Review article
Cronies, economic crime and capitalism in Putin’s *sistema*
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Arguably, the most important outcome of the December 2011 parliamentary elections in Russia were the peaceful protests that followed them. Even if the protests did not offer much in view of an alternative to the current regime,\(^1\) or even critique of the current regime, they have become, in effect, protests against Vladimir Putin’s *sistema*.

What is *sistema*? The term is elusive. *Sistema* is an open secret that represents shared, yet not articulated, perceptions of power and the system of government in Russia. I introduce the term ‘Putin’s *sistema*’ to designate the governance model shaped during Putin’s presidency (2000–2008), inclusive of its grey areas. It stands for the workings of power networks and methods of informal governance applied by political elites, intertwined with the existing formal institutional structures. For example, if Putin’s governance model is defined in terms of a *vertikal* of power—Russia’s hierarchical system of government—Putin’s *sistema* also embraces those informal networks that undermine the *vertikal* and manipulate official policies enhancing it. In a way, *sistema* refers to the outcome of the existing clash between official policies and unofficial influences, between formal hierarchies and informal networks.\(^2\)

Given the importance of informality in Russian politics, research in this field is fairly scarce. Some of the reasons are of a pragmatic nature. In studying informal institutions, networks and practices, researchers often encounter methodological challenges, pressures to work across different disciplines, as well as unwelcoming attitudes of respondents. But there are also conceptual puzzles of integrating the informal dimension into disciplinary research, as well as moral resistance to find out inconvenient facts about grey areas of politics, the economy and society.

All books discussed in this review article represent an important development: a shift from the predominant ‘transition paradigm’ view on Russia. They offer concepts and methodologies that delve into what Thomas Carothers calls ‘grey zones’. According to Carothers, of the 100 countries

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\(^1\) The critique of the regime was personalized. The journalist Artemii Troitskii called for Putin to disclose how much money he had and to show his wife. The blogger Alexei Naval’nyi referred to the leadership as ‘botox boys’. Those who spoke about the future did not suggest any particular projects, but called for an honest Russia (Boris Akunin), and increasing influence by the people on politics (Ksenia Sobchak).

\(^2\) Ledeneva, A. Can Russia Modernise: Putin’s Sistema, Power Networks and Informal Governance. Cambridge University Press (in press)
that could be identified as transitional, less than 20 are clearly on the path to becoming successful well-functioning democracies. The majority of third-wave countries do not appear to be consolidating their early democratic promise. While some have regressed into explicit authoritarianism, most transitional countries are ‘neither dictatorial, nor clearly headed for democracy’.\(^3\) The sheer number of prefixes and qualifiers that have been coined to describe the ‘democracies’ in this grey zone is telling: semi, formal, electoral, façade, pseudo, weak, partial, illiberal and virtual, to name but a few, with specific additions of guided, managed and sovereign democracy to describe Putin’s regime in Russia. David Collier and Steven Levitsky coined the term ‘democracies with adjectives’ in order to emphasize the conceptual stretch implied in referring to the countries of the grey zone as democracies.\(^4\) In Carothers’s paradox, by describing the countries in the grey zone as democracies, authors apply the transition paradigm to the countries the very existence of which calls this paradigm into question.

Carothers’s call for conceptual innovation to describe the political ‘grey zones’ is answered in a number of ways.\(^5\) I introduce the term sistema to refer to Putin’s non-transparent system of governance. Gulnaz Sharaftudinova and David Lane escape the trap of ‘democracies with adjectives’ by searching for adjectives for Russian capitalism. Contributions by Gilles Favarel-Garrigues, as well as Lilia Shevtsova and Andrew Wood’s Change or decay (reviewed on pp. XX–XX), add further dimensions to the understanding of how Putin’s sistema works: its communist economic background and its external pressures.

