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**EVOLUTION OF BUSINESS-STATE
INTERACTION IN RUSSIA:
FROM STATE CAPTURE
TO BUSINESS CAPTURE?**

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The paper discusses co-existence of the two basic strategies of the Russian companies — isolation from the state and close cooperation with the state. The author analyzes influencing factors and possible ways of realization of these strategies and draws the analogy with «exit» and «voice» strategies explored by A. Hirschman. It is shown that under the conditions of weak government both discussed strategies are informal and lead either to tax evasion and moving of business activities into the shadow economy or to the «state capture» phenomenon. Both privatization of the state and its evasion result in the budget crisis as well as in drastic social and political shocks which bring out the demand for the strong state in the business community itself. However, in the absence of political competition and democratic control mechanisms increasing of the state takes place in the form of bureaucratic consolidation along with creating the preconditions for informal «business capture» by the authorities. Nevertheless, high degree of openness of the economy and heterogeneity of state actors provide the business with the wide range of possible strategies aimed at the interaction with the state. The article explores the hypothesis of these strategies becoming more formal and public comparing to the 1990s. Isolation from the state will take form of the legal business internationalization (including selling shares to foreign investors, Russian direct investment into foreign economies, etc.). Cooperation with the state will be more efficient in case of switching from traditional individual lobbying of private interests to rational collective actions aimed at providing necessary grounds for sustainable economic development in their sectors, industries and regions.

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Яковлев А. А. Эволюция взаимоотношений между государством и бизнесом: от «приватизации государства» к «захвату бизнеса»? : [Текст] : препринт WP1/2005/02 / А. А. Яковлев; Гос. ун-т — Высшая школа экономики. — М.: Изд. дом ГУ ВШЭ, 2005. — 40 с. — 150 экз.

В статье обосновывается тезис о наличии у российских компаний в 1990-е гг. двух базовых стратегий поведения — дистанцирования от государства и тесного взаимодействия с ним. Анализируются факторы и формы их реализации, проводится аналогия со стратегиями exit и voice в терминологии А. Хиршмана. Показано, что в условиях слабого государства названные стратегии приобретают неформальный характер, который выражается либо в неуплате налогов и перемещении бизнес-активности в теневой сектор, либо в «захвате государства» (феномен state capture). Острый бюджетный кризис, возникающий как следствие приватизации государства или уклонения от нее, приводит к серьезным социально-политическим потрясениям, которые в самой бизнес-среде порождают спрос на сильное государство. Однако в отсутствие механизмов политической конкуренции и демократического контроля укрепление государства происходит по модели бюрократической консолидации — с созданием предпосылок для неформального «захвата бизнеса» чиновниками. Тем не менее высокая степень открытости экономики и неоднородность самого госаппарата обеспечивают для бизнеса достаточно широкий спектр возможных стратегий взаимодействия с государством. В статье высказывается гипотеза, что в отличие от стратегий 1990-х гг. они станут более формальными и публичными. Дистанцирование от государства будет выражаться в легальной интернационализации бизнеса (включая продажу пакетов акций иностранным инвесторам, прямые российские инвестиции за рубежом и т.д.). Взаимодействие с государством станет более эффективным в тех случаях, когда бизнес сможет перейти от традиционного индивидуального лоббирования собственных интересов к осозанным коллективным действиям, направленным на обеспечение условий для устойчивого экономического развития в своих секторах, отраслях и регионах.

Классификация JEL: P26, K42, O12.

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Introduction¹

In the short period of Mr. Putin's presidency, relations between Russian business and the state managed to make a full swing between two extremes of political pendulum. Russia made a rapid shift from «privatization of the state», when, as recently as in 1998—1999, federal and regional authorities both fell under heavy control of «oligarchic capital», to obvious dominance of the state over the big business in 2003—2004. However, this unconditional success, won by the state in its battle against the «oligarchs» and backed by massive electoral support in recent parliamentary and presidential elections, can become a Pyrrhic victory. At any rate, stability of the established model gives reasons to doubt. What is still more questionable is the idea that this model can serve a foundation for sustainable development of the economy and the society in the early 21st (rather than the mid-20th) century.

In this situation, a highly important task is to forecast how the relations between the state and business may develop, and to find out where the new sources of social dynamics may come from. However, we can hardly make this forecast unless we study how the relationship between the state and business evolved in the last decade. In the following text we are going to examine, one by one, succession of basic

¹ This article is based on the paper prepared for the conference «Role of economic elites in Russian regions», which was held on April 21, 2004. A number of ideas expressed in this article proceeds from the results of the project «Interaction of Interest Groups and their Influence of Economic Reforms in Contemporary Russia», which was carried out by the author in 2002—2003 in the Center for East-European Studies (Bremen) and supported by the Humboldt Foundation. The author appreciates Yakov Pappe, Jacob Fruchtmann, Alexei Zudin, Vladimir Gimpelson for their comments and remarks.

strategies and models of relationship between the state and business in the early 1990s, their evolution in the mid- and late 1990s, and to outline limits of capability of the government in the framework of post-crisis consolidation of the state. On this basis, we will try to define the main groups of economic and political actors, which as we believe, are going to play a crucial role in founding reasonable conditions for sustainable development of Russia in the decades to come.

1. Basic strategies and models of relationship between the state and business in the early 1990s

The concept of rent-seeking is widely used as a generalized description of business behavior in Russia in the 1990s [Aslund, 1996; Hellman, 1998; Shleifer, Treisman, 2000]. However, this view is not quite fair. Characteristically, Russian entrepreneurs used to rely on two strategies, which were both typical of business in general.

They are: the strategy of *keeping at a distance from the state*, based on an urge for freedom and independence, which is a well-developed spirit of entrepreneurs, and the strategy of *close integration with the state* for making maximum profits from special preferences and benefits obtainable from the government. Both strategies, we believe, are in the nature of business throughout the world. At the same time, they can be correlated with the strategies of behavior of economic agents, which were described as «exit» and «voice» in the classical work by Hirschman [Hirschman, 1970]. As far as we know, this approach was applied for the first time to Russian data by Cook and Gimpelson [Cook, Gimpelson, 1995] in the framework of their study of behavioral patterns of Russian managers in the course of privatization.

According to Hirschman's approach, «exit» strategy manifests itself when an agent (may it be a firm, a worker, a household, or a voter), being dissatisfied with conditions of functioning in a given market, gets away («votes with his feet»). Obviously, this way of conduct is possible if barriers to entry and exit in the market are low. In this case, it is less costly to cease activity in the given market and to transfer it to another sphere than to continue attempts to change the existing «rules of the game».

On the contrary, «voice» strategy implies that the agent strives to influence the market to make changes in the «rules», trying to bring

them into conformity with his interests. A. Hirschman shows that the closer the agent is related to the established system (the higher is his loyalty to it), and the lower is the level of competition in the system, the more probably the agent will choose the «voice» strategy. As a marginal case, Hirschman gives the example of Soviet planned economy, where under extremely limited scope of competition which is the base for «exit» strategy, «voice» strategy becomes dominant, being put into action in public appeals and complaints to higher authorities or to mass media about poor quality of goods and services [Hirschman, 1970, p. 34].

