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978-1-107-07248-0 - Post-Soviet Power: State-Led Development and Russia's Marketization

Susanne A. Wengle

Excerpt

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Introduction: Russia's Political Marketization

*"Chubais wants electricity to be a purely commercial good. Well, it never was and it never will be."*¹

Post-Soviet Power and Politics

The Russian winter of 2005–2006 was the coldest in a generation. Electricity consumption nationwide had increased steadily during the economic recovery after 1998. When radiators and lights were turned on all over the country in January 2006, consumption levels reached their peak since the collapse of the Soviet Union.² The electricity infrastructure strained to keep up with demand, and the media was full of reports of imminent blackouts, emergency measures, and unfortunate provincial towns left in the cold dark, without power and heat for hours and days.

The physical pressures on electricity grids in post-Soviet Russia became a metaphor for the political forces fighting for influence on the transformation of the Soviet-era electricity system. All eyes turned to UES (United Energy Systems, or *Единые Энергетические Системы*), the state-owned electricity monopoly that had been the guarantor of heat and power since

¹ Interview #43 with electricity sector economist, Khabarovsk, 20071010.

² *Энергия России*, No. 212, January 2006, available at http://www.rao-ees.ru/ru/news/gazeta/show.cgi?arh_2006.html. Also reported by *Associated Press*, AP Press Release, January 19, 2008. Unlike in the United States, heat in Russia is produced centrally, usually in the same plants as electricity, rather than in individual apartments and houses.

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the early days of Soviet Union. For much of the 1990s, Russia's electricity sector looked like a ministry, struggling to reliably provide heat and power. Electricity production was still organized as a vertically integrated, predominantly state-owned monopoly, administered by a bureaucracy that made most production and investment decisions. Despite the apparent lack of change, UES was in the midst of a far-reaching transformation, subject to an ambitious liberalization project. It was a monopoly that was undoing itself. Partly it was unraveling in an unpredictable, ad hoc manner. But the end of UES was mostly an orchestrated dissolution brought about by the sector's liberalization. Liberal reforms unbundled vertically integrated production systems, privatized power plants, created markets for electricity, and ended state control over the price of power. This transformation, pushed ahead by a group of liberal reformers centering around Anatoly Chubais, was as controversial as it was ambitious. Liberalization entailed the reorganization of a vast number of economic relationships. For most of the first two post-Soviet decades, the future of electricity production and of exceptionally valuable power plants was subject to fierce political battles, pitting shifting alliances against the reformers and their vision of private actors trading power on competitive markets.

The threat of blackouts and surging demand for electricity in that cold winter of 2006, and in the years since 1998 more generally, served as a powerful argument *for* liberalization and privatization. It was the "only way," argued liberal reformers, to raise vast amount of capital needed for technological updates and capacity increases.³ Many parts of Soviet-era infrastructure were fatigued; others had long reached the end of their working life. Some regions had to deal with acute capacity shortfalls. And even while generation capacity in other regions was redundant owing to the economic collapse in the 1990s, nobody disputed that Russia's electricity system needed large-scale investments. But who should pay for the capital upgrades? Who should own the most and the least valuable power plants? How was the system to be modernized and what should happen to users that for years had relied on heavily subsidized

³ Estimates of the overall investment needs in the sector skyrocketed over the years that GOELRO-II was discussed, and eventually reached as much 400–500 billion rubles for the period until 2030. This is according to Anatoly Chubais, who mentioned this sum at a conference "Энергетика: тормоз или локомотив развития экономики?" Moscow, February 13, 2007. It was widely noted that this is a very large sum – more than Gazprom, one of the world's largest companies, planned to invest over the same period. The comparison with Gazprom is mentioned in news reports following this conference in *Коммерсантъ*, "РАО ЕЭС пересчитало источники финансирования," February 28, 2007.

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electricity? These were critical political questions that underpinned Russia's marketization.

This book tells the story of Russia's electricity system and the politics of its post-Soviet transformation to help us understand the making of Russian capitalism in a new way. Electricity is a basic infrastructure and an energy sector. In Russia, electricity was also an index for Soviet modernity and industrialization. The political battles surrounding the unbundling of monopolies, the privatization of power companies, and the liberalization of tariffs were materially important and symbolically charged in this country with cold and long winters. The story that unfolds, then, is about the marketization of Russia's economy in the wake of Soviet communism.⁴ Russia's marketization is also an opportunity to rethink how we theorize economic development elsewhere. I will outline the argument specific to the Russian context first, before turning to the more general claims.