In his Elites and classes in the transformation of state socialism, Lane argues that from what was initially a form of ‘chaotic’ or ‘disorganised’ capitalism, Russia has developed a ‘state-led corporatist’ type of capitalism. Lane views the Putin-imposed form of ‘elite settlement’ (sometimes referred to in the media as ‘Russia, Inc’ or ‘Putin’s friends’\(^6\) as a certain enactment of the ‘transition paradigm’, and shows the weakness of the elites-based types of approaches to societal change. He laments the decline of a once commonly held view that most Third-World countries were not ready for democracy to a clear and transition paradigm-driven break from that way of thinking. The idea that there was a range of preconditions for democracy relating to issues of wealth, class, institutional legacy and political culture—some would even request American-type middle classes and a heritage of protestant individualism—lost ground to the belief that ‘all that seems to be necessary for democratization [is] a decision by a country’s political elites to move towards democracy’. Thus, the role of elites becomes central, given the lack of need for preconditions of transition. Democratic transition should include a transplanted institutional design, with the determinative importance of elections.

Accordingly, ‘elite studies’ have taken centre stage and resulted in a variety of quantitative and qualitative analyses of discourse;\(^7\) formation of clans;\(^8\) anti-modern networks;\(^9\) network society;\(^10\) network state;\(^11\) and of the association of state networks with the middle classes.\(^12\)

\(^5\) Carothers, ‘The end of the transition paradigm’, pp. 5–21.
\(^6\) Korporatsiya Rossia, as in the separate references file The New Times.
\(^8\) Kryshtanovskaya and White 2003; Wedel 2003; Kosals 2007; Mukhin 2005; Mitrokhin 2008 – in file
In his thorough empirical study, Lane re-integrates the notions of class and interest into the analysis of the elites and illustrates their explanatory power in accounting for elites’ social and economic values and global outlooks. Lane compares political elites under Gorbachev and Yeltsin in terms of their age, educational background and, most interestingly, their influence on decision-making. By assessing the influence of the executive (government) elite, the rule-making elite, and the leaders of parties and factions in parliament (in post in 1992–93), he identifies an important change. Yeltsin’s elite groups differed in their views about ‘who makes the decision’ in the light of their own interests, and also in the light of declaring their views about interests. The executive legitimacy was undermined by dependence on foreigners; at least the parliamentary and party elites believed this to be the case. Examination of Gorbachev elite’s responses did not show such divisions. Yeltsin’s leadership was widely believed to promote the interests of specific elite groups, their own interests and the ‘interests of society’ (p. 136 probably remove page numbers throughout?).

In her *Political consequences of crony capitalism*, Sharafutdinova identifies a similar pattern at the regional level, whereby interests of cronies undermine the leadership’s policies, whether in progressive Nizhny Novgorod or more traditional Tatarstan. She reinvents the notion of cronyism and views it as a definitive in the nature of Russian capitalism. Sharafutdinova admits the long roots of the phenomenon, and associates it with a customary use of power by public officials to benefit and enrich their friends and supporters outside the government. Yet she also identifies a change—the degree to which a close connection between state officials and economic elites dominates policymaking. She distinguishes between traditional cronyism and ‘crony capitalism’ by defining the latter as a distinct institutional order characterized by the domination of informal elite groups. ‘In such a system selected economic elites receive preferential treatment and privileges, making support from the state rather than market forces a crucial factor for maintaining and accruing wealth’ (p. 3X).

Sharafutdinova considers the puzzle of co-existence of crony capitalism with such democratic institutions as political competition and the electoral process. In tune with Carothers’s analysis, she points out that after almost two decades of transition, only the new post-communist members of the European Union can claim that democracy and markets are gradually taking shape (p. 2X). This is despite the fact that most countries in the region have instituted elections as the main mechanism for power transfer and allowed for the flourishing of private property and wealth accumulation. Formal democratic institutions appear to be a façade, aimed at legitimizing mostly unaccountable elites, corrupt political-economic systems and markets that are not free.

