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From Well to Welfare: Social Spending in Mineral-Rich Post-Soviet States

By

Marcy Elisabeth McCullaugh

A dissertation submitted in partial satisfaction of the

requirements for the degree of

Doctor of Philosophy

in

Political Science

in the

Graduate Division

of the

University of California, Berkeley

Committee in Charge:

Professor M. Steven Fish, Chair

Professor Steven Vogel

Professor Jason Wittenberg

Professor Michael Watts

Fall 2013

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Abstract

From Well to Welfare: Social Spending in Mineral-Rich Post-Soviet States

By

Marcy Elisabeth McCullaugh

Doctor of Philosophy in Political Science

University of California, Berkeley

Professor M. Steven Fish, Chair

Why do some autocrats redistribute resource rents through high welfare spending, while others do not? Conventional wisdom suggests that authoritarian leaders unconstrained by institutions and with unlimited access to resource wealth would siphon off these funds for themselves and rent-seeking elites at the expense of delivering goods to citizens. Yet, welfare spending levels among the world's petroleum-rich authoritarian and hybrid regimes indicate that some rulers are more inclined than others to "share the loot" with the larger citizenry.

This dissertation provides a theory of redistributive social spending in mineral-rich authoritarian regimes, using the cases of Russia, Kazakhstan and Azerbaijan. I analyze health, education and social security spending in each country from 2000-present, leveraging variation across cases as well as within each case over time. In Azerbaijan under Heidar Aliev (1995-2003) and Ilham Aliev (2003-present), there is little evidence of desire on the part of the government to engage in redistribution. Welfare expenditures have remained consistently low as a percentage of GDP and decreased drastically over time as a percentage of total government spending. By contrast, welfare expenditures in Russia under Vladimir Putin (2000-present) have increased substantially since the early 2000s, driven largely by new social policy initiatives aimed at increasing pensions, salaries for health and education workers, and expanding categories for direct cash transfers and benefits to citizens. Finally, Kazakhstan under Nursultan Nazarbaev (1991-present) occupies a middle position between these two extremes.

I find that variation in social spending is explained by differences in elite cohesion. Different degrees of unity and conflict among political and economic elites affect the autocrat's sense of security about his position. When elites are divided, the level of threat to the autocrat is high. In order to counterbalance this threat and guarantee security, the autocrat buys the loyalty of allies in society through high social spending. The public becomes an important beneficiary of the redistribution of resource rents, and provides the autocrat with legitimate support. The autocrat then leverages this societal allegiance to deter threats by potential opponents. Conversely, when the elite is unified, the level of threat to the autocrat is low. In the absence of potential challenges from within the elite, the autocrat does not depend on societal allies to ensure the continued stability of his position, so welfare spending remains low. Due to the broad empirical and theoretical significance of redistribution under authoritarianism, this explanatory approach makes both substantive and theoretical contributions to the study of authoritarianism and the "resource curse," and is applicable to mineral-rich non-democratic regimes in the Middle East, North and sub-Saharan Africa and Latin America.

For my mom, a fearless traveler to the far reaches of Central Asia and my unlimited source of strength and support.

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I have yet to find out whether it takes a village to raise a child. I can say, with absolute confidence, that it takes a network of mentors, colleagues, friends and family to write a dissertation. This dissertation is the product of a network that extends from California to Kazakhstan, with several stops in the middle.

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*Berkeley, CA
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Chapter One

Redistributive Social Spending under Authoritarianism and Plenty

“If a fight starts watch the crowd, because the crowd plays the decisive role.”

–*E.E. Schattschneider, 1960*

1. Introduction

In this dissertation I provide a theory of redistributive social spending in mineral-rich authoritarian regimes, using the cases of Russia, Kazakhstan and Azerbaijan. Conventional wisdom suggests that autocrats unconstrained by institutions and with unlimited access to resource wealth would siphon off these funds for themselves and rent-seeking elites at the expense of delivering goods to citizens. Controlling for economic and demographic factors, however, welfare spending levels among the world’s petroleum-rich authoritarian and hybrid regimes indicate that some rulers are more inclined than others to “share the loot” with the larger citizenry. Tables 1.1 (p. 27) and 1.2 (p. 28) compare average welfare effort (using health expenditures as a proxy variable) from 2000-2010 in 25 mineral-rich countries.¹ They show that substantial differences in social outlays exist both cross-regionally as well as within regions, particularly the former Soviet Union and the Middle East and North Africa. The post-Soviet region has the largest variance in spending as a percentage of GDP, followed by the Middle East and North Africa, where Algeria, Saudi Arabia and Bahrain devote greater resources to welfare than Iran, Libya and the other Gulf states. There is less variation among sub-Saharan African cases, which are on the lower end of the welfare spending spectrum, as well as among the more politically open Latin America countries, which fall in the middle.

Unlike most of their counterparts in North and sub-Saharan Africa, the Middle East and Latin America, the five petroleum-rich Soviet successor states – Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan – only began to accrue large budgetary revenues from oil and gas exports in the early 2000s (Jones Luong & Weinthal 2010). As Table 1.1 demonstrates, these five cases span the spectrum of welfare spending from high to low within the universe of petroleum-rich authoritarian and hybrid regimes. While Russia stands out as one of the highest spenders, Azerbaijan rivals Saddam Hussein’s Iraq for the place of lowest spender, and devotes less money to welfare (in percent GDP terms) than both Equatorial Guinea and Gabon. Kazakhstan and Uzbekistan fall in the middle, while Turkmenistan is on the lower end of the spectrum.²

Throughout the post-Soviet region, welfare expenditures decreased significantly amidst wrenching budgetary and institutional crises in the 1990s. Then, starting in the early 2000s, the economic picture changed dramatically for the petroleum-rich Soviet successor states as a result of sustained high oil prices. Figure 1.1 (p. 35) below displays GDP growth trajectories from 1991 to 2011 for Russia, Kazakhstan and Azerbaijan. Even with the significant resources available to them during the past decade, the commitment to reinvigorate welfare spending has

¹ These cases were selected based on average Voice and Accountability (VA) Index scores and average fuel exports as a percentage of total exports. Countries that scored below 0 on the VA scale (-2.5 – 2.5) and whose fuel exports average 40 percent of total exports or higher for five or more years between 2000-2010 were included.

² Health spending in Turkmenistan declined from 3.2 percent of GDP in 2000 to 1.1 percent in 2010. While the decline was steady, the sharpest decrease occurred following the death of Saparmurat Niyazov (“Turkmenbashi”) in 2006.

diverged markedly across these cases. The extreme variation in welfare effort is puzzling considering the fact that these countries are roughly comparable in terms of regime type, natural resource wealth and levels of development. Despite some of the highest GDP growth rates in the world, in Azerbaijan under Heidar Aliev (1995-2003) and Ilham Aliev (2003-present), there is little evidence of desire on the part of the government to engage in redistribution. Health, education and social security expenditures have remained consistently low as a percentage of GDP and decreased drastically over time as a percentage of total government spending. By contrast, welfare expenditures in Russia under Vladimir Putin (2000-present) have increased substantially since the early 2000s, driven largely by new social policy initiatives aimed at increasing pensions, salaries for health and education workers, and expanding categories for direct cash transfers and benefits to citizens. In short, Russia has embarked on a highly visible campaign to “put a chicken in every pot.” Finally, Kazakhstan under Nursultan Nazarbaev (1991-present) occupies a middle position between these two extremes. While the standard of living has improved, total welfare spending levels, while still higher than those in Azerbaijan, have remained relatively stagnant over the past decade. Average total social spending (health, education and social security combined) as a percentage of GDP from 2000-2011 was 17.2 percent in Russia, 10.8 percent in Kazakhstan and 6.1 percent in Azerbaijan. Figure 1.2 (p. 36) below shows the divergence in total welfare expenditures levels over time in these three cases.

Across the former Soviet Union and beyond, mineral-rich non-democratic regimes exhibit significantly different commitments to social spending. The political economy literature on regime type and redistribution suggests that democratic governments redistribute wealth in response to electoral and societal pressures, while authoritarian leaders prefer to direct state resources toward their supporters in a narrow “selectorate,” as opposed to the broader public, in order to maintain power (Bueno de Mesquita et al. 2003; Acemoglu & Robinson 2006). Several cross-national studies have established that democracies, on average, exhibit higher social spending than their authoritarian counterparts (e.g. Brown & Hunter 1999; Rudra & Haggard 2005; Orenstein 2008), but the existing literature does not rigorously explore welfare spending variation among authoritarian regimes. While scholars of the *rentier* state have argued that rulers with access to large revenue streams engage in massive welfare spending programs to depoliticize society in an effort to dampen popular pressure for democratization (e.g. Entelis 1976; Bazresch & Levy 1991; Anderson 1995; Vandewalle 1998; Kessler 1999), these studies are often based on single country cases, and do not account for variation among mineral-rich states. The consensus in the comparative literature on energy-rich states is that they raise social welfare expenditures during boom periods, but the empirical evidence from the former Soviet Union, sub-Saharan Africa and beyond reveals that not all states respond with the same policies. In sum, conflicting theoretical expectations generated by the existing literature on social spending in non-democratic regimes and resource-rich states currently leave us wondering how authoritarian leaders balance the costs and benefits of redistributing wealth beyond the selectorate to the wider population.

Over 50 percent of countries in the world today can be classified as authoritarian or semi-authoritarian, and of these, close to 25 percent are economically dependent on petroleum exports.³ Social policies in this sub-group of countries affect the well-being of hundreds of millions of people, yet we lack a systematic theory addressing welfare spending variation among mineral-rich authoritarian regimes. Why do some rulers redistribute wealth to their citizens

³ In the 2011 *Freedom in the World* survey, 48 countries were ranked “Not Free” and 60 countries were ranked “Partly Free” out of a total of 195 countries (Freedom House 2012).

through high social spending, while others do not? What are the sources of political pressure that affect autocrats' decisions about how much to spend on welfare? If power in authoritarian regimes tends to be concentrated in the hands of a small group of elites, then how do their preferences and actions affect policy outcomes? How does welfare spending make a leader more popular, and how does popularity help an autocrat? These are some of the central questions I address in this dissertation by examining cross-national and longitudinal variation in health, education and social security expenditure levels in Russia, Kazakhstan and Azerbaijan. In doing so, I offer a framework for understanding how policy decisions are made in politically closed regimes, a subject largely overlooked in the literature on authoritarianism.

Due to the broad empirical and theoretical significance of redistribution under authoritarianism, the explanatory approach I develop makes both substantive and theoretical contributions that reach beyond these three post-Soviet cases. In sum, I highlight the role that elite fragmentation or cohesion plays in shaping redistributive social policies. Different degrees of unity and conflict among political and economic elites, which I identify as high officials of the regime and wealthy capitalists, affect the autocrat's sense of security about his position. When elites are divided, the level of threat to the autocrat is high. In order to counterbalance this threat and guarantee security, the autocrat attempts to buy the loyalty of allies in society-at-large through high social spending. The public thus becomes an important beneficiary of the redistribution of resource rents (as well as a strategic means to an end), and provides the autocrat with legitimate support. The autocrat then leverages this societal allegiance to deter threats by potential opponents. Conversely, when the elite is unified, the level of threat to the autocrat is low. In the absence of potential challenges from within the elite, the autocrat does not depend on societal allies to ensure the continued stability of his position, so welfare spending remains low. My argument demonstrates that elite pluralism, as an imperfect substitute for real democratic pluralism, results in broader redistributive social policies in mineral-rich authoritarian regimes.

This chapter presents the theoretical argument of the dissertation. The next section describes the dimensions of the dependent variable, welfare spending, including the quantitative indicators and qualitative evidence used to underscore cross-national and longitudinal variation. The third section situates the outcome in the broader literature on social spending and considers alternative political and economic explanations for variation in welfare expenditure levels. The fourth section expands on my theory of redistributive social spending in mineral-rich authoritarian regimes. The fifth section discusses the research design and methods of inquiry for this project, and I conclude with an outline of subsequent dissertation chapters.

2. Public welfare spending

This dissertation examines variation in public welfare expenditure levels in mineral-rich authoritarian regimes. Investing in welfare is a necessary part of what governments can do to develop the human capital base of their societies and improve the quality of life of their citizens. In mineral-rich authoritarian regimes, welfare spending serves an additional purpose: it is a form of mass rent redistribution. In addition to doling out money to supporters in the ruling coalition, some autocrats direct a portion of this revenue to the larger citizenry. The total size of the buy-off indicates the extent to which an autocrat actively seeks popular support beyond the selectorate. In order to assess the extent of rent redistribution in society, this study looks specifically at public spending on health, education and social security (pensions and non-pension benefits). The concept of welfare spending extends beyond these categories,⁴ but taken together, these policy areas capture accurately “the emphasis governments place on social programs” (Brown & Hunter 1999: 781).

These welfare policy areas are especially important to consider in the post-Soviet context. First, the Soviet Union and East European communist states provided far more social benefits to their citizens than other authoritarian regimes (Cook 2007a; Orenstein 2008). Old-age pensions and disability, sickness and other benefits took on a particular significance for the populations of these countries that carried over into the postcommunist era (Rasell & Wengle 2008). As a result, even though this type of welfare spending targets a narrower constituency than society at large (Kaufman & Segura-Ubierno 2001), a much higher than average number of people in the former Soviet Union rely on pensions and/or other benefits to subsidize all or part of their income. Second, across the post-Soviet states, the vast majority of citizens still rely on public health and education systems. Private health care and education options, while available, are prohibitively expensive for most people. Therefore, state spending in these sectors benefits almost the entire population. In addition, over 50 percent of public health and education spending in these countries is devoted to salaries for doctors, teachers and other workers in these sectors, who make up approximately 20 percent of the labor force in each case. Thus, overall health and education spending levels reflect not only governments’ commitment to long-term human capital development (Kaufman & Segura-Ubierno 2001), but also a subsidy to a significant portion of the population that is actively employed.

In light of these considerations, this study uses additional quantitative evidence to underscore cross-national and longitudinal variation. Besides aggregate levels of spending on health, education and social security, I analyze trends in pensions, educational stipends, medical and education worker salaries and other forms of cash and in-kind benefits. These benefits represent direct, visible payments that citizens receive from the government, and are more precise indicators of a buy-off. Since it is immediately noticeable when these sums increase or when new benefits are introduced, the autocrat is able to induce loyalty more quickly and effectively by raising these sums and expanding categories or eligibility for payments. While investing in infrastructure, such as building and renovating hospitals and schools, also theoretically has a positive effect on citizen loyalty, it is not as immediately visible as a month-to-month or year-to-year increase in pension, salary or stipend. Increases in cash payments and creating new categories for these and other in-kind benefits also represent initiatives that the

⁴ Howard (1997: 5) also identifies “indirect social spending,” which in the American case includes tax expenditures, loans and loan guarantees. In mineral-rich countries, this may include fuel and other subsidies (Jones Luong & Weinthal 2010), although these do not exist in the countries under investigation.

autocrat can refer to directly in public speeches and other mass media appearances that decrease the distance between ruler and ruled. In other words, announcing that more cash is coming their way (before it actually does) secures citizen loyalty more effectively than making vague promises about broad increases in welfare expenditures, especially since few people are likely to keep track of budgetary spending figures. Therefore, I evaluate the extent to which overall levels of welfare spending are devoted to investing in infrastructure versus direct cash payments and in-kind benefits, since the latter represents a more effective vehicle for building and maintaining a loyal constituency (Corrales & Penfold 2011). Finally, I consider evidence that suggests the extent to which spending reaches the target in each country to ensure the variation I observe is genuine. Due to corruption and bribery in medical, education and social service delivery in the former Soviet Union, official figures on budgetary execution are often higher than what actually reaches the target. Where available, this may include data on informal health and education expenditures as well as anecdotal evidence.

Of the three cases examined in depth in this study, Russia exhibits the highest spending across the welfare sectors under consideration. Azerbaijan exhibits the lowest spending, and Kazakhstan falls in between the two cases. Table 1.3 (p. 29) below displays aggregate trends in spending levels in percentage of GDP, percentage of government spending and per capita terms from 2000 to 2011 for each of the three cases. Three measures are presented because each specification captures a different kind of welfare effort. Social expenditures as a percentage of GDP indicate redistributive priorities within the national economy as a whole, while budget shares reflect priorities set within the public sector (Kaufman & Segura-Ubiergo 2001; Rudra & Haggard 2005). Welfare spending per capita reflects the actual value of resources directed toward the population (Brown & Hunter 1999). Table 1.4 (p. 30) shows health, education and social security spending levels as a percentage of GDP from 1989-2011. The data presented illustrate that for the time period under investigation (2000-present), cross-national variation is maintained for the three different spending indicators, where expenditures are highest in Russia and lowest in Azerbaijan. With the exception of education spending in Russia and Kazakhstan, which are very similar in terms of percentage of GDP, cross-national variation is also maintained across the three welfare sectors. The empirical chapters will go into further detail about longitudinal trends in each of the three cases, but Russia is the only country in which substantial increases in all three welfare sectors have occurred since 2000. In Kazakhstan, health and education spending increased while social security expenditures declined. In Azerbaijan, education expenditures have decreased over time as a share of GDP, while health and social security spending have not fluctuated significantly.

In addition to these aggregate trends, secondary data and evidence support both cross-national and within-country variation. In Russia, doctor and teacher salaries and pensions have risen exponentially in the last decade and more than tripled since 2005. A host of new welfare initiatives introduced and implemented since 2005 correspond to increases in spending and the expansion of categories for cash and in-kind benefits, including the Priority National Projects for Health and Education and other federal programs under the auspices of the Ministry of Education and Science and the Ministry of Health and Social Development. By contrast, salaries and pensions have remained stagnant in Azerbaijan; in real terms, doctor and teacher salaries are less now than they were in the Soviet period,⁵ and “are barely enough to support a family with one dependent” (World Bank 2010: 50). The government has not introduced or implemented any new social programs in the last decade that increase the amount of resources directed toward

⁵ Author interview with Budget Policy Expert #1, National Budget Group, Baku, Azerbaijan, April 1, 2011.

society and, in addition, “side” payments and bribes for services are more prevalent in Azerbaijan than other countries in the region. For example, out-of-pocket health expenses are estimated to be double those in other post-Soviet countries (World Bank 2010). In Kazakhstan, some new infrastructure initiatives have been introduced since 2007, including the “100 schools, 100 hospitals” campaign and the founding of Nazarbaev University in Astana. In addition, doctor and teacher salaries have increased by about 70 percent and pensions by about 35 percent since the middle of the decade.

The data and information presented above suggests that Putin and Nazarbaev redistribute resources generated by petroleum exports beyond the selectorate to average citizens, but there are significant differences in the extent to which the public is included in rent redistribution, especially with regard to pensions, salaries and cash benefits. In Azerbaijan, low official spending levels coupled with rampant corruption in service delivery indicate that the public is not included in rent redistribution. Country-specific trends in pensions, educational stipends, salaries and other cash payments, as well as welfare initiatives, will be presented and discussed in greater detail in the empirical case study chapters.

3. Alternative theories of variation in welfare spending

For the most part, existing theories of variation in welfare spending across countries do not provide insight into how these policy decisions are made in mineral-rich authoritarian regimes. Scholars of the welfare state pinpoint regime type, formal institutions and macroeconomic variables as the primary causal factors accounting for cross-national variation in welfare expenditure levels. *Rentier* state scholars emphasize how the presence of resource wealth affects public spending behavior, particularly in periods of export growth and high petroleum prices. I discuss these theories in turn, as well as several additional factors that could—but ultimately do not—explain differences in welfare spending variation in Russia, Kazakhstan and Azerbaijan. Table 1.5 (p. 31) provides relevant information on regime type, natural resource wealth, levels of socio-economic development and additional indicators in mineral-rich authoritarian and hybrid regimes to rule out prominent alternative explanations for welfare spending variation.

3.1 Political explanations

The social spending and welfare state literature on advanced industrialized democracies highlights how formal institutions, particularly political parties and party systems, play a central role in determining welfare expenditure levels. Specific factors that have been highlighted to explain variation between Scandinavian, Continental European and Anglo-Saxon countries include the presence, strength and tenure of social democratic versus conservative parties (e.g. Esping-Andersen 1990), as well as the number of parties in presidential or parliamentary systems (e.g. Tsebelis 1999; Crepez & Moser 2004). A second group of empirical studies analyzes the effects of regime type in general on social spending and policy. By and large, democracies are hypothesized to spend more on welfare than authoritarian regimes because leaders and political parties depend on popular votes to stay in power, and political institutions for social policy-making include a diverse array of actors (e.g. Boix 2003; Orenstein 2008). Numerous cross-national analyses of middle-income and developing countries have found that democracies devote a higher share of public expenditures to social programs than authoritarian regimes (e.g.

Brown & Hunter 1999; Rudra 2002; Avelino et al. 2005; Rudra & Haggard 2005; Cook 2007a; Haggard & Kaufman 2008). In countries that have genuinely competitive elections, leaders and political parties should be less likely to slash social expenditures for fear of being voted out of office. At the same time, welfare spending decisions are made through formal institutional channels and are influenced by a wide variety of actors representing diverse demographic and societal interests. For example, popularly elected legislators can aggregate and respond to their constituents' social policy demands (Orenstein 2008). By contrast, in authoritarian regimes, elites are not subject to the same political and institutional constraints. Authoritarian rulers are less (if at all) dependent on competitive elections to stay in power and are more likely to repress societal demands (Huber et al. 2004). In addition, welfare spending decision-making occurs in a more exclusive institutional arena (or beyond the boundaries of formal institutions) that is insulated from popular pressure and other interest groups. Thus, public expenditures on social welfare tend to be lower in authoritarian and semi-authoritarian countries than in democratic regimes (Boix 2003; Dion 2008).

Ultimately, these studies offer little insight as to why welfare expenditure levels vary within the authoritarian regime sub-group. As Table 1.5 and Figure 1.3 (p. 37) demonstrate, regime type does not have an effect on welfare spending levels. Saudi Arabia and Iraq under Hussein, two of the most repressive regimes in the world, and Bolivia and Ecuador, the most politically open states in this sample, exhibit vastly different commitments to welfare. In the last decade, Russia, Kazakhstan and Azerbaijan have been ruled by regimes with nearly equal levels of political closure. Moreover, as I discuss at length in Chapter 2, as Russia became more politically closed from the beginning to the end of the 2000s, welfare expenditures increased significantly, which defies expectations advanced in the aforementioned literature. In addition, formal institutions, including legislatures and political parties, exist in Russia, Kazakhstan and Azerbaijan, but they have no clear ideological or programmatic orientation and virtually no say in policy-making. Parties of power exist in Russia (*Edinaia Rossiia*, or United Russia), Kazakhstan (*Nur Otan*, or Fatherland's Ray of Light) and Azerbaijan (*Yeni Azerbaijan Partiyasi*, or New Azerbaijan Party), but they were created by central executives, do not articulate societal interests, and have no clear platform other than being pro-presidential. They (and their offshoots⁶) have enjoyed super majorities in each country's parliament, which provides no opposition to the president's policy initiatives. The last bastion of political party opposition in Russia, the Communist Party of the Russian Federation (KPRF), has had virtually no influence on welfare policy-making since the late 1990s. As I discuss below and in greater detail in the empirical case study chapters, elite decision-making occurs outside the boundaries of formal institutions, where political conflict plays out between small, informal groups around the president.

3.2 Economic explanations

In addition to regime type, several scholars have highlighted economic variables, including economic freedom and openness or “globalization,” as influencing welfare expenditure levels. For example, Cameron (1978) and Rodrik (1998) demonstrate that welfare spending is highest in more open economies, due in part to the fact that demands for social protection rise in

⁶ In addition to United Russia, two other political parties are pro-Kremlin: the Liberal Democratic Party of Russia and the Kremlin-created A Just Russia. They remain separate organizations to give the appearance that there is multi-party competition in Russia.

tandem with the risks associated with globalization. By contrast, Kaufman & Segura-Ubiergo (2001) and Rudra (2002) find that openness to trade leads to the adoption of more conservative fiscal policies that constrain social spending. In their analysis of economic openness on welfare spending, Rudra & Haggard (2005) distinguish between democratic and authoritarian regimes, and find that “hard” authoritarian regimes are more likely than democracies (as well as authoritarian regimes that tolerate some degree of opposition) to constrain spending. Ansell (2010) demonstrates that economic openness has a positive effect on public education spending in both democratic and authoritarian regimes. While there is less of a consensus in this literature as to the overall effect of globalization on social spending, most of the findings suggest that more open and free economies will exhibit higher welfare spending. Using the Heritage Foundation Index of Economic Freedom, however, we see that there is no clear relationship between economic openness and welfare expenditure levels in the sample of mineral-rich states, and Kazakhstan and Azerbaijan’s economies are considered more open than Russia’s (Table 1.5 and Figure 1.4, p. 38).

3.3 Resource wealth explanations

In addition to political and economic factors, *rentier* state scholars provide a structural explanation—the presence of mineral wealth—to account for government spending patterns (e.g. Chaudhry 1997; Karl 1997; Vandewalle 1998). They claim that resource-rich states tend to engage in runaway government spending during boom periods, which must be sustained during busts to prevent widespread societal dissatisfaction. Welfare expenditure increases are typically understood as being part of this overall effect: in periods of export growth and high international prices on hydrocarbons, these states tend to increase social spending, introduce new welfare programs, expand public sectors and raise public sector wages. *Rentier* state scholars often utilize single case analysis to examine economic trajectories in a specific country (e.g. Karl 1997; Vandewalle 1998), however, as opposed to explaining variation between multiple resource-rich states. In addition, when analyzing public expenditure behavior, these studies rarely disentangle welfare spending from other types of spending, such as bureaucrats’ salaries and large-scale public works projects, and thus we do not have a clear picture of how resource rents are distributed to the population across mineral-rich countries. As a result, there is a consensus in the literature that all resource-rich states are created equal when it comes to policy priorities and government policy responses to rising energy prices and revenue streams. The empirical evidence clearly demonstrates that this is not the case, at least with regard to welfare policies and expenditures. Russia, Kazakhstan and Azerbaijan are all extraordinarily rich in petroleum, but welfare spending patterns vary considerably. While Azerbaijan’s fuel rents as a percentage of GDP are twice those of Russia and Kazakhstan, as Table 1.5 and Figure 1.5 (p. 39) demonstrate, differences in economic dependence on oil and gas exports do not predict welfare expenditure levels in resource-rich states.

A notable exception to the general trend in the *rentier* state literature is Jones Luong and Weinthal's (2010) analysis, which advances a compelling institutional explanation about economic trajectories in mineral-rich countries. Using the five petroleum-rich Soviet successor states as case studies, they argue that differences in the ownership structure of the petroleum sector affect the type of fiscal regime—or patterns of taxation and expenditure—that emerges. They conclude that countries are not “cursed” simply because they have mineral wealth; rather, the negative economic outcomes typically associated with resource-rich countries are most

prevalent when the state owns and controls the rights to develop the minerals sector. In these cases, citizens have higher expectations for public spending and “widespread distribution” (59) because “society has a strong claim to the rents” (60, fn. 23). Conversely, where the minerals sector is privately owned and controlled by domestic actors and the state collects taxes from these domestic private owners, societal expectations for public spending are lower because citizens are “forced to recognize the individuals who acquire ownership rights in the mineral sector will receive a greater share of the benefits from the country's mineral wealth than the population at large” (65). I address the issue of ownership structure in more depth in the empirical case study chapters, but when discussing expenditure patterns, the authors focus more on universal fuel, food and other subsidies and the size of the bureaucracy, as opposed to specific welfare policies, to assess the extent to which these countries distribute resource wealth to their citizens. As Table 1.6 (p. 32) demonstrates, extending their analysis to welfare policy in the five mineral-rich Soviet successor states indicates that ownership structure does not account for observed differences in social expenditure levels.

3.4 Additional explanations: development and corruption

In addition to theories that have been advanced in the broader literature on social spending, there are several additional factors that could explain variation in welfare spending in resource-rich states. First, it is possible that levels of socioeconomic development affect the observed differences in welfare spending. Azerbaijan may be devoting less resources to welfare simply because it is poorer and more backward than Russia and Kazakhstan. As Table 1.5 and Figures 1.6 (p. 40) and 1.7 (p. 41) demonstrate, however, socioeconomic development is not a strong predictor of welfare spending levels. Bolivia's GDP per capita is half that of Azerbaijan's, yet it devotes almost three times as much to health. Gabon and Russia enjoy near equal levels of GDP per capita, but Russia devotes three times as much to welfare. While Azerbaijan's GDP per capita is decidedly lower than Russia's, it is pretty close to Kazakhstan's, and all three countries score approximately the same on the Human Development Index, a composite statistic combining life expectancy, literacy rates and GNI per capita at purchasing power parity. In addition, Table 1.4 in the previous section indicates that welfare expenditures in the late Soviet period and early 1990s were not higher in Russia than in the other two countries.