In the context of this analytical approach, development of independent private business in Russia can be regarded, to a certain degree, as implementation of «exit» strategy for departure from an inefficient state-controlled economy. On the other hand, the alternative «voice» strategy can be implemented in two versions: either as an effort to change general rules of the game, or as a search of individual solutions for realization of private interests of most influential players. Preference for one way to another is determined objectively by the *degree of capability and efficiency of public institutions*. Apart from this crucial factor, results of practical implementation of the above-named strategies of interaction of business and the state in different economies in transition, in our opinion, also depended on such factors as:

- uneven distribution of resources of transformational rent between regions and levels of government;
- accumulated capital and a wealth of former business experience.

Weakness of the state, in comparison with other economies in transition, has long been the key feature of relationship between the state and business in the post-communist Russia. This weakness had objective roots in previous evolution. Capable old elite was already absent in Russia in the 1980s, in contrast, say, to China. The «stagnation» period ended in a deep crisis of ideology and in demoralization of Soviet elite, so that private and group interests of members of the ruling class grew absolutely superior to interests of the society. Consequently, major elitist groups — both in the nomenclatura and in the upper strata of intelligentsia — tried to rid themselves of the barriers and mechanisms that still somehow restrained them in pursue

of their private and group interests. In general, strong incentives to destruction of public institutions grew inside the old elite. At the same time, contrary to Eastern Europe, Russia had no counter-elite that could be able to resist this tendency and to preserve public institutions for protection of interests of the society¹.

Spontaneous breakdown of administrative system, which followed this crisis, opened a host of opportunities to take the business — using the property that had formerly been state-owned, and making money on the structural distortions that had been typical of the planned economy. In this country, these distortions grew deeper than in other economies of transition for such objective reasons that the regime existed too long, and that the USSR held a central position in the socialist world. General economic roots of these disproportions, which were related to systematic price distortions as well as to policies of concentration and centralization of production, were discussed in the classical work [Kornai, 1980]. A detailed analysis of displays of these disproportions in the Soviet economy (with an emphasis on the role and importance of the military-industrial complex) was given by Yaremenko [Yaremenko, 1997]; their consequences for Russian reforms were discovered in Yakovlev [Yakovlev, 2001b].

These distortions gave rise to *transformational rent* of much larger dimensions, which, in particular, may explain the more virulent type of conflicts and fighting for property rights in Russia than in the Eastern European countries [Woodruff, 2003]. Meanwhile, weakened and half-destroyed public institutions in Russia were unable to build up any effective resistance to attempts of various private «interest groups» to capture and «privatize» this rent. At the same time, due to general degradation of public institutions, the federal government was able to keep *distribution of transformational rent* under much stronger influence than regional authorities were able to do.

In particular, this influence was extended by means of privatization schemes; by the way of monetary and fiscal policies (credits of the Central Bank, subsidies to selected industries, issuance of treasury bills,

¹ For a more detailed discussion on transformation of the Soviet elite see: [Kryshstanovskaya, White, 1996; Lane, Ross, 1998; Kryshstanovskaya, 1999; Pleines, 2003; Kryshstanovskaya, 2004], and other works. Differences between the situation in Russia, Eastern Europe and China were discussed in [Yakovlev, 2003].

servicing of state budget accounts at commercial banks, preferential access to foreign exchange transactions and to the purchase of government bonds — GKO); by foreign trade policies (allocation of export quotas, provision of preferential import tariffs), etc. All decisions on these issues were made by federal agencies. In this field, regional authorities (even in large cities, where land and real estate were highly valuable assets) possessed substantially lower potentials for rent-giving. Fairly different models of relationship between business and government, which emerged on the federal and regional levels in the early and mid-1990s, were determined by these differences in access to the rent and in ability to influence its distribution.

At that time, the model of state capture, which was widely discussed in economic literature after publication of the well-known work [Hellman, Jones, Kaufman, 2000], as we believe, was much more typical of the federal level. This was the area of cutthroat competition for influence over centers of decision-making and for lobbying concrete decisions in the interests of concrete business groups. The number of such centers was objectively limited (Goskomimushchestvo, Presidential Administration, the Central Bank, the Ministry of Finance, the Ministry of Foreign Economic Relations, and some other agencies). Their decisions could guarantee a concrete company millions and scores of millions dollars of extra profits (at the same time, inflicting the state budget losses of scores and hundred millions of dollars). As a result, business performance in a number of sectors — in banking and finance, export transactions, heavy industry — largely depended on decisions made by agencies of the federal government.

Combination of the above mentioned factors gave strong incentives for corruption. However, public administration degraded so deeply that it was able not only of making bribe-seeking decisions, but also of *failing to promise their consistency*. In any moment, a rival business-group could lobby a different decision through bureaucrats or politicians under its control. This situation unleashed cutthroat competition, which could go to the point of inter-gang wars or reciprocally discrediting wrangles in public in mass media.

Competition also took place on the regional level. However, since regional authorities were short of valuable resources for rent seeking, competition on this level was much more «market-oriented» and usually

related to seizure of market niches in regional and local markets. Ability to supply new goods and services to consumers at affordable prices was much more important in this competition than connections with local bodies of government.

It is no incident that enterprises of the former Gossnab and Mintorg failed to survive through this competition, although they were apparently favored by local authorities. Consequently, private businesses in the regions could *keep a distance from the government* at no great loss. For this particular reason we gave this model a provisional label of «free entrepreneurship».

Obviously, as well as in the case of competition for access to rent on the federal level, this pattern was also typical of certain sectors of the economy, and in the first place, of small and medium enterprises (SME) oriented towards final consumer markets. In this connection, we can mention explosive growth in the number of small enterprises in the early 1990s. However, this expansion of SME was observed mainly in trade and services, while starts of small manufacturing enterprises were seriously restrained by high inflation and by general economic and political instability.

However, the «free entrepreneurship» strategy was relatively successful only when the respective region initially had certain conditions for development of new businesses, such as transport, trade and telecommunication infrastructure, human capital, and so on. This set of conditions was present mainly in large cities with population of one million and more. In other cases, entrepreneurial activity failed to overcome the generally depressed situation. The only exception was major resource-producing regions where lack of favorable conditions for development of new businesses was partly balanced with higher effective demand.

Consequently, referring to Russia in the 1990s when its government was generally weak, one could suggest that there were two strategies of evolution of business and two models of relationship between the state and business (see Table 1). Each of these strategies and models relied on certain resources of rent or infrastructure, which were available on the federal or regional levels. However, neither of the defined above strategies could bring any significant results in the regions where these types of resources were absent.

