

### Models and strategies of conflict interaction between business and authorities in transition societies: the case of Russia

Georgievna Pinkevich, Anna; Victorovich Aleinikov, Andrei; Dmitrievich Osipov, Igor

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

#### Empfohlene Zitierung / Suggested Citation:

Georgievna Pinkevich, A., Victorovich Aleinikov, A., & Dmitrievich Osipov, I. (2016). Models and strategies of conflict interaction between business and authorities in transition societies: the case of Russia. *Studies of Transition States and Societies*, 8(1), 5-19. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-62523-3>

#### Nutzungsbedingungen:

Dieser Text wird unter einer CC BY Lizenz (Namensnennung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier:  
<https://creativecommons.org/licenses/by/4.0/deed.de>

#### Terms of use:

This document is made available under a CC BY Licence (Attribution). For more information see:  
<https://creativecommons.org/licenses/by/4.0>

# Models and Strategies of Conflict Interaction between Business and Authorities in Transition Societies: the Case of Russia

Anna Pinkevich\*, Andrei Aleinikov & Igor Osipov

## Abstract

The purpose of this paper is to explore the ties between business and power in Russia and to analyse the features of what can be considered a conflictual relationship. Using the approaches of D. North, J. Wallis, B. Weingast, and J. Nye as a starting point, this article provides an overview of new business development in Russia and suggests that power is an important factor in the relationship between businesses and authorities in a transitional society. Drawing on both a theoretical and empirical analysis, it will be shown that ties between businesses and authorities have come to generate social distrust and negative attitudes towards both institutions in today's Russia.

**Keywords:** transition society, business and authority, conflict management, political strategies, corruption.

## Introduction

For researchers engaged in the study of the political and social conflicts, the application of the conceptual and categorical apparatus of conflict studies to the examination of the relationship between businesses and authority in post-Soviet Russia is of a particular interest. Modern Western capitalism formed over the course of a long political struggle against the values of the medieval and feudal worlds, and it is the result of the long development of free competition between the authorities and the bourgeois community. Russian businesses emerged from the political will of the state and on the foundation of a destroyed state-based economy. This creates a special type of labour and capital, as well as businesses and authorities. The absence of free competition, which is not associated with an obvious apparatus-state protectionism, and a force or criminal 'mode of production' in many respects have its historical background. The opacity of the decision-making process inherent to the system of relations between businesses and the authorities makes it difficult to identify the real nature of the conflicts between them. Classical theories are unable to explain why fundamental social institutions do not survive in the transforming Russia (Gaddy & Ickes, 2002; Kordonskyi, 2007; Barsukova, 2009; Nureev & Latov, 2011; Bessonova, 2012; Kirdina, 2014) and why Western values and business ideals are not accepted by the masses (Reddaway & Glinski, 2001; Sorokin, 2002; Trenin, 2010). The latter in the Russian context acquire new forms that do not easily fit into any known examples. The relationship between the society, businesses and the authorities has a specific structure. On the basis of general views, the elite tries to put forward concepts that describe in a new way the reasons for the structural change of business in Russia (Puffer et al, 1998; Kuznetsov & Kuznetsova, 2003; Hellman et al, 2003; Yakovlev, 2006).

The classical theory of rent-seeking certainly has value for our research too. The category 'rent-seeking' appeared in the works of Tullock (1967); Krueger (1974); Mueller (2008). Later it was developed by Samuels and Mercurio (1984), Tollison (1997), Buchanan and others (1980). Now this concept is one

\* E-mail address of corresponding author: pinkevich.a@yandex.ru

of the basic concepts in the political-economical analysis of any transition society (Heilman, 1998; Olson, 2000). The most interesting works for our analysis are those where the rent-seeking concept is used to study Russia (Shleifer & Treisman, 2000; Gaddy & Ickes, 2005).

Two authors from the current mainstream Acemoglu and Robinson (2012; 2013) argue that the theory of social conflict is the key theory today. From their point of view, the choice of economic institutions depends on those who have political power. The political processes determine in which economic situation and under which economic institutions people live. This theory is the most suitable in our analysis for its methodological basis. The identification and comparison of the positions, values, goals, problems, interests, and needs of the conflicting sides are the essence of contemporary conflict analysis.

One can find two models of conflict between the authorities and businesses (Hellman et al, 2000). In the first case, state representatives get part of the profits of economic enterprises by charging them a fee to enter the market. The business pays this bribe from its own profit to enter the market and, thus, they are a subject to the political power of state representatives.

In the second model, the business dictates its will to the representatives of the state and uses the political power in their own interests, in particular by limiting their competitors' access to the market (Bichkova & Gel'man, 2010; Yakovlev, 2010). Thus, there is a conversion of the political power into an economic one and back. By limiting competition, the business involved gets super profits, part of which is spent on bribing the government representatives. In this scenario, the business makes the officials express their interests. These concepts assume that one of the parties to the conflict are suffering in the arrangement. In the case of Russia, it is necessary to talk about how the interests of businesses and the authorities are combined. None of the conflicts between them have ever questioned the overall political and economic regime or affect the principles according to which the system is constructed. The Russian reality replaces the socialisation of businesses and their integration into social relations, the clan system, and corporate cohesion.

In this article, we will shed light on some aspects of this topic. Mostly, we are interested in the analytical problem, not in proving the existence of conflict between the authorities and businesses as such, but rather in describing the forms of its development, the mechanisms, and the social consequences of its resolution. At the same time, we have to classify these conflicts, starting with the forms they acquire due to differences in the axis of 'path dependence', and the peculiarities of their political courses, which were directed by the most powerful political figures in Russia (Berger, 1981; Arthur, 1984; North, 1990; Margolis & Liebowitz, 1998; Hedlund, 2005). In general, there are several questions to answer at once. What determines the institutional development of the conflicts between Russian businesses and the state? What are the behavioural strategies of businesses in conflicts with the state under the conditions of the special institutional environment in Russia? What does the current system of conflict relations resemble to the greatest degree: patronage, force conflict, symbiosis, 'network oligarchy?' Or should we talk about a quirky mix of different models? The main hypothesis of the article is that the post-soviet Russian transformation model of conflict resolution deals with the removal of a 'foreign' actor from participating in the distribution of resources with the help of political and economic competition restrictions.