Second, it is possible that welfare expenditures are lower in Azerbaijan and the sub-Saharan African cases because more budgetary revenue is literally being stolen and distributed to elites than to the population at large. Differences in Transparency International's Corruption Perception Index (CPI) scores, however, have no clear effect on welfare expenditure levels (Table 1.5 and Figure 1.8, p. 42). In addition, Russia, Kazakhstan and Azerbaijan are more or less equally corrupt according to the CPI. In addition, while this will be discussed in greater detail in the empirical chapters on Russia, Kazakhstan and Azerbaijan, my approach assumes that elites are being bought off in each case. In other words, I do not contend that an either-or situation exists between buying off elites and buying off society at large, because the pie is big enough in these countries to do both. It would certainly be cheaper for Putin to simply bribe elites to maintain power. As I discuss in depth in the following section, this strategy is necessary but not sufficient for Putin to maintain power in Russia, whereas it does work for the Azerbaijani rulers.

4. Redistributive social spending

The point of departure for my theory of redistributive social spending in mineral-rich authoritarian countries is that power in these regimes is concentrated in the hands of the autocrat and individuals who make up a country's political and economic elite. Political elites, for my purposes, are defined as high officials of the regime who directly or indirectly play a regular part in determining national political outcomes (Putnam 1976; Higley & Burton 1989). In these countries, they include senior officials in the presidential administration, certain members of the government and houses of parliament, regional leaders and other officials depending on the structure of the bureaucracy in each case. Economic elites are domestic actors who control a disproportionate amount of a country's wealth. In keeping with Tullock (1987), Wintrobe (1998), Bueno de Mesquita et al. (2003), Haber (2005) and others, I assume that dictators' primary preference is to stay in power, and that the main source of potential threat to their survival in office comes from members of the political and economic elite who have the political capital, economic resources or both to unseat them. Since it is understood that autocrats will consistently behave in such a way as to minimize threats by potential opponents, as discussed above, this undoubtedly involves the distribution of patronage in the form of money and political positions to keep their elite supporters satisfied. My approach presupposes that this behavior extends into the policy-making arena, and that political pressures originating within the selectorate condition autocrats' policy decisions and strategies, including those concerning social welfare. Based on my fieldwork in Russia, Kazakhstan and Azerbaijan, and additional research on mineral-rich authoritarian regimes in North and sub-Saharan Africa and the Middle East, I can confirm that public policy decisions in these countries are made *de facto* by the autocrat, who may receive input from a small circle of top-level elites in the country's executive administration, such as the presidential apparatus or ruling council, but ultimately makes the final budgetary decisions. Thus, the autocrat's preferences have a profound influence on public policy outcomes.

My dissertation proposes that welfare spending variation in mineral-rich authoritarian regimes results primarily from the presence or absence of divisions within a country's political and economic elite hierarchy. The fragmentation or cohesion of high-ranking regime officials and wealthy capitalists affects the level of threat to the autocrat's position, which shapes his welfare policy-making strategies. Divided elites are threatening and potentially destabilizing, in which case the autocrat attempts to guarantee popular support for himself through generous welfare provision. A loyal citizenry counterbalances the threat posed from members of the elite, as any potential opponent would be loath to unseat a popular leader. As opposed to this scenario, unified elites generate a low level of threat to the autocrat, who minimizes welfare spending because he does not need societal allies to maintain his hold on power. Hybrid elites produce a moderate level of threat to the autocrat, resulting in an intermediate level of welfare spending.

Table 1.7 (p. 32) summarizes the theory. I elaborate on the causal logic of my argument in the following sub-sections and present empirical evidence from Russia, Kazakhstan and Azerbaijan to illustrate the applicability of my theory. I present significantly more evidence and go into much greater detail in the chapters on Russia, Kazakhstan and Azerbaijan, where I trace my argument for each of the three cases. In Russia, Putin engages in high social spending to secure allies among the populace to counteract the threat posed by a divided elite. Visible, legitimate public support for Putin himself reduces the incentives for potential challengers to attempt a rebellion. By contrast, Azerbaijan's unified political and economic elite guarantees a

low level of conflict and threat, and a minimum probability of challenges to the Alievs'⁷ authority from within. As a result, the Alievs have had no need for widespread popular support, and welfare spending has remained low. In Kazakhstan, Nazarbaev redistributes rents to the public to counterbalance the moderate threat posed by potential opponents, but he is not as reliant on societal allies as Putin to sustain his rule.

4.1 Elite fragmentation (cohesion)

Elite fragmentation (or cohesion) varies in two ways according to (1) the extent of factionalization among political elites and (2) the level of overlap between political and economic elites. Elite factionalization refers to *competing* independent power groupings within the regime's ruling coalition that are involved in sustained conflict with one another. Extensive factionalization increases the likelihood of elite defection from the autocrat for several reasons. First, the autocrat may be a member of one particular faction or clan by virtue of kinship, regional or other ties, rendering the other group(s) in opposition to the autocrat. Second, even if the autocrat is not a member of a particular faction or clan but an arbiter of elite conflict, he is constantly in the position of having to manage conflict and balance groups that are opposed to one another. This means he inevitably has to take sides and favor one group over the other, which increases the risk that certain faction members will turn against him by plotting a palace coup or defecting to the opposition. In addition, depending on factional composition and ties within a particular group, members may feel greater allegiance to the faction's leader than the autocrat, thereby shrinking the autocrat's base of support among political elites. In cases of high factionalization, then, the autocrat is never immune to competition between rival elite groups. In cases of low factionalization among political elites, the autocrat is much less likely to be opposed by those in the ruling coalition. The extent of elite factionalization can certainly evolve and change over time depending on domestic political events, including succession struggles and transfers of power.

My concept of elite factionalization does not easily lend itself to quantification, since broadly comparable indicators, such as the number of cabinet posts or number of factions, do not take into account the intricacies of mineral-rich authoritarian regimes. For example, ruling elites in the Gulf monarchies are all in the same family, yet these ties do not necessarily mean that family members are united. Conflict in the Gulf states is most often played out among the regime's top princes, who in some cases control separate factions within the ruling family (Herb 1999). In addition, the number of separate groups is not always an accurate indicator of factionalization. In Azerbaijan, two clans became politically prominent under Heidar Aliev's rule in the Soviet period, and these groups have mostly enjoyed a symbiotic relationship devoid of conflict. By contrast, the two primary clans in Uzbekistan have come into constant conflict with one another in the post-Soviet era (Collins 2006). In addition, factors that contribute to the presence or absence of factionalization are case specific, and often have to do with unique historical circumstances surrounding how rulers gain and consolidate power in the first place. My assessment of ruling coalition factionalization is thus based on interview data and case histories from Russia, Kazakhstan and Azerbaijan, as well as intense scrutiny of primary and secondary sources, which is discussed further in the following section of this chapter on methodology.

⁷ In this study, I consider Heidar Aliev (1995-2003) and Ilham Aliev (2003-present), father and son, to be one continuous autocratic unit.

The second component of elite fragmentation or cohesion is the level of overlap between political and economic elites. This refers to the extent to which economic power and political power are concentrated in the same individuals. Little overlap between political and economic elites implies that there is a substantial dispersion of economic assets among a class of wealthy capitalists who are independent of the dictator and wield enough financial power to fund opposition to him. Conversely, near total overlap indicates that almost all individuals wielding significant financial means are dependent on the state for access to resources, and that wealthy capitalists independent of the dictator are few or non-existent. Thus, elites in this case are less likely to defect from the ruler and “abandon the certainty of access” to these economic resources (Radnitz 2010: 132). Political-economic elite overlap is also not easily quantifiable, but assessments can be made based on available data on the extent of privatization and the number of independent wealthy capitalists in countries, which will be discussed in the methodology section.

I consider political and economic elites to be divided when ruling coalition factionalization is high and the level of political-economic elite overlap is low. Conversely, elites are unified when ruling coalition factionalization is low and there is near total overlap of political and economic elites. Hybrid cases of elite cohesion also exist in cases when both ruling coalition factionalization and political-economic elite overlap are both low, or when ruling coalition factionalization and political-economic elite overlap are both high. Table 1.8 (p. 33) demonstrates variation in elite fragmentation across the universe of petroleum-rich authoritarian and semi-authoritarian cases.⁸ While these classifications are ideal types, Putin’s Russia approximates a divided elite, and the Alievs’ Azerbaijan exemplifies a unified elite. Nazarbaev’s Kazakhstan is a hybrid case of elite fragmentation, since ruling coalition factionalization is low, but there is little overlap between political and economic elites. Therefore, the cohesiveness of the Kazakhstani elite falls in between the two more extreme cases. In addition, Table 1.9 (p. 34) demonstrates the applicability of my theory to mineral-rich authoritarian regimes outside of the post-Soviet region, which I discuss in the concluding chapter.

Russia

Elites under Vladimir Putin are divided because of extensive ruling coalition factionalization and little overlap between political and economic elites. Putin did not hold any leadership positions in the communist party, the KGB or other Soviet state agencies before 1991, and did not enter national level politics until the late 1990s. Putin worked for the KGB from 1975-1990, during which time he was stationed in Leningrad (1975-1985) and East Germany (1985-1990). Following that, he worked in the St. Petersburg mayoral administration until 1996, after which he relocated to Moscow. Upon his appointment as Boris El’tsin’s successor in December 1999 and subsequent election to the presidency in March 2000, Putin needed to assemble a team quickly in order to counterbalance and ultimately marginalize those who had less reason to support him, particularly the “El’tsin family” of political and economic elites. Unlike some of his counterparts in the South Caucasus and Central Asia, Putin did not draw from his family to fill political posts, and no Putin family member currently occupies any position of power. By advancing friends and associates from the disparate nature of his past, however, the new ruling group failed to become a cohesive political coalition.

⁸ Assessments about elite fragmentation and cohesion for other countries are based on secondary source materials available in the United States, including news and other information sources such as the Economic Intelligence Unit, as well as academic scholarship.

The make-up of Kremlin factions has changed over time since Putin assumed office, and in recent years they “likely number between two and 10, depending on how one defines them” (Bremmer & Charap 2007: 85). There is a consensus in the literature, as well as among political analysts, that there are three primary groups: (1) *siloviki* (“force structure” officials), which is further divided into sub-factions, (2) liberals and (3) technocrats. Some of the most powerful individuals in Russia are (or have been) members of these three groups, including Igor Sechin, Viktor Ivanov and Nikolai Patrushev, who form a sub-group of the powerful *siloviki* faction lead by Sechin;⁹ former Minister of Finance Aleksei Kudrin and former Minister of Economic Development and Trade German Gref, the main members of the liberal group; and former President and current Prime Minister Dmitrii Medvedev and Gazprom¹⁰ chief Aleksei Miller, who are considered technocrats. Secondary groups include remnants of the “El’tsin family,” some regional leaders and democratic statist, including presidential aide and current Deputy Prime Minister Vladislav Surkov. In addition, some influential officials, including Sergei Naryshkin, a former head of the presidential administration and current Duma chairman, are not clearly aligned with any one faction. The presence of multiple, informal groups has resulted in frequent conflicts between members of different factions over ideological and personal issues, as well as within groups, including the predominant *siloviki* faction.¹¹

Russia is also a case in which there is little overlap between political and economic elites. As a result of rushed and corrupt privatization in the 1990s, a large part of Russia’s economy lies outside state control. In addition, Russia adopted private domestic ownership over its oil sector in 1991 (Jones Luong & Weinthal 2010). By privatizing petroleum and other sectors to domestic actors in the 1990s, numerous individuals amassed large personal fortunes. Russia boasts the largest class of wealthy capitalists among the mineral-rich Soviet successor states whose business and economic activity is autonomous from the dictator. Despite Putin’s efforts to reclaim oil and gas assets and bring insubordinate oligarchs to heel in the early 2000s, economic resources remain dispersed to non-state actors. In 2011, 101 Russians had assets totaling \$1 billion or more (*Forbes* 2011); of these, 12 held a concurrent political position, but none held a top-level position in the government or presidential or regional administrations. As of 2011, four were members of the Federation Council (upper house of parliament); four were deputies in the State Duma (lower house of parliament); two were in regional legislatures; and two were members of the Public Chamber (legislative oversight committee). A notable exception was Roman Abramovich, one of Russia’s wealthiest oligarchs, who served as governor of the far east Chukotka region from 2001 until 2008. Exceptions notwithstanding, however, a high number of capitalists, whose wealth accumulation does not depend on access to state coffers, wield significant economic power and possess the financial means to challenge Putin’s authority.

⁹ Sechin is Chairman of Rosneft’, Russia’s largest state-owned oil company, and former deputy head of the presidential administration; Ivanov is an advisor to the president, and Patrushev is director of the Federal Security Service (FSB).

¹⁰ Gazprom is Russia’s largest state-owned gas company.

¹¹ For example, there has been a long-standing conflict between *siloviki* tied to the military apparatus (MVD) and internal security service (FSB) (Sakwa 2008).

Azerbaijan

Elites under the Aliev dynasty are united as a result of low ruling coalition factionalization and near total overlap of political and economic elites. Other than a brief respite from 1987 to 1993, Heidar Aliev ruled Azerbaijan for nearly 30 years, first as the First Secretary of the Communist Party from 1969 to 1987, and then as president of the independent republic from 1993 to 2003. Following his death in December 2003, Heidar's son, Ilham, succeeded him and has been in office ever since. Upon assuming the presidency in 1993, Heidar Aliev “utilized the informal networks he had cultivated” for nearly 40 years prior to the Soviet collapse as a KGB officer and leader (1944-1969), and then as First Secretary of the Azerbaijani SSR (1969-1987), to surround himself with loyal ministers, state agency directors, presidential administration staff and advisors (Radnitz 2012: 62). Similar to Syria’s Bashar al-Assad, when Ilham Aliev became president following his father’s death, the majority of top-level elites who had been installed in the 1990s “continued to toe the Aliev line” by remaining in their posts and insulating the new president (Hale 2005: 149). In addition, Heidar and Ilham Aliev drew extensively from their family network to fill political positions (including, most obviously, the presidential succession from father to son). A significant number of high-level elites—at least 30 to 40 percent—are close relatives of the Aliev family or other top-ranking officials (Alieva & Torjesen 2007).

The Aliev family’s dominance in Azerbaijan for over 40 years, coupled with extensive kinship ties among political elites, has served to keep factionalization low. In the Soviet era, Heidar Aliev was associated with two regional groupings, the Nakhchivan clan and the Yeraz clan,¹² which enabled him to shore up support upon reassuming power in the early 1990s. Members of both clans were more or less promoted equally by Heidar in the Soviet and post-Soviet period, and very few instances of conflict have ever emerged between them.¹³ Beginning in the late 1990s, clan and regional identity diminished in importance as mutual business interests came to solidify relationships among top members of the elite. The most prominent members of the elite enjoy a symbiotic relationship based on their dominance over specific sectors of the economy and areas of the bureaucracy, as well as a mutual understanding to respect each others’ areas of control. In Azerbaijan, where political power and economic power are concentrated in the same hands, the country's oligarchs “mostly consist of ministers who have been promoted by and are allied to the president because of close business interests” (International Crisis Group: 8). They include long-standing Minister of Transportation Ziya Mammadov as well as Kamaladdin Heydarov, the current Minister of Emergency Situations and former Head of the Customs Committee, who is rumored to be the wealthiest person in Azerbaijan after the Alievs and the Pashaevs, the president's in-laws. Together, the extended Aliev, Pashaev, Heidarov and Mammadov families control, through state and proxy companies, almost the entire Azerbaijani economy, including the petroleum, construction, agricultural, tourism, insurance and banking sectors; food production, supply and imports; and passenger transport and cargo shipments (International Crisis Group 2010). While certain ministers and

¹² The Nakhchivan clan refers to Azerbaijanis from the Nakhchivan Autonomous Republic; the Yeraz clan refers to Azerbaijanis who were born in Soviet Armenia or (prior to 1917) areas of the Russian empire with majority Armenian populations. Heidar Aliev was born in Soviet Armenia but relocated to Nakhchivan.

¹³ Author interviews with Political Analyst #1, Independent Scholar; Political Analyst #4, Far Centre for Economic and Political Research; and Political Analyst #5, Co-Chairman of “Republican Alternative” Movement; Baku, Azerbaijan, January 13, 2011, March 29, 2011, and April 7, 2011.

presidential staff members are rumored to compete with one another for access to power and wealth, few significant internal rivalries exist between political and economic elites (International Crisis Group 2010). Finally, an independent business class failed to emerge in Azerbaijan due to limited privatization in the 1990s and the adoption of state ownership of the petroleum sector (Jones Luong & Weinthal 2010),¹⁴ which enabled the regime “to pocket significant wealth without making major concessions to reformers” (Radnitz 2010: 139). Thus, virtually no wealthy economic elites independent of the dictator exist, which greatly reduces the possibility of challenges to the president.

Kazakhstan

Ruling coalition factionalization is low in Kazakhstan, but there is little overlap between political and economic elites. Nazarbaev has been president of Kazakhstan since the collapse of the Soviet Union, and prior to that he was First Secretary of the Communist Party of the Kazakh SSR (1989-1991) and Chairman of the Council of Ministers (1984-1989). He began his career in the communist party at the city level in 1969. Upon switching titles from First Secretary to President of Kazakhstan in 1991, Nazarbaev surrounded himself with trusted communist party elites. Independent Kazakhstan's political leadership is composed almost entirely of former *nomenklatura*, even though individuals' titles have not remained stable due to consistent cadre rotation. Since 1990, there have been seven prime ministers and 12 heads of the presidential administration, which are the two political posts considered to be most powerful next to the presidency.¹⁵ Of these 17 separate individuals, nine directly overlapped with or worked for Nazarbaev in the communist party apparatus, and an additional four had high-level positions in the communist party administration in other regions of Kazakhstan (Ashimbaev 2010). In addition, of the twenty known members of Nazarbaev's inner circle circa 2007, five were close relatives, one was a rumored distant relative, and at least five of the remaining 11 were Nazarbaev's friends or associates from the Soviet period (Junisbai 2010; Ashimbaev 2010).

Despite Nazarbaev's dominance of politics for nearly 25 years, there is far less overlap between political and economic elites in Kazakhstan. The country's adoption of private foreign ownership over its petroleum sector in the 1990s meant that the bulk of proceeds from oil and gas exports “flowed not to new entrepreneurs...but to the ruling circle, in particular the president's extended family” (Radnitz 2010: 141). Yet, privatization also benefitted a new group of domestic actors: an independent capitalist class emerged that gained control of significant privatized assets. Due to the nature of Kazakhstan's economic system, members of the inner circle have exclusive access to the oil, gas and metals sectors, while “a wealthy class of independent oligarchs, business owners and entrepreneurs...[that has] been allowed to amass a fortune and build up Kazakhstan's domestic economy” makes up the “second tier” (Junisbai 2010: 247). As of 2011, seven Kazakhs had known assets totaling \$1 billion or more.¹⁶ The president's son-in-law, Timur Kulibaev, one of the wealthiest individuals in Kazakhstan, has headed two state-owned companies: KazMunaiGaz (oil and gas) and Kazakhstan Temir Zholy

¹⁴ The 1994 “contract of the century” enabled the state to maintain ownership of the country's oilfields while allowing foreign companies to help develop them.

¹⁵ Author interviews with Journalist #2, *Respublika*, and Political Analyst #3, Center for Political Alternatives, Almaty, Kazakhstan, December 13, 2010.

¹⁶ As of 2002, Nazarbaev himself reportedly held \$1 billion in oil revenue in a bank account in Switzerland (Kusainov 2002).

(railroads), as well as Samruk-Kazyna, the country's sovereign wealth fund. In addition, the president's daughter Dariga served in the *Mazhilis* (lower house of parliament) in the mid-2000s. Besides Nazarbaev and these two family members, however, no other wealthy capitalists occupy political posts. Two known billionaires are oligarchs outside of the inner circle without personal ties to Nazarbaev and, in 2011, over 40 multi-millionaires were named by *Forbes Kazakhstan* as being among the country's wealthiest individuals. Most inner circle billionaires and all additional billionaires and multi-millionaires do not occupy political positions and are removed from the day-to-day running of the country. While those in the inner circle depend on Nazarbaev for access to the country's lucrative extractive sectors, wealthy capitalists outside of this group have considerable financial holdings in banking, media and other sectors that are not tied to the state (Junisbai 2010).

Hybrid elite composition has resulted in a distinct phenomenon in Kazakhstan. Political continuity from the Soviet to the post-Soviet era produced a largely homogenous elite structure composed of former *nomenklatura* that remained cohesive throughout the 1990s (Kadyrzhanov 1999; Junisbai & Junisbai 2005). While some scholars have suggested that Kazakhstan's three clans have created intraelite cleavages (e.g. Schatz 2004; Collins 2006), recent research questions their overall importance, especially since this divide "never erupted into open confrontation" (Junisbai 2010: 242). Privatization, however, succeeded in driving a wedge between inner circle and second tier members of the Kazakhstani political and economic elite, since the former retained exclusive access to the oil, gas and metals sectors. Over time, elites became more fragmented in Kazakhstan as a result of diverging economic interests and business disputes, which coincided with escalating intraelite conflict in the 2000s.

4.2 Threats to autocratic rule

The literature on authoritarian regime dynamics suggests that threats to autocratic rule are more likely to arise from divisions within the political, economic or military elite than from foreign intervention or popular uprising (e.g. O'Donnell & Schmitter 1986; Geddes 1999; Bueno de Mesquita et al. 2003; Haber 2005). Recent scholarship on authoritarian politics identifies formal institutions, primarily legislatures, political parties and electoral competition, as arenas that manage intraelite conflict, promote power-sharing and contribute to the survival of dictatorships (e.g. Magaloni 2006; Brownlee 2007; Gandhi 2008). My approach differs from this recent trend in the literature because I do not pinpoint formal institutions as arenas of intraelite conflict mediation or as influential in social spending decisions. As noted above, policy-making in mineral-rich authoritarian regimes does not take place in legislatures. Approximately one third of countries in the universe of cases have no elected national assemblies, and in the remaining cases, which include the post-Soviet region, these institutions wield very little (if any) power (Fish & Kroenig 2009). Unlike the Institutional Revolutionary Party (PRI) in Mexico, for example, robust, institutionalized ruling parties capable of managing intraelite conflict and minimizing elite defection are uncommon in these countries. Parties of power in Russia, Kazakhstan and Azerbaijan depend more on the autocrat's popularity than on a power base of their own, and do not serve a conflict mediation function. Opposition parties either do not exist, or where they do they are too small and often divided along ideological lines to represent a true source of threat to the autocrat. Furthermore, in keeping with Ledeneva (2006), my research suggests that these formal institutions often mask the true sources and contours of political

competition in non-democratic regimes, and that informal arrangements are more accurate indicators of elite dynamics, political conflict and sources of threat to the autocrat.

Recent cases of spontaneous popular uprising in the former Soviet Union, the Middle East and North Africa confirm that authoritarian regimes in Georgia, Ukraine, Kyrgyzstan, Tunisia, Egypt, and Libya ultimately fell after key members of the political and economic elite declined to support the incumbent or defected to the opposition. After two years of brutal civil conflict in Syria, the al-Assad regime is in danger of crumbling since some top-level officials have defected. Unfortunately, an autocrat's weakness often becomes apparent only in retrospect. The extent to which elites truly oppose the dictator and the likelihood that they will defect are made known only after a convulsive setback has occurred, such as popular rebellion or a serious economic downturn.¹⁷ After all, ruling coalition elites and wealthy capitalists who are allowed to conduct business have every reason to conceal their true allegiances until a potentially game-changing moment arises. The contrast between elite behavior in Tunisia, Egypt and Libya, on one hand, and Syria, on the other, in the midst of popular uprising, suggests that elites in the latter case have been more united around the autocrat and his desire to keep the regime in tact. Divided elites are more likely than unified elites to engage in sustained conflict, succumb to power struggles, join subversive coalitions, defect to the opposition, lose support for the autocrat or directly challenge the ruler by making a bid for power. In short, a fragmented elite threatens the autocrat's position much more than a cohesive elite. Of the three cases examined in this study, threat levels are highest in Russia, lowest in Azerbaijan, and intermediate in Kazakhstan.

Russia

Russia's divided elite generates a high level of threat to Putin, which is illustrated by frequent instances of intraelite conflict. During Putin's first term, he launched an assault on El'tsin-era oligarchs Boris Berezovskii, Vladimir Gusinskii, and Yukos head Mikhail Khodorkovskii, who had each been critical of Putin or moved into the opposition. Berezovskii and Gusinskii were driven into exile in the early 2000s, and in 2003, Khodorkovskii was arrested along with Platon Lebedev, the head of Yukos's main shareholder. Most other high-ranking executives at Yukos fled Russia following Khodorkovskii's arrest and conviction. At the same time, threats of investigation and arrest were made against oligarchs Oleg Deripaska, Roman Abramovich and Vladimir Potanin.¹⁸ In the midst of the Yukos affair, two top-level elites that were part of the "El'tsin family" clan left their posts in protest of Khodorkovskii's arrest. Aleksandr Voloshin, the head of the presidential administration who was a core member of Putin's early team, resigned in October 2003, and in February 2004 Putin fired Prime Minister Mikhail Kas'ianov along with his entire cabinet. Kas'ianov has since defected to the opposition and attempted to run for president in 2008.

Putin's second term (2004–2008) and Medvedev's first term (2008–2012) were also marred by factional struggles. Major cabinet reshuffles, dismissals and arrests between 2005 and 2008, the dismissal in 2007 of 49 regional leaders and mayors, many of whom "[found] themselves under arrest or investigation" (Sakwa 2011: 175), and numerous internal feuds between the *siloviki* and other Kremlin factions (and within *siloviki* sub-factions) illustrate the

¹⁷ When it becomes likely that a regime will fall, elites will also choose to defect for reasons of self-preservation (Geddes 1999).

¹⁸ Deripaska (worth \$16.8 billion), Abramovich (worth \$13.4 billion) and Potanin (worth \$17.8 billion) are currently among Russia's top ten wealthiest businessmen (*Forbes* 2011).

extent of elite fragmentation prior to the 2008 presidential succession, even though Putin planned to retain his influence. Notable events include the dismissal of Prosecutor-General Vladimir Ustinov, and the (unrelated) arrests and prosecutions of Federal Anti-Drug Officer Aleksandr Bulbov and Deputy Finance Minister Sergei Storchak, who were both seen as casualties of Sechin's conflicts with other elites. In 2007, Viktor Cherkesov, chairman of the National Anti-Drug Committee, stated publicly that there was a conflict between sub-factions with the *siloviki*. Moreover, Vladislav Surkov, the deputy head of the presidential administration, cited "the threat of 'oligarch revenge' by the 'offshore aristocracy'" as a possible danger surrounding the change in power (Sakwa 2008: 69). Recently, in September 2010, Yurii Luzhkov, the longstanding mayor of Moscow, was dismissed from his post after making critical remarks against Medvedev; in April 2011, Speaker of the Federation Council Sergei Mironov, who was considered a longtime friend of Putin's from St. Petersburg, was recalled from his post after publicly criticizing United Russia; and, in September 2011, Aleksei Kudrin was asked to resign after openly disagreeing with Medvedev. Prior to Kudrin's dismissal, it was rumored that he would be appointed Prime Minister should Putin return to the presidency. Instead, Medvedev was appointed, confirming that Kudrin's dismissal was due to Kremlin in-fighting and power-plays.¹⁹ Finally, in September 2011, Mikhail Prokhorov, Russia's third wealthiest person with an estimated net worth of \$18 billion, was ousted as the leader of the new Kremlin-controlled *Pravoe Delo* (Right Cause) political party after only three months due to "infighting in the Kremlin" (Kramer 2011).