Post-Soviet Developmentalism

My focus shifts away from what has been at the center of the discussion on post-Soviet political economy – the country's corrupt bureaucrats and its authoritarian government – to offer what I hope is a new and useful lens to understand this tumultuous period in Russian history. This book draws attention to the struggles to establish a state with the ability to govern the economy. This ability was elusive during the 1990s, especially during the first few years after the unraveling of the planned economy, but it had been a challenge even prior to that, as successive Soviet leaders sought to compel powerful ministries and factories to comply with their reform plans.⁵ Corruption was, and is, indeed absolutely endemic in post-

⁴ Michel Callon and Koray Çalışkan called for attention to processes of economization, stressing that the Economy is "an achievement rather than a starting point or a pre-existing reality that can simply be revealed." Although I started this project well before Callon and Çalışkan called for a research program that examine processes of economization, the story of the marketization of Russia's electricity sector in many ways fits the research they call for. Koray Çalışkan and Michel Callon, "Economization, Part 1: Shifting Attention from the Economy towards Processes of Economization," *Economy and Society* 38, no. 3 (2009): 369–398; and Koray Çalışkan and Michel Callon, "Economization, Part 2: A Research Programme for the Study of Markets," *Economy and Society* 39, no. 1 (2010): 1–32.

⁵ John Padgett's comparison of the politics of communist economic reforms in the Soviet Union and China presents an argument and overview of these difficulties. See chapter 9 in John Frederick Padgett and Walter W Powell, *The Emergence of Organizations and Markets* (Princeton, NJ: Princeton University Press, 2012), 267.

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Soviet Russia, and the political regime has become more authoritarian and chauvinistic and less accountable and tolerant under Vladimir Putin.⁶ Albeit important, these attributes neglect another aspect of state power. The reassertion of sovereign authority during Putin's first two terms as president and the elimination of challengers to the central government – the establishment of the famous “power vertical” (*вертикаль власти*) – was also about efforts to rebuild a state with the ability and legitimacy to govern and plan, efforts to return to (or to realize) the modern axiom that the state provides for economic prosperity. Putin wanted to bring back a state that takes charge of progress through hands-on planning, rather than rely on the invisible hand. And years before he became president, this kind of hands-on marketization characterized the approach to economic policy of many regional governments. They opposed the *laissez-faire* approach advocated by Boris Yeltsin's team of liberal reformers and pursued their own paths toward post-Soviet economic policy. What I argue in this book is that we should take seriously these efforts and the agenda to forge the state's role in post-Soviet marketization – which I call post-Soviet developmentalism – and to analyze their impact on the way market institutions took shape.

Post-Soviet developmentalism is a form of hands-on economic planning that charts the market integration of regional economies as they responded to myriad challenges following the collapse of the Soviet planned economy. The end of Soviet planning meant the collapse of a vast state procurement system and the need for each and every actor to recreate new economic relationships. Economic strategies of political authorities varied greatly across regions and over time, and various tiers of the government came up with different solutions to these challenges. Despite variation, Russian authorities tended to want to create strong domestic economic actors through state support, who could compete internationally and employ Russians domestically. Many regional developmental strategies sought to prevent deindustrialization, unemployment, and labor migration that would turn provincial cities into ghost towns. These strategies continued a long tradition of the Russian state's push for economic development through ambitious, top-down modernization projects, precisely what successive Soviet leaders had attempted, no less than the earlier schemes designed by Sergey Witte, Pyotr Stolypin, and Peter the Great. In most respects, however, post-Soviet developmentalism bore

⁶ Documented for example by Masha Geesen, *The Man Without a Face: The Unlikely Rise of Vladimir Putin* (New York: Riverhead Books, 2012).

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only faint resemblance to Soviet-era planning: cost and prices mattered in a way they did not under Soviet planning, and all actors were acutely aware of domestic and international markets, of competitiveness and arbitrage. Post-Soviet developmentalism embraced market forces and had to wrestle with new economic actors, first and foremost Russia's notorious oligarchs, closely tied to these markets. In fact – and this is important for the marketization of the Russian economy – the post-Soviet developmental agenda depended ultimately on the government's ability to *enlist* oligarchs for broad social aims. These efforts failed as often as they were successful. The developmental strategies that I am describing were often the strategies of a relatively weak state, whose authority and legitimacy were acutely in question. Yet the negotiated relationships between the Russian state and the oligarchs rested on mutual dependence; neither side could determine the outcome *a priori*. The complex patterns of Russia's marketization then, I argue, were shaped in such evolving pacts between the government and newly emerging economic actors.