Sharafutdinova establishes distinct patterns of political evolution in the Russian regions of Tatarstan and Nizhny Novgorod, where democratic institutions became enveloped by manipulative practices surrounding elections, extensive application of political technologies, and the use of dirty tricks known as ‘black piar’. As a result, she argues, the very idea of democracy has received a bad name in Russia—‘the baby gets thrown out with the bathwater’ (p. 3). In a way, Sharafutdinova’s puzzle of what is happening to democratic institutions under crony capitalism is complementary to Andrew Wilson’s analysis of the power of political technologies and the theatrical facades of virtual politics,

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9 Rose 2000, 2005 in file
10 Castells 2000. In file
11 Steen 2006; Kononenko and Moshes 2011. In file
12 (Dubin et al 2008; Brym and Gimpelson 2004. In file
encapsulated in his concept of *dramaturgija* of the elections\(^{13}\) and to this reviewer’s ethnography of white, grey and black *piar* practices, depicting on the spectrum of practices reflecting legal and ethical constraints on use of compromising information (*kompromat*).\(^{14}\) Whereby black (illegal and unethical) and white (legal and ethical) forms of informational warfare are more or less clear-cut, the grey areas (illegal but ethical, legal but unethical forms of campaigning) are hard to grasp. The latter are particularly interesting, and Sharafutdinova highlights the emerging shifts in legal and ethical frameworks characteristic of the post-communist transition.

Sharafutdinova’s study of the interaction between political competition and crony capitalism concludes that under crony capitalism, political competition can undermine the legitimacy of state authorities and such democratic institutions as the electoral mechanism. Played out in public during electoral campaigns, unrestricted political competition uncovers the predatory nature of crony elites engaged in the struggle for power and wealth. Consequently, the electoral process itself gets discredited as an essential part of the overall institutional order in the process. Non-competitive political systems avoid such negative tendencies, at least in the short run.

If we turn to Putin’s *sistema*, Sharafutdinova’s analysis points to its reliance on cronyism, while Favarel-Garrigues’s emphasis is on its use of suspended punishment. In his detailed archival study of *Policing economic crime in Russia*, Favarel-Garrigues establishes the legal vulnerability and social illegitimacy of entrepreneurs as exploited by the political regimes from the beginning of the Brezhnev era in 1965 to the mid-1990s. The two points are not unrelated: where access to wealth and business opportunities is achieved through cronies and informal channels, the property rights cannot be fully legitimate and secure. The vulnerability of economic actors should be preserved in order to enhance political stability and corporate control. The vulnerability of the elites is thus one illustration of *sistema*’s fundamental ambivalence. There are others. ‘Crony capitalism’ has similarly ambiguous implications for economic growth. It appears to undermine market competition, legitimacy of the market institutions and the framework for entrepreneurship. However, it also enables, enhances and stabilizes business undertaken by crony capitalists.

Outside the post-communist region, the term ‘crony capitalism’ has acquired considerable popularity since it was used as an explanation for the East Asian crisis.\(^{15}\) However, the concept of crony capitalism has been criticized as a description of a distinct kind of capitalism associated with the state playing a key role in the allocation process. Surajit Mazumdar points out its inability to provide a suitable framework for understanding the business-state interaction.\(^{16}\) He suggests that the phenomenon of cronyism is also widespread in all modern societies and is not necessarily a feature of capitalism characterized by any particular economic policy. In fact, crony capitalism may lie at the very heart of the contemporary global capitalist order, and this may explain why the concept of crony capitalism has acquired such prominence.\(^{17}\)


\(^{15}\) See for example, David C. Kang, *Crony capitalism: corruption and development in South Korea and the Philippines*, Cambridge University Press, 2002 - yes


\(^{17}\) Mazumdar, ‘Crony capitalism: caricature or category?’. 
Although the argument of the universality of cronyism makes sense—after all, it is grounded in the universality of social networks and their functionality in all societies—there are at least three characteristics that make Putin’s *sistema* specific.