Azerbaijan

A unified elite in Azerbaijan produces a low level of threat to the Aliev regime. Prior to Ilham Aliev's accession to the presidency following his father's death in 2003, there were no documented cases of internal threats to Heidar Aliev's authority after 1995.²⁰ Since 2003, only two high-level elites, Ali Insanov and Farhad Aliev, have been dismissed from their ministerial posts and arrested. Insanov, a former health minister, and Aliev, a former minister of economic development, "reputedly refused to recognize Ilham Aliev's inheritance" (Radnitz 2012: 66). They were officially charged with plotting a coup against Ilham Aliev in 2005; three lower-level government officials were also arrested with them. In addition, between 2003 and 2006, the speaker of the parliament resigned, and the ministers of communication and youth were fired but not arrested. Thus, there is a lack of evidence to suggest that the Alievs have faced extensive internal threats to their power.

Kazakhstan

Kazakhstan's hybrid elite structure generates a moderate level of threat to the autocrat. Since 2000, there have been several key instances of high-profile elite defections and challenges to Nazarbaev's authority. In 2001, several prominent second tier political and economic elites formed and self-financed the opposition movement *Demokraticheskii Vybora Kazakhstana* (Democratic Choice of Kazakhstan, or DCK). The movement was funded largely by wealthy businessman Mukhtar Abliazov, who was a co-founder along with Pavlodar *oblast'* governor Galymzhan Zhaki'ianov. A number of deputy ministers as well as wealthy capitalists also joined

¹⁹ Author interview with Representative #1, Alfa-Bank, Moscow, Russia, August 4, 2011.

²⁰ Heidar Aliev averted a coup attempt in 1995 that was planned by the head of Azerbaijan's special forces.

the movement as a result of the regime's threats to their business interests and political ambitions. In 2003, after a long career in top-level government positions, ambassador to Russia Altynbek Sarsenbaev defected to the *Ak Zhol* opposition party; in 2006, Sarsenbaev, his driver and bodyguard were found shot dead outside of Almaty (Ashimbaev 2010). In 2004, Zharmakhan Tuyakbai, the speaker of parliament and leader of the ruling *Otan* (now *Nur Otan*) party, and Zamanbek Nurkadilov, the minister of emergency situations, resigned and defected to the For a Just Kazakhstan (FJK) opposition movement. Tuyakbai narrowly escaped an attempted assassination several months later, but Nurkadilov was murdered in 2005 after announcing his intent to expose acts of corruption and bribery among the regime's top echelon. Finally, in 2007, the president's own son-in-law, Rakhat Aliev, was forced into permanent exile due to his "presidential ambitions" and "increasingly tense relations" with members of the elite in both the inner circle and second tier (Junisbai 2010: 254). Dariga Nazarbaeva was forced to divorce him, and both she and Rakhat Aliev were expelled from the inner circle (Junisbai 2010).²¹ In 2008, Aliev was sentenced *in absentia* to 20 years in prison for plotting a coup against Nazarbaev. Since 2008, several high-profile arrests and demotions indicate that internal divisions persist, but the intensity of intraelite conflict has abated for the time being.

The case of Kazakhstan demonstrates that Nazarbaev has faced far more serious challenges to his authority than either Heidar or Ilham Aliev, but not to the same degree as Putin in Russia. The key differences between Kazakhstan and Azerbaijan, where kinship ties have in part served to keep ruling coalition factionalization low, are twofold. First, the advent of an economic split in Kazakhstan, which catalyzed a domino effect of elite defections in the 2000s, diminished the salience of kinship ties, especially since the president's own son-in-law was implicated in Kazakhstan's biggest scandal to date, and Nazarbaev's daughter was sanctioned following her husband's insubordination. Second, challenging the autocrat is more feasible and potentially successful in Kazakhstan, since elite opponents can either finance themselves or turn to independent capitalists for funding. In Azerbaijan, the absence of wealthy capitalists independent of the dictator, coupled with the oligarchs' complete dependence on Aliev for access to resources, makes elite defection highly improbable.

4.3 Welfare spending

To ensure dictatorial survival, autocrats must distribute patronage to political elites in the form of money and positions in an attempt to keep them satisfied. Under certain conditions, however, this strategy is not sufficient to maintain power. In cases of high threat generated by a divided elite, the autocrat is in a much more precarious position. He must pre-emptively limit threats posed by potential opponents, as well as respond to them when they occur. Genuine, widespread popular support for the ruler is an effective deterrent to potential elite opponents for several reasons. First, authoritarian leaders who rely solely on elites in the ruling coalition, including the security apparatus and armed forces, are more vulnerable to being ousted by these very same individuals (Wintrobe 1998). Second, mass support for authoritarian leaders makes them more immune to destabilizing power struggles within the ruling coalition because it contributes to an image of invincibility. Autocrats "manufacture this image of strength to signal to potential elite opponents that they are indestructible and that there is no point in conspiring a palace coup or plotting against them" (Magaloni & Wallace 2008: 3). If an autocrat enjoys widespread popular support, then the scales will always be tipped in his favor. If potential

²¹ Nazarbaev's daughter Dariga has since been reinstated into the inner circle.

challengers do not have the “audience”—or the public—on their side, then they will not “start a fight if they are certain that they are going to be severely penalized for their efforts” (Schattschneider 1960: 8). In short, potential challengers and defectors would be loath to conspire against and unseat a leader who enjoyed popular support because of the very real risk of political instability their actions would incur. By contrast, in cases of low threat, autocrats do not need societal allies, and can more easily sustain their rule without genuine support from the masses.

In order to garner popular support, the rewards the autocrat gives the public must outweigh the punishments (limited political freedoms and civil liberties)—or at least make the punishments bearable. Repression is not enough to build and maintain the public’s loyalty, since repression creates the “dictator’s dilemma,” whereby citizens feign support for the ruler while they conspire to rebel against him (Tullock 1987; Wintrobe 2007). In politically closed regimes where petroleum rents comprise the bulk of budgetary revenue, rulers do not necessarily have to choose between spending on public policies that benefit the larger citizenry and private goods that only benefit themselves and the selectorate (e.g. Bueno de Mesquita et al. 2003; Gandhi 2008). Governments in mineral-rich authoritarian regimes, then, have the available funds to secure citizen support through generous welfare provision. As Magaloni (2006: 20) notes, “voters are likely to support the autocrat ‘sincerely’ when it puts in place policies that make the economy prosper, industry develop, and wages and employment increase.” Moreover, Doner et al. (2005: 331) argue that broad societal coalitions ensuring ruling elites’ political survival “are best constructed and sustained with side payments to popular sectors.” Public spending on health, education and social security benefits all societal constituencies, and constitutes a long-term investment that authoritarian leaders can use to build popular support and establish lasting legitimacy (Gandhi 2008). Buying support through broad, generous welfare provision is expensive, however, and it is undoubtedly cheaper for an autocrat to buy off elites and ignore the public. Thus, when the autocrat needs a loyal citizenry to stay in power, the political benefits of investing in their support outweigh the high costs of maintaining it; when he is not threatened by factionalized political elites or independent capitalists, he has no strategic incentive to invest generously in welfare programs.

High social spending in Russia, low spending in Azerbaijan, and intermediate spending in Kazakhstan demonstrate that each autocrat’s need for popular support to sustain his rule varies. Since welfare spending decisions are made in a vacuum in each case because of weak and ineffective policy-making institutions, welfare budgets reflect the autocrat’s preferences.²² Because of the unique circumstances each finds himself in, Putin’s need for societal allies and genuine popular support is greater than Nazarbaev’s and much greater than Aliev’s. Social spending patterns in Russia suggest that welfare expenditure increases have occurred in tandem with major elite defections and potential opportunities for elite challenges. First, following the arrests and exile of Gusinskii and Berezovskii, between 2001 and 2002 total social spending increased by over four percent of GDP (Table 1.3), and consolidated budget expenditures on health, education and social policy increased by 40 percent, 47 percent and 89 percent, respectively. Those represent the largest year-to-year increases for education and social policy between 2000 and 2010, even though 2002 was not an election year. The single largest year-to-year increase in health expenditures in the last decade occurred following the Yukos affair and in

²² Even though official budgetary processes involving the social welfare and finance ministries, parliament and the presidential administration exist *de jure* in all three countries, budgetary decisions are made *de facto* by the autocrat in each case.

the midst of Color Revolutions in the near abroad. Between 2004 and 2005, consolidated budget expenditures on health increased by 121 percent, coming after the 2003-2004 parliamentary and presidential election cycle. Major increases in all welfare sectors occurred again in 2007 before the Putin-Medvedev succession and in the midst of significant intraelite struggles. Finally, since 2008, year-to-year increases in spending in all welfare sectors have been consistently high, such that, according to one observer, “every year is now a pre-election year.”²³ For example, in the midst of the global financial crisis of 2008-2009, Russia increased pensions by nearly 50 percent, and total social spending increased from 17.1 to 21.1 percent of GDP (Table 1.3).

By contrast, the Aliev regime in Azerbaijan does not seem to be concerned with securing popular support by means of welfare spending in election or off-election years. Between 2000 and 2010, consolidated budget expenditures on social policy decreased by 20 percent (Table 1.3). Following the Rose Revolution in neighboring Georgia in 2003, education and social policy expenditures declined as a percentage of GDP (Table 1.4). After the arrests of Ali Insanov and Farhad Aliev in 2005, state budget expenditures on health, education and social policy as a percentage of total budget expenditures decreased by 1.1 percent, 4.8 percent and 1.5 percent, respectively, and total social spending as a percentage of GDP continued to decline, reaching a low of 5.3 percent of GDP in 2008. In Kazakhstan, total social expenditures as a percentage of GDP have remained relatively stagnant over the 2000-2011 time period, because social security spending as a percentage of GDP decreased by nearly half while health and education expenditures rose (Table 1.3). Total expenditures increased slightly during the 2008-2009 global financial crisis, which also coincided with the Rakhat Aliev scandal.

The three countries’ social spending responses to the global financial crisis in 2008-2009 are particularly revealing with regard to the level of insecurity surrounding the autocrat. More than any other exogenous shock, major economic downturns have been identified as destabilizing to democratic and authoritarian regimes alike (e.g. Haggard & Kaufman 1995; Geddes 1999; Przeworski et al. 2000). In authoritarian regimes, poor economic performance “diminishes the bargaining power of autocrats, increases the strength of the opposition, destroys the bargains struck between leaders and their supporters, and leaves ruling groups vulnerable to defections” (Desai et al. 2009: 96). All three regimes possessed the available funds to off-set the potentially calamitous effects of the crisis; as Ross (2001: 334) argues, oil revenues make “efforts at fiscal pacification more effective.” In all three countries, total social spending as a percentage of GDP increased—but by significantly different amounts (four percent in Russia, 1.8 percent in Kazakhstan and 0.9 percent in Azerbaijan), which is indicative of each leader’s sense of insecurity and vulnerability.

4.4. Argument implications and complications

An observable implication of this argument is that rulers’ genuine popularity in society should be directly proportional to welfare spending levels. Although reliable data capturing genuine popular support for leaders in Russia, Kazakhstan and Azerbaijan is difficult to come by due to the political climate in each country, there is evidence to suggest that Putin and Nazarbaev are more popular than Aliev. First, public opinion surveys conducted by USAID-affiliated organizations in Kazakhstan and Azerbaijan in 2008,²⁴ and a domestic survey conducted in

²³ Author interview with Journalist #4, *Kommersant*, Moscow, Russia, July 26, 2011.

²⁴ The International Republican Institute (IRI) has conducted public opinion surveys in Kazakhstan and the International Foundation for Electoral Systems (IFES) has conducted surveys in Azerbaijan.

Russia in 2008, suggest that the public has more trust in Putin and Nazarbaev than Aliev. Seventy-three percent of Russians (Gorshkov et al. 2009, cited in Sakwa 2011) and 92 percent of Kazakhs (IRI 2008) reported that they had high confidence in the office of the president, compared to 55 percent of Azerbaijanis (IFES 2008).

Finally, a potential complication with this argument is that social spending is not the only “reward” autocrats can use to guarantee popular support, even in countries that have access to large and unconstrained revenue streams. Another way in which leaders can gain popular support is through ideological or nationalist appeals (Magaloni 2006; Magaloni & Wallace 2008). It is arguable, then, that the Aliev regime in Azerbaijan is attempting to secure popular support through this mechanism. The government has pursued a sustained propaganda campaign to generate and exploit hatred of its neighbor, Armenia, along with fomenting fear and nationalist anger over Nagorno-Karabakh, a territory within Azerbaijan’s national borders that has been officially occupied by Armenia since 1994. As the propaganda machine sets out to define Azerbaijan in terms of its opposition to Armenia and all things Armenian, officials use the conflict over the disputed land more as a superficial excuse to explain away the country’s problems (including low welfare spending) than as an appeal to national greatness.²⁵ In a comparative perspective, Azerbaijan’s spending on the military as a percentage of GDP is 3.4 percent, compared to 4.3 percent in Russia (World Bank 2013a). In addition, Russia arguably has more of a leg to stand on than Azerbaijan when it comes to using war and terrorism as an excuse for the country’s problems. This is due to the protracted conflict in Chechnya that lasted until April 2009, the invasion of Georgia in August 2008, and ongoing terrorist attacks since the mid-1990s, which increased in frequency in 2010 and 2011.²⁶

4.5 Future predictions

This explanation generates two predictions that are worth noting. First, Russia is in a precarious fiscal situation. Beginning in 2009, the federal budget began running a deficit due almost exclusively to massive increases in pension expenditures.²⁷ In 2011, the oil reserve fund held just \$27 billion, which is a small sum considering Russia’s export capacity. Since the public has been included in and benefitted from the redistribution of resource rents for almost a decade, “society has become rent-seeking itself.”²⁸ An unintended consequence of rapid increases in welfare expenditures is that, in order to maintain the public’s expectations for high social spending, Russia will have to begin borrowing in the near future, no matter the price of oil. For the time being, since Russia’s combined domestic and foreign debt is less than ten percent of GDP, the country’s fiscal situation is not doomed (World Bank 2013a). Welfare spending, however, has become unsustainable, and thus Russia is most likely out of the three cases to succumb to the negative economic outcomes associated with the “resource curse,” including stagnant economic growth and indebtedness (see Ross 1999).

The second prediction concerns societal discontent in Azerbaijan. Poverty and unemployment rates are much higher in Azerbaijan than in the other two countries, indicating

²⁵ This is an impression based on the author’s interviews with over ten officials and bureaucrats in Baku, Azerbaijan between December 2010 and April 2011.

²⁶ In March 2010, 40 people died after two bombs exploded on the Moscow subway; in January 2011, 35 people died after a bomb exploded at Moscow’s Domodedovo International Airport (see <http://www.guardian.co.uk/world/2011/jan/24/russian-terror-attacks-timeline>, last accessed on October 25, 2011).

²⁷ Author interview with Representative #1, Alfa-Bank, Moscow, Russia, August 4, 2011.

²⁸ Author interview with Pension Expert #3, Center for Strategic Research, Moscow, Russia, August 12, 2011.

that there is widespread societal dissatisfaction. As Kuran (1991) notes, a disgruntled populace increases the probability that scattered acts of resistance could escalate into full-blown revolution. Thus, while elites are most cohesive under the Aliev regime, an implication of this argument is that Azerbaijan is most vulnerable out of the three cases to civil unrest. Perhaps similar to the younger al-Assad, who also succeeded his father, the current Aliev believes he is invulnerable to losing power due to elite cohesion; therefore, he does not have an incentive to invest in social programs because he does not think he needs popular support. By poorly subsidizing the masses, however, he is creating a situation whereby disaffection will potentially grow to the point of there being popular uprising. Indeed, of the three cases examined, Azerbaijan exhibited the most acts of civil unrest and detained the most activists in spring 2011 in the midst of revolutions in North Africa and the Middle East,²⁹ and is currently experiencing a large amount of protest activity (which is met with violent crackdowns) in the lead-up to presidential elections in October 2013.

5. Research Design and Methodology

Focusing on Russia, Kazakhstan and Azerbaijan allows for a structured comparison of mineral-rich authoritarian countries. As described above, they provide for significant variation on the dependent variable and they hold constant several alternative explanatory factors, including mineral wealth, levels of political closure, economic openness, and socioeconomic development, as well as the communist legacy of a cradle-to-grave welfare system.³⁰ They also share several additional characteristics, including low institutional constraints on budgetary spending and the absence of fuel and other subsidies, which is an indirect form of welfare spending that could complicate the observed variation (Howard 1997). In addition to being non-democratic, these regimes are also “personalist,” where autocrats in each case wield extensive powers, legislative and judicial institutions are weak, political parties are not central political players, media and civil society freedoms are severely limited, and the political opposition is marginalized. Overall, these control variables facilitate comparison of these three countries, as well as the generalizability of the findings to mineral-rich authoritarian regimes outside of the post-Soviet region that more or less share these characteristics. Mineral-rich regimes are good cases to initially test the applicability of my theory, since they are generally rich enough that autocrats do not have to decide between buying off the selectorate and buying off the public. Since the hypothesis generates within-country predictions as well, analyzing trends in elite cohesiveness, intraelite conflict and social spending over time for each case contributes to the argument’s explanatory power.

The empirical inquiry is based on data and information collected during twelve months of field research in Almaty and Astana, Kazakhstan; Baku, Azerbaijan; and Moscow, Russia between August 2010 and August 2011. I conducted approximately 120 semi-structured interviews with officials and bureaucrats in social welfare ministries, parliament and other state agencies, social and budgetary policy experts, economists, political analysts, journalists and representatives of domestic and international NGOs and oil companies (Appendix A). Numerous published materials collected in the field as well as online news and secondary

²⁹ This assessment is based on online news research using *Radio Free Europe/Radio Liberty* (see www.rferl.org), *EurasiaNet* (www.eurasia.net) and other sources.

³⁰ Postcommunist countries are often excluded from large-*n* social spending analyses due to the historical legacy of more extensive welfare benefits in communist authoritarian regimes.

sources have also been consulted. Welfare spending and other numerical data were collected from statistical publications in each country; these data are supplemented and cross-referenced with data available through international databases, including the World Bank's *World Development Indicators*. Where appropriate, economists and budgetary policy experts in each country were consulted to confirm the accuracy of certain data. Information on new welfare initiatives and social programs was collected through interviews with social policy analysts and officials at social welfare ministries, government and NGO reports, online newspaper sources and government websites. My language of research in all three countries was Russian.

This study relies on a variety of evidence to trace the causal link between the cohesiveness of political and economic elites and welfare spending in Russia, Kazakhstan and Azerbaijan. To get a basic portrait of top political elites in each country, I first constructed a list of top state organizations and identified political elites in positional terms. They include: (1) senior officials in the presidential administration; (2) members of the government (prime ministers, deputy prime ministers, cabinet ministers and heads of other state agencies); (3) speakers and deputy speakers of parliament; (4) heads of other state agencies; (5) regional executives; and (6) other prominent elites in positions which may be unique to the bureaucratic structure of the country, such as the presidential envoys in Russia.³¹ Within these organizations, however, are highly powerful individuals who wield a lot of influence, which does not always correspond to their position on paper (and sometimes they are not listed or do not come up in searches). Thus, based on biographical information found in “Who’s Who” encyclopedias and other print sources, previous academic scholarship on elites in each country, online news sources and interviews with political analysts and journalists, during which time I asked them to name influential persons, I constructed a second, smaller list to get an accurate picture of top-level political elites as well as the extent of factionalization in each country. As I note above, assessing the extent of factionalization among political elites requires in-depth knowledge of case histories and current political climates, since it cannot be determined solely by looking at the size and number of different informal factions.

The three countries exhibit contrasting degrees of economic liberalization, which is mirrored in the size of their respective independent business communities. According to each country’s market reform scores published by the European Bank of Reconstruction and Development (EBRD), the economies of Russia and Kazakhstan have undergone extensive privatization, while Azerbaijan lags behind.³² To determine top economic elites in each case, I focus on each country’s known wealthiest individuals. This information comes from *Forbes*, as well as Russian, Kazakhstani and Azerbaijani print and online media sources. While the line between political and economic elites is blurred in each country because a considerable number of political players overlap as chairmen, general directors and managers of state-owned enterprises (Treisman 2007), I consider these categories of businesspeople to be analytically and conceptually distinct. I contend that jobs at state-owned enterprises are patronage positions given to top-level elites by the autocrat, whereas economic elites make and sustain their fortunes independent of the state.

To assess the level of threat to the autocrat, I consider observed cases in which intraelite conflicts became public knowledge. A precise measure of threat levels is difficult to come by,

³¹ In 2000, Russia’s federal subjects were organized into seven “super districts,” and the presidential envoys are those who oversee them.

³² Russia and Kazakhstan both received average scores of seven during 2004-2010 on the EBRD’s index of large and small-scale privatization, while Azerbaijan received a 5.7 (EBRD 2010).

since instances of conflict among political and economic elites often play out behind-the-scenes. There are a number of cases, however, that spilled into the public realm and are documented in domestic and international mass media or are widely “known” among informed political observers. These instances of intraelite conflict include high-level defections, arrests, prosecutions, dismissals and exile of members of the political and economic elite. Available newspaper, secondary source materials and interviews with political analysts and journalists are used to catalogue these instances and determine relative levels of threat to the autocrat in each country.

Determining whether or not the rulers are attempting to off-set elite threats by means of welfare spending necessitates longitudinal analysis in each empirical case study chapter. I engage in systematic process tracing of the timing of social spending increases and new welfare initiatives around two types of events. The first type of event is a major instance of intraelite conflict (referred to above) that spilled over into the public realm. The second type of event is an occasion that theoretically provides an opening for potential elite opponents to make a bid for power. I primarily focus on one, economic crisis (Przeworski et al. 2000), since the global financial crash of 2008-2009 led to a drop in international petroleum prices that severely affected budgetary revenue and GDP growth rates in each country. My approach assumes that autocrats only increase social spending in response to potentially destabilizing effects of an economic downturn when intraelite conflict and the threat of elite defection are high. While there is evidence of pre-emptive populism in all cases in response to the global financial crisis, this is not a cause in and of itself; rather, each country’s “strategy” is just another indicator of its overall approach to welfare spending. For example, Russia’s response to the global financial crisis was to increase pensions by nearly 50 percent, whereas Ilham Aliiev’s response to protests in Baku during the Arab Spring was to indirectly order a 10¢ price reduction on eggs (Ismayilova 2011). Importantly, in addition to yearly increases in health, education and social security expenditures, this study will consider mid-year budgetary amendments where information is available, as well as reasons for differences between initial budgetary allocations and end-year executions. Information on budgetary laws and amendments is available online through each country’s Ministry of Finance website. Second, the number of times autocrats address welfare spending and policies in public speeches may illustrate the extent to which they are seeking popular support via the social spending mechanism. Thus, annual presidential and budgetary addresses, which are also available online through each country’s presidential administration website, will be evaluated.

6. Plan of the dissertation

This dissertation proceeds in four chapters. The following three chapters use empirical evidence from the three case studies to test my hypothesis concerning welfare expenditure levels and the mechanisms through which budgetary spending decisions are made in these regimes. Chapter 2 explores the causal link between a fragmented elite and high welfare spending in Russia. It shows that Putin must reach beyond the selectorate and redistribute rents to the larger citizenry to secure societal allies, thereby offsetting threats posed by political and economic elites. In particular, I demonstrate in this chapter that elites have become more threatening to Putin over time since political elites have become richer and more powerful, and the number of billionaires has grown exponentially. This exemplifies the no-win situation of buying off elites in authoritarian regimes: dictators must distribute patronage to those around them to ensure

political survival, but in doing so they may engender their own downfall by increasing the wealth and ambition of those in the ruling coalition. Chapter 3 demonstrates that a unified elite generates low welfare spending in Azerbaijan. It shows that under conditions of low threat, Aliev does not believe he needs societal allies to sustain his rule; instead, he relies primarily on the loyalty of those in the ruling coalition. Chapter 4 tests the effects of hybrid elite composition on welfare spending in Kazakhstan. It illustrates that a moderate level of threat to Nazarbaev's position has driven him to redistribute rents to society, yet not nearly to the same extent as in Russia, which results in an intermediate level of spending. The concluding chapter places my argument in comparative perspective. It analyzes social spending trajectories in the other two mineral-rich post-Soviet states, Turkmenistan and Uzbekistan, and illustrates the applicability of my theory to two mineral-rich authoritarian regimes outside of the post-Soviet region, Algeria and Gabon.

Table 1.1: Average health spending in mineral-rich countries (% GDP), 2000-2010

Country	Average health spending
Bolivia	3.5
Russia	3.4
Algeria	3.3
Saudi Arabia	2.9
Bahrain	2.7
Kazakhstan	2.5
Uzbekistan	2.4
Venezuela	2.4
Brunei Darussalam	2.3
Oman	2.3
Angola	2.3
Iran	2.2
Kuwait	2.2
Qatar	2.2
Libya	2.1
United Arab Emirates	2.1
Ecuador	2.0
Turkmenistan	1.9
Nigeria	1.7
Equatorial Guinea	1.6
Republic of Congo	1.4
Cameroon	1.3
Gabon	1.2
Azerbaijan	0.9
Iraq*	0.7

Sources: World Bank *World Development Indicators*, available at <http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2>; Federal noe Kaznacheystvo Rossijskoi Federatsii (Federal Treasury of Russia), "Otchetnost' ob ispolnenii konsolidirovannogo biudzheta RF," 2000-2011, available at <http://roskazna.ru/reports/cb.html>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Statisticheskii Biulleten'," 2000-2005, available at <http://www.minfin.kz/index.php?uin=1119501016&lang=rus>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Damye ob ispol'nenii biudzheta," 2006-2011, available at <http://www.budget.az/budget/>.

*This figure is for 2000-2002 under Hussein.

Table 1.2: Average and variance in health spending in mineral-rich countries (% GDP), 2000-2010

Region	Mean	Standard deviation
All countries in sample (25)	2.1	0.7
Former Soviet Union (5)	2.2	0.9
Middle East and North Africa (11)	2.3	0.6
Sub-Saharan Africa (6)	1.5	0.3
Latin America (3)	2.7	0.4

Table 1.3: Total public expenditures on welfare in Russia, Kazakhstan and Azerbaijan, 2000-2011

Country	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Mean
Russia	% GDP	11.9	13.8	17.9	16.5	15.7	16.7	16.5	17.1	17.1	21.1	21.7	20.0	17.2
	% Total Budget Expenditures	38.1	42.0	40.8	43.3	44.7	51.1	52.0	49.6	50.0	52.0	57.0	54.2	48.0
	Per capita (constant 2005 US\$)	450	505	569	615	725	860	1024	1282	1449	1189	1394	1463	960
Kazakhstan	% GDP	11.8	10.9	10.4	10.7	10.6	11.0	10.3	10.7	10.7	12.5	10.3	10.1	10.8
	% Total Budget Expenditures	46.1	41.4	42.0	40.5	39.1	36.0	39.3	39.3	38.4	41.4	49.0	50.0	40.0
	Per capita (constant 2005 US\$)	206	211	211	252	321	413	500	606	646	596	572	649	432
Azerbaijan	% GDP	6.9	6.2	6.3	6.2	6.3	5.6	5.3	5.4	5.3	6.2	6.4	6.4	6.1
	% Total Budget Expenditures	42.9	41.0	40.9	35.9	35.7	33.0	25.6	25.6	20.0	24.6	23.2	21.2	30.8
	Per capita (constant 2005 US\$)	57	54	57	64	72	88	117	166	195	233	231	257	132

Sources: Federal'noe Kaznacheistvo Rossiiskoi Federatsii (Federal Treasury of Russia), "Otehnost' ob ispolnenii konsolidirovannogo budzheta RF," 2000-2011, available at <http://roskazna.ru/reports/cb.html>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Statisticheskii Builleten'," 2000-2005, available at <http://www.minfin.kz/index.php?uin=1119501016&lang=rus>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Dannye ob ispol'nenii budzheto," 2006-2011, available at http://www.minfin.gov.kz/itj/portal/anonymous?NavigationTarget=ROLES://portal_content/prototype_mf/roles/com.saprun.mf_anonymous_roles/com.saprun.mf_anonymous_ru/BudgetExecutionAndStatistics_Folder/StateBudgetRK_Folder/ConsolidatedBudget_Folder_Budget_AZ, "Azərbaycan Respublikasının dövlət büdcəsinin icrası haqqında," 2000-2011, available at <http://www.budget.az/budget/>.