**Areas of Use of Different Strategies Aimed at Interaction
between Business and the State in the 1990s**

<i>Level of interaction with the state</i>	<i>Main resource for developing business</i>	<i>Business strategy to bring the best result</i>	<i>Most successful or influential industries</i>
Federal government	Transformational rent (credit resources, export quotas, custom privileges, state-run property, etc)	Close interaction with the state (state-capture model)	Financial sector; to a less degree, export-oriented industries
Regional authorities in large cities and oil-producing regions	Developed infrastructure, human capital, higher effective demand (in particular, allowing to efficiently use price discrepancies between the domestic and external market)	Keeping at a distance from the state (the model of «free entrepreneurship»)	Trade (mainly related to imports), construction, real estate, and in part, communications
Local authorities in the rest of the regions	Lack of important resources	Lack of precisely defined strategy	Traditional industries (machinery and other)

As seen from the above scheme, each of the two dominant strategies of interaction between business and the state was typical of a particular group of industries. However, in our opinion, in addition to industry-wise specifics, choice of a strategy of interaction with the state was under strong influence of former experience (see Table 2). Other things being equal, those who had already had a certain amount of seed capital in the late 1980s got the advantage in getting into contact with the authorities — let it be financial resources of the «Komsomol economy» [Kryshantovskaya, 2002] or personal connections with the renewed public administration. Those businessmen who had no such seed capital in the first reform years were, in a sense, pushed aside from the «budget pie» and had to rely on the strategy of keeping at a distance from the state and to orient themselves towards the relevant model of «free entrepreneurship».

**Correlation between Availability of Seed Capital and Strategies
of Interaction with the State**

<i>Basic strategy</i>	<i>Seed capital accumulated</i>	
	<i>In the 1980s</i>	<i>In the 1990s</i>
Interaction with the state	XXX	X
Keeping at a distance from the state	X	XXX

Indeed, the strategies and relevant models of interaction between business and the state, which we have described above, are fairly relative. They were almost never realized in their pure form, but perhaps were used in a number of combinations. In this case, Moscow was a special place as a vast region with the best developed infrastructure and human resources, and also a metropolis with a consumer market that steadily absorbed the flows of income generated within the model of «state capture».

2. Evolution and convergence of models of interaction between business and the state in the mid- and late 1990s

As we have already mentioned, results of the model of «state capture» are generally well-known and already quite well explored [Hellman et al., 2000; Frye, 2002; etc]. Incessant wars over sources of rent between leading business-groups along with their sponsor groupings in public administration regularly shook the federal balance of power and eventually drew the federal budget into the most severe crisis, which ended in a drastic devaluation of the ruble and in a default on GKO in August 1998. On the other hand, many researchers believe that largely due to this model favorable conditions were established for creation, in a short space of time, of large-scale integrated national corporate groups truly able to compete in the global market [Pappe, 2002a; 2002b]. The alternative model of «free entrepreneurship» is explored much less, and we are going to examine it below in more details.

At first glance, the strategy of «keeping at a distance from the state» was supposed to be more socially effective. The so-called shuttle trade, which played an important role in adaptation of a great number of common people to the new economic environment, was one of the most prominent displays of this strategy in the early and mid-1990s [Melnichenko, Bolonini, Zavatta, 1997; Ilyina, Ilyin, 1998]. The majority of the present mid-sized companies in trade and services also relied on this strategy.

However, the paradox of this strategy and the related model of «free entrepreneurship» was that incapacity of public institutions imposed serious restrictions on development of this type of small and

medium companies. In our opinion, these restrictions were due to two main factors:

- increasing tax burden in the absence of competent tax administration;
- need for protection of property and contractual rights in the absence of competent judiciary and law enforcement systems.

There was no need for a genuine tax system in the Soviet economy, where state-owned enterprises got budgetary subsidies as soon as they wanted, and at the same time, unused financial resources were taken out and sent back to the budget. This pattern began to change since the late 1980s, as the scope of independence of state-owned enterprises was enlarged, and new private enterprise came into being — cooperatives, joint enterprises etc. At that time new private firms, which as a rule were given the legal status of small enterprises, enjoyed substantial tax benefits. As a result, there was practically no tax evasion, since managers of state-owned enterprises understood that they were obliged to settle their accounts with the budget, and tax burden for private enterprises was quite affordable.

The situation changed dramatically in 1992 when the government, trying in vain to overcome the budgetary crisis, introduced at once a 28%-rate VAT and a 40%-social insurance rate. Formally, new rules were supposed to cover to all types of enterprises. However, state-owned enterprises could actually count on cheap loans for payroll payments, on tax deferral and on systematical non-payments to suppliers, which enabled them to meet their tax liabilities in 1992—1993. Private companies had no such ways to relax their tight budget constraints, and ever since the early 1992 when effective demand for their goods and services began to fall, they faced the need to minimize their costs across of all types. Taxes were the first item to be cut, because the state, having declared high tax rates, had no elementary tax administration to regularly monitor tax collection.

At that time, most commonly used schemes for tax evasions in the private sector were related to the unrecorded (or «black») cash turnover, which enabled to reduce wage costs by almost a half [Yakovlev, 2001a]. In many cases, for the sake of alleviation of social tension the authorities refrained on purpose from punishing the businesses that relied on such schemes, as it had been in the case of

the «shuttle trade». This policy was believed to promote private initiative and to encourage the private sector in general. However, when these schemes grew widespread they left the firms that tried to run their business according to the law at cost disadvantage, so that they lost competitive edge and were crowded out of the market. This adverse selection pressed the average cost level in trade and some other sectors of the economy down to the point *where it was impossible to pay all the taxes*. In these sectors, every enterprise was forced to evade the taxes and as a result, to combine legal transactions with illegal activities.

We have to emphasize that this situation is not unique, that it is typical of quite a number of developing economies. However, its outcome is creation of barriers to development of businesses, which fail to overcome certain limits. Even if state authorities raise no queries about origins of capital invested in their development, informal financial flows within large corporate groups are difficult for internal supervision, and the companies involved in shadow deals cannot reach their optimal size. For instance, the McKinsey report on the impact of foreign investment on developing economies shows by the example of retail trade in Brazil that a well developed and deep-rooted informal sector puts obstacles in the way of foreign investment and a prevents national operators from reaching technologically optimal scales of their business ([New Horizons..., 2003]). This effect was analyzed in more general terms in the well-known book [De Soto, 1995].

The «free entrepreneurship» model had one more problem: businesses, which never sought any benefits and preferences from the state, nevertheless, required institutions for protection of property and contractual rights. However, these institutions, as well as other functions of public authorities, were «privatized» in the early and mid-1990s, which made access to their resources beneficial for some companies and limited for other. Business groups that were integrated with federal authorities could to rely on law enforcement agencies for protection of their interests, but independent private enterprises had to settle their conflicts in touch with criminal gangs. Costs of such dealings were included in prices of goods and services *instead of the taxes* that were not paid to the government. As a result, along with competition, this was new barrier to prevent them from going back to legal operations,

because enterprises were unable to pay for protection services twice — once to the state and then to gangster «roofs».