## **Concepts of studying conflict interaction between businesses and the authorities in Russia**

Studying conflicts between businesses and the state in Russia allows for the involvement of several conceptual approaches. Among them, the Tilly approach, which analyses the development of democracy; the approaches of North, Wallis, and Weingast to social orders of the 'natural state', 'limited access order', 'open access orders'; Nye's concept of different forms of power, as well as the

fashionable concept of 'new Russian feudalism', focusing on the informal structures of patronage and clientelism (Tilly, 2007). Each of these concepts offers its view on the processes of managing and settling the conflicts. The use of the entire variety of existing approaches and methods while analysing the Russian business/state conflict model is presumed to be useful.

Nye distinguishes three forms of power in relation to politics and the practice of international relations: hard power (the use of force or threat of its use; transformation of the market into a tool of policy), soft power (the use of propaganda and persuasion), and smart power (the development of strategies to increase the effectiveness of both hard and soft power) (Nye, 2004). The concept of soft power is interesting not only for the study of external resources of the authority, but also for the discursive analysis of the communication tools in the conflict space. Despite the multi-layered semantic structure of the concept of soft power and a variety of options for its patterns of interpretation, the fact of its rapid popularity indicates the implemented cognitive force for the technological analysis of conflict management. Hard power is associated with the external coercion of the conflict parties. Subjectively, it is taken as a power of the external forces that subjugates the will of the party of the conflict. Unlike hard power, soft power is not perceived by the parties of the conflict as a force that acts from the outside. Soft power is a power that is implemented in the form of communicative influence in the conflict, is dictated by the authority and is perceived by the recipient as a free and voluntary choice. A combination of the traditional power sources with communicative methodologies and soft power practices can provide mobility and flexibility to modern institutions in conflict resolution. Hard power is the ability to practice coercion, due to superiority in either resources or status. In contrast with a 'hard' way of influence, soft power is the ability to obtain the desired based on the voluntary participation of the conflict parties in the process of conflict resolution, rather than coercion, fraud or bribery.

From the positions of the concept of soft power, there are different types of conflict styles in a society. Its selection is primarily connected with the system of institutionalisation of the conflict. The first type, avoiding acute outbreaks, provides "both sides of the urgent opportunity for direct expression of the contradictory requirements, . . . to eliminate the source of discontent, . . . to tackle the root causes of the internal divisions and to restore social cohesion" (Coser, 1991, p. 23). This style uses the concept of the American political philosopher Young and can be called a 'communicative democracy' (Young, 1993; Young, 2000). It distinguishes a negotiating democracy and a communicative democracy. In the negotiating democracy, communication is based on a strictly argumentative discussion. A communicative democracy seeks to go beyond the purely argumentative discourse. Here, all communicative resources allow one social group to express their position and their social experience is important. This communicative potential, whether it is hidden, deformed, or, on the contrary, has an open form, determines, in our interpretation, the conflicting styles of the society.

An opposite style of the 'communicative gap' is connected with the suppression of conflicts, which is ensured by the force and by the intervention of the authorities. This option of conflict resolution could mark the start of a spiral of social destruction and a complete disintegration of the society. According to Bauman, society is doomed to extinction and a complete collapse of the social-normative system if the death of traditional institutions is not compensated by new institutes of informal communication and social control (Bauman, 2001). Darendorf compared this type of conflict to a malignancy, claiming that those who fail to regulate conflicts by their recognition create their own problem (Darendorf, 1969, p. 140).

Iwasaki distinguishes three types of interaction models between the state and businesses: an 'order state', a 'punish state', and a 'rescue state' (Iwasaki, 2003).

In the 'order state', business structures are under strict centralised control and mass privatisation is not carried out (so it is doubtful whether there are special models of interaction between the state and businesses). Belarus, Turkmenistan and Uzbekistan can serve as examples of such countries.

A 'punish state' is limited to the maintenance of market institutions and does not interfere in the mechanisms of corporation management; also, it shall not take measures to prevent bankruptcy, which is typical for the Baltic countries.

And, finally, a 'rescue state', which grants the economic entities a possibility to take decisions independently, but retains the right to interfere in a certain situations, and to prevent bankruptcy of the enterprises. The state intervention is not limited by clear regulations and institutions and leaves a great scope for corruption and lobbying.

Also, the work of Bichkova and Gelman, the Russian researchers who proposed the original typology of relations between economic and political figures should be noted. They identified the following types of relations: 'predatory state', 'rent-seeking', 'state capture', 'laissez-faire', and 'mutual hostages' (Bichkova & Gel'man, 2010).

In the 'predatory state', bodies of the state authorities lose their motives for constructive cooperation with businesses. The authorities control the main economic resources, autocratically implement key decisions, and carry out a policy of economic development without the participation of the business groups. Business structures are fragmented and cannot resist them.

In 'rent-seeking' and 'state capture' types, there are strong business structures that have significant influence on the political decisions of the state power bodies.

'Laissez-faire' is characterised by a mutual weakness of the business structures and the authority, not allowing the dominance of any party.

'Mutual hostages' – the business and the authority have an equal force and seek for a common ground in terms of interests, coexisting with each other.