Table 1.4: Public expenditures on health, education and social security in Russia, Kazakhstan and Azerbaijan (% GDP), 1989-2011

Country	Sector	1989-1992	1993	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Russian Federation	Health	2.5	3.6	3.4	2.6	3.1	2.5	2.2	2.2	2.0	3.6	3.4	3.3	3.7	3.6	4.2	3.8	4.3	3.8	3.9
	Education	3.6	4.0	3.4	3.9	4.5	3.6	3.1	2.8	3.1	3.9	3.6	3.5	3.7	3.9	4.0	4.0	4.6	4.2	4.1
Kazakhstan	Social Security	5.0	6.0	5.3	5.8	7.5	6.4	7.5	6.9	8.7	10.4	9.5	8.9	9.3	9.0	8.9	9.3	12.2	13.7	12.0
	Health	4.4	2.5	2.0	2.7	3.0	2.0	2.2	2.0	2.0	1.9	2.1	2.5	2.7	2.6	2.8	2.7	3.3	2.6	2.3
Azerbaijan	Education	-	-	4.5	3.7	4.1	3.5	4.2	3.8	3.5	3.2	3.3	3.4	3.0	2.6	2.5	2.4	2.8	2.8	2.5
	Social Security	8.2	4.1	4.3	5.0	7.9	5.3	7.9	6.6	5.7	5.3	5.3	4.7	4.6	4.2	3.9	3.9	4.6	4.2	4.2
Azerbaijan	Health	-	-	2.1	1.4	1.6	1.0	1.0	0.9	0.8	0.7	0.8	0.9	0.9	0.9	0.9	0.9	1.1	1.0	1.0
	Social Security	-	-	8.1	1.8	2.7	2.7	3.1	2.2	1.9	2.4	2.1	2.0	1.7	1.8	2.0	2.0	2.3	2.6	2.9

Sources: Cook 2007a, p. 211; Federal'noe Kaznacheitvo Rossiiskoi Federatsii (Federal Treasury of Russia), "Otechetnost' ob ispolnenii konsolidirovannogo biudzheta RF," 2000-2011, available at <http://roskazna.ru/reports/cb.html>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Statisticheskii Buil'ten'," 2000-2005, available at <http://www.minfin.kz/index.php?uin=1119501016&lang=Rus>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Dannye ob ispol'nenii biudzheta," 2006-2011, available at <http://www.budget.az/budget/>; World Bank, *Balancing Protection and Opportunity: A Strategy for Social Protection in Transitional Economies* (Washington, D.C.: World Bank, May 3, 2000), available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,contentMDK:20219326~isCURL:Y~pagePK:146736~piPK:146830~theSitePK:258599,00.html>.

Table 1.5: Political and socioeconomic indicators in mineral-rich states

Country	Mean health spending (% GDP), 2000-2010	VA score	Economic Freedom score	Fuel rents (% GDP), 2008	GDP per capita, 2008 (PPP, US\$ 2005)	HDI score, 2008	TI score, 2008
Bolivia	3.5	-0.02	53.2	34%	\$4172	0.65	3.0
Russia	3.4	-0.97	49.9	29%	\$14,767	0.75	2.1
Algeria	3.3	-1.05	55.7	42%	\$7367	0.69	3.2
Saudi Arabia	2.9	-1.74	62.8	70%	\$20,564	0.76	3.5
Bahrain	2.7	-0.82	72.2	40%	\$23,755	0.81	5.4
Kazakhstan	2.5	-1.01	60.5	33%	\$10,468	0.73	2.2
Uzbekistan	2.4	-1.9	52.3	80%	\$2455	0.62	1.8
Venezuela	2.4	-0.62	45.0	30%	\$11,877	0.73	1.9
Brunei	2.3	-1.00	--	63%	\$46,820	0.83	--
Oman	2.3	-1.07	67.4	51%	\$24,646	0.70	5.5
Angola	2.3	-1.07	47.1	67%	\$5166	0.48	1.9
Iran	2.2	-1.48	44.0	49%	\$10,397	0.70	2.3
Kuwait	2.2	-0.53	68.3	64%	\$49,952	0.76	4.3
Qatar	2.2	-0.77	62.2	49%	\$67,334	0.83	6.5
Libya	2.1	-1.9	38.7	62%	\$15,321	0.76	2.6
UAE	2.1	-0.98	62.8	30%	\$51,361	0.84	5.9
Ecuador	2.0	-0.22	55.4	30%	\$7127	0.71	2.0
Turkmenistan	1.9	-2.06	43.4	--	\$6566	0.67	1.8
Nigeria	1.7	-0.60	55.5	35%	\$1945	0.45	2.7
Equatorial Guinea	1.6	-1.89	52.5	62%	\$30,988	0.54	1.7
Congo	1.4	-1.16	45.2	69%	\$3433	0.52	1.9
Cameroon	1.3	-1.02	54.0	12%	\$2042	0.47	2.3
Gabon	1.2	-0.84	53.6	47%	\$13,441	0.66	3.1
Azerbaijan	0.9	-1.23	55.3	65%	\$8023	0.70	1.9
Iraq*	0.7	-2.03	--	82%	\$3777	0.55	--

Sources: World Bank *World Development Indicators*, available at <http://datatabank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2>; Heritage Foundation Index of Economic Freedom 2008, available at <http://www.heritage.org/index/download>; Transparency International Corruption Perception Index 2008, available at http://archive.transparency.org/policy_research/surveys_indices/cpi/2008/cpi_2008_table.
*Where available, figures for Iraq are from 2002.

Table 1.6: Ownership structure and welfare spending in Soviet successor states, 2000-2010

Country	Welfare spending	Ownership structure*
Russia	High	P1 through 2005; S1 thereafter
Kazakhstan	Medium	P2 through 2005; S2 thereafter
Uzbekistan	Medium	S1
Turkmenistan	Low	S1
Azerbaijan	Low	S2

* Jones Luong & Weintal (2010) identify four distinct types of ownership structure: (1) state ownership with low foreign involvement, or S1; (2) state ownership with high foreign involvement, or S2; (3) private foreign ownership, or P2; and (4) private domestic ownership, or P1. The state's role in the ownership and control of the petroleum sector diminishes from S1 to P1.

Table 1.7: Summary of argument

Elite fragmentation or cohesion →	Threat to autocrat →	Welfare spending
Divided	High	High
Hybrid	Medium	Medium
United	Low	Low

Table 1.8: Elite fragmentation or cohesion

Ruling coalition factionalization

	High	Low
High	<i>Hybrid:</i> <ul style="list-style-type: none"> • Angola • Republic of Congo • Iran • Libya • Uzbekistan • Nigeria • Venezuela 	<i>United:</i> <ul style="list-style-type: none"> • Azerbaijan • Brunei • Cameroon • Equatorial Guinea • Gabon • Iraq • Turkmenistan
	<i>Divided:</i> <ul style="list-style-type: none"> • Algeria • Bahrain • Russia • Saudi Arabia • Bolivia • Ecuador 	<i>Hybrid:</i> <ul style="list-style-type: none"> • Kazakhstan • Kuwait • Oman • Qatar • UAE
Low		

Political-economic elite overlap

Table 1.9: Elite fragmentation (cohesion) and welfare spending in mineral-rich regimes

Country	Elites	Welfare spending
Bolivia	Divided	High
Russia	Divided	High
Algeria	Divided	High
Saudi Arabia	Divided	High
Bahrain	Divided	High
Uzbekistan	Hybrid	Medium
Venezuela	Hybrid	Medium
Brunei Darussalam	United	Medium
Oman	Hybrid	Medium
Angola	Hybrid	Medium
Iran	Hybrid	Medium
Kazakhstan	Hybrid	Medium
Kuwait	Hybrid	Medium
Qatar	Hybrid	Medium
Libya	Hybrid	Medium
United Arab Emirates	Hybrid	Medium
Ecuador	Divided	Medium
Turkmenistan	United	Low
Nigeria	Hybrid	Low
Equatorial Guinea	United	Low
Republic of Congo	Hybrid	Low
Cameroon	United	Low
Gabon	United	Low
Azerbaijan	United	Low
Iraq (under Hussein)	United	Low

Figure 1.1: Real GDP Growth in Russia, Kazakhstan and Azerbaijan, 1992-2011

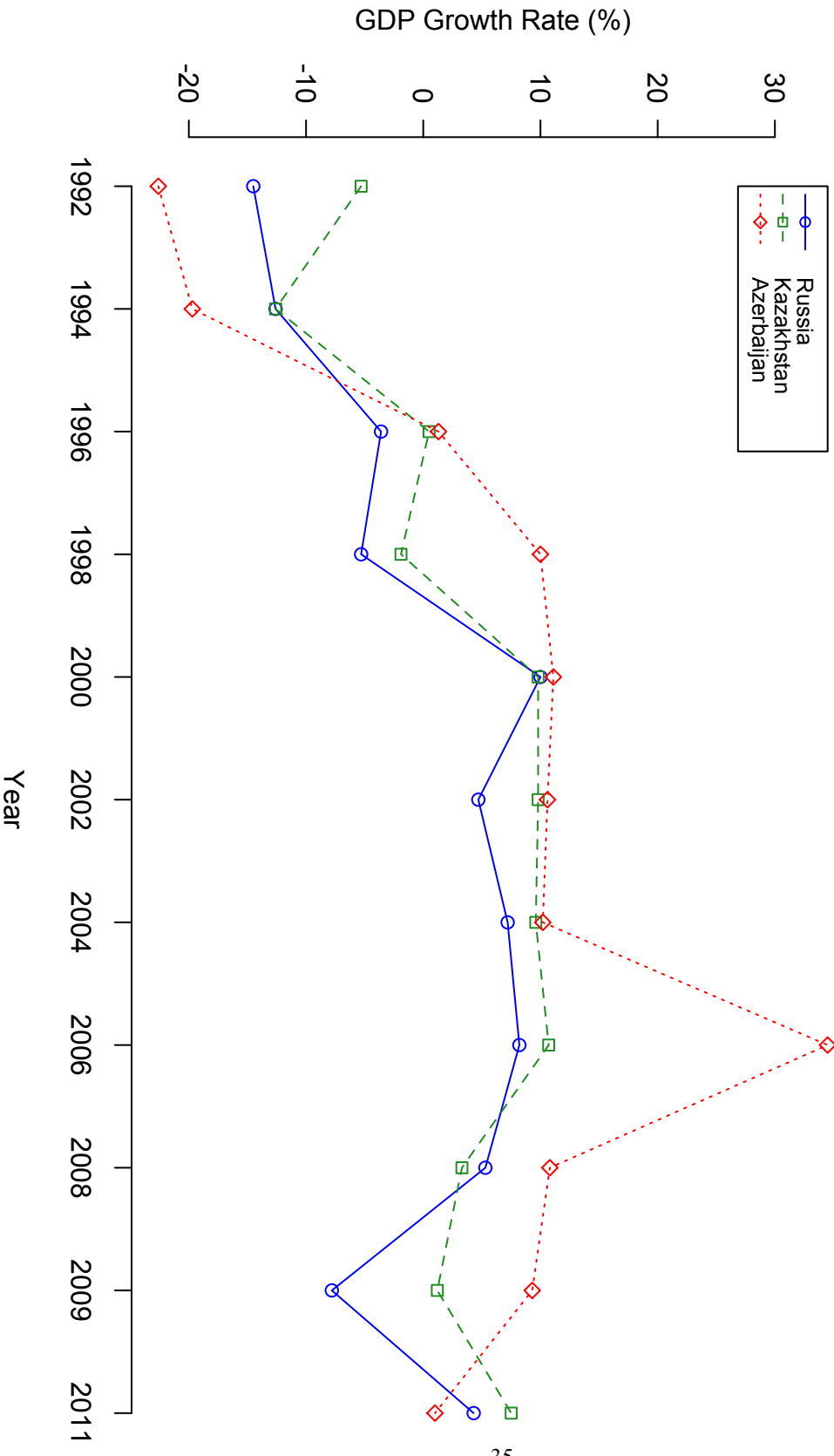


Figure 1.2: Total Social Spending in Russia, Kazakhstan and Azerbaijan (% GDP), 1993-2010

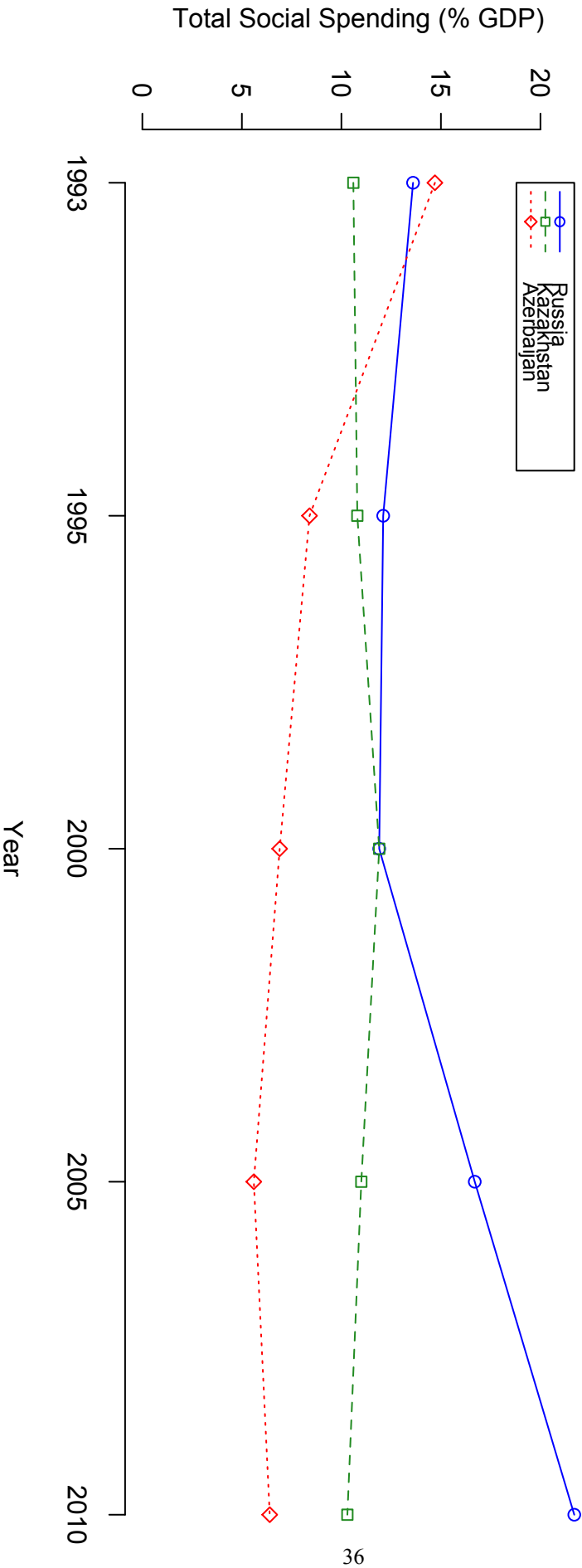
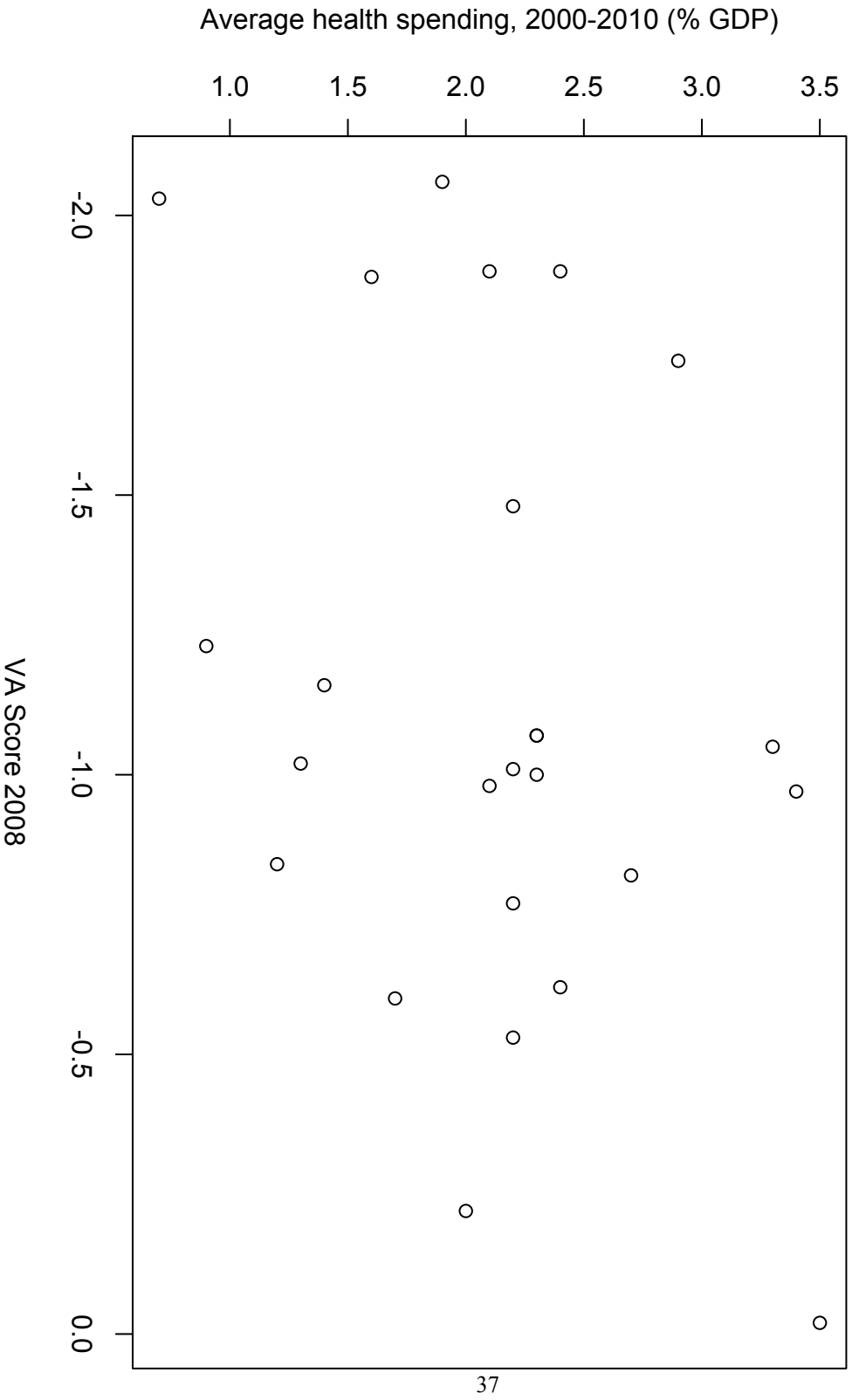
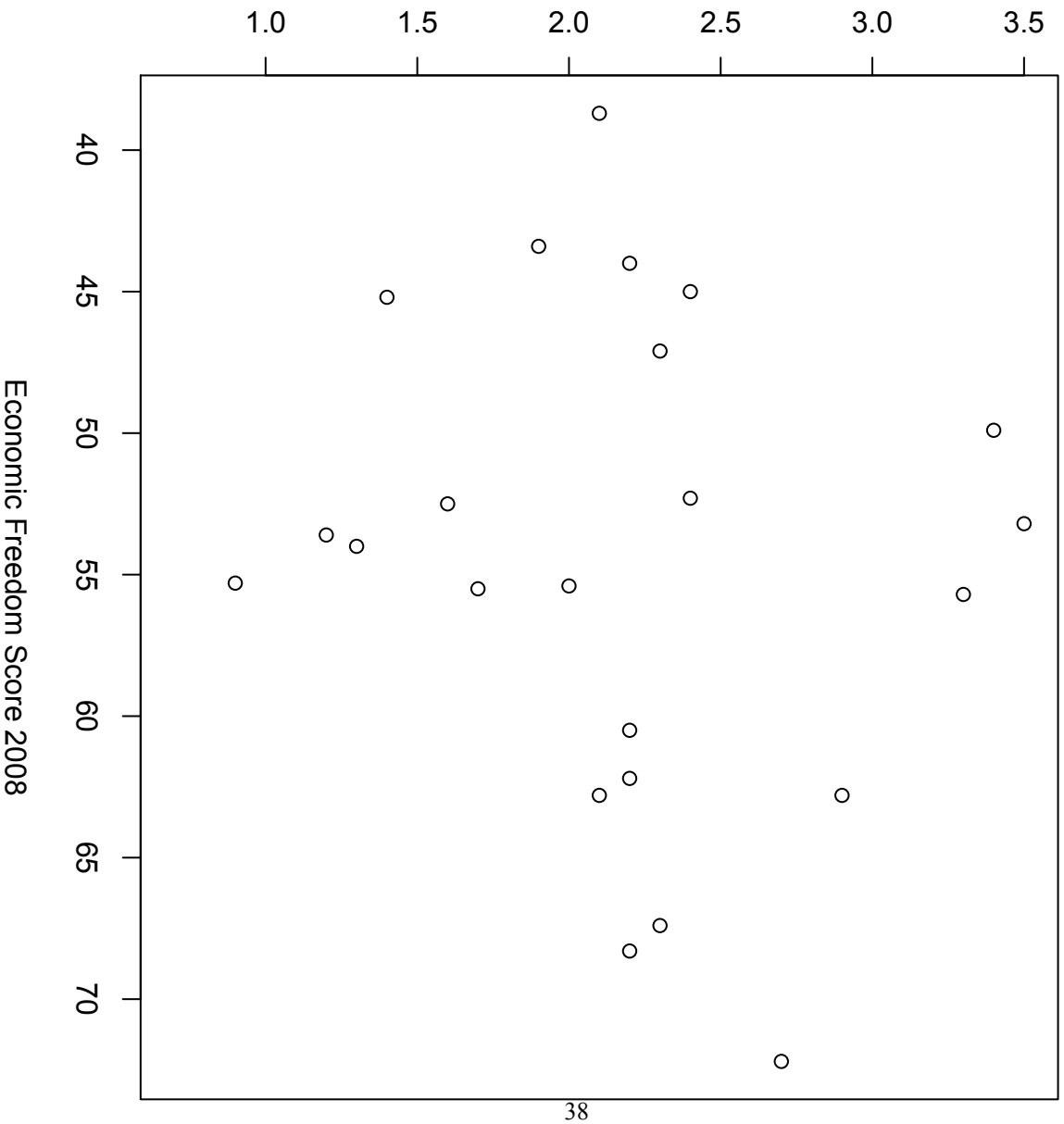


Figure 1.3: Regime type and welfare spending



Average health spending, 2000-2010 (% GDP)

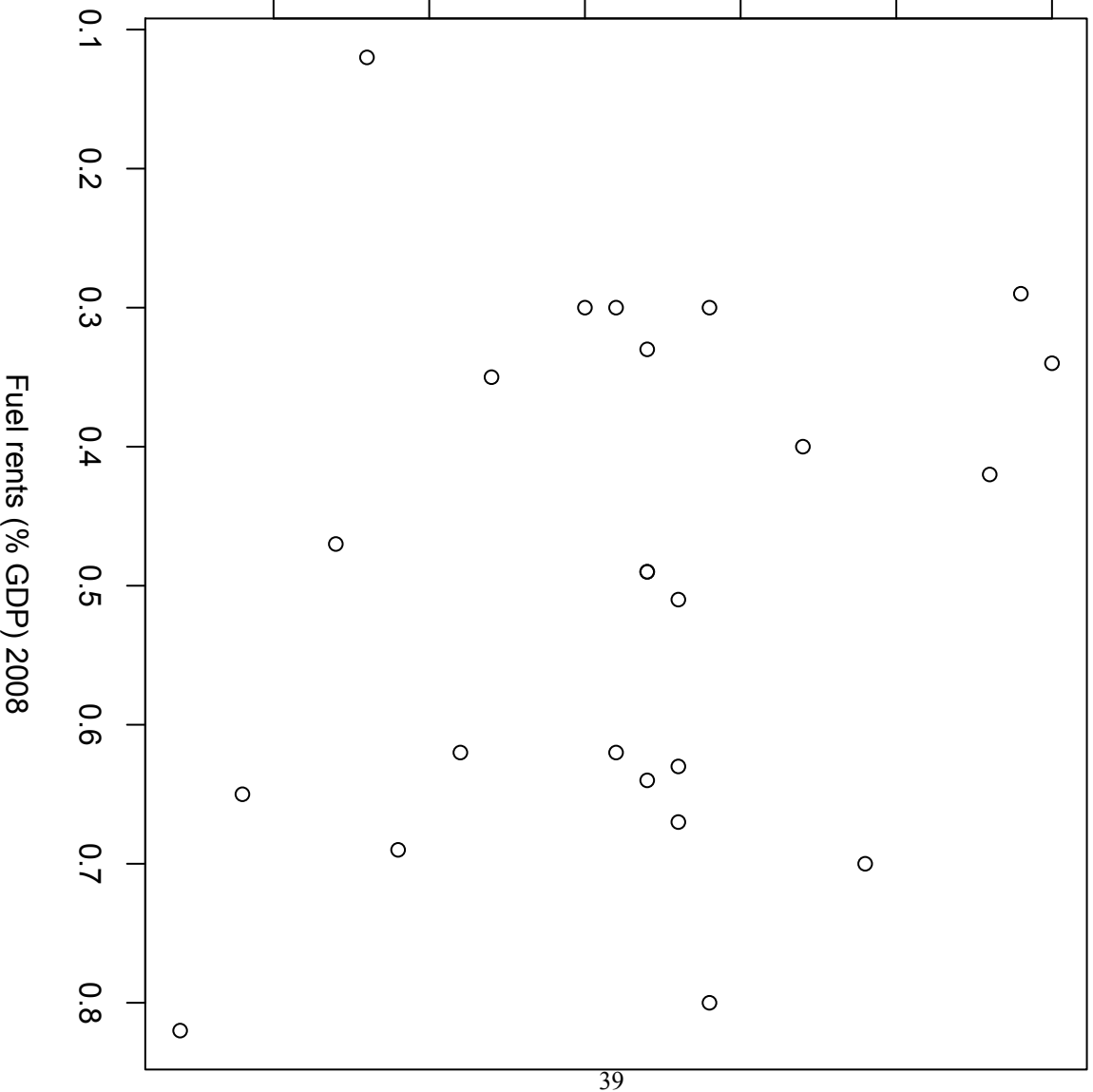
Figure 1.4: Economic openness and welfare spending



Average health spending, 2000-2010 (% GDP)

1.0 1.5 2.0 2.5 3.0 3.5

Figure 1.5: Economic dependence on oil and welfare spending



Average health spending, 2000-2010 (% GDP)

1.0 1.5 2.0 2.5 3.0 3.5

Figure 1.6: Economic development and welfare spending

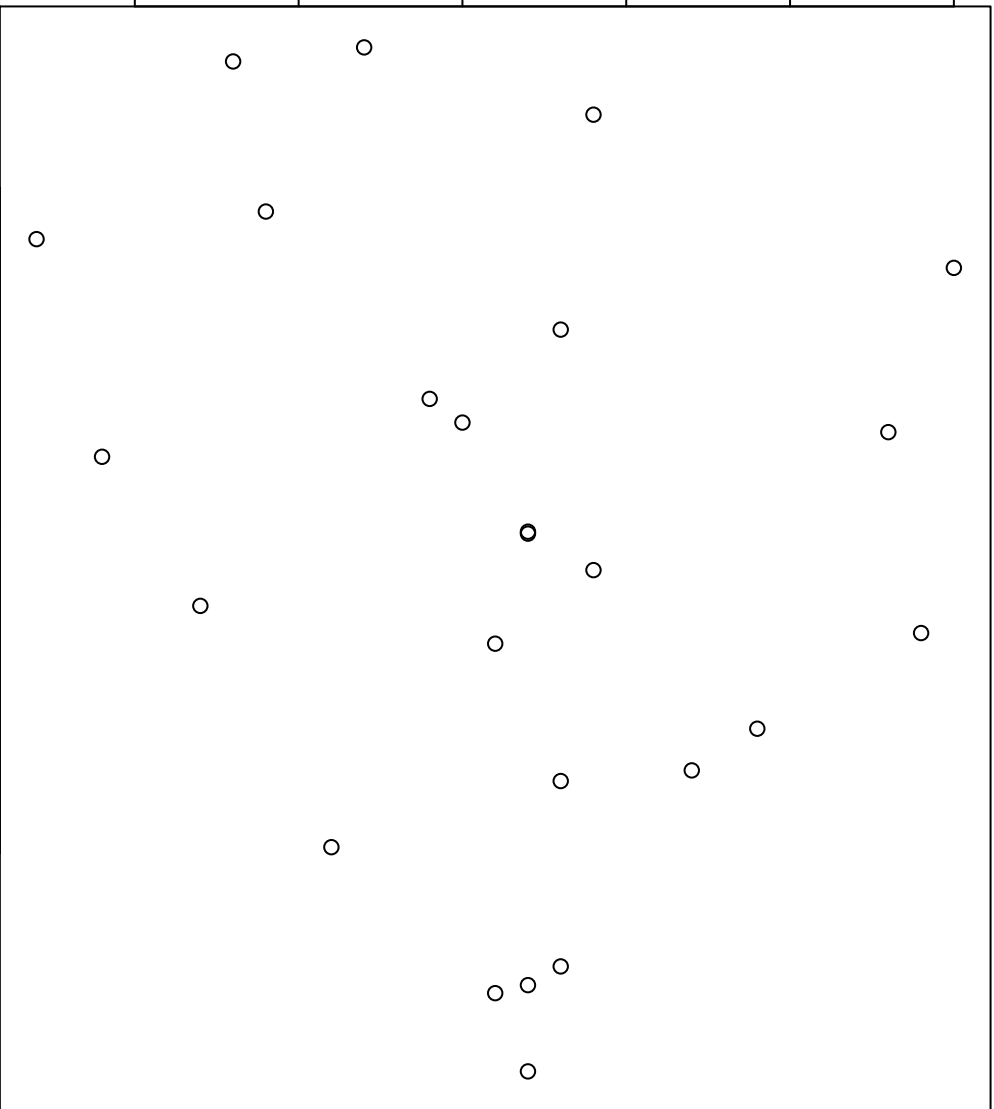
Log GDP per capita 2008

3.5

4.0

4.5

40



Average health spending, 2000-2010 (% GDP)