However, competition between gangster «roofs» logically called for a monopoly in this field, and for establishment of a uniform infrastructure for resolving conflicts and for protection of property rights on the base of this monopoly [Volkov, 2002]. Objectively, it was easier to use force for «putting things in order» by means of state agencies. This was the precondition for integration of business (which was often criminal) with the state on municipal and regional levels, and for launching restoration of good governance and consolidation of the state from these lower levels. Consequently, the very logic of evolution of the «free entrepreneurship» model called for a need to capture the state, seeking not for distribution systems of public administration, but rather for its power of protection. This capture the state went on most vigorously in large cities, where business was growing more rapidly by itself, where need for unified rules was higher, and where businesses could pool their financial resources to keep these rules in operation on their own account.

What was peculiar about this bottom-up process of consolidation of government was that it was getting insulated in the absence of legitimate mechanisms for supervision over activities of public administration.

Having regained, often in direct mixing with criminals, the instruments for resolution of conflicts and protection of property rights¹, and being independent in establishment of «rules of the game», the authorities grew stronger than business, which had helped them to recover their power from the outset and had had financially supported their concrete representatives.

The logic of gradual informal submission of business to the authorities was based on the fact that when tax evasion became widespread and was changing competitive environment, every average firm was compelled *to break the law*. And while the federal government

¹ These instruments were often extralegal. In this respect, one of the respondents in the survey conducted by V. Radaev gave a highly typical answer that since a certain moment, gangsters and police became undistinguishable in terms of their appearance and mode of behavior [Radaev, 1998].

refused, for certain reasons, to notice this phenomenon (for the explanation why federal authorities were more inclined to shut their eyes to the most blatant schemes of tax evasion, see [Yakovlev, 2000]), local and regional authorities supervised the territories within their jurisdiction with much more skill. Consequently, from a formal point of view, any firm could be *legitimately penalized* at any moment: in the first place, for tax evasion. And for this very reason, every average private firm was ready to respond to any request of local authorities to share funding of construction of a cathedral (like well-known Christ cathedral in Moscow), to give financial backing to celebration of a municipal holiday, or simply to transfer a «*voluntary contribution*» to the account of a local organization, appointed by a governor or a mayor for these purposes.

Another tendency of the mid-1990s was related to weakened positions of the federal government, when regional authorities effectively bargained over more power and resources in exchange for ensuring electoral support, while their own liabilities in the federal framework were kept unclear. For this reason, sources of transformational rent gradually went away to regions, becoming an additional factor to make positions of local and regional authorities stronger.

Consequently, for objective reasons of incapacity of the state, the «free entrepreneurship model» in Russia was related to widespread tax evasion, which couldn't stay unnoticed at a certain stage, and to rising demand of business for protection of property and contractual rights. Combination of these two factors gave way to restoration, from local and regional authorities upwards, of a peculiar *administrative model of governance of the economy*, which is based, as distinct from the Soviet period, on informal control over private business. This model rose most rapidly in large cities, which were richer in resources for development of business. «The System» of Yuri Luzhkov is the most striking example of this model, which is based on close interlocking of Moscow City Administration with the JSFC «Sistema», created by the Administration (for a detailed description of this corporation, see [Kornilov, 1998]).

A specific feature of this stage was the more and more open contradiction between regional authorities, which grew consolidated, and the shattered federal government. As we have already mentioned,

incessant fighting for sources of rent between leading business-groups along with their sponsor groupings in the federal administration eventually produced in August 1998 a financial and currency crisis, which ended with failure of largest banks and with radical replacement of the federal government (for the first time after the start of reforms, members of Communist Party of the RF were included into the Cabinet).

3. Consolidation of the state and its changing relations with the business community in 1999—2004

Contrary to the situation before Presidential election of 1996, when joined efforts of all competing rent-seeking groups to preserve the political regime of that time consolidated federal and regional elites, the 1998 crisis produced a deep split in the ruling elite. In particular, influential regional governors, together with their business associates, attempted to use this crisis for making the federal government still weaker. The leading role in this attempt was taken by the so-called «Moscow Group», which was headed by Yuri Luzhkov and supported by financial power of the JSFC «Sistema» reared by the Moscow Government.

In this situation, to *ensure succession of power* became a question of vital importance to Boris Yeltsin and his associate business groups («the family»). The federal government was discredited so deeply that this succession could never be ensured unless *new persons* were promoted from the very heart of the system, those who had no direct commitment to the government's policies of the 1990s and for this reason, could win popular support in the forthcoming elections. These new persons had to meet new requirements of the society, which already grew tired of the anarchic and criminal freedom of the 1990s. The image of a new leader in great social demand, designed by political strategists, after a failed attempt to introduce Sergei Stepashin, was successfully materialized in Vladimir Putin.

It is worth mentioning that not by chance Vladimir Putin and Yevgeny Primakov had many personal characteristics in common. In our opinion, in case if Mr. Primakov came to power in 1999—2000, he

would most probably keep himself at a distance from the circle that had promoted him. This suggestion is based on Mr. Primakov's personal good name and on his high approval rating with voters, which he kept after his resignation from the Prime Minister post and up to coming of Mr. Putin's figure to high-level politics. The sequence of events might have been different: Mr. Primakov's could have first detached himself from «the oligarchs» of the Yeltsin period, and next, from governors. However, this policy line inevitably called for reliance on federal bureaucracy as well as on security services and the army («siloviki»). As a result, anyhow, bureaucratic consolidation of power would be repeated on the federal level in the same or maybe slightly milder manner, similarly to the one that already had materialized in the most advanced regions, as a reaction against the crisis of the federal model of «oligarchic capitalism».

Putin's image and the first steps that he took as a Prime Minister, such as his efficient resistance to the invasion of Dagestan by Chechen militants and the initiative he made for working out a long-term strategy of national economic development, which resulted in the «Gref Program», allowed to dramatically change social expectations. For instance, the Index of public sentiment — IPS, which was calculated by the ex-VTSIOM (now the Levada Center), went up from 85 points in the mid-1999 to almost 140 points in the early summer of 2000.

However, new federal «super-elite»¹ in order to make its position stronger had to resolve a long-lasting conflict with powerful governors, which got together around the «Fatherland-All Russia» political coalition, and to settle its ambiguous relations with the «oligarchs». Aside from personal high approval rating of Mr. Putin, the «super-elite» had three other bearings: federal bureaucracy; national security, defense and law enforcement agencies, and the business community outside the «oligarchs».

¹ This concept is widely used in the works by political scientist A. Zudin for description of a narrow circle of politicians and top bureaucrats, which having ascended to the highest level of authority, face the need to take into account not only the interests of the groups they arose from, but also strategic interests of the nation. This is the objective condition, which places this narrow group above the other much wider groups of elite. At the same time, if the members of this «super-elite» ignore strategic interests of the nation, they run the risk of complete loss of their personal authority and influence [Zudin, 2003].