There are several doorstep conditions in current day Russia for a transition from the system of limited access to the system of open access, and they were formulated in the last works of North and his co-authors (2006):

1. rule of law for the elites;
2. perpetual forms of organisation for the elites (including the state);
3. political control of the military.

An analysis of the research precepts allows to distinguish the three main aspects of modelling an interaction between businesses and the authorities based on the following set of classification criteria: the type of organisational design of the business and the institutionalisation degree of its relations with the authorities; the method and the degree of legitimisation of a business in the society; the structure and the balance of relations between businesses, authorities, and society. According to the given attributes, the following modes of operation for the conflicting relations between businesses and the authorities can be pointed out: 'prescriptive', 'functional', and 'communicative'.

A 'prescriptive' regime – power takes the form of domination, to ensure that the business carries out orders and directives (this space is often identified with cash means, resources and enabling the power community to realise its own will). For the prescriptive regime, an amorphous nature of businesses as political subjects that have an impact on policy making is typical. The strategic management of property is executed by dominant figures – the authority and an ideological legitimisation of the 'equal distance' of the business is carried out through the strict manipulative effect of the media.

Within the 'functional' regime, the authority appears as an ability to implement the function of public control over businesses as a socio-political factor with a certain relationship. In the functional regime, the business is partly autonomous; a system of 'feedings' is developed. In the competitive struggle, between business entities the administrative methods prevail, property rights are blurred by the power, i.e. the regulatory institutions, and in the mechanisms of redistribution power resources based on the legal norms are dominated.

**Table 1:** The concept of ‘invisible, helping, and grabbing hand’

|                | Legal environment  | Regulatory environment  |
|----------------|--|---|
| Invisible hand | Government is not above law and uses power to supply minimal public goods. Courts enforce contracts.                       | Government follows rules. Regulation is minimal. Little corruption.                 |
| Helping hand   | Government is above law, but uses power to help business. State officials enforce contracts.                               | Government aggressively regulates to promote some businesses. Organised corruption. |
| Grabbing hand  | Government is above law and uses power to extract rents. The legal system does not work. Mafia replaces state as enforcer. | Predatory regulations. Disorganised corruption.                                     |

Source: Frye & Shleifer (1997)

The ‘communicative’ regime implies that the authorities interact with businesses through communication that functions according to a set of rules that are understandable to both sides. Within this format, business entities are independent from the authorities, influencing policy development through formal mechanisms for lobbying and interacting with each other, according to the laws of market competition. Property rights are well defined and fixed, and redistribution processes are dominated by economic and legal mechanisms.

The poor conditions of doing business in Russia have been the subject of numerous research studies for a long time. An overview of the recent works is available in the article by Ledeneva, in which she emphasizes that “Essential for our understanding of the operation of Putin’s system today are his findings of an ambiguity around such entrepreneurial practices and a shifting boundary between legal and illegal economic activities” (Ledeneva, 2012).

As a basis of the initial conceptual framework of our research, we can mention a well-developed and approved concept by Frye and Shleifer (1997) – the ‘Invisible, Helping, and Grabbing Hand’ (see Table 1).

It should be noted that in practice there is always a combination of several kinds of these models and concepts; in other words, it would be pertinent to speak about the predominance of one model or concept over another in the interaction between businesses and the authorities.

## The main features of the relationship between businesses and the authorities in Russia

In the conditions of the system conflict in the society in Russia, the institutions that ensure the state monopoly of violence were the only organised power of socio-political order in the country. Providing redistribution of property, financial and administrative resources, the institutions of violence have become a substitute for the planned regulation of the economy losing its functional character and becoming a part of the political power.

The behaviour of two subjects in the conflict between business and the authorities is dictated only by their own interests. The businesses always aim at maximizing the satisfaction of their interests and are able to achieve it under certain conditions. The authorities have advantages compared to businesses and they use them in the most effective manner, promoting further strengthening of power. The presence of the strategic component in the conflict means that both the business and the authority use ‘structural distortion’ and mutually promote its reproduction, thus, reinforcing their positions in the future.

Material capabilities and the legitimacy of the political elite depend on the investment solutions of businesses, allowing them to sometimes exert an indirect impact on politics. The government can prohibit some business activities, but may not order to perform its functions. If the government is pursuing a policy that seriously infringes the interests of business and significantly limits its autonomy, then, as a rule, this leads to an 'investment strike' and an outflow of capital.

The export of capital is, in particular, the reaction of entrepreneurs aimed at protecting and rescuing their profit. A significant decline in investment leads to negative social consequences: it reduces support for the regime, undermining the legitimacy of the political elite. The narrowing of the tax base leads to a reduction of material and political opportunities of the state, a refusal of the realisation of its social obligations. Thus, a policy that significantly restricts business interests may, like a boomerang, hit its initiator, the ruling regime, undermining material opportunities and legitimacy and increasing the likelihood of acute forms of political conflicts.

The Russian case is specific, according to the Russian researcher Akhiezer, in that the power is in constant fear of the fact that conflicts will cause uncontrollable destabilisation and absorb the country (Il'yin et al, 1996). This danger is suppressed by the invasion of the state in conflicts at lower levels and by the creation of special bodies for control and repression. Russian society is not yet in a position to turn a lot of conflict into a stimulus for the development of a dialogue. The participants of the conflict, in turn, appear to use the state against each other in the conflict, thereby corrupting the conflict. The Russian authorities are overburdened with unmanageable conflicts. They do not solve and cannot cope with conflicts, always busy with its non-admission into politics. The imitation of conflict management institutions in Russia allows the ruling elite to maintain the regime, simultaneously increasing the degradation of the society and the authority.

Thus, the state is an organising element of institutional structures or an institutional environment for Russian business. In this regard, it is necessary to describe the phenomenon of 'power-property', which describes the situation when power and dominance, access to the resources, are not based on private property as such, but on a high position in the traditional hierarchy and on prestige (Service, 1975; Fried, 1967; Nureev, 2009).

