, was significantly reduced in scale: in particular, the idea of the full privatization of the oil and energy companies was abandoned (Radygin and Entov 2013). Instead, the state continued to increase its presence in the economy. This was particularly evident in the oil sector: in 2013, Rosneft acquired TNK-BP, Russia's third-largest oil producer, for 55 billion dollars. Bashneft, Russia's sixth-largest oil producer, was renationalized in 2014 while its owner Vladimir Evtushenkov was temporarily placed under house arrest. Eventually it was also absorbed by Rosneft. Furthermore, Rostec, a state-owned defense corporation with a plethora of other assets, moved aggressively into the pharmaceutical industry by creating the National Immunobiological Company in 2013. Rostec's Sergey Chemezov, another long-standing associate of Putin, wrote him a letter asking to make the newly created pharmaceutical company the exclusive supplier of certain medicines to the state. Chemezov quickly received Putin's approval. The issue of privatization reappeared again in 2016, when fiscal concerns forced the authorities to sell 19.5 per cent stake in Rosneft to foreign investors for USD 12.2 billion.

Furthermore, in the context of the renewed confrontation with the West, the *dirigiste* policies acquired a new focus: import substitution. Thus the microeconomic policy moved even further from the neoliberal paradigm. In 2014, the government adopted the Plan to Encourage Import Substitution in Industry, and the Government Commission on Import Substitution has met regularly since 2015. The new policy framework involved both incentives and restrictions. Incentives consisted in cheap credits from the newly created Industry Development Fund as well as tax breaks. Restrictions mostly covered state companies, requiring them to procure necessary inputs from the Russian contractors. Overall, state spending on import substitution in 2014-2017 amounted to 120 billion roubles (2 billion dollars).

State officials, including Putin, claimed that the goal of the new policy was not simply to reduce Russia's dependence on Western technologies, especially in defense-related sectors, in the context of the Western sanctions against Russia. Instead, they portrayed import substitution as a necessary first step in the development of competitive export-oriented industries. Minister for industry and

trade Denis Manturov explicitly claimed that reaching world markets for non-resource products was the ultimate goal of import substitution policies (Ruvinsky 2018). However, the actual policy framework did not reflect this goal. For example, Manturov's ministry reported that the federal spending on import substitution in 2017 was USD 1.3 billion, yet spending on export promotion activities was only USD 340 million, 74 percent less. The share of non-resource exports declined rather than grew in 2017 (Ruvinsky 2018). As an actual policy, import substitution became a goal in itself and an economic correlate to the new isolationist nationalism that has spread in Russia since 2014.

While the government continued to experiment with the new *dirigiste* policies, the fiscal and monetary framework remained conservative: the 'intricate dualism' between microeconomic and macroeconomic policies was maintained during Putin's third term in office. The government did not introduce capital controls to arrest capital flight during the acute phase of the crisis in 2014. Despite the 20-35 percent reduction in oil revenues in 2015-2017 due to the falling oil prices, federal budget deficit was not allowed to reach more than 3.5% of the GDP (see Figure 1). Federal expenses on education, healthcare and culture fell victim to austerity, yet defence spending was maintained at a very high level (see Figure 2).