The steps, which were taken to meet the requirements of these three groups (provision of ample financing to the Army, to the Federal Security Service, to other law enforcement agencies; revision of tax legislation and alleviation of tax burden; rising the status of federal bureaucrats) helped the federal authorities in making their position stronger and paved the way for significant limitation of power of governors. This constraint was imposed upon the influence of regional authorities with creation of a system of federal districts, with a reform in the Council of Federation, and with delimitation of statutory powers between the federal government and regions, clearly biased towards diminishing the right and fiscal resources of the latter.

At the same time, in relations with the big business the federal government, declaring the principle of «equidistance», tried to avoid direct informal contacts with business tycoons (such contacts were common in the mid-1990s). Meanwhile, activity of Boris Berezovsky and Vladimir Gusinsky, who voiced against this principle in the mass media under their control, was ruthlessly suppressed. Taking the silent consent of the rest of «oligarchs» into consideration, the federal authorities started to build a system of «collective representation» of all strata of business. As a result, «new RSPP» (The Russian Union of Industrialists and Entrepreneurs) emerged as an association of the largest companies; «Delovaya Rossiya», as an organization of large and mid-sized companies outside the «oligarchic capital», and «OPORA», as a mouthpiece for small and medium enterprises.

Nevertheless, the priority in this hierarchy was openly given to the upper «oligarchic» level, which was manifested in the newly established institution of regular meetings of the President Putin with members of the Bureau of Executive Board of RSPP. The big business also retained some other means of political leverage, mostly owing to participation of people of business descent in public administration and legislature. However, these levers were used for formulation of general rules of the game (tax and labor legislation, conditions for joining the WTO etc.) rather than for direct lobbying on behalf of individual companies.

Generally speaking, we can state that in 2000—2002, a relative balance of power was maintained between business and the state, while positions of federal authorities were gradually getting stronger. This balance relied on mutual obligations, taken by the sides privately and

implying that the state will refuse to revise the outcome of the 1990s in exchange for agreement of the business not to interfere in politics. However, this socio-political structure, which had been designed by the federal authorities and dubbed «corporative capitalism» by a number of experts [Lane, 2000; Zudin, 2001], was marked with inner instability from the beginning.

A technocratic choice in favor of «consolidation of the vertical of power», made in the absence of democratic institutions, worked not only for consolidation of the state, but also, and even much more, for *consolidation of federal bureaucracy* and for making its position stronger in confrontation with regional authorities and the big business. This policy of «consolidation of the vertical of power» let the agencies as corporate units of bureaucracy much better understand their interests and abilities, which in the real world are much stronger than the abilities of a single bureaucrat as an individual. As an illustration of this concept, we present Table 3, which describes evolution of strategies of interaction of business and the state depending on the degree of consolidation of the agency and its accountability to the society.

Table 3

Possible Patterns of Interaction of Business and the State

<i>The Governmental Agency</i>		<i>Is not consolidated</i>	<i>Is consolidated</i>
		<i>1</i>	<i>2</i>
Is not actually controlled by the society	A	Individual public officials play for the benefit of individual market players (Russia in the mid-1990s)	1) The agency as a whole plays in favor of certain actors <i>or</i> 2) The agency plays in favor of itself, overriding the existing players in the market (a generally routine pattern of the last 3 to 4 years)
	B	—	<i>The public political competition</i> limits the negative externalities of regular bureaucratic aspirations and directs the activities of agencies to promotion of public interests

At present, contrary to the situation in the 1990s, the majority of Russian agencies correspond with the position A2. At the same time, in our opinion, a gradual shift can be observed from playing in favor of

interests of individual enterprises to placing them under the command of internal bureaucratic interests of the agencies. This happens because as a consolidated agency, which is able to influence the rules of the game in a concrete market, turns to be stronger than any player in this market, even a big one. We can even say that in a certain sense, the model of «state capture» by the business, which was prevalent on the federal level in the 1990s, is giving place to a no more effective model of informal «submission of the business» to the state.

Among the agencies, which had used this strategy most actively before the central government was reorganized in the spring of 2004, we can mention the Ministry of Communications; the Federal Commission for Securities Markets; several departments of the Ministry of Economic Development and Foreign Trade (for instance, in the field of regulation of tourism), and the Federal Service for Financial Rehabilitation (in application of bankruptcy laws). To mention the extreme cases of this policy, we can refer to application of tax arrears of private companies in profitable industries for directly coercing them to become state unitary enterprises [Kryshtanovskaya, 2002]. Essentially the same scheme was used in the late 2004 for bringing Yugansk neftegaz, Yukos's main production subsidiary, back under state control.

At the same time, we can also point out that expanded power of the state is used by individual bureaucrats for direct capture of business. However, this strategy can come into conflict with corporate interests of agencies. The latter have more interest in gaining general control over the markets within their scope, because this can give access to rent-seeking for every official in the agency according to his or her rank.

Consolidation of the bureaucratic machine, which is suppressing business activity, inevitably made the business respond to the challenge. In the late 1990s — early 2000s, the response was found in stronger concentration of market power and vertical integration, which created giant conglomerate business groups possessing sufficient influence to «counterbalance» certain consolidated agencies in their inter-agency competition for powers and resources. At the same time, the big business tried to implicitly ensure protection of property rights by means of maximizing corporate value of emerging super-companies and selling large share blocks to foreign investors.

However, in the atmosphere of persisting mutual distrust between business and the state, this activity could maintain a relative balance of the largest companies with the government only until politics began to directly infringe on their interests. The bitterest clash between the state and big business broke up on the issue of natural resource rent and on legislation regulating its collection (laws on taxation of mining and on product-sharing agreements — PSA). For the authorities, natural resource rent was a political asset, required for preservation of popular support. But it was also the asset, which the big business wasn't ready to give up for free. Yukos Oil Co. took the most active position in this issue.

It was Yukos which dared to take direct actions against the authorities in the framework of this in-house conflict. In particular, the matter was its openly funding Putin's opponents of the left (Communist Party of the RF) and the right (Yabloko, Union of Right Forces) political flanks. Blocking of passage by the parliament of the bill on PSA prepared by the government in the early 2003 was also referred to Yukos, which allegedly had «bought» a number of deputies in the parliament. Finally, the proclaimed merger of Yukos and Sibneft, owned by Roman Abramovich, with a possible further sale of a large block of shares in the merged company to one of global oil giants (following the pattern of TNK-BP) implied that the state could drop informal levers of pressure on Mikhail Khodorkovsky and was facing the risk of actually losing control over strategic assets in the oil industry.