It is the dominance of the institute of power-property in many ways that is the most important characteristic of the Russian political and economic system. This institute is explicitly ineffective compared to public, private, or individualised property. Often the causes of such development could be found in a socio-cultural particularity of a country, which seizes a complete private property market system. However, it is more correct to talk about the kind of societal development in which the state (the authority) plays a central role in the shaping of the economic, political, and social relations. Power-property is an order in which the political leadership gives the inalienable right to dispose of the property and the property organically implies an existence of political authority. The welfare of the political elite depends on their place and position in the hierarchy of state power, and not on inherited and acquired property. Thus, in Russia there is a conflict not just of power and property, but of two institutional systems of ownership: 'power-property' and private property. The particularity of this conflict is that the elements of one system are present in the structure of the other. While deriving private benefits in the form of control over the state property by the officials is typical for many political regimes, then deriving an official's benefits in the form of control over a private business is the hallmark of Russia.

The role of the Russian state has always gone beyond the regulation of terms and conditions of doing business. The main goal was always the regulation of access to the scarce resources. The system task of transforming the territorial and social space into the space of a controlled and managed power required providing the funds to respond to events threatening Russian statehood. Hence, a specific form of a 'state-warehouse' is arising. This concept can be seen as a way of observing and describing Russian society, as the resource-distribution 'lens' of Russian politics, which characterises the inability of the population to dispose of the resources independently and an attitude of the entrepreneurs towards the power not only as the manager, but as the 'great Master'.



In this system of coordinates, everything is defined by the 'patron-client' relationship, informal rules and laws are more important than the formal ones, and a branched extensive network of acquaintances, including both entrepreneurs and politicians, penetrates all formal institutions, being the most powerful collective figures. The main strategy for domination in business and criterium for successful entrepreneurship in Russia is a takeover of others' property, not its creation and effective management. For their businesses to be successful, the entrepreneurs in Russia first have to be able to get along with the authorities, to establish contacts with the officials, instead of having a good understanding of strategic marketing and management. The entrepreneur, who controls a considerable material and financial resources, realises that the future of his business directly depends on good relations with the current government. He understands that even an unbiased coverage of the actions of the opposition of own media affects the relationship. The public example of the 'Yukos affair' has forced the bulk of Russian entrepreneurs to abandon the idea that they can challenge the system without risking being expelled from the country and losing their wealth.

Analysing the conflicts of the state and business, it is necessary to dwell on the concept of 'new Russian feudalism'. It is presented in the research work of Shlapentokh in the most comprehensive manner. Following the traditions of universalism in the analysis of conflicts in the society, he argues that

*The liberal and authoritarian (or in some cases totalitarian) models, in their various forms, have failed to fully explain the social, political, and economic changes in the post-Soviet countries. While these two models remain relevant for the analysis of Russian society, they need to be used in a conjunction with a third model, the feudal model, which on its own is probably able to describe more elements of the post-Soviet society than the other two. (Shlapentokh, 2007, pp. 183-184)*

Drawing a parallel between the contemporary Russian political and social system and early European feudalism, Shlapentokh notes that for Russia, which is, due to the various conflicts, not capable of enforcing law and order, the following features are characteristic:

1. the boundaries between public and private spheres are either blurred or they do not exist;
2. power and property are so intertwined that it is often impossible to separate them from each other;
3. like medieval barons, Russian bureaucrats at all levels of the hierarchy use their political power to control property, while the rich exchange money for power to control political decisions;
4. personal relations play a greater role than the networks based on the formal positions of people in the political, social, and economic structures;
5. the most powerful people in the country are not elected public figures, but close friends of the President.

Another author who writes about Russian neo-feudalism is Inozemtsev. There is one basic principle in the system of Russia's so-called neo-feudalism – "It is much easier for subjects to solve their problems individually than to challenge national institutions collectively" (Inozemtsev, 2011). In this case, corruption is the principle of the normal functioning of the system in the situation of any generally accepted alternative.

Informal relations and forms of economic activities take place in many transition societies, also in Russia. Special contributions to the investigation of the role of informal economic relations were made by several authors (Ledeneva, 1998; Caldwell, 2004; Grabiner, 2000; Wallace & Latcheva, 2006; Polese & Rodgers, 2011, Morris & Polese, 2014). They argue that informal relations are a fundamental part of economic relations in the former Soviet Union.

The role of informal and personal relations in economics and politics gives grounds to characterise the Russian political and economic system as 'crony capitalism'. In our opinion, its main features are:



1. systems of conflicts between closed groups of businessmen and politicians, officials of law enforcement bodies, united by common business interests and informal relationships.
2. informal norms and rules of behaviour in a conflict play a greater role than formal laws, and the violation of conduct is punished much more severely than of laws;
3. regulation of conflicts in the business sphere is put into effect using methods of force (e.g. inspections by the controlling authorities, criminal cases, refusals to grant licenses); unconditional loyalty to the group and hostility toward non-members.

The 'crony capitalism' in Russia is constructed mainly around the export of mineral resources (oil, gas, ferrous, and non-ferrous metals) and control over energy and the state budget. According to calculations made by Russian economists, 84% of the largest companies are engaged in the extraction of mineral resources and processing of raw materials. Only eight of the largest companies (16%) are employed in the other industries, five of whom produce cars that are not competitive on the international markets and are kept afloat only due to the high import duties and other forms of state protectionism (Braguinsky & Yavlinsky, 2000). Control of these sectors of the economy is also a source of activities for the political organizations and mass media.

Cronyism is a way of settling private and social conflicts, carried out not in accordance with the formal rules and laws, but with informal norms. Within the 'clan conflicts', the decisions made can both conform to the law in form and contradict it.