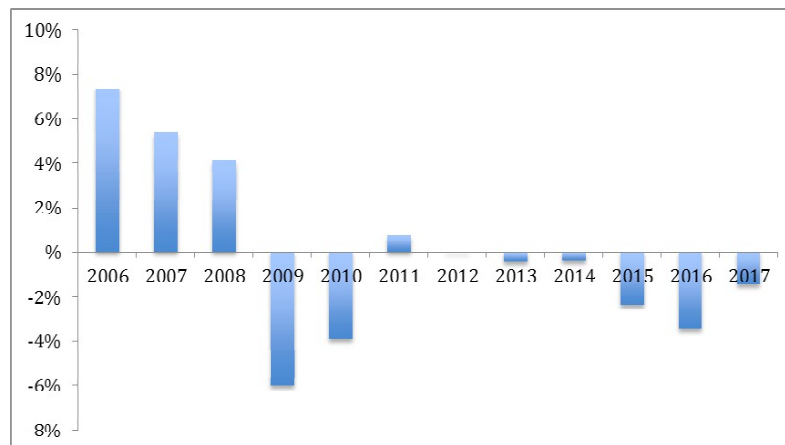


Figure 1. Federal budget surplus (deficit), as % of GDP, 2006-2017

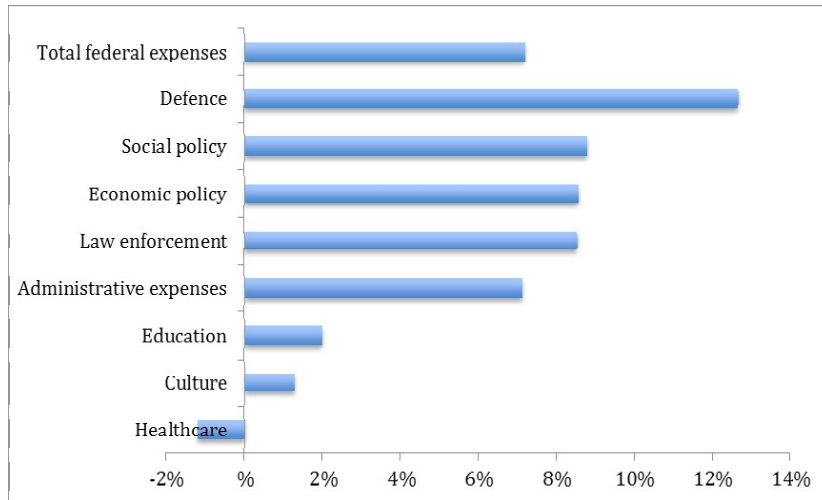


Figure 2. Average annual growth of federal budget outlays in nominal terms, in %, 2012-2017

Public welfare sector suffered dramatically from the cutbacks and other forms of restructuring. In 2012, Putin announced an ambitious plan to increase the salaries of public employees such as teachers and doctors. However, the government never allocated proper financing for the plan. As a result, the providers of public services such as schools and hospitals had to dismiss some employees in order to be able to raise the salaries for others. In 2013-2016, employment in the public welfare sector declined by 7.6 per cent, or almost half a million people. In this way, the government finally realized one of the measures long advocated by the neoliberal reformers – reducing the public sector employment, which the reformers considered to be ‘excessive’ and an obstacle to economic growth in Russia. The cutbacks led to some protests, most notably in Moscow, where several thousand people rallied against the plan to radically downsize the city’s healthcare system in 2014.

The Russian System: Stagnant but Unstable?

In the previous sections I have traced the historical evolution of Russia’s policy regime characterized by a mix of neoliberalism and *dirigisme*. Some scholars claim that there is a certain functional complementarity between the different elements of this policy mix; that is, they help produce stability (in the sense of avoiding both

sharp economic shocks and political threats to the regime) at the expense of economic growth (Åslund 2017; Miller 2018). Thus, for example, a recent article by Anders Åslund is called *Russia's Crony Capitalism: Stagnant But Stable*.

At the heart of this 'stability' thesis lies the conservative fiscal and monetary policy that helps fight inflation, build up reserves and keep public debt low. However, the price to pay is economic dynamism. Other neoliberal policies, such as the flat income tax, enhance the regime's political stability by maintaining the class settlement with the oligarchs. After all, there were 40 individuals in 2016 who declared income of over USD 150 million and 525 others who declared income of USD 15-150 million. Such incomes were taxed at the same 13 per cent rate as the incomes of 19.8 million people living below the poverty line (USD 150 dollars per month).

The *dirigiste* policies also help maintain political stability. On the one hand, they secure the political basis of the authoritarian regime by allowing Putin's associates to enrich themselves in the state-owned sector of the economy. On the other hand, state ownership as well as subsidies to private companies help maintain employment, especially in the *monogorods*, or one-company towns, avoiding mass protests at the expense of subsidizing unproductive enterprises.

However, the stability produced by this policy mix should not be exaggerated, as the lack of growth itself is a threat to stability (Crowley 2015). For one, economic growth has always been important for the regime's legitimacy. The economic slowdown in 2011-2013 coincided with the downward drift of support for Putin and his government. However, Putin's approval rating soared after the annexation of Crimea despite the economic crisis in a clear example of the 'rallying behind the flag' effect (Hale 2018). This allowed the government to survive the period of economic crisis and implement severe austerity measures in education, healthcare and other public services. Yet the 'Crimea effect' finally came undone in 2018 after the government announced the increase in the retirement age. The subsidy to the Pension Fund came to represent the single largest outlay in the federal budget, threatening fiscal stability, yet the authorities correctly predicted that any substantial retrenchment of the pension system would be deeply unpopular. The reform was orchestrated to coincide with the beginning of the new political cycle (Putin's election for the fourth term) as well as

the FIFA World Cup held in Russia, to distract the population, yet it still had serious political consequences. Mass protests against the reform, while quite strong, did not pose a serious threat to the regime. However, Putin's approval rating as well as the population's optimism about the state of the country went down to pre-Crimea levels (see Figure 3). Against the background of economic stagnation, it will become ever more difficult for the government to maintain fiscal stability, leading to more unpopular reforms in the context of stagnating or declining real incomes. Inescapably, Putin's fourth term (2018-2024) will be the biggest test yet for the regime's ability to maintain popular legitimacy.