1.0 1.5 2.0 2.5 3.0 3.5

0.5
0.6
0.7
0.8
HDI Score 2008

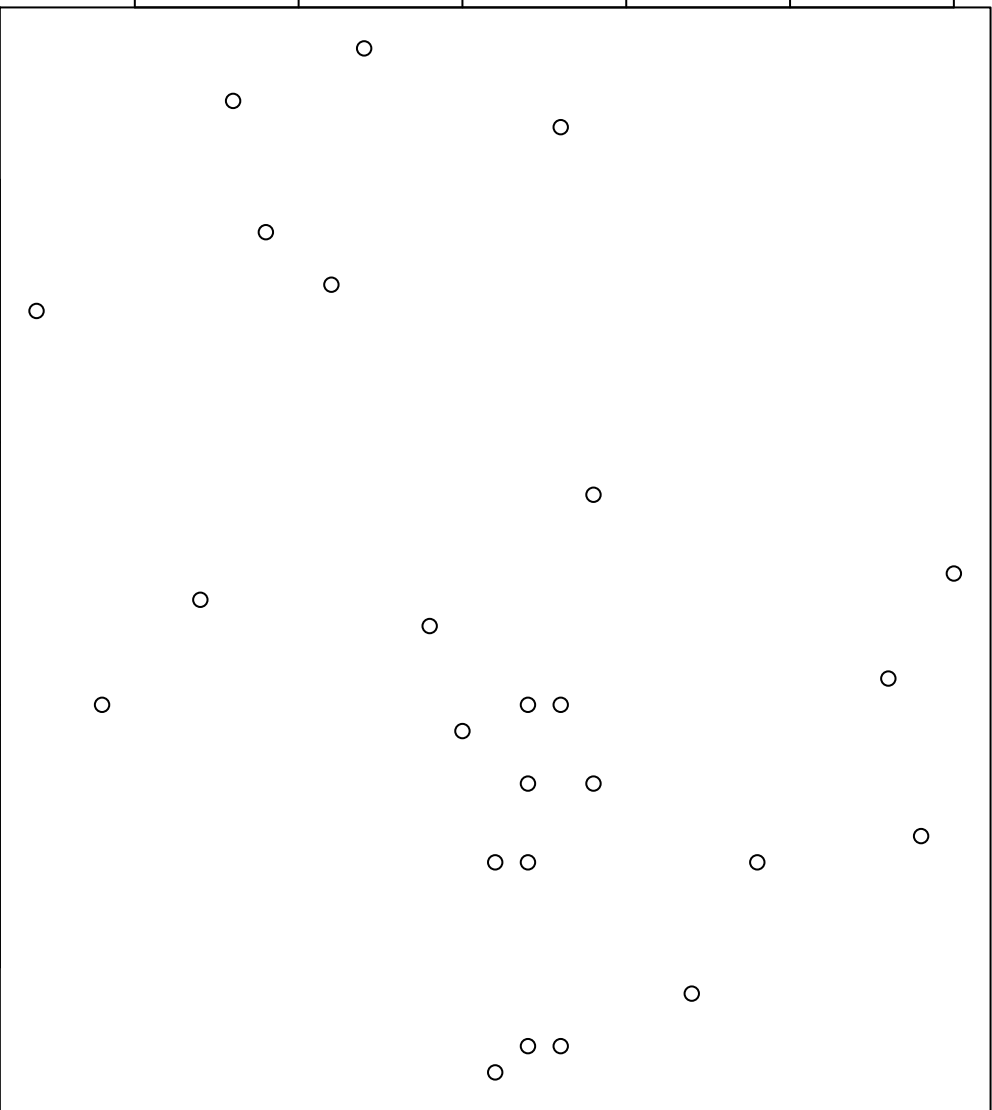


Figure 1.7: Development and welfare spending

Average health spending, 2000-2010 (% GDP)

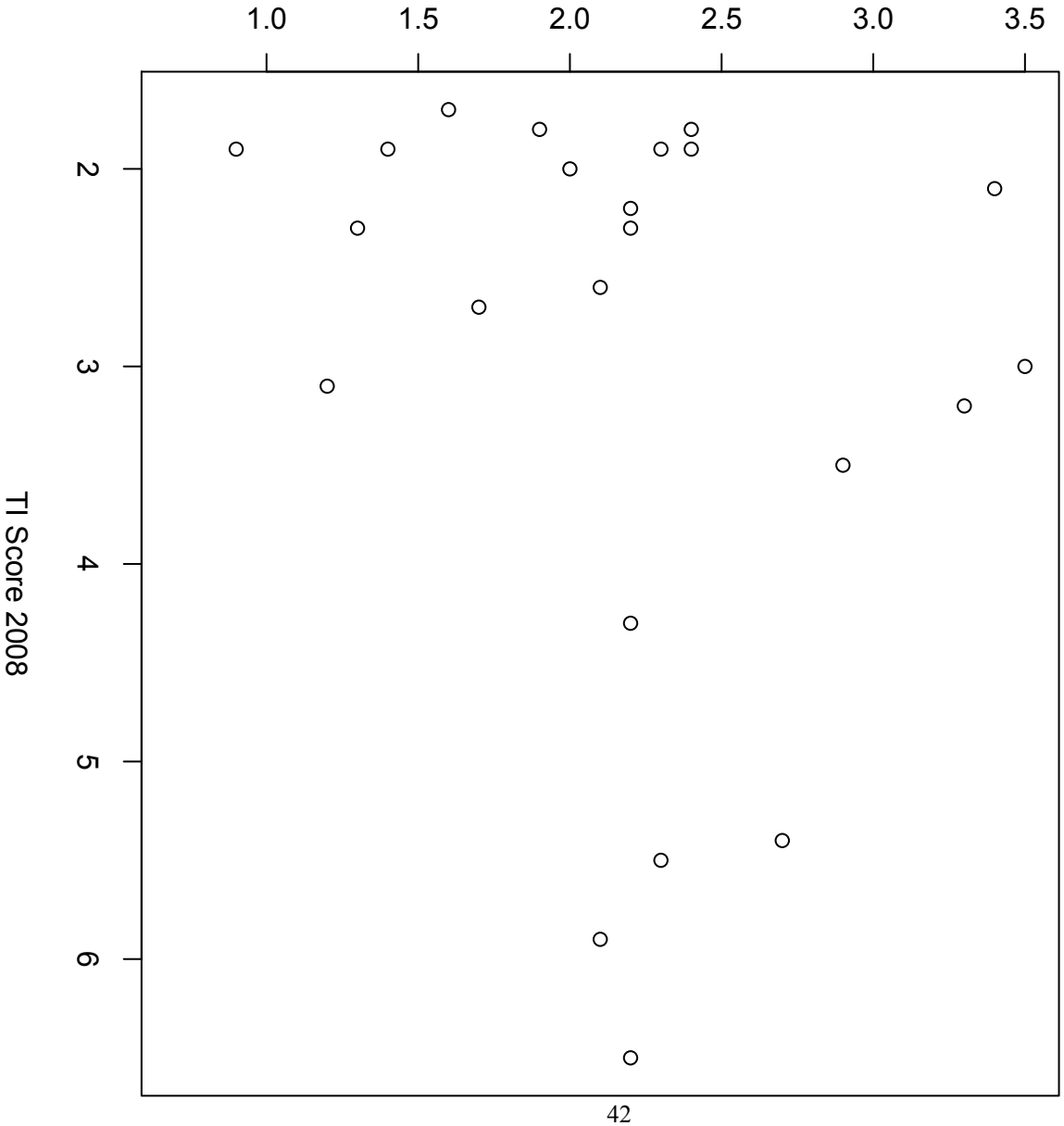


Figure 1.8: Corruption and welfare spending

Chapter Two

The ATM Autocrat: Rent Redistribution in Putin's Russia

“Let's think not only about today, but about the future of our country. One thing is certain: we have the opportunity today to achieve more tangible results to improve social welfare for the Russian people. We can achieve this without hurting the economy or increasing inflation. And this opportunity should not be missed.”-*Vladimir Putin, September 5, 2005*

“Russia is the only country in the world that carried out a large-scale modernization of the pension system and significantly raised social security benefits and pensions during the [global financial] crisis. As a result, in the past year alone the average labor pension increased by 45%.”
-*Vladimir Putin, April 11, 2011*

1. Introduction

Over the course of the last decade, Russia has emerged as one of the highest welfare spenders in the universe of petroleum-rich authoritarian regimes. Not only does Russia spend twice as much as Kazakhstan and three times as much as Azerbaijan on the social sector (health, education and social security), but also it devotes more public funds to welfare than the Gulf states, which are known to have expansive and generous welfare programs.³³ Since assuming power in 2000, overall welfare expenditure levels have increased significantly in real terms under Vladimir Putin's reign, especially after 2004 (World Bank 2011). Since 2005, new categories for direct cash payments to citizens have been created—and existing benefit payments have been expanded—under the auspices of the Priority National Projects for Health and Education, as well as other federal programs implemented by the Ministry of Education and the Ministry of Health and Social Development of the Population. In tandem with increases in aggregate levels of health, education and social security spending, state employee salaries, pensions, stipends and other social benefits have also risen substantially in real terms.

In this chapter, I demonstrate that a fragmented political and economic elite in Russia has resulted in high levels of welfare spending. I focus on the period 2000-2011, since Putin came to power in 2000, and 2011 is the last date for which yearly welfare spending data are available. Elite fragmentation manifests itself in on-going factional conflict behind Kremlin walls, as well as the persistence and growth of a class of wealthy oligarchs who wield significant financial resources that are independent of Putin. Divisions within the executive branch, especially during Putin's second term and leading up to the Medvedev succession, coupled with little political-economic elite overlap, have created conditions in which Putin's level of threat to his position has remained high in comparison to Kazakhstan and Azerbaijan and, as I demonstrate below, increased over time. As a result, in addition to buying off those in the narrow selectorate, Putin redistributes resource rents to the larger citizenry in the form of high social spending. In doing so, Putin maintains a large, loyal constituency that depends on the state to supplement all or part of its income. Popular support for an autocrat provides a counterweight that wards off would-be usurpers in political or economic elite circles. While Putin's popularity came into question in the midst of mass protests following parliamentary elections in December 2011 and presidential elections in March 2012, the vast majority of protestors were middle to upper-middle class

³³ Albeit for their citizens as opposed to foreign workers, who make up a significant portion of the populations of Bahrain, Oman, Qatar, Saudi Arabia and the UAE (Yousef 2004).

residents of Moscow and St. Petersburg (Barry 2011), who are much less dependent on the state for their livelihood than the average Russian.³⁴

Russia serves as a critical test of this argument, not merely because it represents a small number of authoritarian countries—both rich and poor in petroleum resources—that spends more than ten percent of GDP on social expenditures, but also because welfare expenditures increased over time as the country’s political system became more closed. Russia is the only case in the universe of petroleum-rich authoritarian countries that experienced significant democratic backsliding in the last twenty years.³⁵ Contrary to expectations espoused in the literature on social spending, major increases in health, education and social security expenditures began to occur *after* Putin consolidated control over the country’s political institutions. These measures include the manipulated victory for the Kremlin in the December 2003 Duma elections, when Putin’s Unity party (now United Russia) captured 306 of 450 seats (68 percent) in Russia’s lower house; Putin’s reelection to the presidency in March 2004 with 70 percent of the vote; and the September 2004 constitutional change that made governors presidential appointees rather than elected officials. These actions, in addition to a crackdown on opposition political parties, civil society, independent media, and politically driven arrests and prosecutions, signified Russia’s return to authoritarianism as of 2004 (Fish 2005; Freedom House 2005). A rise in welfare expenditures in tandem with increasing political closure in Russia represents a puzzle. If public social spending is directly linked to rulers’ desire for popular support, then why would Putin’s need for popular support grow *after* he had emasculated the country’s political institutions, consolidated executive authority, and become less dependent on free and fair elections as a means of getting and maintaining power? While oil windfalls have certainly funded welfare expansion in Russia, the answer cannot be reduced to resource wealth alone. As I demonstrate in Chapter 1, not all states raise expenditures on social welfare in periods of export growth and high international petroleum prices.

Russia’s experience is consistent with the causal mechanism I identify as linking high welfare spending with a fragmented elite. First, in sharp contrast to Kazakhstan and especially Azerbaijan, political and economic elites in Russia were never cohesive under Putin. When Putin assumed the presidency in 2000 as a relative unknown, he struggled to consolidate power at the elite level, and immediately began cultivating constituencies in society to raise his political capital. Unlike Nursultan Nazarbaev in Kazakhstan and Heidar and Ilham Aliev in Azerbaijan, Putin was not able to rely on pre-existing Soviet and familial elite networks when he assumed the presidency. Instead, he surrounded himself with disparate groups of associates from his past in order to emancipate and protect himself from the “El’tsin family” clan, including oligarchs Boris Berezovskii and Vladimir Gusinskii, who quickly moved into the opposition. An unintended consequence of this move was that these groups, including, but not limited to, the *siloviki* (“force structure” officials), liberals and technocrats, solidified into separate factions and sub-factions that have experienced sustained conflict over ideological and personal differences since the early 2000s. Intraelite conflict escalated in 2004 in the midst of the Yukos Affair due to strong differences of opinion over the arrest of Mikhail Khodorkovskii, the state’s seizure of Yukos assets and the partial re-nationalization of oil. It escalated again leading up the 2008 succession of Dmitrii Medvedev to the presidency.

³⁴ Author interview with Pension Expert #3, Center for Strategic Research, Moscow, Russia, August 12, 2011.

³⁵ Venezuela’s political system has also become more closed—and welfare expenditures have increased—since Hugo Chavez became president in 1999, but the regime remains more open than Russia’s (Economist Intelligence Unit 2011; Freedom House 2012).

In addition to cross-national differences in elite fragmentation and cohesion between Russia, Kazakhstan and Azerbaijan, beginning in 2004, political and economic elites in Russia became more threatening to Putin over time. This trend results from two factors. First, Putin's consolidation of political power "partially backfired" as he promoted high-ranking associates into positions of political and financial influence, particularly those in state-owned companies (Bremmer & Charap 2007: 84). While buying off elites is a necessary strategy that dictators employ to maintain loyalty in the ruling coalition, by doing so they may inadvertently cause their own downfall (Tullock 1987; Bueno de Mesquita et al. 2003; Brownlee 2007). In addition to increasing the possibilities of financial gain available to high-ranking officials, these promotions enable ruling coalition elites to create or expand their own independent patronage networks. If numerous high-ranking personnel command both significant financial resources as well as loyal personnel, then they ultimately "become more capable of mounting a successful challenge [to the autocrat] and potentially more tempted to venture such a move" (Brownlee 2007: 604). Second, even though Putin took measures in his first term to minimize threats coming from economic elite circles, the number of independent capitalists in Russia has increased significantly since the early 2000s. Thus, Putin's need for popular support has become more acute over time.

This chapter proceeds in three sections. The next section provides an overview of Russia's welfare system and budgetary financing mechanisms, and presents additional data and evidence to establish that social spending became a top policy priority as the country became more politically closed. The third section establishes that Russia has had a divided political and economic elite since Putin came to power, and that the threat coming from high officials of the regime and wealthy capitalists has increased since 2004. This section also traces the causal mechanism of my argument by comparing longitudinal changes in welfare spending with domestic political events in Russia. In particular, I show that the more significant increases in welfare spending do not correspond to elections or popular protest, but with moments of heightened intraelite conflict. In addition to longitudinal welfare spending data, I use annual speeches to show that Putin was motivated by the conviction that he would get more popular support through high welfare spending. The concluding section summarizes my empirical findings, and suggests that Russia has succumbed to negative economic consequences associated with mineral abundance due to Putin's creation of a rent-seeking populace.

2. Welfare spending

The collapse of communism in Russia was followed by deep economic recession that reached its peak during the 1998 currency crisis.³⁶ Poor economic performance in the 1990s was accompanied by slashes in welfare expenditures and social crises as new economic reformers sought to reduce the size and scope of the public sector, which was inherited from Soviet welfare state structures (Cook 2007a). In the Soviet period, health, education and social security systems were planned and managed by centralized state bureaucracies and financed entirely by the state budget. While these systems were underfinanced and inefficient, especially in the late Soviet period, access to basic health care, primary, secondary and tertiary education, and social security and assistance benefits was nearly universal. The vast majority of Soviet citizens relied on this social "safety net" that collapsed along with the Soviet Union in 1991. From 1990 to 1995, as the economy contracted, real public expenditures fell by 50 percent in pensions, 40 percent in

³⁶ On August 17, 1998, the Russian government devalued the ruble, defaulted on its sovereign debt and declared a suspension of payments by commercial banks to foreign creditors.

education and 30 percent in health (Cook 2007a: 67). Poverty, inequality, unemployment and mortality rates rose dramatically, while life expectancy and birth rates plummeted.

In spite of these challenges, welfare reform was not a policy priority in the 1990s under El'tsin, and efforts to reform and restructure health care, education and social security systems failed. Budgetary financing for health and education was successfully decentralized to the regional and municipal level in 1993; since then, approximately 80 percent of public spending on health and education has come out of regional budgets. Most of the Soviet-era welfare infrastructure and mechanisms for provision remained in place, however, albeit with diminished funding (Cook 2007b; Wengle & Rasell 2008). Welfare reform was a more prominent feature of Putin's time in office, where liberalizing³⁷ reforms were implemented in healthcare, education, housing, labor, pensions and social benefits, including the monetization of the *l'goty* (in-kind benefits) system, the societal response to which will be discussed later in this chapter. These reforms grew out of a set of documents generated by the Center for Strategic Development, a think tank then directed by German Gref.³⁸ These reforms succeeded in reducing the state's role in social provision and welfare financing by shifting more responsibility to individuals, insurance mechanisms and encouraging some competition and private alternatives in the health, education and social security sectors (Cook 2007a). The Russian welfare state remains only "partially liberalized," however, due to limitations in state capacity, non-compliance and resistance from users and providers (Cook 2007a: 190). As I discuss in more detail below, the government remains the major player in both financing and providing social services, and most Russians continue to depend on the state for social service provision as well as their household income. Major features of Russia's current welfare system, including financing responsibilities and mechanisms, are outlined below in Table 2.1 (p. 73).³⁹

2.1 Budget expenditure and revenue flows

Despite efforts to dismantle key aspects of the Soviet welfare state and introduce liberalizing and privatizing reforms, healthcare, education and social security are still financed primarily by the state and, in practice, the federal budget. Public financing for welfare in Russia now represents over 50 percent of consolidated budget expenditures. Russia's consolidated budget consists of federal, regional and local budgets as well as "off-budget" funds for revenues and expenditures. These include the Reserve Fund and National Welfare Fund, as well as the Pension Fund, Social Insurance Fund and federal and regional Medical Insurance Funds. While these funds are technically labeled "off-budget," in reality they are separate arms of the federal budget that are earmarked for specific saving and spending tasks.⁴⁰ In 2004, an Oil Stabilization Fund was created to institutionalize the government's commitment to maintaining a budget surplus (Jones Luong & Weinthal 2010). In 2008, this was divided into the Reserve Fund, which holds surplus revenues up to ten percent of GDP, and the National Welfare Fund, which accrues the additional surpluses and is intended "to provide co-financing of voluntary pension savings of Russian citizens and to balance the budget deficit of the Pension Fund of the Russian

³⁷ Liberal denotes a model where responsibilities for welfare financing and service provision fall primarily on individuals and markets as opposed to the government and state budgets (Esping-Andersen 1990; Cook 2007a).

³⁸ Gref served as Minister of Economic Development and Trade from 2000-2007.

³⁹ For a book-length treatment of welfare state reform in Russia and a more extensive discussion of programmatic structures, see Cook 2007a.

⁴⁰ Author interview with Social Policy Expert #1, UNICEF, Moscow, Russia, May 3, 2011.

Federation.”⁴¹ The welfare funds were created to accrue voluntary and payroll tax contributions for benefit payments and health care provision, but as I discuss in more detail below, they are heavily subsidized by the federal budget to make up for shortfalls in voluntary contributions.

Health and education. Since 1999, public expenditures on health averaged approximately 60 percent of total health spending (World Bank 2012a). The volume of out-of-pocket payments for educational services averaged just six percent of total education expenditures between 2000 and 2008, which amounted to an average of 1.5 percent of total household expenditures over the same time period (RosStat 2010b). Moreover, the federal government plays a significant role in both financing (through the federal budget) and decision-making in health and education, even though approximately 80 percent of public spending in these sectors is technically supposed to come out of regional budgets and regional insurance funds in the case of health (Table 2.1). Over one-third of federal government expenditures are allocated to transfers to regions (for the purposes of equalizing regional differences in budgetary revenue) and the “off-budget” welfare funds (World Bank 2011). In general, fiscal transfers play a key role in financing and providing social services and have become considerably more important in recent years. Between 2000 and 2009, over 40 percent of revenues for regional health insurance funds came from grant income; in 2008 and 2009 this reached nearly 70 percent. While the system of inter-budgetary transfers is complex, the majority (60 percent) of federal transfers consist of grants and subsidies to regions, where expenditure needs for health and education are taken into account using objective criteria and statistical data (World Bank 2011). In 2007, federal transfers constituted at least 25 percent of total revenue for two thirds of Russia’s 86 regions. Between 2000 and 2010, federal transfers accounted for an average of 17 percent of consolidated regional budgetary revenues; between 2008 and 2010 they accounted for 23 percent. In addition, regional governments receive directives from the federal line ministries with regard to health and education spending priorities, including specific formulas for salaries.⁴² Approximately 70 percent of public health and education spending is earmarked for salaries,⁴³ and thus regional variation in health and education spending in Russia is largely a factor of per capita differences in personnel in these sectors and the relative cost of living.⁴⁴

Pensions and social benefits. While responsibility for financing pensions and social benefits was never decentralized to the regional level but instead delegated to the Pension Fund and Social Insurance Fund, the federal budget contributes significantly to funding social security. The Pension Fund is responsible for collecting and distributing pension and benefit payments to a total of nine categories of recipients in Russia, and expenditures comprise approximately three-fourths of all social security spending in Russia. Three categories are labor pension recipients (retirement, disability and loss of breadwinner), and six additional categories cover benefits for specific groups of people.⁴⁵ Approximately 75 percent of total pension recipients in Russia are

⁴¹ See Ministerstvo Finansov Rossiiskoi Federatsii (Ministry of Finance of the Russian Federation), “Fond Natsional’nogo Blagosostoianiia,” available at <http://www1.minfin.ru/ru/nationalwealthfund/mission/> (in Russian), last accessed July 10, 2012.

⁴² Author interview with Education Expert #2, Institute for Education Studies, Higher School of Economics, Moscow, Russia, June 17, 2011.

⁴³ Author interview with Education Expert #1, Center for Universal Programs, Moscow, Russia, May 13, 2011.

⁴⁴ Author interviews with Education Expert #1, Center for Universal Programs, and Education Expert #2, Institute for Education Studies, Higher School of Economics, Moscow, Russia, May 13, 2011 and June 17, 2011.

⁴⁵ These categories include: (1) victims of radiation poisoning and technological catastrophes; (2) seniority for federal employees, veterans, retired astronauts and test pilots; (3) disability for veterans, astronauts and other heroes of the Soviet Union; (4) additional loss of breadwinner payments for veterans, astronauts and victims of radiation

retirees, and about two percent of pension and benefit recipients receive more than one subsidy (primarily veterans and disabled individuals). These pensions and subsidies—particularly the old-age labor pension—comprise the overwhelming majority of social security payments, and over half of the total revenue for the Pension Fund in the last decade has come from transfers from the federal budget as opposed to employer premiums. In 2009 and 2010, this figure reached upwards of 60 percent (approximately three trillion rubles) to compensate for shortfalls in voluntary contributions to the Pension Fund, which was unable to finance the steep increase in all categories of pension payments that occurred in the midst of the global financial crisis. The Social Insurance Fund contributes less than ten percent of total financing for social benefits and distributes payments to six categories of recipients, primarily women in various stages of pregnancy, child-bearing and child-rearing. In short, while the federal government’s role in financing and setting spending priorities for pensions and social benefits has been slightly reduced since the Soviet era, it remains the largest player for both funding and decision-making in the health, education and social security sectors.

2.2 *Citizen dependence on the state*

The vast majority of Russians continue to depend on the state for social service provision and their household income through subsidies, salaries or a combination of both. As Cook (2011: 10) notes about the healthcare sector, at the end of the 1990s, only about one percent of health facilities had been legally privatized, and they treated less than five percent of patients. Despite the reforms undertaken as part of the Gref program in the early 2000s, the situation did not look much different later in the decade. As of 2008, only two percent of all hospitals in Russia were classified as legally private, and the majority of these facilities (70 percent) were located in Russia’s biggest cities (RosStat 2009). In 2008, approximately one percent of primary and secondary schools throughout Russia were private and served less than one percent of students (RosStat 2010a). In higher education, close to 40 percent of universities and institutes of higher learning was classified as “non-state,” yet they served less than 20 percent of students (RosStat 2010a). Finally, in 2009, less than one percent of the population had savings in private retirement funds, and between 2004 and 2009, the number of private retirement funds in Russia fell from 296 to 165 (RosStat 2010b). Between 2004 and 2010, over 40 percent of the population received a pension or social assistance subsidy, and approximately 12 percent of household income throughout Russia came from social benefit payments (this figure reached 15 percent in 2009). While the number of public sector employees decreased considerably following the collapse of communism, approximately 20 percent of Russia’s labor force consists of *biudzhethniki* (government employees).⁴⁶ Most *biudzhethniki* (over 75 percent) are medical and education workers, who comprise approximately 16 percent of Russia’s total labor force (RosStat 2010b). In sum, since 2000, close to 70 percent of Russians still relied on the state to subsidize all or part of their income from salaries, pensions and other benefits. As a result, significant increases in total social expenditures, particularly in salaries, pensions, benefits and

poisoning; (5) a social pension for certain groups of people (mostly disabled) who cannot work; and (6) and the recent “maternity capital” payment for women who give birth to more than one child, which is discussed in greater detail below.

⁴⁶ Author interviews with Education Expert #1, Center for Universal Programs, and Social Policy Expert #2, Institute of Contemporary Development (INSOR), Moscow, Russia, May 13, 2011 and May 16, 2011.

other forms of direct cash transfers to citizens, are visible to—and immediately felt by—well over half of Russia’s population.