Consider the situation in Russia today in terms of given threshold conditions. So, according to a recent study, the subjects of 80% of criminal cases brought to court are unemployed. Every third person gets real imprisonment and is sent to prison. In contrast, Russian judges are much more tolerant of civil servants and only 11.8% of all convicted officials are sentenced to real punishment. The author of the research, one of the most famous Russian contemporary sociologists Volkov, came to the conclusion that status slopes are clearly expressed in the Russian courts, and the conflict between bureaucracy and the business is reflected in the sphere of criminal justice. Criminal justice in Russia works particularly against marginalised elements and representatives of business. Unemployed persons (32.8%) are imprisoned, while the share of imprisoned civil servants is 11.8% and the share of top-managers is 13.8%, respectively. The groups that belong to the state have strong privileges in the courts. The chances of acquittal on all counts among employees of law enforcement is 18% higher in case of marginal and 5% higher in case of serious crimes. An average sentence handed to state officials is 4 years, while for entrepreneurs it is 4.7 years, and for the top managers 4.6 years. A real prison term is handed to civil servants half as often than to all other defendants combined. The high-status group of entrepreneurs usually accused of fraud is discriminated and is given on average three to four months longer than the representatives of other social groups for the same offense (Volkov, 2013).

The power resource is an important factor in relations between businesses and the authorities. The existence of a power resource still has a serious impact on the resolution of disputes between the economic agents. The rights and privileges of the elite groups depend on their position in the dominant coalition. The loss of political influence leads not only to the deprivation of access to distributed resources, while loss of property sometimes leads to imprisonment. The real elite factions are not institutionalised. The attempts of business to institutionalise its influence can be dangerous, as exemplified by the fate of Mikhail Khodorkovsky.

The power, interfering in almost all of the conflict institutions, breaks a complex relationship between the actors in the conflict, suppressing sources of self-development. Simultaneously, the social field of the conflicts, with its complex forms of conflict regulation, is reduced to the aggregation of the particular conflict with its various and often closed and informal rules of settlement. Such actions often cause new conflicts and sometimes even result in fatal consequences for the main figures. The political significance of business is determined neither by the production or perfectness of its achievements, nor by the participation in the representation of values of the society, but by

the affiliation with one or another group of officials. Having the most important strategic potential, business in Russia either has no political ambitions or simulates having them, yet often is directly included in the structures of power.

It is important to note that the bulk of Russia's small and medium businesses are operating in the real sector of the economy and oriented mainly towards the satisfaction of the needs of the population, thus, they were practically eliminated from the system in terms of a relationship with the authority. Property rights in such circumstances were guaranteed only to the owners of the assets that were in close personal relations with government officials, who received a share of income in the business structures, whose stability they provided. An orientation towards the external commodity consumer and not towards the products, services, and goods necessary for the society in everyday life refers to the objective interest of the authority in a weak and subordinate business. The evolution of the relationship between business and the authorities in Russia resulted in obtaining the share of rents by a small number of the power structures at the expense of manual management and mutual control, based on the principle of 'mutual hostages'. Such a system could only result in the concentration of property, a hypertrophied strengthening of the informal mechanisms of coordination of business and government interests, which reduces the likelihood of the market reforms succeeding and the economic policy being effective.

### Business and society in current Russia

Ties between businesses and the authorities cause social distrust and negative attitudes in Russia. A huge gap in income gives rise to social tension. Business in Russia is organised as a conversion of the financial resources obtained from the budget, with its further investment into foreign assets. Russian businesses hold the leading position in the world in purchasing real estate in European capitals (according to some estimates, the share of Russians among the buyers of elite housing on the French Riviera is 12%). Also, a business in Russia represents the conversion of budget resources into the state's resources, a ruling status, civil offices, access to the distribution of other resources, participation in the political administration of the state. An informal large-scale system of converting resources of different types was formed in Russia (see Table 2). Thus, the 'elite' Russian stratum of society is fragmented into groups that are involved in the 'conflict of access' to the resources and super profitable businesses. They are focused on the creation of raw material and communication hypermonopolies, which constitute the most readily available technology for control by the authorities.

**Table 2:** System of resources conversion in Russia

| Different types of resources | Administrative and political                          | Economical  | Power resource  |
|------------------------------|---|---|---|
| Administrative and political | X   | Nomenclature entrepreneurship, creation of hothouse conditions for their businesses and obstacle for competitors, kickbacks | Organisation of force acts by law enforcement officials against the competitors |
| Economical                   | Bribes, buying offices                                | X   | Payment of force acts against the competitors                                   |
| Power resource               | Power seizure of offices, assassinations of officials | Power enterprise, power seizure of assets, contract killings of businessmen   | X   |

Source: Kosals (2006)

An analytical report by the Institute of Sociology of the RAS records that about 70% of respondents believe that the purpose of transforming the Russian economy was not in overcoming the economic crisis, but in the interests of both the reformers and the public groups behind them, aspiring towards the repartition of the former socialist property in their favour (Institute of Sociology of the RAS, 2011). The true purpose of the reforms was the seizure of power by the second level of the Soviet elite and the redistribution of public property in their favour. This is the opinion of 69% of the respondents.