The first characteristic is the degree to which crony networks are used for the purposes of Putin’s micro-management or ‘manual control’. Besides, Sharafutdinova’s evidence suggests that cronyism in Russian regions is systemic and is not counterbalanced by political competition, business rationality, civic freedoms and media-driven accountability. The relative weakness of checks and balances on the elites’ cronyism means that related practices are widely spread and accepted at every level of society. They may not be fully legitimate but they are widespread. It also means that the ruling elite can remain a fairly closed and stable group of people. Putin’s *sistema* has also been said to reproduce the tradition of stability of cadres associated with Brezhnev’s period of late socialism.

In her empirical study of Soviet and post-Soviet political elites, Olga Kryshtanovskaya argues that Gorbachev destabilized the Soviet *sistema*.18 Yeltsin proceeded in that direction—his appointments and sackings are remembered as nightmarish by officials. Putin’s ‘vertical of power’ has become known for the stability of his networks. Most analysts and observers agree that Putin ‘does not betray his own people’ (*svoi*).19 There are exceptions when informal agreements are broken and people are willing to go against the *sistema*, but these are few.

Putin’s *sistema* functions with some elements of the ‘administrative-command’ system of late socialism. Administrative-command methods remain effective to mobilize cadres and to allocate resources, somewhat adjusted to the present-day objectives and priorities. But there are also significant differences: the party line has given place to private interests, state property to privatized assets, informal exchange of favours to monetized kickbacks, planning to the constraints of global finance, and overtly command methods to more subtle informal signals.20

The second characteristic of Putin’s *sistema* is its orientation on wealth, even where communist legacies continue to surface in the defects of privatization, the weakness of property rights, and the inefficiency of law enforcement. Favarel-Garrigues argues for the reinvention of entrepreneurial practices with reference to a panorama of illicit practices and realities of ‘underground economy’ in the Soviet Union of the 1970s and 1980s, and the redefining of the penal policy in late 1980s to 1990s, both contributing to the subsequent development of markets and private entrepreneurship. His analysis of false reporting (*pripiski*), bribery (*vyatochnichestvo*), corruption (*korruptsiya*), progress

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19 For ‘*svoi*’ types, including inner circle, core contacts, useful friends and mediated contacts, see Ledeneva, as in Fn2 *Can Russia modernise: Putin’s sistema, power networks and informal governance*, Cambridge University Press, in press.

pushers (tolkachi), moonlighters (shabashniki), illegal producers (tsakhoviki) and hooligans (khuligany)—is an important insight into the study of informal practices from the perspective of policing. An understandable omission in the book is the use of blat networks in policing context—very little record of it can be found in archives—that would make an interesting addition to Favarel-Garrigues’s near comprehensive list of informal practices in the period of transition. Essential for our understanding of the workings of Putin’s sistema today are his findings of ambiguity around such entrepreneurial practices and a shifting boundary between legal and illegal economic activity.

Favarel-Garrigues’s analysis of the challenges of policing in the early years of Russia’s economic transition, when the Soviet legal matrix for business activity failed to keep up with new post-Soviet business practices, illustrates his general point about the squeeze on policemen, applicable in today’s Russia. Just as any street-level bureaucrat, he documents, the Soviet policeman was an agent whose activity was defined by ‘constant management of dilemmas arising from the desire to comply with the orders from above and at the same time to satisfy the demands of the citizenry’. The effectiveness of the network-based governance depends on the degree of vulnerability of those involved. In this sense, corrupt practices, for example, are subversive of sistema, but they also help to hold sistema together. Corrupt officials and businessmen are compromised, can be exposed personally and thus cannot enjoy secure property rights. They are therefore bound into sistema and can be mobilized for its purposes. Being compromised is essential for becoming a sistema insider. It allows the leadership to dominate, to keep insiders in line and also to achieve its key objectives, namely political stability and wealth creation. The incorporation of such practices into policing—stemming from the police nature of the Soviet state and the specifics of tools used by the police—accounts for the emerging power of siloviki and their present-day involvement in the so-called raider attacks undertaken under the patronage of state officials, as well as other forms of economic crime.