2.3 Expansion of public expenditures and programs

Since 1999, Russia’s economy has boomed, driven largely by high international petroleum prices that have increased domestic consumption, investments and provided a significant and steady revenue stream for the consolidated budget. Between 1999 and 2008, real GDP growth averaged seven percent; it contracted in 2009 by 7.9 percent, but growth was positive again in 2010 (4.4 percent) and 2011 (4.3 percent). Between 2000 and 2010, petroleum exports alone accounted for one-third of GDP and an average of 60 percent of export earnings. As Russia’s economy has grown, the state has become more dependent on petroleum exports for revenue generation. Between 2005 and 2010, oil and gas revenues accounted for 25 percent of consolidated budget revenues and 45 percent of federal budget revenues. This has coincided with increasing political closure in the country as well as significant investments in the welfare sector, especially beginning in 2004. Total social spending in Russia (health, education and social security combined) increased from 11.9 percent of GDP in 2000 to 22 percent of GDP in 2010; it declined to 20 percent of GDP in 2011 (see Figure 1.1 and Table 1.3 in Chapter 1). A six percent increase in total social spending occurred between 2000 and 2002 followed by a slight decline. Total spending leveled off at around 17 to 18 percent of GDP between 2005 and 2008, but health and education spending increased during this time (Table 2.2) due to the implementation of the Priority National Projects in health and education, which are discussed in greater detail below. In 2009, total social spending increased by four percent of GDP in the wake of the global financial crisis, due to minor increases in health and education spending and major increases in pension spending (Table 2.2). Projected federal expenditures for 2012 through 2014 suggest that health and education spending will be more or less maintained at their current levels (around four percent of GDP), and spending on social protection will remain at about 12 to 14 percent of GDP.⁴⁷

Total public social spending in Russia in terms of percent of GDP now exceeds that of South Korea and Chile, and is on par with what the United States (20 percent) and Japan (22 percent) spend on the social sector (World Bank 2011). In a comparative context, Russia invests slightly less in health and education than OECD countries (World Bank 2011), but public spending on pensions is now on par with OECD country averages (OECD 2011). Table 2.2 (p. 74) displays spending on health, education and social security in terms of percent of GDP, percent government spending and real ruble per capita terms from 2000 to 2011, and Table 2.3 (p. 75) shows real average monthly salaries for medical and education workers as well as real average amounts for monthly pensions and social benefits from 2000 to 2010. Health and education spending have both increased by approximately two percent of GDP and 11 times in real ruble per capita terms. In keeping with these aggregate trends, average monthly salaries for medical and education workers increased 11 times in real rubles per capita. Education stipends for university students, while not significant, nearly doubled from 2006 to 2011. While sizeable investments have been made in health and education, it is clear that increases in total welfare expenditure levels in Russia have been driven largely by growth in social security spending.

⁴⁷ It is difficult to accurately predict social spending trends for the next several years based on planned federal budget expenditures, however, since these figures do not take into account regional-level and off-budget fund spending.

Between 2000 and 2010, spending on pensions and social benefits (combined) increased by 6.8 percent of GDP, 15 percent of government spending and 13 times in real ruble per capita terms. During and in the wake of the global financial crisis, volumes of spending on health and education essentially remained at pre-crisis levels, while spending on social protection increased by over five percent of GDP, nine percent of government spending and nearly doubled in real ruble per capita terms in just two years (2008-2010). This primarily had to do with steep increases in pension spending. From 2000 until an indexation in April 2012, the average monthly old-age pension increased 12 times in real terms. Russia was the only country in the world to ramp up pension and social payments in the midst of the global financial crisis (OECD 2011).⁴⁸ Between 2008 and 2010, real average monthly old-age pensions nearly doubled in two years (Table 2.3). In 2010, old-age pensions and social pensions were raised twice (23 percent and 12.5 percent, respectively). In 2011, they were raised by 8.8 percent and ten percent, respectively. In 2012, labor pensions were raised twice (by seven percent in February and 3.4 percent in April), and social pensions were raised by 14 percent in April.⁴⁹ Old-age pensions in Russia are now on the level of OECD countries in terms of replacement rates,⁵⁰ but since 2009, the federal budget has run a deficit for the first time since 2000, due almost entirely to transfers to the Pension Fund.⁵¹ In 2009, the federal budget incurred a deficit of 17 percent of GDP; in 2010 the deficit amounted to 25 percent of GDP.

Substantial increases in welfare spending have coincided with the development and implementation of numerous federal initiatives geared toward improving welfare provision, demographic decline and the standard of living in Russia. In September 2005, Putin announced that “Priority National Projects” in health, education, housing and agricultural development would be launched in 2006. The National Projects are funded entirely from the federal budget and buoyed by the increase in petroleum profits. Between 2006 and 2011, a total of 1927 billion rubles (approximately \$70 billion) was spent on the projects, with an average of 45 percent going to health, 15 percent to education, and the remainder to housing and agricultural development (not discussed here). An additional 650 billion rubles (approximately \$23 billion) is projected for the National Projects for 2012-2013 (Ministry of Finance 2012). The stated goals of the health project were to improve the overall health of the population by decreasing mortality and morbidity, as well as to increase access to and quality of medical care, particularly preventative care. As such, activities were funded in primary healthcare, maternal and child health, demographic policy and specialized healthcare. The main goals of the education project were to improve teacher training and modernize facilities and equipment for primary, secondary and tertiary education.

In practice, the majority of activities devoted to the health and education projects revolved around increasing salaries for medical and education personnel, as well as increasing existing benefit payments and introducing new benefits, subsidies and incentive payments for Russian citizens. Between 2005 and 2007, average salaries for medical and education workers increased by 70 percent and 60 percent, respectively, as part of the program goals to improve

⁴⁸ Author interview with Pension Expert #2, Center for Social Policy, Institute of Applied Economic Research, Moscow, Russia, July 20, 2011.

⁴⁹ See Pensionnyi Fond Rossiiskoi Federatsii (Pension Fund of the Russian Federation), “Indeksatsiia Pensii,” available at <http://www.pfrf.ru/pensionres/> (in Russian), last accessed July 20, 2012.

⁵⁰ Author interview with Pension Expert #2, Center for Social Policy, Institute of Applied Economic Research, Moscow, Russia, July 20, 2011. The replacement rate measures how effectively a pension system provides income during retirement to replace earnings that were the main source of income prior to retirement.

⁵¹ Author interview with Representative #1, Alfa-Bank, Moscow, Russia, August 4, 2011.

quality in health and education. In addition to high profile increases in salaries for doctors, nurses and teachers, a key new initiative was the introduction of “maternity capital,” a one-time payment for women (regardless of income level) who give birth to a second child. This sum increased from R250,000 (\$8900) in 2007 to R365,700 (\$13,000) in 2011, a very large sum for the average Russian.⁵² Since 2007, nearly four million maternity capital certificates have been issued to Russian families. In addition, one-time birth grants for first, second and successive children, as well as family allowances, also increased substantially as part of the Priority National Project on Health. Birth grants increase for each successive child, providing a one-time grant of R8,000 (\$285) for the first child, R20,000 (\$715) for the second child (in addition to the maternity capital payment), and R25,000 (\$900) for each successive child. The Childbirth Certificate Program, also introduced in 2006 as part of the Health Project, guarantees payment for obstetric care for expectant mothers and newborns; this increased from R7,000 (\$250) in 2006 to R11,000 (\$400) in 2010. Between 2006 and 2011, the monthly allowance for children 1½ years-old and younger more than tripled, from R700 (\$25) to R2,200 (\$80). Compensation for day-care and preschool costs was also introduced in 2007. All of these benefits are universal as opposed to means-tested, and thus all Russians, regardless of income level, are entitled to them. As a result of the Priority National Projects and other initiatives, federal financing for health and education has increased from 5.3 percent in 2000 to 9.2 percent in 2011. Federal ministerial oversight of regional implementation of these programs has also increased to a large extent since 2006. In addition to the Priority National Projects, there are currently over 30 additional federal programs under the auspices of the Ministry of Health and Social Development and the Ministry of Science and Education, including one geared toward preventing infectious diseases and one aimed at “modernizing the education system” by raising teacher salaries. Under the auspices of this latter program, in 2011, R20 billion (\$715 million) was transferred to regions to increase salaries for teachers, and specific subsidies for teacher salaries are expected to continue through at least 2013.⁵³

Finally, available evidence suggests that the majority of spending allocated to social welfare reaches the target audience in Russia. First, over 70 percent of total social spending is directed to cash payments (salaries, pensions and benefits), and the remainder goes to infrastructure investments and other costs. Since government employees and benefit recipients expect to receive their payments on time and in full, it is difficult to steal what is allocated for salaries and social payments. In contrast to Azerbaijan, for example, where everyday stories of bribery and employment pyramid schemes are pervasive and directly affect citizens’ access to their payments, corruption of this type does not exist on the same scale in Russia. While informal payments, particularly in the health sector, were still prevalent as of 2008 (Shishkin et al. 2008), the percentage of shadow payments comprising doctors’ overall incomes has declined, and they seem to be less ubiquitous along with recent increases in salaries for medical and education personnel.⁵⁴

⁵² Maternity capital is paid at the child’s third birthday, and does not take the form of cash, but a subsidy that can be used for housing, the child’s education, or added to the mother’s pension.

⁵³ Author interviews with Education Expert #1, Center for Universal Programs, and Education Expert #2, Institute for Education Studies, Higher School of Economics, Moscow, Russia, May 13, 2011 and June 17, 2011.

⁵⁴ Author interview with Health Expert #2, Institute for Health Economics, Higher School of Economics, Moscow, Russia, July 6, 2011.

2.4 *Alternative explanations for welfare expansion in Russia*

While health, education and social security spending began to increase soon after Putin came to power, it is clear from the above discussion that more significant changes began to occur after 2004 in his second term as president. Several scholars identify these changes as a decisive “shift” in Russia’s welfare policy and offer explanations as to why this occurred. Cerami (2009) characterizes the expansion of public expenditures as an “oil-led social policy,” attributing these changes specifically to the presence of oil windfalls and the resulting rise in federal budget revenues. Cerami (2009) correctly asserts that oil exports provided the necessary funds for increases in social expenditures, and it is clear that Russia has used these revenues for increases in budget-sector wages, pensions and overall welfare spending. However, comparatively speaking, the presence of oil and gas reserves alone cannot explain Russia’s welfare policy response, since not all resource-rich states raise social expenditures in boom periods.

Jones Luong and Weinthal (2010) do not discuss welfare policies and policy-making *per se* in Russia, but they suggest that public expenditure increases are the result of Russia’s change in ownership structure of its petroleum resources. In 2005, following the state’s acquisition of a controlling share in Yukos in December 2004, Russia abruptly adopted the model of state ownership with low foreign involvement found in Turkmenistan and Uzbekistan. The authors argue that this pattern of resource governance softens budget constraints and encourages fiscal indiscipline. In the Russian case, expanding state ownership and control over the oil sector “triggered a perceived (if not real) rise in societal expectations...for the widespread redistribution of mineral wealth—or, more correctly, elite perceptions that this is the case” (Jones Luong & Weinthal 2010: 179). Yet, while budget and social policy experts agree that “populist-style” spending and related initiatives were ramped up in Putin’s second term, it is likely that the seeds of these policies were planted prior to the change in ownership structure. First, if we look at total social spending as a percentage of GDP (Figure 1.2 and Table 1.1 in Chapter 1), a major increase occurred in 2002, before the state’s seizure of Yukos assets and soon after Putin took office. Second, these policy decisions originated with Putin himself after the oil price boom in 2003, because “he believed that at seven percent growth, the population needed to perceive that the benefits from oil and gas windfalls were being shared.”⁵⁵ In addition, while it is unclear whether or not the expansion of public expenditures will lead to overall improvements in the quality of welfare in Russia, spending patterns do reveal a commitment to investments in human capital and poverty alleviation as opposed to providing universal subsidies for fuel and other goods and increasing the size of the bureaucracy. Thus, the grand expansion of welfare expenditures in Russia cannot necessarily be considered what Jones Luong & Weinthal (2010) claim is fiscally imprudent. Finally, even if Russia had not changed its model of private ownership with low foreign involvement, the state still would have reaped enormous revenues from oil company taxes and export duties beginning in the mid-2000s (Dunning 2010). As a result, we cannot say for certain that Russia would not have embarked on these populist spending projects had it retained its original structure of resource governance.

In addition to explanations involving the presence and ownership of resources, it is possible that Putin is responding to demands or threats coming directly from society. If this were the case, though, then we would see fluctuations in welfare spending around domestic elections and protests. If we look at longitudinal trends in spending, however, it is immediately clear that welfare spending increases do not correspond to electoral cycles in Russia. The largest year-to-

⁵⁵ Author interview with Former Representative, IMF (Russia), May 4, 2011.

year increases in welfare spending over the 2000-2011 period came in 2002 and 2009 (Tables 1.3 and 2.2); electoral cycles in Russia came in 2003-2004, 2007-2008 and 2011-2012. In fact, leading up to the December 2003 parliamentary and March 2004 presidential elections, welfare spending declined from 17.9 percent of GDP in 2002 to 16.5 percent and 15.7 percent in 2004. It climbed to 17.1 percent of GDP in 2007 and 2008 before spiking in the midst of the economic crisis in 2009 to 21.1 percent of GDP. Welfare spending also declined by about two percent of GDP between 2010 and 2011 in the lead up to the December 2011 parliamentary elections. In addition to domestic elections, welfare spending policies and increases in Russia do not fluctuate in tandem with moments of societal protest. In January 2005, one of the largest episodes of grassroots collective action since the fall of the Soviet Union took place in Russia when the reform to monetize in-kind benefits (*l'goty*) came into effect. Benefit recipients (*l'gotniki*) took to the streets of most major cities in Russia protesting against the conversion of in-kind benefits to cash payments. Over 55 protests erupted across the country, half of which consisted of one thousand or more people (Rasell & Wengle 2008). Despite the fact that these protests occurred directly after the Orange Revolution in Ukraine in November-December 2004, Putin's response to the *l'gotniki* was slow and initially in favor of the monetization reforms (Rasell & Wengle 2008). Eventually, Putin attempted to appeal to the *l'gotniki* by criticizing past and present governments, raising pensions ahead of schedule and making discounted transport tickets available to all benefit recipients. The monetization reforms progressed as planned, however, and Putin makes no reference to these events or *l'gotniki* in his April 2005 address to the federal assembly.⁵⁶

2.5 Lack of transparency in budget formulation

There is a consensus that oil wealth has funded increases in welfare spending, but policy-making first and foremost requires political agency. Like Kazakhstan and Azerbaijan, an official budgetary process (for both federal and regional level budgets) exists and is more or less routinely followed in Russia, but major aspects of budget planning and approval are opaque and tightly controlled by the executive branch.⁵⁷ Formally, the president's role in the budgetary planning stage is limited to the annual Budget Address to the Duma, and the major institutional players are the Ministry of Finance, which sets baseline spending targets and ultimately drafts the Budget Law, and the Budget Commission. The set laws governing the composition of the Budget Commission designate the prime minister and deputy prime minister as chairman and deputy chairman, respectively, but beyond that "the composition of the Budget Commission is approved by the government of the Russian Federation."⁵⁸ In practice, this essentially means that the prime minister can choose the participants at his discretion. Typically, in addition to the prime minister and deputy prime minister, the Budget Commission has included all line ministers and (at times) four representatives from outside the cabinet (the chairmen of the Federation Council and Duma budget committees, the chairman of the Central Bank and the deputy chairman of the Audit Chamber).

⁵⁶ Vladimir Putin, "Poslanie Federal'nomu Sobraniuu," Moscow, Russia, April 25, 2005.

⁵⁷ The 1998 Budget Code outlines the budget preparation procedure (see <http://www.consultant.ru/popular/budget/> in Russian). The code was revised in 2003, 2004 and 2007, when Russia moved from one-year to three-year budgetary planning cycles. A detailed description in English of the budgetary process in Russia can be found in Kraan et al. 2008, available at www.oecd.org/dataoecd/59/22/42007227.pdf.

⁵⁸ See <http://government.ru/gov/agencies/20/print/> (in Russian), last accessed July 20, 2012.

The purpose of the Budget Commission is primarily to “resolve issues” and mediate negotiations between the Ministry of Finance and the line ministries over baseline targets and new spending, but its role is at once more significant and “less clear” (OECD 2008: 22). In reality, the Budget Commission is responsible for the distribution of the spending envelope over line ministries, decisions about new spending initiatives and major reallocations. Due to the fact that the Budget Commission includes all line ministers (and currently totals 35 people) who each have their own sectoral spending interests, budgeting becomes a playing ground for a “fight over rents” (*bor’ba za rentu*) that has been arbitrated by Putin in his role both as president (2000-2008) and prime minister (2008-2012).⁵⁹ While the annual budget law technically requires parliamentary approval, the Federation Council and State Duma have no real say in the budget planning process. Since 2000, not only has the budget law never been rejected by the parliament, but also “the totals of expenditures and revenues and the balance have never been changed in the final version of the budget law approved by Parliament as compared with the draft submitted to the State Duma” (Kraan et al. 2008: 30).

In practice, the budget formulation process is tightly controlled by Putin, whose preferences for populist spending have become more evident in both federal and consolidated budget allocations.⁶⁰ The ministers of education and health and social development are typically less powerful as lobbyists and rent-seekers than the ministers of defense and internal affairs, but spending on defense and national security as a share of the federal budget declined from 27 percent to 22 percent between 2004 and 2009 and, beginning in 2007, spending on the social sector has exceeded (and is projected until 2014 to exceed) defense spending (Ministry of Finance 2012). As such, if the ministers were acting as independent players in the “fight over rents” in the budget policy-making arena, we would not expect the social welfare ministers to come out as well, indicating that they have another “backer.” Tat’iana Golikova, the former Minister of Health and Social Development from 2007 until 2012, could reportedly bypass the budget process entirely and get “as much money as she want[ed]” because she was acting on Putin’s own preferences.⁶¹ In keeping with this, decisions about the National Projects, pensions and budget-sector wage increases occur at the very top, lack transparency and “are not discussed” beyond the Administrative Office of the President.⁶² In addition, from 2000 to 2011, the Ministry of Finance was headed by Aleksei Kudrin, who is known for his fiscally conservative views on budgetary spending (particularly welfare spending) and prudent management of Russia’s petroleum revenues.⁶³ It is an open secret in Russia that Kudrin and Putin “clashed” over steep increases in social spending, about which Kudrin was “worried” and saw as unsustainable, while Putin “had his own ideas.”⁶⁴ In the end, Putin’s preferences have prevailed, even though the Ministry of Finance formally has more control over the budgetary process than

⁵⁹ Author interview with Budget Policy Expert, Economic Expert Group and Ministry of Finance Public Council, Moscow, Russia, July 7, 2011.

⁶⁰ Ibid.

⁶¹ Author interview with Labor Market and Employment Expert #2, Center for Labor Market Studies, Higher School of Economics, Moscow, Russia, May 16, 2011.

⁶² Author interviews with Social Policy Expert #1, UNICEF, and Education Expert #1, Center for Universal Programs, Moscow, Russia, May 3, 2011 and May 13, 2011.

⁶³ Kudrin is widely credited for the establishment of the Stabilization Fund in 2004, which enabled Russia to come out of the 2008 financial crisis relatively unscathed. Putin and Kudrin have never seen eye to eye, but it is speculated that Kudrin maintained his position in the government for as long as he did because of this achievement.

⁶⁴ Author interview with Social Policy Expert #2, Institute of Contemporary Development (INSOR), Moscow, Russia, May 16, 2011.

the executive branch and despite Kudrin's preference to maintain a budget surplus. On several occasions while still serving as Minister of Finance, Kudrin publicly admonished the choices made by the Putin government as being responsible for the deficit.⁶⁵ In sum, budgetary decision-making in Russia occurs in a vacuum where "the president and prime minister—but really Putin—make the final decisions."⁶⁶

2.6 Summary

The above discussion highlights that since Putin came to power, the Russian government has adopted and implemented policies that have resulted in a dramatic expansion of public expenditures and programs for welfare. It is unclear, however, whether or not these measures will lead to better outcomes, particularly in the health sphere, or systemic improvements in the quality of and access to social services. The number of individuals living below the subsistence minimum has decreased from 29 percent in 2000 to 12.5 percent in 2010, but "unregulated costs (shadow payments), informality, and institutional deficits in the social sector remain very high" (Cook 2007a: 191). The potential effectiveness of Russia's welfare spending, however, is not the focus of this dissertation. Regardless of future improvements or the maintenance of a status quo, the Russian government under Putin has made a concerted and very public effort to share the wealth from oil profits by lining millions of pockets with cash and relentlessly publicizing expenditure increases. The next two sections investigate the reasons for this strategy by analyzing how elite fragmentation has shaped Putin's welfare policy preferences and informed his response to the influx of oil money.

3. Elite fragmentation

Elite fragmentation in Russia results from extensive factionalization among ruling elites and little overlap between political and economic elites. The individuals Putin brought into the Kremlin and other state agencies after assuming power in 2000 never coalesced into a coherent political coalition, and factional conflict escalated in particular during Putin's second term as president and leading up to the Medvedev succession. In addition, even though Putin attempted to minimize the threat coming from oligarchs who acquired mass fortunes during the 1990s with exile, arrest, prosecution and co-optation, the fact remains that the sheer number of wealthy capitalists independent of the state has grown exponentially since 2000. Both of these factors threaten Putin's hold on power. In the Russian case, Putin has served as an arbiter of intraelite conflict and has never been a "member" of a particular group, but he has not been immune to power struggles. Balancing factions has required Putin to favor one group over another at various times throughout his tenure in office, and thus he is constantly at risk of being challenged by high-ranking officials who surround him. A small amount of political-economic elite overlap threatens Putin because numerous wealthy business elites wield the economic resources and autonomy necessary to fund opposition groups or publicly challenge him themselves. Putin has read and responded to these elite dynamics by cultivating and attempting to sustain a loyal

⁶⁵ See, for example, Russkaia Sluzhba BBC, "Kudrin nazval opasnyi dlia Rossii razmer defitsita biudzheta," (June 7, 2011), available at http://www.bbc.co.uk/russian/business/2011/07/110707_kudrin_deficit_critical_level.shtml (in Russian), last accessed July 21, 2012.

⁶⁶ Author interview with Budget Policy Expert, Economic Expert Group and Ministry of Finance Public Council, Moscow, Russia, July 7, 2011.

constituency through generous welfare provisions, and that popular support for Putin has functioned as a counterweight to potential challengers in political and economic elite circles.

In this section, I first establish that political and economic elites have been divided under Putin by examining the origins and trajectory of ruling elite factionalization and political-economic elite overlap. I then demonstrate that elite fragmentation has fostered intraelite contestation that has threatened Putin. In particular, I show that Putin's threat level has increased over time as political elites grew richer and more powerful, and as the number of wealthy capitalists expanded over the course of the past decade. I then conduct a process tracing analysis to link the potentially threatening manifestations of elite fragmentation, including instances of intraelite conflict and the global financial crisis, with welfare spending trajectories. To illustrate this argument, I primarily draw on biographical and anecdotal data gathered from interviews conducted with political analysts, journalists and scholars in Moscow, Russia, from April to August 2011, as well as secondary source materials, including encyclopedias, publicly available Russian print and internet sources, and Putin's public speeches.

3.1 Political elite factionalization and little political-economic elite overlap

On the eve of the millennium, Boris El'tsin, the first president of independent Russia, abruptly resigned and named Vladimir Putin acting president until elections in March 2000 solidified his post. Putin has since served two terms as president (2000-2008), one term as prime minister (2008-2012), and was re-elected president again in March 2012. Based on current constitutional rules, Putin's third term will run until 2018, when he will be eligible to run for re-election to serve a fourth term as president until 2024. Putin's rise to become Russia's second president—but more accurately its paramount leader—was meteoric. Following his career in the KGB (1975-1990) and a stint as a staffer in the St. Petersburg mayoral office (1991-1996), Putin quickly rose through the ranks in Moscow, serving as an official in the presidential administration (1997-1998) and director of the Federal Security Service, or FSB (1998-1999), until he was appointed prime minister in August 1999 and acting president on December 31, 1999. Unlike most of his counterparts in the former Soviet Union, Putin was neither a former republic-level Secretary of the Communist Party nor the son of a former high-ranking official.⁶⁷ In addition, since he was in Moscow for less than three years before becoming president, he remained outside the “El'tsin family” of political and economic elites.⁶⁸ When he assumed office, then, Putin did not have deeply entrenched ties or connections with political or economic elites, and lacked a power base and reliable team of his own. For example, out of 150 top elites in Russia in 2000, it is estimated that Putin only controlled about 15 percent of them (Arkhangel'skaia et al. 2000). As a result, he was forced to quickly assemble a bloc in order to protect himself—and ultimately overpower—the El'tsin-era political and economic elites who opposed him. Putin immediately began to reign in El'tsin-era oligarchs through arrests, exile and attempted co-optation, beginning with vocal anti-Putin billionaires Boris Berezovskii and Vladimir Gusinskii, who now both live in exile. While some “El'tsin family” members survived

⁶⁷ Ilham Aliev, the current president of Azerbaijan, is the son of Heidar Aliev, who became First Secretary of the Azerbaijan SSR in 1969. It is rumored that the current president of Turkmenistan, Gurbanguly Berdimukhammedov, may be a close relative of the late Saparmurat Niyazov, who became First Secretary of the Turkmen SSR in 1985 (Peyrouse 2012).

⁶⁸ Several political analysts speculate that part of the reason El'tsin selected Putin to succeed him in the first place was because of Putin's status as an outsider (e.g. Sakwa 2011).

all or most of Putin's first term, including former prime minister Mikhail Kas'ianov and former head of the presidential administration Aleksandr Voloshin, Putin brought new cadres into government and state institutions who quickly arranged themselves into distinct factions.

The prominent factions that operated under El'tsin all but disappeared soon after Putin came to power. In contrast to clans, which are comprised of individuals "linked by kin and fictive kin identities" (Collins 2006: 17), factions are informal political groupings that are based on personal relationships between a small group of elites that share ideological orientations and political goals. As such, they are fluid and temporary in nature, as opposed to clans or family dynasties, which are more likely to become institutionalized and endure changes in political leadership (Schatz 2004; Collins 2006). The individuals Putin appointed and empowered during his first presidential term to build his bloc, many of whom shared his security service or St. Petersburg background, quickly solidified into factions and sub-factions but never coalesced into a single, cohesive political coalition. This is in part because factional members broadly reflected the disparate nature of Putin's past and, contrary to political groupings in the South Caucasus and Central Asian countries, they were not based on kinship ties or strong regional identities. The largest and most frequently analyzed faction, the *siloviki*, cannot be considered a cohesive group. In addition to engaging in conflict with other factions, in-fighting among high-ranking *siloviki* who represent different state agencies has been an on-going feature of Putin's tenure in office. In addition, since factions are, by nature, horizontally loyal to their own team or network, factional "leaders" have the potential to become alternative nodes of power that compete with the autocrat for loyalty among their own members. Putin was able to "draw the factions under the wing of a hegemonic presidency" and arbitrate between them, but he never aligned himself explicitly with one particular group (Sakwa 2008: 82). As a result, Putin has had to take sides in order to resolve conflicts, thereby increasing the risk that the "losers" of a particular struggle will become increasingly disloyal to him.

Table 2.4 (p. 76) provides a comprehensive list of prominent political elites since 2000, and includes their political position(s), factional affiliation and (where applicable) their position(s) in state-owned companies. I discuss these factions and their most notable members below.⁶⁹ Some factions are no longer as strong, due to the fact that key members fell out of favor with Putin and no longer occupy political positions. In addition, several individuals included in Table 2.4 and the following discussion do not occupy political positions *per se* (or only occupied them briefly), but hold positions in state-owned enterprises. I consider these individuals to be analytically distinct from oligarchs, who accrued their fortunes independently of the state as a result of privatization. While big business oligarchs may also be considered an additional "faction" in and of itself, I discuss these individuals in the following section on political-economic elite overlap, since I consider political and economic elites to be conceptually distinct categories. Due to the secretive and informal nature of Russian politics under Putin, the list in Table 2.4 is likely not 100 percent complete, but it reflects mutually agreed-upon information and data found in news and scholarly publications on Russian politics, and my own interviews with contemporary political analysts, journalists and scholars in Moscow.

⁶⁹ Due to the fact that the majority of individuals under discussion have held multiple (and at times dual) political posts since 2000, when introducing them in the text, I refer to their current (as of August 2012) or most recent political position. Full information on their political positions and career trajectories can be found in Table 2.4.