Russia's electricity sector reforms were both remarkably market-liberal and strikingly *étatist*. By 2008, liberal reformers largely succeeded in transforming the electricity sector from a ministry to a market, with *de novo* institutions that regulated a profit-seeking private sector. At the same time, the state kept control of key levers of the sector, and new market institutions varied greatly across Russia's regions. These complex combinations of apparently liberal and illiberal elements that characterize the reorganization of power provision are puzzling for analysts that view corruption and rent seeking as the driving force of post-Soviet institutional reform. Nor can they be adequately explained with omnibus traits such as free/liberal versus regulated/coordinated that dominate public and much of academic discourse.⁷ A political economy approach that can better understand and theorize such patterns is important for a number of reasons. For one, new market arrangements translated into very real ruble amounts on every electricity bill, small and large, which was the element of power reforms Russians typically cared about.⁸ The

⁷ Work by Gary Herrigel (2000) and Monica Prasad (2013), for example, undo these categories and distinctions. Gary Herrigel, *Industrial Constructions: The Sources of German Industrial Power* (Cambridge: Cambridge University Press, 2000); and Monica Prasad, *The Land of Too Much: American Abundance and the Paradox of Poverty* (Cambridge, MA: Harvard University Press, 2013).

⁸ See Chapter 5 for results from survey by FOM (Фонд Общественное Мнение) concerning public opinion on electricity sector reforms. Excerpts also published in Susanne Wengle, "Power Politics Electricity Sector Reforms in Post-Soviet Russia," *Russian Analytical Digest*, no. 27, Center for Security Studies ETH Zurich (2007): 6–10.

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cost of power played a role in everyday lives and affected cost and incentive structures across the economy. They were crucial aspects of Russia's post-Soviet transition. Complex combinations of various types of market institutions are also characteristic of late modern capitalism elsewhere. They are precisely what define heterogenous economies; classifying them as distortions or aberrations from a stylized norm is ultimately not conducive to a better understanding of their origin and how they function. Finally, they reflect an image of markets that are political and contingent constructs, rather than the result of interacting private interests that are exogenous to the political arena.

This book will detail the patterns of liberal and illiberal elements that characterize Russia's new electricity markets. I will demonstrate that they result from regionally specific developmental bargains or pacts, in which different tiers of the government shaped electricity sector institutions in the interests of conglomerates, while also enlisting them for regional developmental strategies. Based on a close observation of how these development bargains and development strategies function, the book then suggests an approach to the political economy of development that draws attention to economic and political institutions evolving in reflexive processes.

Post-Soviet developmentalism has gone largely unnoticed and remains under-theorized.⁹ Dominant theories of state-market relations regard the Russian state as captured by either oligarchs or corrupt bureaucrats. In the capture framework, emerging market institutions are deemed flawed and distorted by concessions the state makes to these rent seekers. The trajectory and outcome of electricity reforms traced in this book confirm that emerging market institutions did indeed reflect the interest of emerging oligarchic conglomerates. But they also demonstrate very clearly the limits of the capture approach. If we look more closely at emerging institutions and how they align with the interests of different types of conglomerates, the regionally patterned adaptation of market institutions appears to be more than a mere reflection of short-term rent seeking. Concessions to conglomerates addressed their long-term international competitiveness and their ability to employ Russians in towns across this

⁹ Exceptions to this trend are sociological studies of the post-Soviet transition, discussed in Chapter 1. Many Western accounts of the transition have focused primarily on the predatory nature of the Russian state, but the kind of strategies that I highlight have not gone unnoticed. In Russian political discourse, strategies to "modernize" the Russian economy were widely discussed. Regional development strategies, their effectiveness, and their challenges were also intensely debated in the Russian academia and media; see Chapter 2.

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vast country. Oligarchic conglomerates, while often represented as rapacious individuals, were in fact industries, paying real salaries to people all over Russia. Rather than buying off oligarchs, the government adapted market reforms in the electricity sector in exchange for these conglomerates' contributions to regionally specific development strategies. These regional bargains wound up shaping the electricity sector's transformation from a ministry to a market.