In this situation, the way the state responded with launching a very crude «selective application» of the law against Mikhail Khodorkovsky and other owners of Yukos can be possibly described as a forced measure. However, this coercive approach was, in our opinion, a display not of power but of weakness of the state, which having failed to persuade the business of its rightfulness, resorted to suppression of its political opponents, acting essentially outside the law. This resulted in a collapse of the whole elaborate socio-political configuration the authorities had been working upon for three preceding years. Nevertheless, generous support given to the acting President at elections — parliamentary ones in December 2003, and presidential one in March 2004 — meant that from a formal standpoint, the state won a comprehensive victory in the conflict with the «oligarchs», personified in Mikhail Khodorkovsky.

The reason is that the atmosphere has changed. For any faults of privatization, despite large-scale corruption, *the degree of economic freedom was much higher* in the 1990s, and chances existed for *upward social mobility*, when an ordinary man with a seed capital of several hundred dollars could start a business of his own and attain a success. However, in recent years such lucky chances are gone, markets are controlled. The companies that were founded in the mid-1990s are able to expand at the present time, but it has become much more difficult to start one's own business from scratch. This process of market structure getting fixed, which started in the mid-1990s, was noticed by Vadim Radaev. The interviews obtained by him in 1996—1997 showed that formation of stable and rather secluded networks of business partners was under way, and that substantially larger seed capital was needed for opening of a new business [Radaev, 1998, p. 137, 241—242].

In this sense, it is highly disputable to draw analogies with the period of «wild capitalism» in the 19th-century America. Russian liberals are fond of drawing such analogies, calling to «stop looking back at the past» and to legitimate the results of privatization, arguing that everyone then had a chance to take part in division of state property, but not everyone used this chance (see, for instance, [Gurova, Privalov, Fadeev, 2003]). Even putting aside the essential question whether really everyone had this chance, we have to point at an important difference between the 19th-century America and the late 20th-century Russia.

One of the main sources of rapid economic growth in the United States was great inflow of immigrants from Europe. They were new people arriving in a new country, where the rules of the game had been already set, and they never questioned fairness of these rules, the local history was not their history. On the other hand, Russia inherited not only the land, but also citizenry of the former USSR who, including the present thirty-year-olds, believe that they and their families had and still have certain entitlement for the former «property of all the people», of which the most lucrative pieces were put under control of the big business.

In this case it is quite a symptom that the political block Rodina, whose key slogan is to take natural resource rent away from the hands of «oligarchs», gained more votes than Yabloko and the Union of Right

Forces in the last State Duma elections in December 2003 even in Moscow and St. Petersburg, which have a strong tradition of democratic mindset. Meanwhile, voters who supported the Rodina block in both metropolitan cities are not sixty-year-old retirees, but much younger age groups, who are dissatisfied with their place in the socio-economic structure of contemporary Russian society.

As a result, the mounting feeling of social injustice in the Russian society worked as an inner mainspring, which was skillfully used by the government in its conflict with Mikhail Khodorkovsky. However, this solution can hardly be considered their success. Perhaps, since the business community openly ignores the fact that recognition of the new structure of property rights by the society is a real problem, the society, despite its traditional dislike and distrust of the authorities, has demonstrated a still lesser confidence in the Russian «oligarchs». In a still wider context of political consensus in the nation about market-oriented reforms, a well-known book [Zingales, Rajan, 2003] evaluates this problem as one of the central in transitional and developing economies.

Generally speaking, while summer 1996 may be considered the peak of dominance of the big business over the government, by summer 2004 the political pendulum made a full swing to absolute dominance of the state over the business. At the highest political level this dominance is held by means of keeping the «rules of the game» obscure, mainly in such fields as tax legislation and privatization laws.

This kind of «game around the rules» is widely played at lower levels of administrative hierarchy as well — within the scope of competence of consolidated agencies, which are acting on behalf of the state. However, contrary to the 1990s, this game is based not on using loopholes in regulations (which had been eagerly used by the business on the principle that «whatever is not banned is permitted»), but on creating an excessive system of regulations. Under this system, each, even most law abiding business is bound to break some rules and can be penalized on a provable ground. If the behavior of a concrete enterprise is «correct», as understood by the related agency, the latter may «shut its eyes» at such transgressions.

As a result, we are coming to a reiteration, at the federal level, of the same specific informal «administrative model» of governance of

the economy, which was already established in most regions by the end of the 1990s, and which we have briefly discussed in the previous paragraph of this paper. In the framework of this model, the techniques that were typically used in the early and mid-1990s for avoidance of the state or for putting it under pressure have turned ineffective. The example of Yukos has demonstrated that if desired, the authorities are capable of crudely cutting short any pressure from an individual enterprise, so that those corporations, which are oriented at towards the «voice» strategy in its former sense, are routinely put under dependence on the state. At the same time, public administration gained strength, got equipped with new technical devices, raised the level of skills of the officials, so that chances for using the «exit» strategy of retreat from the state to informal economy and tax evasion are getting thin.

4. The space for possible strategies of interaction of business and the state in the post-Yukos reality

According to Russian liberal economists Evgueny Yasin and Andrei Illarionov, the Yukos affair was a sign that economic policy was changing its vector, and certain facts (for instance, the restart of outflow of capital from Russia) confirm this skepticism. It looks as if relations between business and the state made, in a very short time span, a shift from the «state capture» model to the model of informal submission of private businesses to the state interests, which can be labeled «business capture».

Yet, in our opinion, actual ability of the state or the officials that represent the state to submit private businesses to their interests should not be overstated. Among the main factors that can prevent this tendency from getting real, we believe it is necessary to point out the following:

- high degree of openness of the economy;
- heterogeneity of public administration and internal bureaucratic competition in the system of public governance.

Openness of the Russian economy and its progressive integration into the global market will naturally offer a much wider variety of ways to employ the «negative» «exit» strategy than anything that was observable in the 1990s. In particular, we believe that along with direct outflow of capital (which in any case will be smaller than in the 1990s), the tendency of *Russian companies going more and more transnational* will gain momentum. This tendency can display itself in two major ways.

In the first place, Russian big business is already engaged in, and will further enhance its direct *capital investment overseas*¹. This is going on not only in the CIS, but also in the all world. Essential difference from common practice of the 1990s to withdraw liquid assets from industrial enterprises, to transfer financial resources to the accounts of offshore companies and to invest them on behalf of these offshore companies in real estate, securities and other assets, is that today, such overseas investment is usually related to core business lines of a parent Russian company.

This expansion of geographical span of production and increased share of turnover in foreign markets will naturally draw a growing part of activities of such multinationals *outside Russian national jurisdiction*. However, a even more powerful incentive for Russian businesses to expand overseas will be search of new competitive advantages under a growing competitive pressure from global markets. Foreign direct investment will give Russian companies opportunity to gain more from international division of labor and to rely on competitive advantages of a number, rather than of a single country. For instance, transfer of labor-intensive manufactures to the CIS countries can offer cuts in costs; acquiring same-line companies in Eastern Europe can make selling products in EU markets easier, and so on. By the way, the same strategy of seeking new competitive advantages was typical of «East Asian tigers» [Gereffi, 1999].