Siloviki. The *siloviki* have received the most attention in scholarship on Kremlin factions.⁷⁰ They are considered the largest and most powerful faction, and are primarily comprised of past and current representatives of the security services, armed forces, law enforcement or other force ministries. In addition to being united by a security service background,⁷¹ they share the policy perspective that the state should play the largest role in the economy, particularly with regard to the ownership and exploitation of oil, gas and other natural resources. As of 2005, *siloviki* accounted for approximately 25 percent of Russia's top leadership (Kryshtanovskaya & White 2005). In addition, the *siloviki* control most "force structure" agencies and ministries in Russia, as well as a number of other state structures, including the ministries of defense, justice, internal affairs, foreign affairs and transportation, the Federal Security Service (FSB), the Federal Narcotics Service, the Federal Intelligence Service, the Federal Customs Service, the Federal Migration Service, the Federal Guard Service, the Federal Energy Agency, the Federal Tax Service and the Federal Service for Military-Industrial Cooperation.

Sub-factions exist under the umbrella *siloviki* group, and each has a discernable "leader" if not a clear hierarchy. The consensus in the literature as well as among political analysts in Russia is that one sub-faction is concentrated around Igor' Sechin, deputy head of the presidential administration (2000-2008) and Chairman of Rosneft', Russia's largest state-owned oil company (2004-2011; 2012-present). Sechin's group is comprised of some of the most powerful men in Russia, including Nikolai Patrushev (head of the Security Council and former head of the Federal Security Service, or FSB), Viktor Ivanov (head of the Federal Narcotics Service), Sergei Bogdanchikov (President of Rosneft') and Vladimir Ustinov (presidential envoy). A second group is concentrated around Sergei Ivanov, a former defense minister and current chief of the presidential staff, and includes Minister of Foreign Affairs Sergei Lavrov, Head of the Federal Intelligence Service Mikhail Fradkov, and Chief of the General Staff Yurii Baluevskii. Sechin's group is considered more unified and closely associated on a personal level than Sergei Ivanov's group; Sechin and Ustinov are related by marriage, and members of this sub-faction are known for their allegiance to Sechin. While Sergei Ivanov has been considered a close personal confidante of Putin's, his promotion to first deputy prime minister in 2005, coupled with Putin's apparent grooming of him (alongside Medvedev) as a potential 2008 successor, "made him a target of others in the group, both in bureaucratic battles and public relations wars" (Bremmer & Charap 2007: 87). In addition, there has been longstanding conflict between Sechin and members of his "group" and *siloviki* tied to different state agencies. For example, no love has been lost between the FSB and the Ministry of Internal Affairs (MVD), headed by Rashid Nurgaliev, or between former FSB head Patrushev and former drug czar Viktor Cherkesov, which spilled into the open in 2004 and again in 2007. While the details of intraelite conflict are discussed in greater detail in the next sub-section, it is clear that the *siloviki* faction cannot be considered a single coherent unit. As a result, it would, theoretically, take a much smaller critical mass of individuals who all have ties to personnel, resources and guns (due to their ties to security agencies) to unite against Putin.

⁷⁰ See, for example, Kryshtanovskaya & White (2004), Kryshtanovskaya & White (2005) and Bremmer & Charap (2007).

⁷¹ It is worth noting that a few powerful members of this faction never served in force structures, while other highly-placed officials do have a security service background but are not associated with the group (Bremmer & Charap 2007).

Liberals and technocrats. The liberals and technocrats arguably began as one group and were primarily composed of economists, lawyers and businesspeople with whom Putin served in the St. Petersburg mayoral administration in the 1990s. The “liberal” component of this group has lost power in recent years following resignations and dismissals of individuals with top political posts, including former Minister of Economic Development and Trade German Gref, former Minister of Finance Aleksei Kudrin, and former Presidential Advisor Andrei Illarionov. In addition to Gref, Kudrin and Illarionov, prominent “liberals” include Chairman of the Central Bank of Russia Sergei Ignatiev and Head of the state-owned Russian Nanotechnology Corporation Anatoly Chubais. The main “technocrats” are associated with Gazprom, the state controlled gas company, and include Gazprom Director Aleksei Miller and Dmitrii Medvedev, who was chairman of the board of Gazprom from 2003 to 2008. The liberals and technocrats were primarily united around a more market-oriented economic policy perspective and valued a reduced role of the state in the economy. As such, they came into conflict with the *siloviki* over the Yukos Affair, the arrest of Khodorkovskii, and especially the seizure of Yukos assets and the re-nationalization of the energy sector. The Yukos Affair ultimately divided the group more or less down the liberal-technocrat line, however, since Gazprom (and Medvedev) stood to benefit from the seizure of Yukos assets. In addition, Medvedev began to distance himself more and more from this group leading up to the 2008 succession, and formed his own “team” once he was in office (Mukhin 2011).

Others and outsiders. Several other groups and individuals not affiliated with either the *siloviki* or liberals and technocrats have played decisive roles in Russian politics under Putin. First, some remnants of the “El’tsin family” retained their political posts after Putin’s election to the presidency, including Voloshin and Kas’ianov, discussed above, as well as Yurii Luzhkov, who was mayor of Moscow from 1993 until he was sacked by Medvedev in 2011. Another group is led by Deputy Prime Minister Vladislav Surkov, a powerful figure who was responsible for crafting increasingly restrictive laws governing political freedoms and civil society, including a 2005 law designed to tighten control over foreign-financed NGOs, and establishing state substitutes for civil society organizations. These include *Nashi*, the Kremlin-controlled youth group, and the Public Chamber, a state institution that oversees other government bodies. A number of powerful individuals are not known to be affiliated with any major faction but do command their own networks through positions in state-owned companies, including current Speaker of the Duma Sergei Naryshkin and First Deputy Prime Minister Igor’ Shuvalov. Finally, several heads of republics and regions, while not part of a distinct faction, have had significant independent political backing from their constituents and are also influential in national level politics. They include current Moscow Mayor Sergei Sobianin, former St. Petersburg Governor Valentina Matvienko, former President of Tatarstan Mintimer Shaimiev, former President of Bashkortostan Murtaza Rakhimov, and President of Chechnya Ramzan Kadyrov.

“Big business” and little political-economic elite overlap. In addition to extensive factionalization among political elites in Russia, another class of individuals composes a distinct center of power. Unlike Azerbaijan, Uzbekistan and the sub-Saharan African cases, the fact that there was greater dispersion of economic assets in Russia, as a result of more extensive privatization in the 1990s, created a class of wealthy capitalists independent of the state. Managers and employers gained control of small and medium-sized enterprises during the first round of privatizations; the later controversial loans-for-shares privatization program enabled regime insiders to gain control of major state assets, including in the oil, gas and metals sectors. In 1996, Berezovskii famously claimed that seven bankers (himself included) controlled 50

percent of the Russian economy. Upon assuming office, Putin quickly dealt with the original robber barons of the 1990s: Roman Abramovich has been expected to serve the depressed arctic outpost of Chukotka as governor (2001-2008) and Duma deputy (2008-); Berezovskii lived in exile in London (until his death in March 2013) and liquidated the last of his Russian assets in the mid-2000s; Vladimir Gusinskii sold his television station to Gazprom in 2001 and lives in exile in Israel and the United States; Mikhail Fridman paid an “extra” \$250 million in taxes in 2005 and is now a member of the Public Chamber; Mikhail Khodorkovskii is sitting in a Siberian jail for the foreseeable future; and Vladimir Potanin sold an oil company back to the state (Treisman 2007). Despite the fact that Putin subjected prominent oligarchs to increased pressure and reasserted state control over the energy sector and some major media outlets, most Russian economic activity still occurs in the private sector. According to the European Bank for Reconstruction and Development’s index of large and small-scale privatization, Russia boasts an average score of 7.1 out of a possible eight points (indicating extensive privatization) from 2004 to 2010 (EBRD 2010). In addition, regardless of Putin’s attempt during his first term in office to “reign in” El’tsin-era oligarchs, the number of businessmen who wield extensive financial assets in the billions of US dollars has increased exponentially since the early 2000s. In short, there are more oligarchs floating around Russia now than ever before, and the majority of them have no state or government post.

Figure 2.1 (p. 84) and Table 2.5 (p. 81) show the trend in the number of billionaires in Russia from 2000 to 2012. In 2000, Russia had no billionaires; in 2011 billionaires totaled 101, and their combined net worth was \$500 billion, or one third of Russia’s 2011 GDP. Currently, only the United States and China boast more US dollar billionaires than Russia. Figure 2.1 also demonstrates the extent of political-economic elite overlap, which is narrow in comparison to Azerbaijan, Uzbekistan, Turkmenistan and other countries that have experienced limited privatization. Between 2000 and 2012, approximately 13 percent of billionaires in a given year held some kind of public office. If we extend the number of individuals beyond those whose net worth was in the billions to those whose net worth is in the hundreds of millions, the picture does not change. In 2012, for example, out of the 200 “richest businessmen” in Russia, 19 held political posts, as opposed to 15 out of 96 billionaires (*Forbes* 2012). In addition, Table 2.5 clearly demonstrates the diversity in the source of these individuals’ income, including metallurgy, banking, telecommunications and transportation. Thus, even though the state attempted to seize control of a greater share of petroleum assets, other resources, particularly metals and coal, have remained primarily in the private sector, and relatively easy entry into private banking, real estate, investment and other services has enabled dozens of others to reap financial rewards in the billions. While it is no longer the case that seven businessmen control half of the Russian economy due to the de-concentration of capital, the combined net worth of Russia’s billionaires between 2005 and 2011 (excluding 2009) averaged over a quarter of Russia’s GDP.

Between 2000 and 2012, 143 individuals had a net worth of \$1 billion or more in at least one year, and nearly one thousand more persons had a net worth in the hundreds of millions. Table 2.6 (p. 82) provides information about the top 30 economic elites, the source of their income, their personal net worth from 2000 to 2012, and (where applicable) the political position(s) they have held. With the exception of oil and investment tycoon Roman Abramovich (worth \$12.1 billion in 2012), who was governor of the Chukotka region from 2001 until 2008 (and is currently a Duma deputy from that region), real estate developer Arsen Kanokov (worth \$600 million in 2012) who has been president of the Republic of Kabardino-Balkaria since 2005,

and investor Mikhail Abyzov, whose net worth surpassed \$1 billion in 2008 and was appointed a minister in charge of the government apparatus in 2012, none of the rest occupy posts in the presidential administration or government, or regional leadership positions. As I note in Chapter 1, the rest of them hold posts in the Federation Council, Duma, regional legislatures or the Public Chamber. In addition, the wealthiest Russian billionaires occupy few political positions. As Table 2.6 demonstrates, only four out of 30 top business elites in Russia over the 2000-2012 time period have government positions. In addition to Abramovich, Fridman has been a member of the Public Chamber, an extra-legislative body (discussed above) that is a *de facto* powerless institution, since 2005, Suleiman Kerimov has been a member of the Federation Council since 2007, and Viktor Rashnikov was a deputy in the Duma (2003-2007) and the Cheliabinsk regional legislature. The other 26 on the list have never had a position in government or the state bureaucracy. Four businessmen—Abramovich, metallurgy and telecommunications giant Alisher Usmanov, oil trader Gennadii Timchenko, and banker Yuri Koval'chuk—are considered to be in Putin's "inner circle," but Abramovich is the only one who has occupied a government post. Mikhail Prokhorov, whose 2011-2012 foray into Russian politics will be discussed in more detail below, was the leader for three months in 2011 of the pro-Kremlin *Pravoe Delo* (Right Cause) party, but beyond that he has never held a government post. In short, the vast majority of Russia's wealthiest individuals made their fortunes independently of Putin, and do not rely on the income generated from state-owned (or controlled) companies, or their political post, for access to economic resources. Political-economic elite overlap in Russia has remained very small even as the number of extremely wealthy individuals has increased over time, and the majority of political posts that these individuals do occupy do not provide them with extensive political powers or governing capabilities.

The above discussion illustrates the divisions inherent among Russia's political and economic elites. While changes have occurred in group make-up, strength and alliances, the rapid crystallization of factions and sub-factions from the beginning of Putin's presidency stymied the development of a cohesive—or at least a symbiotic—political coalition in the Kremlin. In addition, while a number of top political elites were awarded with positions in state-owned companies—and several economic elites were awarded with political positions—political power and economic power in Russia remain highly disconnected. In what follows, I demonstrate how the presence of multiple factions, sub-factions and highly-placed unaffiliated elites among the regime's top echelon has created a playing ground for intraelite conflict, which escalated in the midst of the Yukos Affair and the Medvedev succession. Extensive political elite factionalization, coupled with little political-economic elite overlap, has generated a dynamic that threatens Putin.

3.2 Threats to Putin's rule

As I discuss in the previous chapter, I do not identify formal institutions as arenas that manage intraelite conflict in Russia, Kazakhstan or Azerbaijan. In Russia, neither the federal assembly nor United Russia, the party of power, is in a position to mediate between opposing factions or individuals. Not only are these institutions virtually defunct, but also, as we saw from the above discussion and Table 2.4, most top political elites in Russia have staffed the presidential administration, government ministries, and other state agencies, including state-owned companies, and have never served as deputies in the Duma or Federation Council, or staffed the United Russia party apparatus. As a result, factions exist—and factional conflict

plays out—on the level of the administrative regime as opposed to the political party or legislative level. Informal arrangements and struggles between elite groups dominate Russian politics and constitute the true sources of political competition. Since Russia has no formal institutional mechanism to resolve conflicts between competing elite groups that occur at the very top, Putin resolves disputes himself on an individual, ad hoc basis.

Divided elites are more likely than unified elites to engage in sustained conflict that could destabilize the autocrat's hold on power. In the Russian case, this is the result of several interrelated factors. First, factionalized political elites inherently have opposing ideological, policy and personal preferences, and the prevalence of multiple groups and personalities with conflicting viewpoints only increases the likelihood that they will butt heads over major issues. This is certainly true in Russia, where conflicts have arisen primarily between the *siloviki* and other groups and within the ranks of the *siloviki* themselves. As the arbiter of intraelite conflict in Russia, Putin has been in a precarious position: by deciding one way, he always runs the risk of antagonizing someone else. The number of different groups and independent players in Russia has meant that Putin has had to please a wide range of ideological preferences and personalities, but it is difficult—if not impossible—to satisfy everyone. This puts Putin at a greater risk of losing loyalty among his supposed supporters. The *siloviki* are particularly threatening since they have direct access to weapons and security personnel through their control of force ministries and agencies. Plus, since they are not a cohesive group, it would, theoretically, take a smaller critical mass of *siloviki* to marshal the necessary resources—money, guns and a make-shift army—to stage a palace coup. I illustrate below that as top *siloviki* around Putin became more powerful and wealthy over time, they began to act autonomously and used force to deal blows to their opponents.

Second, due to personal ties among members of the same political elite groups as well as in Russian power institutions and state-owned companies, members may feel a greater allegiance to the factional leader or agency head than to Putin. Third, a high number of independent economic elites increases the likelihood that one or more of them will form their own opposition group or an alliance with an (albeit beleaguered) opposition group and pose a direct challenge to Putin. In what follows, I discuss the manifestations of a fragmented elite by highlighting major instances of intraelite conflict in both political and economic elite circles since 2000, and how these events were threatening to Putin. Importantly, the events I highlight constitute public information, and it is likely that more has played out behind the scenes. I also show how political and economic elites became more threatening over time as the former accrued positions in state-owned companies as conflict increased and the latter expanded their numbers.

Instances of intraelite conflict. The major conflicts that occurred during Putin's first term involve the aforementioned oligarchs Berezovskii, Gusinskii and Khodorkovskii. As Putin was attempting to solidify his bloc within the Kremlin and replace El'tsin's team with his own, he quickly moved against Berezovskii and Gusinskii. Gusinskii's Media Most headquarters were raided in July 2000, two months after Putin was officially elected president, and Gusinskii himself was arrested on charges of misappropriation of state property. Gusinskii owned and controlled the independent NTV channel, which was critical of the second Chechen war (particularly human rights violations by Russian soldiers) and sympathetic to opposition parties and politicians in the 1999 parliamentary and 2000 presidential elections. The charges were quickly dropped and Gusinskii fled the country soon afterwards. It was later discovered that he brokered a deal with the state to sell Media Most to Gazprom (White 2011); in April 2001 NTV was taken over and has been under Kremlin-friendly management ever since. Berezovskii, who

had been elected to the Duma in 1999, became increasingly critical of the new president and resigned his seat soon after Gusinskii's arrest. He fled to the United Kingdom shortly thereafter, but became an even more outspoken critic of the Putin administration from London. Berezovskii gave financial support to opposition groups in the midst of "Color Revolutions" that swept through the former Soviet Union between 2003 and 2005; he reportedly sent \$25 million to opposition groups in Ukraine in the midst of the Orange Revolution in late 2004. Prior to 2007 parliamentary elections in Russia, he publicly announced that a revolution was necessary to overthrow Putin by telling the *Guardian*: "it isn't possible to change this regime through democratic means" and that he was personally financing several individuals within Putin's circle who were "preparing a *coup d'etat*."⁷² Regardless of the truth of these statements, Putin does take these threats seriously. The Russian government tried but failed once again to extradite Berezovskii following his statement, and two months later he was sentenced to a six-year jail term in absentia for embezzlement. In 2007, Berezovskii's personal net worth surpassed \$1 billion, and in 2012 he was worth \$4 billion (*Forbes* 2012). While he clearly demonstrated his willingness to finance opposition movements from abroad, his recent death in London means he is obviously no longer a threat to Putin's regime.

The arrest in October 2003 of Mikhail Khodorkovskii, Russia's richest man and the world's 16th most wealthy person at the time, signaled the beginning of the Yukos Affair. The Yukos Affair has been analyzed and discussed at length in both English and Russian language scholarship and the news media, and thus I will not go into an extensive treatment of it here.⁷³ For the purposes of my argument, the arrest of Khodorkovskii and the state's seizure of Yukos assets were key events that (1) exacerbated factional divisions and contributed to heightened conflict among political elites and (2) prompted Putin to begin placing senior officials in state-owned companies. Khodorkovskii acquired Yukos in the loans-for-share program in 1995. In October 2003, he was arrested at gunpoint on charges of fraud, tax evasion and falsification of documents, but most political analysts agree that he was really targeted for his presidential ambitions and open (financial) support of opposition parties.⁷⁴ Khodorkovskii was eventually sentenced to eight years in a Siberian penal colony in March 2005, but in December 2010 he was sentenced to an additional seven years, which will keep him in jail until 2017.

After October 2003, major factional conflict erupted over Khodorkovskii's arrest and the re-nationalization of petroleum resources. In addition to ideological differences between the "architects" of the Yukos Affair, notably Igor' Sechin and his *siloviki* sub-faction, and the liberals and "El'tsin family" members, turf wars erupted between state-owned companies—primarily Rosneft' and Gazprom—over the acquisition of Yukos assets. Four days after Khodorkovskii's arrest, Aleksandr Voloshin, a key figure in El'tsin's government whom Putin kept on as head of the presidential administration, abruptly resigned in protest. In February 2004, Putin fired Prime Minister Mikhail Kas'ianov along with his entire cabinet. Kas'ianov quickly defected to the opposition and received financial backing from Berezovskii to run for president in 2008, but he was excluded from the election. In addition to the resignation and dismissal of two prominent El'tsin-era political elites, ideological conflicts over the de-privatization of the energy sector emerged between the liberals and the *siloviki*. In general, liberals began accusing the *siloviki* of incompetence and instituting policies that would make it difficult to achieve long term economic objectives, and the *siloviki* accused the liberals of pessimism and insisted that a

⁷² See <http://www.guardian.co.uk/world/2007/apr/13/topstories3.russia>.

⁷³ See, for example, Sakwa (2009).

⁷⁴ Khodorkovskii was the main donor to the opposition party *Yabloko*.

greater role for the state in the economy was the only way to reach these goals (Kryshtanovskaya & White 2005). In late 2004, the Yukos subsidiary Yuganskneftegaz was sold to the state-owned oil company Rosneft'. The state also acquired controlling shares in other oil companies, including Sibneft', around the same time, such that between 2003 and 2007, state control over the energy sector increased from 23 to 37 percent (White 2011). Former Minister of Economic Development and Trade Gref and former Minister of Finance Kudrin ultimately supported the attack on Khodorkovskii and Yukos, but not the way it was handled (i.e. outside the realm of the rule of law). Andrei Illarionov, Putin's outspoken economic advisor, resigned in January 2005 following the sale of Yuganskneftegaz, which he called the "scam of the year" in *Kommersant*' in late December 2004. Gref, who was dismissed in 2007 in a re-election cabinet reshuffle, also publicly opposed the renationalization of the energy sector by making statements to the press: he called for Gazprom to be reformed (*Kommersant*' 2005) and referred to state ownership of the oil sector as "Neanderthal thinking" (*Vremia Novostei* 2006). In addition to these ideological differences, a turf war erupted between Gazprom and Rosneft' (or Medvedev and Sechin) over the sale of Yukos assets. Several months after Khodorkovskii's arrest, in early 2004, Medvedev began to attempt to absorb Rosneft' into Gazprom, but the head of Rosneft', Sergei Bogdanchikov, as well as Sechin and Viktor Ivanov, preferred to keep it out of control of a rival faction. After Sechin's appointment to Chairman of the Board of Rosneft' in 2004, a deal was reached that Rosneft' would be sold to Gazprom, but it ultimately collapsed in 2005 (Kryshtanovskaya & White 2005).

Curiously, following Sechin's appointment to chair Rosneft' in June 2004 and the company's acquisition of Yukos assets in December of that year, a flurry of senior officials began to be appointed to boards in state-owned companies. All in all, 17 out of the 50 top elites listed in Table 2.4 were given at least one post on the board of a state-owned company between 2004-2006. Nine of the seventeen are *siloviki*, and the remainder come from different factions or are unaffiliated. In addition to Sechin, the *siloviki* include Sergei Bogdanchikov, Aleksandr Bortnikov, Sergei Chemezov, Aleksandr Grigoriev, Sergei Ivanov, Viktor Ivanov, and Vladimir Yakunin; outsiders Aleksei Gromov, Sergei Naryshkin, Igor' Shuvalov, and Aleksandr Zhukov; liberals Viktor Khristenko and Sergei Kirienko; "El'tsin family" member Sergei Prikhodko, and Vladislav Surkov. This flood of new appointments in a short period of time (14 out of the 16 occurred in 2004 alone) demonstrates that Putin, like all autocrats, has engaged in a strategy of buying off those around him. It also suggests that at this particular point in time (following his re-election to the presidency in 2004), Putin perceived a heightened level of threat coming from within political elite circles. Prior to the Yukos Affair, five top political elites held board positions in state-owned companies; by 2004 this increased to 20, and there are very likely more that have not been made public. In addition to Gazprom and Rosneft', these companies, including banks, nuclear energy and aerospace agencies, have annual turnovers in the hundreds of millions and billions. Promotions to company boards not only enable these individuals to increase their personal wealth, but also they increase their ability to develop additional networks of personnel and subordinates that are loyal to them. Another flurry of appointments to company boards occurred in 2008 in the midst of the Medvedev succession, the lead-up to which exposed and exacerbated factional conflict even more so than the Yukos Affair.

By all accounts, Putin had successfully consolidated and centralized power in Russia by the start of his second term. United Russia and its smaller Kremlin-friendly allies controlled over 60 percent of seats in the Duma, regional leadership elections had been supplanted by presidential appointments, federal envoys has been installed to oversee regional political activity,

and the media and civil society activity had been restricted. In formal institutional terms, Russia had become a politically closed regime (Fish 2005). At the same time, however, the Yukos Affair strengthened the importance of factional arrangements and relationships as the drivers of politics. Factional conflict escalated behind Kremlin walls as the succession approached, and the number of billionaires grew by a factor of ten between 2001 and 2008 (Table 2.5). Putin had made clear that he was not going to change the constitution and seek a third consecutive term, but absence of a mechanism for succession provoked power struggles. A number of serious instances of open conflict among political elites—particularly between *siloviki* sub-factions—emerged following the November 2005 promotions of Medvedev to first deputy prime minister and Sergei Ivanov to deputy prime minister, who were both touted at the time as being possible successors in 2008, although Ivanov was long considered the front-runner. Sechin and his allies were opposed to both men, and between January 2006 and December 2007, back-and-forth attacks were on-going and escalated to the point where force was used.

First, in January 2006, a case involving a military conscript who was badly beaten and maimed received widespread attention in the news media, and it is likely that this case rose to such prominence because Sechin, Patrushev and Ustinov colluded to discredit Sergei Ivanov by feeding the story to the press (Felgenhauer 2006).⁷⁵ Second, Aleksandr Bulbov, a deputy of Viktor Cherkesov's in the Federal Narcotics Service, allegedly tapped a phone conversation between Sechin and Prosecutor General Ustinov in which it was proposed that Ustinov become Putin's successor. Since Putin became president in 2000, Sechin had been attempting to turn his in-law (Sechin's daughter and Ustinov's son are married) into a major political player. On June 1, 2006, Putin dismissed Ustinov from his post as Prosecutor-General but immediately appointed him Minister of Justice; Ustinov and Yurii Chaika literally switched positions. The ouster of Ustinov as Prosecutor-General underlay the larger problem of Sechin and his allies battling against Medvedev. Ustinov's office had been gathering incriminating evidence against Medvedev and was planning to open criminal investigations against him without Putin's knowledge. Prior to this, the Prosecutor-General's office under Ustinov had launched numerous criminal investigations into customs officials, regional authorities as well as certain members of the Federation Council. Chaika, who was opposed to Sechin and his team, quickly stopped the investigations into Medvedev, but Sechin's response to the position switch was to create a new "Investigative Committee" in 2007 that was in—but not under—the Prosecutor-General's office (Sakwa 2011). The investigative committee, headed by Aleksandr Bastrykhin, took power (including to seize property and start criminal investigations) and personnel away from Chaika's office, and was also given the power to investigate the affairs of the prosecutor general, who was not granted parallel powers. Several years later, in December 2009, Chaika made the following comment with regard to the affair:

“The Surkov-Medvedev tandem brushed off a lot of people from the Sechin/Patrushev clan [through personnel dismissals]. In response, Sechin/Patrushev decided to come after me and my group. They used Aleksandr Bastrykhin and the Investigative Committee to start purges in my department. Bastrykhin swears he does not belong to Sechin, but I have never believed it and now I have proof since they fired [my colleague] who was helping me investigate the security services.”⁷⁶

⁷⁵ Thousands of conscripts have died in Russia as a result of hazing practices, and as Defense Minister Sergei Ivanov was the highest-level official accountable for these incidents.

⁷⁶ See <http://www.yuga.ru/news/254859/>, last accessed August 26, 2012.

Sechin and his team also launched a counter-attack against Cherkesov and Bulbov. In the spring of 2006, Putin asked Bulbov to follow up on an investigation involving the smuggling of goods (and possibly weapons) as well as money laundering through a Moscow-based furniture company called *Tri Kita* (Three Whales). The case, which began in Putin's first term, involved high-level FSB and other security service officials. Bulbov's investigation ultimately led to several high-level arrests and dismissals in the FSB and the Prosecutor-General's office (prior to Ustinov's dismissal). In October 2007, Bulbov was arrested on corruption charges by the FSB and the investigative committee. A week after Bulbov's arrest, the Russian daily *Kommersant* published an article by Cherkesov in which he warned against internal feuds in the security services and suggested that Bulbov had been arrested to prevent on-going investigations of corruption and smuggling against security service officials. He even referred to the Hobbesian "war of all against all" when noting that the unity of the security service agencies had dissolved and disintegrated into rivalries (Cherkesov 2007). Even though Putin was displeased with Cherkesov's public airing of security service conflicts, Cherkesov was not immediately sacked but transferred to another agency (the State Anti-Narcotics Committee).

In addition to internal rivalries among the *siloviki*, the liberals were also victims of Sechin's *siloviki* sub-faction. Prior to parliamentary elections in December 2007, Deputy Finance Minister Sergei Storchak was arrested by the FSB at the behest of the Investigative Committee on embezzlement charges. This was seen as a blow against former Minister of Finance Kudrin, who backed his deputy and was baffled by the arrest, as well as Prime Minister Viktor Zubkov and Sergei Chemezov (chairman and member of several SOE boards), who had close ties to several other officials who were arrested with Storchak. Following Storchak's arrest, Chaika and Investigative Committee head Bastrykhin engaged in sustained public criticism of one another. Finally, Putin himself came under attack at the end of 2007 when political analyst Stanislav Belkovskii accused him of having accumulated upwards of \$40 billion in personal wealth, first in the German newspaper *Die Welt* (November 2007), then in the *Guardian* (December 2007) and in an interview with a Kazkhstani journalist that appeared in the *Eurasia Daily Monitor* (January 2008). Belkovskii's source was probably Sechin (Sakwa 2011).