The difference between enlisting and capture logics rests on a distinct understanding of the motivation of public officials vis-à-vis Russia's oligarchic conglomerates. Underlying the former is a conceptualization of a state seeking to promote competitive national champions (regardless of success), and more broadly, a state continuously involved in creating market institutions and actors.¹⁰ The capture logic, by contrast, imagines the state as an exogenous actor. A liberal faction (weaker or stronger, depending on the period) struggles to advance reforms in the face of an opposition that needs to be co-opted to implement reforms. In this view, liberal reforms and liberal market institutions are a set of stable rules put in place during reforms that then frame the market. Competitiveness is inherent in market participants; it is not created by or dependent on the state. This book demonstrates what can be gained from seeing Russian authorities reform the former type of state, rather than assessing its distance from the latter.

Interests and Ideas in Developmental Strategies

In January 2006, at the height of that cold winter, the liberal reform team led by Anatoly Chubais announced an ambitious modernization plan to upgrade the ailing Soviet-era infrastructure. It was named "GOELRO-2," after Lenin's 1920 GOELRO initiative to bring electricity to the newly created Soviet Union.¹¹ As every Russian schoolchild knew, Lenin conceived of electricity as the basis for the spread of modern industry and technology, as captured by the slogan "Communism = Soviet Power + Electrification of the whole country."¹² During the decades

¹⁰ See Herrigel, *Industrial Constructions*.

¹¹ GOELRO stands for *Государственная комиссия по электрификации России*/State Commission for the Electrification of Russia.

¹² See, for example, a 1920 letter by Lenin to the engineer in charge of electrification, Gleb Maximilianovich Krzhizhanovsky, in В. И. Ленин, *О Развитии Тяжелой Промышленности И Электрификации Страны*, 1956, 45. See also Р. Я. Бриль and И. М. Хейстер, *Экономика Социалистической Энергетики: Допущено В Качестве Учебника Для Инженерно-Экономических Вузов И Факультетов* (Высшая школа, 1966).

of Soviet planning that followed, electric power was a potent symbol of progress and development.¹³ Contemporary reformers similarly stressed that electricity was a key infrastructure and an absolutely essential part of economic life. Literally they referred to it as “the backbone” of the economy, the basis for future economic prosperity, and the miracle that turns night into day, darkness into light.¹⁴ The strategic use of resonant norms is evident in Chubais’s reliance on Lenin’s electrification to justify privatization. What is even more poignant is that opponents of liberal reforms mobilized the very same memory of the Soviet-era electrification project for their rejection of liberal reforms. They argued that the state should remain firmly in control of the “master switch” in the sector.¹⁵ Ironically, but perhaps typical for post-Soviet politics, both liberal reformers and their opponents mobilized Lenin’s legacy, relying on the symbolic capital imbued in turbines, grids, and wires since the earliest days of the Soviet Union.

How can we make sense of the way interests and ideas were mobilized during reforms? On a conceptual level, post-Soviet developmentalism is best understood as a set of ideas that was strategically and pragmatically deployed by various actors.¹⁶ Political and private actors relied on inherited and shared ideas, while also adapting and mobilizing them in political arguments, thereby forging new meaning. The reasoning why and how the electricity sector and the economy were to be modernized routinely reflected particularistic interests as well as resonant narratives about how a region was to benefit from these arrangements. Broadly, historically situated rationales about regional prosperity and development legitimated particular interests embedded within these rationales, thereby making their realization possible. I should clarify here that by emphasizing ideas I do not mean to downplay the importance of oligarchic interests. This is not a story of how lofty ideals won out over base interests; in fact, the way narratives were deployed helps us overcome the dichotomy of interests versus ideas, which pervades much

¹³ See discussion in Chapter 3.

¹⁴ Chubais cited by Колесников, А. В. *Неизвестный Чубайс: Страницы из Биографии*. Москва: Захаров, (2003): 133.

¹⁵ Moscow’s Mayor Yuri Luzhkov, one of the most prominent opponents of liberal reforms, frequently emphasized the need for “state control of the master switch” (“госконтроль над рубильником”); cited by Vitalii Tseplyaev in “Чубайс – Лужков – боевая ничья,” *Аргументы и факты*, October 16, 2002.

¹⁶ On strategic constructivism, see Nicolas Jabko, *Playing the Market: A Political Strategy for Uniting Europe, 1985–2005* (Ithaca, NY: Cornell University Press, 2006).