Another fact on the development of the Russian economy deals with the level and quality of life in Russia. According to data cited by Gilinskiy, 13.4% of the population in Russia live in destitution with income below \$110 per month. Extreme poverty with income from \$110 to \$250 affects 27.8% of the population (Gilinskii, 2011). 38.8% of the population live in poverty, with income from \$250 to \$560. If the poor has its rich, then it is the 10.9% of the Russians with incomes from \$560 to \$830. When it comes to the level of middle-class income, 7.3% of population has income rates of \$830 to \$1700. The share of wealthy citizens with income from \$1,700 to \$2,500 amounts to 1.1%. So in summary: 41.2% of the population are beggars, 49.7% are poor (beggars and poor combined – 90.9%), 8.4% are wealthy and, obviously, 0.7% are rich. In comparison – the income of a board member of the state-owned monopoly Gazprom is \$193,000 per month (excluding annual and other bonuses). The salary of the highest officials in Russia (for example, the heads of law enforcement institutions) exceeds 10.2 – 21.3 times the average income of the country. In the UK, the figure is 6.4 times, in Germany – 7.1 times, in the United States – 5.17 times, in Norway – 3.7, in France – 4.68. The research work of Peters shows that such gaps between the average salaries of citizens and their high-ranking rulers are a characteristic of the most backward countries in Africa and the authoritarian regimes in Latin America (Peters, 2009).

The gap is huge and can result in a conflict. 73% of respondents believe that over the past ten years the gap between the rich and the poor has increased; 52% believe that among the country's leadership there are more thieves and the level of corruption is worse than in the 1990s (Shevcova, 2011).

Guriev estimates that 30 Russian oligarchs employ 42% of the Russian population, while the Federal government in the same category of production – only 15% (Guriev & Rachinsky, 2005). According to the evaluation of Ruthland, about 20 private companies are controlled by only 37 businessmen and produce almost a third of Russia's GDP (Ruthland, 2008, p. 1055). According to other estimations, in Russia 1 per cent of the richest people get 40% of the total national income. In comparison: even in the United States, the same 1 per cent of the richest get only 8% of all revenues (Shkaratan, 2011).

Strictly speaking, the polarisation in Russia of the very rich and powerful minority, which is 'included in the distribution of the pie', and the very poor and powerless majority of the 'excluded', using the terminology of Bauman 'a wasted life', not needed for the modern society creates fertile ground for the populist redistribution policy (Bauman, 2004). This again creates a system conflict of at least two subcultures, preserving the basic features of the Russian living conditions. Only 2 per cent of the population with extremely high incomes can be attributed to the first group ('the included') and a class that 'serves' them (a generalised middle class) comprises about 20% of the Russian families. They depend largely on the state and are less likely to rely on civil society. We must remember that the modern Russian society is characterised by a discrete structure; a discontinuity of the coordination of cooperation and conflict; social-cultural, existential and ethnic alienations between the upper and lower ranks of the society. The Russian conflicts are of a system-paralysing character and so complex that the syndrome of the 'Gordian knot' occurs, which is easier to cut than to untangle.

Russia has vertical cliques, organised on patron-client relations, which control the key industries of the economy and the key institutions. A system of use of the institutional resources of violence 'removes' the conflict, forcing other social groups to recognise the narrow partisan or separate institutional, departmental, and even corporate interests as the state and national interests 'of the whole'.

We can assume that the strengthening of the power vertical axis has led to the system of acute conflict in the form of an allocation of the resources between public corporations, ministries, regions and private businesses, controlled by the members of the ruling coalition. Thus, the more unevenly scarce resources are distributed in the system, the deeper the conflict of interests between the dominant and subordinate segments of the system. The deep awareness of the disadvantaged groups about their interests leads to the question of legal distribution and the justice of the currently existing forms of distributing scarce resources. The more subordinate groups are aware of their interests and their violation, the more likely it is that they will have to join together in an open conflict with the dominant groups in the system. The social energy is aggravated in antagonistic conflicts in the areas of symbolic wars, social networks and in everyday life.

## Conclusions

The specific design of the conflicts between the Russian businesses and the authorities contains a significantly greater extent of the transformational rent, an acute struggle for its capture, and a significant role of the federal centre in the distribution of rent.

The specific features of the Russian model of conflict between businesses and the authorities include:

1. conflicts between the authorities and businesses are social constructions in which demand on 'bad' conflict resolution institutes is formed by the authorities and these institutes have no positive effect;
2. the concentration of power and property, as well as social inequality reduces the interest of the rich and powerful economic players in having effective state institutes;
3. the authority stimulates distrust between market players towards each other. In addition, the least efficient Russian corporations are the most influential lobbying groups. These companies have become a major source of budget income. Politicians, on the other hand, can use this non-effective conflict resolution as an instrument for power saving;
4. empirical data confirms that Russian business strategies are orientated towards using relations with the state as a competitive advantage but not to increase their income.

The techniques used in the relations between businesses and the authorities to provoke new conflicts are as follows:

1. receiving state orders, subsidies that violate the terms of competition, the use of governmental pressure when selecting suppliers or customers;
2. use of public resources (financial, power, intellectual, judicial) for the development of an 'equally closed' business, protectionism, and the creation of artificial monopolies;
3. granting of tax or other privileges;
4. selective application of the law in violation of economic legislation, an artificial bankruptcy for the redistribution of property;
5. insider information to support of upcoming innovations, including the proactive ones;
6. the elimination of competitors using law enforcement agencies.

Both the state and businesses were not ready for the establishment of democratic procedures, political, and legal conditions protecting them from mutual 'seizures'. The businesses began to use power as an element of design of competitive advantages, including the use of state resources for the impairment or economic destruction of the competitors. A compromise and a criminalisation of the rules of economic and political existence are attributed to the emergence of the Russian business and

constitute a common problem of the post-Communist development. The lack of moral legitimacy in Russian business leads to the interpretation of a business as an 'activity for making money' by any means, including immoral and non-market ones.