The vulnerability of individuals and the fluidity of rules are at the centre of Shevtsova’s definition of sistema. It is ‘a specific type of governance structure whose characteristics include paternalism, the state domineering over the individual, isolation from the outside world, and ambitions to be a great power. The heart of the system was the all-powerful leader, above the law and a law unto himself, concentrating in his hands all powers, without a balancing accountability, and limiting all other institutions to auxiliary, administrative functions. The Russian system did not need fixed rules of the game; it needed fixers’.21 The notion of fixers is reminiscent of the pushers in the planning system—tolkachi and blatmeisters—whose purpose was to lubricate the rigid constraints of sistema, but also points to the theme of leadership, central to understanding informal governance.

It is crucial, however, to see that sistema constrains the leader too. Power networks operate on principles similar to other informal networks and impose certain norms of reciprocity and informal constraints on people in official positions: first, blurred boundaries between friendship and the use of friendship; second, helping friends at the expense of public/corporate resources or access; and third, recruitment into networks according to a particular logic—it could be loyalty, dependence or compliance based on transgression/compromised recruiting—rather than the logic of competition and professionalism.

The third characteristic of sistema is ambivalence. It is complex, anonymous, unpredictable and seemingly irrational. But at the same time, it serves to glue society together, to distribute resources

21 Shevtsova 2003, p. 16.
and to mobilize people; it contributes to both stability and change; and it ensures its own reproduction. Present-day *sistema* incites people to work, but does so in an ambivalent and even paradoxical way, its incentives prioritize short-term profit at the expense of long-term sustainability, loyalty at the expense of professionalism, safety and collective responsibility at the expense of leadership, innovative circumvention of *sistema* constraints at the expense of productive innovation. Self-made businessmen often comment on their success being achieved against the odds and despite the forces of *sistema*, whereas *sistema* businessmen prefer to avoid the subject of building close links with influential politicians or deny it.22

Thus, Shevtsova acknowledges the capabilities of *sistema*, but she also speaks of the failure of success, the uncertainty of certainty, the instability of stability and the impotence of omnipotence as Russia’s systemic paradoxes. In her view, the economy functions in a dysfunctional way—the economic growth and stability of Putin’s Russia is detrimental to the country’s development in the long term.23 Given the dependence of *sistema* on informal capital flows, there is little wonder that administrative reforms in Russia have not been completed and that the principles of separation of powers and the rule of law are not fully operational.

In academic terms, Putin’s *sistema*, with its virtual politics, rigged elections, ‘managed’ parliament, controlled parties and obedient television, leaves classical political science focused on political institutions somewhat helpless and unable to apply comparative methods. In political terms, dealing with Putin’s *sistema* for outsiders is just as difficult. In their *Change or decay*, Shevtsova and Wood discuss the prospects of Putin’s Russia. Both authors accept the liability the West holds with respect of Russia’s path and agree on the fact that Russia remains alien to the western political mentality. Harsh criticism is put on the insufficiency of western involvement in the Russian transition during the presidency of Yeltsin. Instead of encouraging institutional changes of the region when it had the influence to do so, the West has concentrated on the proliferation of nuclear weapons. Shevtsova’s unforgiving condemnation of western policies is somewhat mitigated by Wood, who credits the West for stabilizing the region. He doubts the extent to which western involvement would be accepted by Russians, and similarly notes the ambivalence of the western political stance towards Russia. He argues that Russia is perceived as both foe and partner and the mutual engagement differs in different situations. Such reflections emphasise once again the ambivalence of *sistema* and the ambivalent nature of its responses to external pressures.

It is tempting to assume that there are possible reform measures that could be undertaken to replace Putin’s *sistema* with a market economy and the rule of law (*pravovoe obshchestvo*). But the point about *sistema* is that it enables Russian society to cope with its problems while at the same time undermining that society. I argue that there is no obvious way of tackling *sistema* without weakening the various kinds of social cohesion that enable Russian society to function.

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