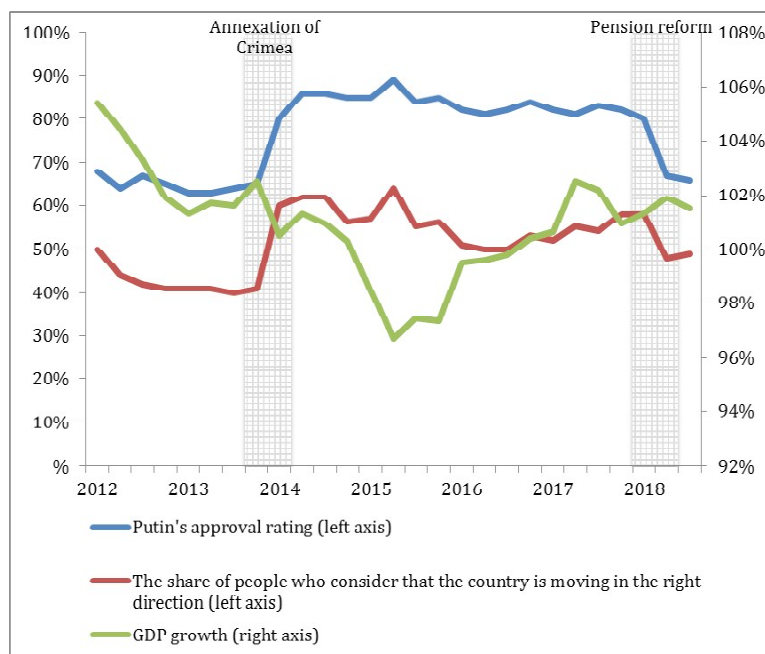


Figure 3. Poll numbers: Levada.ru. GDP data: Rosstat.

On the other hand, the confrontation with the West, while helping to galvanize popular support for the regime, was the first serious threat to the class settlement with the oligarchs since the early 2000s. Some Russian companies and businessmen were directly sanctioned by the United States and the European Union, but even more importantly, Western sanctions hindered the ability of the corporate sector as a whole to borrow money abroad, which is crucial to its

mode of operation. Some analysts conclude that the standoff with the West is increasingly putting a strain on the oligarchs' relationship with the regime (Snegovaya 2018).

Combined with the biggest challenge of personalistic authoritarian regimes – the challenge of succession that Putin's regime faces in 2024 – the gradual erosion of popular legitimacy and the inter-elite tensions make the future of Russian politics highly uncertain.

Conclusion

One of the chief paradoxes of Putin's rule is that it has always been based on a sharp rhetorical break with the 1990s, fixed in the national consciousness as a period of social and economic disaster, and yet Putin continued many of the neoliberal policies of his predecessor – in fact, in some areas, such as welfare, carrying them out far more consistently than Yeltsin ever could. Using aggressive rhetoric against the oligarchs, even promising to 'eliminate them as a class', Putin nevertheless allowed them to accumulate unprecedented wealth. The neoliberal reforms of his first term played a central role in this outcome. Unable to establish popular hegemony, neoliberalism in Russia came to depend on the Bonapartist authoritarian figure of the 'national leader'. At the same time, a combination of neoliberal policies and nationalist rhetoric that Putin deployed was quite characteristic of neoconservative leaders in Western democracies.

Since the mid-2000s, the Russian government has increasingly experimented with alternatives to the neoliberal orthodoxy. These experiments were not the result of the popular pressure to abandon neoliberalism. Instead, they were driven by elite considerations and interests. As a result, the new *dirigisme* mostly focused on industrial policy and not on social policy. The oligarchs had to make room for *siloviki*, Putin's associates with a background in the security services, who now occupied key positions in the state-owned sector of the economy. However, the *dirigiste* turn never took programmatic form and generally did not threaten the position of big business. In the area of welfare, divergence from neoliberalism was animated by a concern for the demographic situation, seen by the regime as central to the nation's sovereignty and strength. However, education, healthcare and other public services were badly neglected.

Since 2014, the government's policies took increasingly isolationist turn. The new 'militant Russia' (Malle 2016) is even less hospitable to welfare concerns than before. Instead, it envisions a still stronger centralization of resources and control in the hands of the elite that is no longer afraid to say directly to the people: 'You're on your own'. Developing a popular (as opposed to elite) alternative to neoliberalism is still the task for the future.

Notes

1. *Dirigisme* refers to various directly interventionist practices of the state, as opposed to arm's length regulation characteristic of the neoliberal policy paradigm.
2. For the best critical analysis, see Kotz and Weir 2007.
3. 'Red directors', i.e. managers of Soviet enterprises, were the prime beneficiaries of the 'spontaneous privatization' in the late 1980s and early 1990s. The official privatization that began in 1992 essentially legalized their property grab.

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