## References

- Acemoglu, D., & Robinson, J. A. (2012). *Why Nations Fail. The Origins of Power, Prosperity and Poverty*. N.Y.: Crown Business.
- Acemoglu, D., & Robinson, J. A. (2013). Economic Versus Politics: Pitfalls of Policy Advice. *Journal of Economic Perspectives* 27(2), 173-192.
- Arthur, W. B. (1994). *Increasing Returns and Path Dependence in the Economy*. Ann Arbor: The University of Michigan Press.
- Barsukova, S. (2009). Corruption. Academic Debates and Russian Reality. *Russian Politics and Law* 4, 8-27.
- Bauman, Z. (2001). *The Individualized Society*. Cambridge, England: Polity.
- Bauman, Z. (2004). *Wasted lives. Modernity and its outcasts*. Cambridge, England: Polity Press.
- Belkovskii, S. (2010, November 22). Officials-businessmen. *Forbes*, 79. Retrieved from <http://www.forbes.ru/svoi-biznes/58524-chinovniki-biznesmeny>
- Berger, S. (1981). Regime and Interest Representation. In S. Berger (Ed.), *Organizing Interests in Western Europe* (pp. 83-101). Cambridge: Cambridge University Press.
- Bessonova, O. (2012). Institutional matrix for the modernization of Russia. *Questions of Economy*, 8, 122-144.
- Bichkova, O. V., & Gel'man, B. Y. (2010). Economic actors and local regimes in the major cities of Russia. *Neprikosnovennii zapas* 2(70). Retrieved from <http://www.nlobooks.ru/sites/default/files/old/nlobooks.ru/rus/nz-online/619/1760/1767/index.html>
- Braguinsky, S., & Yavlinsky, G. (2000). *Incentives and Institutions. The transition to a market economy in Russia*. Princeton, NJ: Princeton University Press.
- Buchanan, J., Tollison, R., & Tullock, G. (2008). *Toward a Theory of the Rent-Seeking Society*. College Station, Texas: Texas A and M University Press.
- Caldwell, M. (2004). *Not by Bread Alone: Social Support in the New Russia*. Berkeley: University of California Press.
- Coser, L. A. (1991). *The Functions of Social Conflict. In Social Conflict: modern studies*. Moscow, Russia: INION AN SSSR.
- Darendorf, R. (1969). *Society and Democracy in Germany*. Garden City, New York: Doubleday.
- Fried, M. (1967) *The Evolution of Political Society. An Essay in Political Anthropology*. New York: Random House.
- Frye, T., & Shleifer, A. (1997). The Invisible Hand and the Grabbing Hand. *American Economic Review* 87(2). Retrieved from <http://papers.nber.org/papers/W5856.pdf>
- Gaddy, C., & Ickes, B. (2002). Russia's Virtual Economy. *Economic Systems* 26(4), 409-411.
- Gilinskii, Y. (2011, May 18). Excluded forever. Russia's future: anxiety which can not remain silent. *Nezavisimaya Gazeta*.
- Grabner, L. (2000). *The Informal Economy*. London: HM Treasury.
- Guriev, S., & Rachinsky, A. (2005). The Role of Oligarchs in Russian Capitalism. *Journal of Economics Perspectives* 19(1), 131-150.
- Hedlund, S. (2005) *Russian Path Dependence*. London: Routledge.
- Heilman, J. (1998) Winners Take All: The Politics of Partial Reform in Postcommunist Transitions. *World Politics* 50(2), 203-234.

- Hellman, J., Jones, G., & Kaufmann, D. (2000). *Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition. Policy Research Working Paper 2312*. Washington DC: World Bank.
- Hellman, J., Jones, G., & Kaufmann, D. (2003). Seize the state, seize the day: state capture and influence in transition economies. *Journal of Comparative Economics* 31(4), 751-773.
- Ignatyev, S. (2013, February 20). Interview of the President of the Bank of Russia Sergei Ignatiev. *Vedomosti*, 28. Retrieved from [http://www.cbr.ru/pw.aspx?file=/press/press\\_centre/ignatiev\\_20022013.htm](http://www.cbr.ru/pw.aspx?file=/press/press_centre/ignatiev_20022013.htm)
- Il'yin, V. V., Panarin, A. S., & Ahiezer, A. S. (1996). Theoretical political Science: Reforms and Contr-reforms in Russia. Cycles of the modernization process. Part 3. In *Reform and Culture. Vol. 1. Socio-cultural perspective of Russian reforms*. Moscow, Russia: Izd-vo MGU.
- Inozemtsev, V. (2011, March). Neo-Feudalism Explained. *The American Interest*, 6(4). Retrieved from <http://www.the-american-interest.com/2011/03/01/neo-feudalism-explained/>
- Institute of Sociology by the Russian Academy of Science. (2011). Twenty years of reform through the eyes of Russians (the experience of many years of sociological measurements). Analytical report. Retrieved from [http://www.isras.ru/files/File/Doklad/20\\_years\\_reform.pdf](http://www.isras.ru/files/File/Doklad/20_years_reform.pdf)
- Iwasaki, I. (2003). Evolution of Government-Business Relationship and Economic Performance in the Former Soviet States. *Economics of Planning* 36(3), 223-257.
- Kirdina, S. (2014). *Institutional Matrices and Development in Russia: An Introduction to XGY Theory*. Saint-Petersburg: Nestor-History.
- Kordonskiy, S. G. (2007). *State of Resources*. Moscow: Regnum.
- Kosals, L. (2006). Crony capitalism in Russia. *Neprikosnovennii zapas* 6(50). Retrieved from <http://magazines.russ.ru/nz/2006/50/ko17.html>
- Krueger, A. O. (1974). The Political Economy of the Rent-Seeking Society. *American Economic Review* 64, 291-303.
- Kuznetsov, A., & Kuznetsova, O. (2003). Institutions, Business and the State in Russia. *Europe-Asia Studies* 55(6), 907-922.
- Ledeneva, A. (1998). *Russia's Economy of Favours: Blat, Networking and Informal Exchange*. Cambridge: Cambridge University Press.
- Ledeneva, A. (2012) Review article Cronies, economic crime and capitalism in Putin's sistema. *International Affairs* 88(1), 149-157.
- Margolis, S. E., & Liebowitz, S. J. (1998). Path Dependence. In by P. Newman (Ed.), *The New Palgrave Dictionary of Economics and Law*. London: Macmillan.
- Morris, J., & Polese, A. (2014). *The Informal Post-Socialist Economy: Embedded Practices and Livelihoods*. London: Routledge.
- Mueller, D. (2008). *Public Choice*. New York: Cambridge University Press.
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- North, D. C., Wallis, J. J., & Weingast, B. R. (2006). *A Conceptual Framework For Interpreting Recorded Human History*. Cambridge, England: National Bureau of economic research.
- Nureev, R. M. (2009). *Russia: peculiarities of institutional development*. Moscow: NORMA.
- Nureev, R. M., & Latov, U. V. (2011). When and why parted ways of development of Russia and Western Europe (approach from the perspective of institutional economic history). *Universe of Russia: Sociology. Ethnology* 20(4), 24-67.
- Nye, J. S. (2004). *Soft Power. The Means to Success in World of Politics*. New York: Public Affairs.
- Olson, M. (2000). *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*. New York: Basic Books.
- Peters, G. (2009) *Politics of Bureaucracy: An Introduction to Comparative Public Administration*. New York: Routledge.
- Polese, A., & Rodgers, P. (2011). Surviving post-socialism: the role of informal economic practices. *International Journal of Sociology and Social Policy* 31(11/12), 612-618.