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of political economy.¹⁷ Subsequent chapters emphasize that a decontextualized, stylized notion of interests is insufficient to explain how a particular “capturer” shaped electricity reforms. Different types of conglomerates had very different interests vis-à-vis the electricity sector. To understand the shape of marketization, we need to understand the way the government selectively accommodated these interests during the electricity sector reforms, and how these interests were legitimized through development strategies that charted the region's market integration.

Development strategies were ubiquitous reference points in regional imaginations of future well-being. As such they served important political functions, justifying a particular reform trajectory as efficient and necessary for a region. Development strategies provided resonant and coherent narratives to legitimize one set of views or interests while discrediting others.¹⁸ For political actors, these narratives were critical to realizing their vision of a region's future. For conglomerates, they were a way to write themselves into the future of a region. Could it mean that, by legitimizing special interests in this way, development strategies were no more than fig leaves that detracted attention from corrupt behavior by bureaucrats and oligarchs? If that were the case, developmental strategies would be hypocritical documents, designed to conceal what is really going on. As mentioned at the outset of this chapter, there is no doubt that rent seeking was pervasive, and ambitious super-projects were indeed effective siphons of state money into select private hands. This does not mean, however, that we need to look no further than such arrangements to explain Russia's marketization, or that they provide a sufficient explanation of how markets evolved. Development strategies played a significant role: they made particular market arrangements possible. Providing continuity between a region's past, present, and future, they legitimated an emerging conglomerate's role in that story and governing authorities' decisions to promote particular economic actors. In fact, they could only legitimize particular interests if they managed to project an image of future prosperity rooted in credible notions of a region's comparative advantage. So, even if development strategies were

¹⁷ Constructivist political economy has started to undo this dichotomy; see discussion in Chapter 1.

¹⁸ My interest in development strategies as legitimating narratives draws on the work of Timothy Mitchell, *Rule of Experts: Egypt, Techno-Politics, Modernity* (Berkeley: University of California Press, 2002), 41.

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often vague, overly ambitious, and only partially realized, they were in the literal sense of the word, meaningful.

Developmental strategies were particularly visible in the marketization of Russian electricity, precisely because UES was more than a collection of turbines and grids. As “one of the big achievements of the Soviet Union,”¹⁹ it embodied key norms and standards of the Soviet order. The Soviet Union’s first electrification-plan, Plan-GOELRO was also the first legendary Five-Year Plan, the pulse of planning for the rest of the Soviet era. The symbolic power imbued in electric light tightly linked electricity to the legitimacy of the state. It meant that the sector was too important for the state to neglect. Power failures in the 1990s both symbolized economic collapse and exposed the state’s absolute weakness, its inability to provide the most basic prerequisite for a “civilized,” modern life.²⁰ A state that failed to provide heat and light was a failed state. “Power failures” then literally assumed a dual meaning, and Russian politicians at all levels of government could not afford to ignore problems in electricity provision. Conversely, the modernization of electricity infrastructure, in reality and in rhetorical references, projected an image of a strong state with clear plans for future prosperity. Hence the claim by an electricity sector economist, whom I interviewed on a brisk fall day in Khabarovsk in a well-heated office of the city’s public university: “[Electricity]... never was, and never will be a purely commercial good.”²¹

Economic Development and Political Authority as Reflexive Processes

The Russian version of state-led development is a central aspect of the way the Russian economy marketized. It is also an interesting case to

¹⁹ Interview #39 with electrical engineer/electricity sector expert, Vladivostok, 20071004.

²⁰ Reports of outages in regional newspapers were often accompanied with a statement that civilized life is only possible with electricity; for example, “В ногу с цивилизацией,” *Красноярский рабочий*, June 9, 1992. Reports of outages were described as causing unbearable inconveniences; for example, “Острый Сигнал: Прошли выборы – отключили батареи,” *Умро России*, January 15, 1994. See also Stephanie Platz, “The Shape of National Time: Daily Life, History and Identity during Armenia’s Transition to Independence 1991–1994,” in *Altering States: Ethnographies of Transition in Eastern Europe and the Former Soviet Union*, ed. Daphne Berdahl, Matti Bunzl, and Martha Lampland (Ann Arbor: University of Michigan Press, 2000), 114–138.

²¹ See epigraph of this chapter.