Another way to grow transnational will be *actual integration* of Russian enterprises *with their foreign partners*. It is worth mentioning here that for a long while, hostility against foreign investors was commonplace in Russia. As we believe, this was due to behavior of quasi-open joint-stock companies [Yakovlev, 2004], which emerged in the course of Russian voucher privatization and had no stimuli at all for cooperation with any external investor (outsider), including foreigners. Nevertheless, taking into consideration regular declarations of the government about protection of property rights of foreign investors, the corporate sector generally accepted the practice of

¹ For data on the scale and structure of direct investment activity of Russian companies overseas in recent years, see [Galukhina, Rubchenko, 2004], [Maslov, 2004], [Vahtra, Liuhto, 2004].

including into the list of shareholders of a Russian company one or several foreign companies affiliated to the key Russian shareowner. However, the Yukos affair has demonstrated that «foreign shareholders» of this type are unable to serve as informal guarantors of property rights. For this particular reason, conclusion of strategic alliances is can be expected in the Russian business, with selling large blocks of shares to well-known foreign investors, and launching of the IPOs on foreign equity markets. This change in relations with foreign partners is based on the already accomplished consolidation of property rights, which gives Russian shareholders full control of their businesses along with stronger incentives to seek effective means for protection of property rights.

If this strategy is used by the largest companies in raw material and primary processing, it will most probably come across opposition from the state. Even now we can refer to a certain list of «strategic» sectors (oil production, defense industries, technological infrastructure), where foreign investment is unwelcome¹. In this connection, stronger pressure on «oligarchic» business-groups, which are heavily engaged in raw material and primary processing, can paradoxically help to diversify Russia's economic structure. Higher risks of investing in the established companies and soaring costs of setting up new businesses in this sector can bring a shift in capital investment to other industries.

However, the state is unable to stop integration of ownership with foreign partners across the entire economy. In this case, as well as in the case of industry going transnational, this integration, in addition to offering informal protection of ownership rights can be largely positive for improvement of competitiveness of Russian companies — because entry to new markets and transfer of technologies and skills will become easier. This type of integration already took off in recent years, when Russian companies began to invite foreign managers and Russian personnel with experience in global management. However, direct cooperation with foreign partners can significantly expand the scale of this transfer of knowledge and skills.

¹ In this case, a revealing declaration was made by the Minister of natural resources Yuri Trutnev that in 2005, only the companies with controlling blocks of shares in the hands of Russian residents will be allowed to take part in auctions for mining rights — see [Bagrov, Rybalchenko, 2005].

Heterogeneity of the public administration is displayed, as we believe, at least in three ways:

- interests of political «super-elite» and consolidated federal bureaucracy are growing apart;
- federal agencies are competing for resources and powers;
- regions are competing for attraction of capital and investment.

High approval rating of Mr. Putin and accordingly, his political abilities strongly depend on changes in living standards, which in turn are closely related to economic development. In this area — however authoritarian the recent tendencies may be — interests of top government officials are naturally diverging from interests of middle-level bureaucrats. Mr. Putin spoke about this tendency directly in the Presidential Address to the Federal Assembly of the RF on April 25, 2005. Mr. Putin's statement about «bureaucratic reaction», about bureaucracy turning into an «exclusive and often arrogant caste regarding state service as an alternative form of business» shows, in our opinion, that Putin and his close associates are aware of this objective conflict with the consolidated state machine. This means that new chances to employ the «positive» «voice» strategy may open for the businesses that are eager to work in Russia.

«Super-elite» needs sustainable economic growth, and this is the particular reason why it can support the initiatives offered by the business for fostering economic development — such as elaboration of practical measures for promotion of exports or for improvement of regional business-climate. Council on National Competitiveness and Entrepreneurship under the Prime Minister of the RF, which was established in summer 2004, can be a useful place for launching such initiatives and for their direct channeling to the top level of government.

Meanwhile, the era of general policies aimed at improving investment climate, such as changes in the tax system, in customs regulations, in labor legislation, and so on, is coming to an end. These policies were extensively discussed in 1999—2000 (see: [Investment Climate..., 1999], etc). The idea of improvement in the investment climate was one of the central issues in the official Medium-term Program for Socio-economic Development in 2001—2004, better known as the «Gref Program».

At present, special targeted measures in concrete industries and concrete markets can be by far more important for improvement of

competitive power on the Russian business. In most cases, the initiatives associated with implementation of such measures require detailed preparation and coordination between agencies responsible for relevant fields of regulation.

To be able to break through agency interests, these initiatives should be based on *collective business interests*. In 2000—2003, when tax, labor and customs codes were being developed, these collective interests were represented by RSPP, «Delovaya Rossiya» and «OPORA», organizations fostered for the most part by the authorities. At present, in our opinion, the role of main partners will to shift to *industrial and regional business associations*, which are being created independently and will be able to knowingly discuss and develop, in collaboration with responsible agencies, proper regulations for specific industries or markets. Business associations will possibly give a more effective response to bureaucratic consolidation of the State machine than giant conglomerate holding company groups, which were created by the business in the early 2000s.

In particular, we believe that trade associations will perhaps be able to make better play with contradictions between agencies competing for resources and powers. There is a number of examples of such inter-agency scuffles, such as debates that are going on between the Ministry of Economic Development and Trade, the Ministry of Industry and Energy and the Ministry of Finance about how to spend the excessive resources of Russia's Stabilization Fund, or discussions between the Ministry of Education and Science and the Ministry of Finance about how to support innovations, etc.

All the above mentioned is just as true for large as for mid-sized enterprises, with a correction that new versions of «exit» strategy will be perhaps more appropriate to large companies, and chances to effectively employ the «voice» strategy will be wider for medium-size companies, if only they go for collective actions. Additional factor to widen the space for interface with the state may appear if small and medium-size enterprises gain stronger political position in the framework of creation of a new social foundation for the presidential policy, which was launched by the Putin administration on the threshold of 2007—2008 elections. For instance, for the first time in many years ample funds were allocated for support of small enterprises

in the 2005 federal budget (about \$150 million, including credit guarantees for SME from the Russian Development Bank). Meanwhile, the volume of government support of SME is supposed to substantially increase in the years to come. The Ministry of Economic Development and Trade simultaneously started to prepare a program for development of SME on its own.