- Puffer, S., M., MacCarthy, D. J., & Zhuplev, A. V. (1998). Doing business in Russia: Lessons from early entrants. *Thunderbird International Business Review* 40(5), 461-484.
- Reddaway, P., & Glinski, D. (2001). *The Tragedy of Russia's Reform: Market Bolchevism Against Democracy*. Washington: The United States Institute of Peace Press.
- Ruthland, P. (2008). Putin's Economic Record: Is the Oil Boom Sustainable? *Europe-Asia Studies* 60(6), 1051-1072.
- Samuels, W., & Mercurio, N. (1984). A Critique of Rent-Seeking Theory. In D. C. Colander (Ed.), *Neoclassical Political Economy: The Analysis of Rent-Seeking and DUP Activities* (pp. 56-57). Cambridge: Ballinger.
- Service, E. R. (1975). *Origin of the State and Civilization*. New York: Norton.
- Shevcova, L. (2011, November 14). Russia: the Logic of Decline. *Novaya Gazeta*.
- Shlapentokh, V. (2007). Contemporary Russia as a Feudal Society: A New Perspective on the Post-Soviet Era. New York: Palgrave Macmillan.
- Shkaratan, O. I. (2011). Russian 'pseudo elite' and its identification in global and national contexts. *Universe of Russia* 4, 68-88.
- Sorokin, D. (2002). Russian Political-Economic Thought: Basic Traits and Traditions. *Problems of Economic Transition*, 44(9/10), 81-93.
- Tilly, Ch. (2007). *Democracy*. Cambridge: Cambridge University Press.
- Tollison, R. (1997). Rent Seeking. In D. Mueller (Ed.), *Perspectives on Public Choice: A Handbook* (pp. 506-525). New York: Cambridge University Press.
- Trenin, D. (2010). Russia's Conservative Modernization: A Mission Impossible. *The SAIS Review of International Affairs* 30(1), 27-37.
- Tulloch, G. (1967). The Welfare Cost of Tariffs, Monopolies, and Theft. *Western Economic Journal (now Economic Inquiry)* 5, 224-232.
- Volkov, V. (2013). Status biases in the courts of general jurisdiction: an empirical study of the the social status impact of the defendant on the verdict. Retrieved from <http://www.enforce.spb.ru/issledovaniya>
- Wallace, C., & Latcheva, R. (2006). Economic Transformation Outside the Law: Corruption, Trust in Public Institutions and the Informal economy in Transition Countries of Central and Eastern Europe. *Europe-Asia Studies* 58, 81-102.
- Yakovlev, A. (2006). The evolution of business-state interaction in Russia: From State Capture to Business Capture. *Europe-Asia Studies* 58(7), 1033-1056.
- Yakovlev, A. (2010). *State-business relations in Russia in the 2000s: From the capture to a variety of exchange models?* Working paper WP1/04. Moscow: Publishing House of the University. Higher School of Economics.
- Young, I. M. (1993). Justice and Communicative Democracy. In R. Gottlieb (Ed.), *Radical Philosophy: Tradition, Counter-Tradition, Politics*. Philadelphia, PA: Temple University Press, 123-143.
- Young, I. M. (2000). *Illusion and Democracy*. Oxford, England: Oxford University Press.

**Anna Pinkevich**, PhD, is Associated Professor at the Department of Conflictology, Institute of Philosophy, Saint Petersburg State University, Russia. Her research interests include social conflicts, methods of empirical studies and electoral behaviour. She has recently published work on the problems of protest behaviour in conflict research.

**Andrei Aleinikov**, PhD, is Associated Professor at the Department of Conflictology, Institute of Philosophy, Saint Petersburg State University, Russia. His research interests include transition societies, business and power interaction, methodology of conflict studies, post-soviet conflicts. He recently published work dealing with the theoretical analysis of the Russian conflict model.



**Igor Osipov**, PhD, is Professor, Head of the Department of the History of Philosophy, Institute of Philosophy, Saint Petersburg State University, Russia. His research interests include political philosophy, problems of Russian constitutionalism, philosophy of responsibility. He has recently published work on the historical and cultural analysis of the business and power interaction in Russia.