The largest corporations, which formed their main industrial assets as a result of «loan-for-shares» auction schemes in 1995, will probably have much poorer opportunities to guard their interests in the interaction with the state. Perhaps their most important line of communication with the authorities will be public-private partnership, where the state will be the leader, as it is understood by the Cabinet and Presidential Administration. Lack of concrete instruments for public-private partnership, as well as the very approach to realization of possible joint projects, which is offered by the authorities, casts serious doubts upon this partnership. At present, the apparently unequal positions of business community and the authorities on the federal level create a risk that the authorities will choose such projects single-handed and will appoint those in charge of their funding and implementation. This scenario (unfortunately, a likely one in the present situation) will actually mean that the business will be made to pay a «social tribute», and the idea of public-private partnership will inevitably become profane. This turn of events can be prevented by nothing else but active participation of the business community (with the aid of its experts) in evaluation of the projects, in drawing up comprehensible rules and schemes for their realization, etc. However high cost these federal public-private projects may involve, it must be recognized that «social rehabilitation» of the big «oligarchic» business will largely depend on their effective implementation.

Finally, a shift *from the federal to the regional level* within the next few years will be another important trend in cooperation of business with the state. This is because at present, improvement in business conditions, mainly in the industries where small and mid-sized companies prevail, depends on policies that regional and local governments will follow. Whatever could be done by the federal government for changes in legislation is largely done. The business community has understood this long ago, and recently, chances appear

that this situation will be understood by heads of regions and municipalities, which objectively compete for federal funding and private investment.

Renewal of regional elite, which has already started, can be a precondition for changes in policies that regional and local governments will follow. New young leaders are coming to take place of former secretaries of Regional Communist Party Committees and heads of Regional Executive Committees, which took the chairs of governors in the 1990s. Very often they come from business, and not only from «oligarchic» business. Unlike present politicians of the federal level, who are concerned mostly about preservation of the positions they are holding, new leaders have prospects for growth and long-run ambitions. Moreover, at least some of them understand that they will not be able to hope for promotion to the federal political elite in 2007—2008 unless they achieve genuine improvement of living standards in their regions. This will call for pragmatic and constructive interface with business community. Another factor to encourage the dialog between new regional leaders and business is limitation of resource available to regional and local budgets, which was imposed by «distribution of powers» between levels of government, which was made in 2002—2003 by a commission headed by Dmitry Kozak. The way Mr. Putin has changed the procedure of gubernatorial election shows that presidential surroundings are trying to put it under control, but this is unlikely to radically affect the pattern of relations between new leaders and the business community.

New opportunities for economic development in the post-crisis period gave the green light to a number of large businesses, which grew up from medium-size companies of the mid-1990s. As a rule, this type of businesses is unrelated to privatization and «loan-for-share» auctions. Nevertheless, the Yukos affair turned to teach them a very important lesson as well. «This golden watch remains mine only while everybody around me agrees that it really belongs to me. If 90% of my neighbors think different, I will never sleep well any longer». This phrase was said by a young Russian banker in April 2004 in response to a famous letter by Mr. Khodorkovsky published in the «Vedomosti» newspaper [Khodorkovsky, 2004]. We believe that these words reflect the understanding that Russian business exists not on Mars but in the

Russian reality, where social differentiation has grown extremely wide. And if business is wishing to survive, it must consider not only its profits but also how ordinary people are living nearby — and make their life better. Understanding of this problem can be a precondition for real participation of business in public projects that the authorities are offering, particularly on regional and municipal levels, where things are much more tangible and transparent, and the way money is being spent can be better understood.

So, as we believe, long-term pragmatic interests of large «non-oligarchic» companies and new regional leaders can lay the foundation of a new system of interaction between the state and business. This system may evolve more successfully because unlike federal authorities and national business-groups, these two categories are of about equal weight.

Consequently, in spite of the tendency towards «bureaucratic consolidation» under the slogan of making the state stronger, which was announced in 2000—2004, and the negative influence the Yukos affair had on the general business climate, high degree of economic openness and heterogeneity of public administration provides to the business community a fairly wide variety of potential positive and negative strategies of interaction with the state. We believe that on the federal level, these strategies will mostly assume the logic of «exit», in the terms used by Albert Hirschman. On the contrary, «voice» strategies are more likely to be employed on the regional level — in those regions and municipalities where the authorities will be ready for equal partnership with businesses and will be able to create favorable conditions for attraction of capital and investment.

Conclusion

Weakness of the state, which was unable to resist pressures of various interest groups and to ensure tax collection and to give the business a standard set of services for protection of property and contractual rights, was the key characteristic feature of Russia in the 1990s. This determined specific ways of realization of basic strategies of interaction between business and the state, which can be described as «exit» and «voice» in terms used by A. Hirschman [Hirschman, 1970]. Nevertheless, contrary to the established notion about rent-seeking behavior of Russian business in the 1990s, the actual situation was not so simple. In particular, along with the strategy of influence and close integration with the state in order to make maximum profits from special preferences and benefits obtainable from the government, many companies followed a strategy of keeping at a distance from (or avoiding) the state.

While the first strategy was realized in the model of «state capture», the model of behavior based on the second strategy can be given a provisional label of «free entrepreneurship». The first model of conduct was typical mostly of the businesses, which had accumulated their seed capital as early as in the 1980s and operated in banking, finance and export-oriented industries. On the contrary, the second model was more typical of younger companies, which operated in trade and services (including the IT sector, transportation, tourism etc.).

Despite substantial differences in appearance, logic of evolution of both models of conduct made economic agents objectively need a stronger state. In the first case, macroeconomic instability and fiscal deficit, caused by incessant rent-seeking of various interest groups, involved risks of strong social and political shocks, which in turn could bring substantial redistribution of power and property (the 1998 crisis

was the example of such shocks). As a result, the most influential players were interested in emergence of a powerful state, which could protect them from the outcome of such crises (however, such influential players believed that, having ensured «controllability for everybody» by the means of a stronger state, they could be able to preserve freedom for themselves). Similarly, most players who relied on the model of «free entrepreneurship» needed guarantees that general «rules of the game» should be followed and «protective services» should be provided. Competition between various agents for supply of such services to the business clearly demonstrated that public administration even at minimum degree of orderliness can do it better than criminal gangs.

However, in the absence of well-developed political democracy, in a situation when electorate is weary of chaos and uncertainty of the previous decade, consolidation of the state, although generally important to economic agents, followed the model of *bureaucratic consolidation*, with typical tendencies towards suppression and capture of business. Meanwhile, the business community actually assisted to implementation of this scenario, trying to make an informal bargain with the authorities behind the society's back and ignoring the need for social recognition of the ownership structure that emerged in Russia in the 1990s. Inefficiency of this kind of strategy in the new environment was clearly demonstrated in solution by force of the conflict with Yukos, which was made by the authorities and as a matter of fact, fact supported by voters in recent parliamentary and presidential elections. As a result, we can state that by summer 2004 the state gained absolute dominance over the business.

Nevertheless, even in this situation high degree of economic openness and heterogeneity of public administration opens to the business community a fairly wide variety of potential strategies of interaction with the state. Their efficiency will largely depend on how much the Russian business will succeed in shifting from traditional individual lobbying of separate interests to deliberate collective actions aimed at creation of conditions for sustained economic development in their industries, sectors and regions.

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