In the realm of public politics, the succession of Medvedev and Putin's ultimate dominance seemed to proceed relatively smoothly. In December 2007, Putin announced Medvedev's candidacy (and Medvedev conveniently returned the favor by nominating Putin to be his Prime Minister) and United Russia won 65 percent of seats in the Duma elections. In March 2008, Medvedev won the presidential election with 70.28 percent of the vote (Putin won with 71.31 percent in March 2004), and both he and Putin were sworn in as president and prime minister, respectively in May 2008 (they switched positions in May 2012). The escalation of factional conflict behind-the-scenes, though, not only reveals the intensity of factional rivalries, but also the fact that Putin's ability to arbitrate and solve internecine feuds was severely weakened. The examples above clearly illustrate that Putin did not have control over his staff. Arrests and criminal prosecutions most likely occurred without his knowledge, and the arrest of Bulbov and the story about Putin's personal wealth in particular demonstrate that factional infighting has the capacity to threaten and destabilize the autocrat's authority. Moreover, the use of force (e.g. arresting and instigating criminal prosecutions between members of rival security and justice agencies) to carry out factional conflict became disruptive and dangerous as an assault on one group ricocheted into attacks on another. In short, by 2008, a critical mass of top-ranked elites in Russia had become powerful enough to act independently, such that they "were not devoted to Putin but to themselves" (Latynina 2007). From 2008 to 2010, Putin gave six

senior officials their first or a second position on the boards of state-owned companies, including Minister of Transportation Igor' Levitin, Chamber of Commerce Head Evgenii Primakov, (former) Bashkortostan president Murtaza Rakhimov, Igor' Sechin, Moscow mayor Sergei Sobianin and First Deputy Prime Minister Viktor Zubkov, who became Gazprom's chairman following Medvedev's accession to the presidency (Table 2.4). By 2011, 28 out of 50 top elites close to Putin held at least one position on the board of a state-owned company.

During Medvedev's term (2008-2012), factional conflict died down somewhat, but the financial crisis, a number of high-level personnel changes, a surge of new billionaires in 2011 and the potential dangers of a Medvedev presidency in and of itself illustrate a continued lack of cohesion among political and business elites in Russia. First, as I discuss in more detail in the following sub-section, Putin's response to the 2008-2009 financial crisis, which was to dramatically increase welfare spending (particularly social security expenditures), is a clear indication of his susceptibility to rebellion. Second, even though Putin was still running the show, the triumph of Medvedev and his allies, including Vladislav Surkov, in becoming the chosen successor dealt a blow to the *siloviki*, particularly Sechin's group, which originally wanted Putin to stay on for a third consecutive term, or install their own person (Ustinov). Upon assuming the presidency in 2008, Medvedev demoted Sechin, Patrushev, and Sergei Ivanov, and Viktor Ivanov was replaced by Levitin as Chairman of Board of Aeroflot' (although Ivanov retained his post at Almaz-Antei, a weapons manufacturer). As I mentioned earlier, Cherkesov was transferred out of the Federal Narcotics Service to the State Anti-Narcotics Committee and lost his standing to some extent (Aslund 2008). In 2010, Cherkesov left his post and defected to the opposition; he is now a Communist Party (KPRF) deputy in the Duma.

Cherkesov's demotion and exit from the ruling coalition is a minor but illustrative example of how disaffected elites who exit the ruling coalition can defect to the opposition or challenge the autocrat. In addition to Cherkesov, three high profile dismissals occurred in 2010 and 2011. First, Yurii Luzhkov, the long-standing mayor of Moscow (1992-2010), was fired in September 2010 after suggesting in a newspaper article that Medvedev was a weak president.⁷⁷ Shortly after his dismissal, Luzhkov announced that he formally left the United Party. His wife, Elena Baturina, is a billionaire. In May 2011, Sergei Mironov, the speaker of the Federation Council and chair of the Kremlin-friendly "A Just Russia" political party, was removed from his post and demoted to Duma deputy status after harshly criticizing Putin in public during a speech in St. Petersburg. Mironov had come close to losing his position in February 2010 after criticizing Putin's handling of the economic crisis on a Russian television station. In the midst of this, the billionaire tycoon Mikhail Prokhorov made an entry into politics when he was tasked with leading the Right Cause political party in June 2011, which all but disintegrated two months after he left, condemning it as a "puppet Kremlin party" micromanaged by Vladislav Surkov, the "puppet master" in the presidential administration (Kramer & Barry 2011). While the party was not antagonistic to the Kremlin, it was "pro-business" and "pro-Medvedev" and was "unlikely to support Putin" in the event he ran for president in 2012.⁷⁸ Prokhorov has since run as an independent in the 2012 Russian presidential election and formed his own political party, *Grazhdanskaia Platforma* (Civic Platform). While it was initially assumed that Prokhorov's *Pravoe Delo* post was all for show, his subsequent presidential candidacy and creation of a new political party may indicate a sincere attempt to oppose Putin. Finally, following the

⁷⁷ Presidents Shaimiev of Tatarstan and Rakhimov of Bashkortostan also resigned their posts in 2010.

⁷⁸ Author interview with Political Analyst #3, Advisor and Consultant to *Pravoe Delo* (Right Cause), Moscow, Russia, July 5, 2011.

announcement in September 2011 that Putin would seek a third term in 2012 and Medvedev would become prime minister, Finance Minister Kudrin was asked to resign after publicly announcing that he would not serve in a Medvedev cabinet. It has been speculated that Kudrin was a top candidate to become prime minister should Putin return to the presidency.⁷⁹ I discuss a possible reason for Putin's return to the presidency, as well as future prospects for welfare spending in Russia, in the conclusion of this chapter. The next sub-section links the manifestations of a fragmented elite in Russia with longitudinal changes in welfare spending from 2000 to 2011.

3.3 Buying societal allies

There is a clear consensus among scholars of authoritarian politics that autocrats distribute money (or the ability to access large sums of money) and political positions to governing elites in order to ensure their survival. Russia under Putin is not unique in this respect, as most top political elites have been cycled and recycled through the state and government apparatus and given positions on the boards of large and lucrative state-owned companies. In the Russian case, however, this strategy has not been sufficient. The above discussion reveals the intensity of factional struggles in the Putin regime, particularly in the midst of the Yukos Affair and leading up to the 2008 succession, and demonstrates how top elites have had the ability to both act autonomously and use force against their rivals. In addition, the fact that Berezovskii and Khodorkovskii have used their vast financial resources to fund opposition groups demonstrates the willingness of wealthy business elites to oppose Putin in the realm of public politics. As the number of billionaires increased from seven to 101 in just ten years, who is to say that other Berezovskii's and Khodorkovskii's are not lurking in the wings? While Putin managed to control oligarchs' ambitions in the early years of his presidency, it would not be politically feasible today for him to increase pressure on, or use repressive tactics against, all Russian billionaires and multi-millionaires. Fearing rampant intraelite conflict, Putin has attempted to gain political capital from outside the network of political and economic elites by improving the welfare of the masses in exchange for popular support. Immense increases in state revenue as a result of high international petroleum prices have provided Putin with an arsenal of cash to redistribute to the public as well as his cronies. In doing so, he has created an additional client—the public—that is loyal to Putin for the goods that he gives them. The public, in turn, has provided a counterweight to disaffected political and business elites, who are unlikely to plot against Putin as long as he is popular and the audience is on his side.

As I discuss above, the instances of intraelite conflict that transpired during Putin's first term primarily revolved around reigning in oligarchs Berezovskii and Gusinskii, as well as the arrest of Khodorkovskii in October 2003 and the start of the Yukos affair. At the same time, Putin was attempting to build his own team behind Kremlin walls to shield himself from—and gradually supplant—El'tsin's staff. The robber barons of the 1990s were unpopular among the Russian public, since they were seen as individuals who “got rich quick” illegally and unfairly and engaged in tax evasion, while the majority of the population endured a drastic decline in living standards. They were, however, relatively supportive of El'tsin-era political elites who retained their posts, including Aleksandr Voloshin, who remained friends with Berezovskii and

⁷⁹ Author interview with Representative #1, Alfa-Bank, Moscow, Russia, August 4, 2011.

resigned in protest of Khodorkovskii's arrest.⁸⁰ In addition, Gusinskii enjoyed broader popular support than Berezovskii or Khodorkovskii since he was seen as a pioneer (and then a martyr) of Russia's free press. At the same time that the oligarchs' removal from Russian society contributed to Putin's popularity, Putin delivered a second helping of good news as total social spending increased by 4.1 percent of GDP between 2001 and 2002, the budget cycle following the exiles of Berezovskii and Gusinskii. Except for the four percent GDP increase in total social spending between 2008-2009, this represents the largest single-year increase in social spending in terms of percent of GDP in the time period under investigation. Increases were seen across the board in health (1.6 percent), education (0.8 percent) and social security (1.7 percent). In other words, not only did Putin oust two infamous robber barons, but also, in the eyes of the Russian public, he demonstrated a commitment to greater social equality.

Evidence of Putin's changing perception about the importance of social spending to secure popular support can be seen when comparing his presidential budget addresses and his annual addresses to the federal assembly in 2000 and 2001. In the 2000 budget address, social spending and policy are barely mentioned. Putin's only discussion of the state's social obligations appears halfway through the speech, when he states that a move to "targeted social spending" to help the country's most needy citizens is necessary since the "current volume and structure of social obligations is unfeasible for the federal budget."⁸¹ Similarly, in his speech to parliament a little over a month later, he recognizes the importance of social policy, but states that the "general policy of state paternalism is economically impossible and political infeasible," and that it must be rejected in order to "unleash human potential" and make people "responsible for themselves."⁸² In the 2001 addresses, however, Putin's attitude towards social spending and the government's social obligations appears to have shifted. Both addresses were delivered in the midst of the state takeover of Gusinskii's NTV, following Gazprom's refusal to let Gusinskii sell the station to Ted Turner. This led to protests in St. Petersburg and Moscow to defend Russia's free press. At the very beginning of the budget speech, Putin states that the growth in federal budget revenue in 2000 has freed the federal budget of debt such that "a number of important public and social programs" can be financed; further down, he refers to the expenditure side of the federal budget as being an "instrument to achieve critical social goals."⁸³ In the address to parliament, Putin refers to the dangers of "social risks," "social stagnation" and "social losses," and the need to address "social rehabilitation," upwards of ten times.⁸⁴ Contrary to the 2000 address to the federal assembly, he mentions the state's role in guaranteeing health and education for all citizens, and signals the government's commitment to raise the base old-age pension so that it exceeds the subsistence minimum.

As I discuss above, total social spending declined somewhat after 2002 in the midst of the 2003-2004 election cycle, which is one indication that Putin is not responding directly to demands "from below" when formulating welfare spending policies. In general, major spending increases and changes in welfare policy have not corresponded to electoral cycles in Russia. A

⁸⁰ Regarding Voloshin's relationship with Berezovskii, please see <http://www.telegraph.co.uk/news/worldnews/europe/russia/8889167/Roman-Ambramovich-accuses-Boris-Berezovsky-of-exploiting-Kursk-tragedy.html>, last accessed August 25, 2012.

⁸¹ Vladimir Putin, "Biudzhethnoe poslanie Federal'nomu Sobraniuu 'O biudzhethnoi politike na 2001 god,'" Moscow, Russia, May 31, 2000.

⁸² Vladimir Putin, "Poslanie Federal'nomu Sobraniuu," Moscow, Russia, July 8, 2000.

⁸³ Vladimir Putin, "Biudzhethnoe poslanie Federal'nomu Sobraniuu 'O biudzhethnoi politike na 2002 god,'" Moscow, Russia, April 20, 2001.

⁸⁴ Vladimir Putin, "Poslanie Federal'nomu Sobraniuu," Moscow, Russia, April 3, 2001.

significant change, however, was made in the midst of factional in-fighting in the wake of the Yukos affair and leading up to the Medvedev succession: the introduction and implementation of the Priority National Projects in Health and Education and corresponding increases in salaries for medical and education workers. In his April 2005 address to the federal assembly, Putin vaguely alludes to the national projects, but announces the details in an additional speech to the federal assembly and the government on September 5, 2005.⁸⁵ In the speech, he specifically outlines planned 2006 increases in salaries, which were not part of the original 2006 budget law, but were pushed through in the spring of 2006 immediately prior to Ustinov's removal from the Prosecutor General's office. Putin developed a council for the implementation of the National Project, which he headed but which was administered by Medvedev following his November 2005 appointment to first deputy prime minister. Whether Putin actually chose Medvedev to be his successor at that time, two years later, or at some point in between winter 2005 and 2007, Medvedev's duties vis-à-vis the National Projects immediately earned him a high degree of trust in the population. Between January 2006 and December 2007, the major Kremlin in-fighting discussed in detail above occurred. As this was occurring, the 2007 Federal Budget Law, which was submitted to the Duma in August 2006, mandated a 25 percent increase in government spending, which was driven by increases in public sector salaries and social service provision (Jones Luong & Weinthal 2010). As I note earlier, the 2006 federal budget was already expanded to authorize salary increases for medical and education workers as part of the National Projects. In keeping with this, 2006 and 2007 saw the largest increases in medical and education worker salaries in the time period under investigation. Salaries for medical workers increased by 39 percent in 2006 and 68 percent in 2007; salaries for education workers increased by 31 percent in 2006 and 60 percent in 2007. The 2008 Federal Budget Law, which was passed in 2007, moved to a three-year budget for the first time and projected another 25 percent increase in government spending through 2010; the actual increase was significantly higher given the nine percent government spending increase in social security expenditures alone between 2008-2010 (Table 2.2). This law also called for the division of the Oil Stabilization Fund into the Reserve Fund and the National Welfare Fund.

Due to the timing of parliamentary and presidential elections in Russia in December 2007 and March 2008, respectively, it is difficult to make the case that the spending increases and policy changes enacted between 2006 and 2008 do *not* represent an episode of pre-election populism. Yet, given trends in overall social spending during Russia's electoral cycles, and the fact that by 2004, Putin was not relying on elections to stay in power, it is more likely that populist policies and spending increases represented a pre-emptive move to maintain a societal support base in the lead-up to the succession. Most political analysts agree that Putin has been more concerned with maintaining a consistently high public opinion rating than managing domestic elections.⁸⁶ Putin's popularity has remained consistently high: between 2000-2008, his rating averaged 6.3 on an 8-point scale, peaking in 2008 with a rating of 7.5 (White 2011). Similarly, trust in the president's office remained high during Putin's first two terms and peaked in 2008, when 71 percent of respondents said they "completely trusted" the president (the next most highly trusted institution in 2008 was the church, with 40 percent). After Putin became prime minister in 2008, he—as opposed to Medvedev—made considerably more public

⁸⁵ Vladimir Putin, "Vystuplenie na vstreche s chlenami Pravitel'stva, rukovodstvom Federal'nogo Sobraniia i chlenami preziduma Gosudarstvennogo soveta," Moscow, Russia, September 5, 2005.

⁸⁶ Author interviews with Social Policy Expert #2, Institute of Contemporary Development (INSOR), and Political Analyst #2, Center for Political Information, Moscow, Russia, May 16, 2011 and May 23, 2011.

statements concerning increases in public sector salaries, pensions and spending on welfare (especially during the economic crisis).⁸⁷

Putin's welfare spending response to the global financial crisis of 2008-2009 represents a clear illustration of his insecurity vis-à-vis political and economic elites. Scholars of regime change, stability and authoritarian politics have found that, more than anything else, economic crisis has been a primary cause of both democratic and authoritarian breakdown (e.g. Haggard & Kaufman 1995; Geddes 1999; Przeworski et al. 2000; Desai et al. 2009). In authoritarian regimes—especially those that are personalist—an economic crisis is theoretically destabilizing because, as revenue streams dry up, there is no longer a guarantee that the autocrat can continue to buy off rent-seeking elites to the same extent as pre-crisis levels (Linz 2000). In the Russian case, political elites access their pay-offs through their positions on the boards of state-owned companies, all of which lost income during the financial crisis. In addition, economic crisis can be a primary driver of mass public discontent. When the economy falters, the threat of widespread loss of support for the autocrat, combined with a smaller pie for senior officials, creates a potential opening for disaffected political and business elites to pose a serious challenge to the autocrat, either by staging a palace coup or defecting to the opposition, which may gain more traction when a critical mass of the population turns against the ruler (Radnitz 2010).

Immediately prior to the onset of the global economic crisis in the fall of 2008 and decline in international petroleum prices, factional in-fighting reached its peak, and several top *siloviki* unhappy with Putin's choice of Medvedev had been demoted. It is not surprising, then, that Putin read and responded to both endogenous and exogenous threats to his rule by dramatically increasing welfare spending—particularly pensions and social benefits—which in 2009 and 2010 affected 40 percent of Russia's population and accounted for 15 percent of household income. Between 2008 and 2009, total social spending in Russia rose from 17.1 percent of GDP to 21.1 percent of GDP; in 2010 it increased slightly to 21.7 percent of GDP. While health and education spending increased by about 0.5 percent of GDP between 2008 and 2009, this was driven largely by increases in pensions and social benefit spending: between 2008 and 2009, social security spending increased from 9.3 to 12.2 percent of GDP, and it peaked at 13.7 percent of GDP in 2010 (Table 2.2). In short, Putin pre-emptively responded to the threat of elite challenges the economic crisis could have inspired by appealing directly to the public with cash. In doing so, he managed to shield most of the public from the crisis, maintain his popularity and image as a “sugar daddy” for the Russian population, and keep demoralized political elites and ambitious economic elites at bay.

4. Conclusion and implications

This chapter has argued that the primary catalyst for high welfare spending in Russia during the past decade, relative to other mineral-rich authoritarian regimes, is the country's divided political and economic elites. Factional infighting and the rise in the number of billionaires are threats that could potentially destabilize Putin's rule. In response, Putin has reached beyond the selectorate and solidified a support base in society. The Russian case demonstrates that fragmented elites, and the conflict inherently generated, result in higher social spending since the autocrat cannot depend solely on patronage and repression to sustain his rule. An autocrat's popularity is the best deterrent to potential challengers, and generous welfare

⁸⁷ Ibid.

provision is the surest way to maintain genuine societal support, particularly in resource-rich regimes.

Between 2000 and 2010, welfare spending in Russia grew by over ten percent of GDP. This increase in social expenditures, however, has implications for Russia's future political and economic prospects. First, the state's paternalism has not only created rent-seeking elites, but also a rent-seeking society. Putin has become a hostage of his own popularity and his method of achieving and maintaining that popularity. Over half of Russia's population depends on the state to subsidize all or part of its income, and this is not an obligation that Putin can shy away from without risking serious societal discontent among his core supporters. As a result, Russia is arguably succumbing to a typical "resource curse" phenomenon of going into debt to cover social pay-outs. International oil prices, while still high, are not likely to average \$125/barrel in 2012, which is what is needed to maintain a balanced federal budget. In Russia, the precipitous drop in prices in 2009 was off-set by the resources in the Reserve Fund, which dropped from \$150 billion in 2009 to \$27 billion in mid-2011 (Roskazna 2011). A sustained drop in oil prices will put Russia in the position of having to borrow in order to maintain and increase current levels of spending, which may signal to political and business elites that Putin is leading them toward economic disaster.

Putin may be in office until at least 2024. We can only speculate as to the real reasons for his decision to return to the presidency, given the intense factional in-fighting that occurred in the lead-up to the succession, it is possible that Putin came back because he had no choice. Retaining Medvedev or choosing someone else was probably too politically risky vis-à-vis members of the elite. The demonstrations that erupted between December 2011 and March 2012 indicate that middle and upper-middle class residents of Moscow, St. Petersburg and other major cities are tired of Brezhnev-like stagnation and their inability to choose their leaders freely. In Moscow, where the largest demonstrations occurred, it is relevant to my argument to underscore that a much smaller percentage of the population (15 percent) depends on the state for household income generation. However, Putin's trust rating in the country as a whole remains extremely high, allowing him to maintain a stable image of invincibility for the time being. His trust rating fell from a high of 73 percent in February 2011 to a low of 63 percent in December 2011, but was back up to 68 percent in March 2012.⁸⁸ The audience, then, is still very much on Putin's side.

⁸⁸ See <http://www.levada.ru/22-03-2012/martovskie-reitingi-odobreniya-i-doveriya-golosovanie-na-vyborakh> (in Russian), last accessed August 27, 2012.

Table 2.1: Russia's welfare system

Sector	Key features	Financing mechanisms and structure
Health	<p>-German-style health insurance system where coverage is (in theory) universal since state must insure unemployed persons</p> <p>-State provides certain free services to poor, regulates mandatory medical insurance system, legalizes and regulates private medical insurance and practice, sets national wage scale for medical personnel</p> <p>-Individuals/households above poverty level covered by mandatory medical insurance and allowed legal private alternatives</p>	<p>-Employers pay 3.6% payroll tax on behalf of workers where 3.4% goes to regional insurance funds; municipal governments pay into funds on behalf of all unemployed persons</p> <p>-Regional insurance funds pay private insurance companies based on how many clients they insure</p> <p>-Insurance companies contract with polyclinics and hospitals</p> <p>-Individuals/households above poverty level co-pay for some services</p> <p>-Financing by budget level:*</p> <ul style="list-style-type: none"> • Federal budget and Federal Medical Insurance Fund: 10% • Regional and municipal budgets: 45% • Regional Medical Insurance Funds: 45%
Education	<p>-State provides free primary and secondary education, sets national wage scale for educators, provides means-tested assistance and competitive vouchers for higher education, sets national standards</p>	<p>-State finances on per student basis</p> <p>-Individuals/households above poverty level co-pay for some services and provide partial or full tuition for pre-school and tertiary education</p> <p>-Financing by budget level:*</p> <ul style="list-style-type: none"> • Federal budget: 20% • Regional and municipal budgets: 80% • Off-budget funds: > 2%
Pensions and Social Assistance	<p>-Pensions based on social insurance notional and individual accounts system</p> <p>-Pension system covers employed and self-employed persons, independent farmers</p> <p>-Special pension system exists for civil servants, military personnel, police officers, veterans and other groups</p> <p>-State provides means-tested cash and in-kind benefits (<i>l'goty</i>) for poverty relief, maternity and child benefits, unemployment and other benefits for defined categories of citizens</p>	<p>-Pension financing based on contributions primarily paid by employers, the state (in the case of Pension Fund deficits), and self-employed persons</p> <p>-State covers total costs of social pensions, pensions for special categories of citizens, and most costs for social assistance benefits</p> <p>-Amount of pension calculated according to: (1) basic flat-rate amount (set by state) according to different categories of recipients; (2) notional account; (3) individual account (contributions plus interest) to be paid from the beginning of 2013</p> <p>-Financing by budget level:*</p> <ul style="list-style-type: none"> • Federal budget: 10% • Regional and municipal budgets: 15% • Pension Fund and Social Insurance Fund: 75%

Sources: Cerami 2009, pp. 107-109; Cook 2007a, p. 156; Gref et al 2000, "Programma Pravitel'stva Rossi: Osnovnye Napravleniya Sotsial'-no-Ekonomicheskoi Politiki Pravitel'stva Rossi: Osnovnye Napravleniya Sotsial'-no-

*Based on author's calculations.

Table 2.2: Public expenditures on health, education and social security in Russia, 2000-2011*

Sector	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Health	% GDP	2.2	2.0	3.6	3.4	3.3	3.7	3.6	4.2	3.8	4.3	3.8	3.9
	% Total budget expenditures	8.5	8.0	8.0	9.0	9.5	11.7	11.5	12.3	11.1	10.4	9.9	10.5
	Real RUR per capita	1,177	1,439	2,135	2,801	3,519	5,010	6,184	8,681	9,611	10,707	11,067	13,520
Education	% GDP	2.8	3.1	3.9	3.6	3.5	3.7	3.9	4.0	4.0	4.6	4.2	4.1
	% Total budget expenditures	8.8	8.9	9.2	9.4	9.9	11.8	12.4	11.9	11.9	11.3	10.9	11.1
	Real RUR per capita	1,216	1,601	2,450	2,929	3,685	5,039	6,661	8,439	10,343	11,552	12,266	14,400
Social Protection	% GDP	6.9	8.7	10.4	9.5	8.9	9.3	9.0	8.9	9.3	12.2	13.7	12.0
	% Total budget expenditures	20.9	25.1	23.6	24.9	25.3	27.7	28.1	25.4	26.9	29.8	35.7	33.0
	Real RUR per capita	2,884	4,514	6,325	7,759	9,390	11,874	15,161	17,918	23,408	30,564	40,010	42,000

Sources: Federal'noe Kaznacheistvo Rossiiskoi Federatsii (Federal Treasury of Russia), "Otchetnost' ob ispolnenii konsolidirovannogo biudzheta RF," 2000-2011, available at <http://roskazna.ru/reports/cb.html>; Federal'naia Sluzhba Gosudarstvennoi Statistiki Rossiiskoi Federatsii (Russian State Statistics Service), *Rossiiskii Statisticheskii Ezhegodnik*, 2003-2011, available at http://www.gks.ru/wps/wcm/connect/rosstat/rosstatistat/main/publishing/catalog/statisticCollections/doc_1135087342078 (in Russian).

*Based on author's calculations.

Table 2.3: Selected average yearly salaries and social benefits in Russia (real RUR) 2000-2012*

Type of payment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (April)
Average monthly salary for medical workers	1,141	1,690	2,729	3,270	4,129	5,325	7,394	8,969	11,517	13,621	14,452	--	--
Average monthly salary for education workers	1,032	1,546	2,543	3,024	3,763	4,896	6,407	7,845	9,988	12,219	12,937	--	--
Average monthly salary (total labor force)	1,850	2,732	3,788	4,909	6,034	7,714	9,756	12,148	15,260	17,130	19,257	--	--
Average monthly subsistence minimum	1007	1265	1571	1886	2127	2721	3139	3438	4054	4736	5228	--	--
Average monthly old-age pension	744	1051	1381	1702	1982	2490	2840	3548	4329	6089	7508	8190	9440
Average monthly pension (all categories)	685	960	1270	1560	1814	2289	2607	3291	4013	5678	6980	7832	9052
Average monthly educational stipend	169	174	179	358	361	550	536	794	1011	1011	1014	--	--
Maternity capital	--	--	--	--	--	--	--	223,414	243,822	286,915	315,605	337,023	--

Sources: Federal'naya Sluzhba Gosudarstvennoi Statistiki Rossiiskoi Federatsii (Russian State Statistics Service), *Sotsial'noe Polozhenie i Uroven' Zhizni Naselenia Rossii, 2003-2011*, available at

http://www.gks.ru/wps/wcm/connect/rossstat/rossstat/main/publishing/catalog/statisticCollections/doc_1138698314188 (in Russian); Pensionnyi Fond Rossiiskoi Federatsii (Pension Fund of the Russian Federation), "Indeksatsiia Pensii," available at <http://www.pff.ru/pensionres/>.

*Based on author's calculations.

Table 2.4: Top political elites in Russia, 2000-2012

Name	Political position(s)	Position(s) in SOEs	Factional affiliation
Aleksandr Beglov	Presidential advisor (2004-); Deputy PA head (2008-2012); Presidential envoy (2012-)	None known	Outsider
Sergei Bogdanchikov	None	President of Rosneft' (1998-present); General Director of Gazprom-Neft' (2004-)	Siloviki
Aleksandr Bortnikov	Deputy FSB head (2004-2008); FSB Head (2008-); Permanent Member of the SC (2008-)	Member of the Board of Directors of Sovkomsflot (2004-2008)	Siloviki
Yuri Chaika	Minister of Justice (1999-2006); Prosecutor-General (2006-present)	None known	Outsider
Sergei Chemezov	Member of Federal Service for Military-Technical Cooperation (2000-)	General Director of Rosoboronekспорт (2004-) and Rostekhnologii (2007-); Member of the Board of Directors of United Aircraft Corporation, United Shipbuilding Corporation, Avtovaz, Aeroflot, Rosnano, Bank MFK, Novikombank	Siloviki
Viktor Cherkesov	Presidential envoy (2000-2003); Head of Federal Narcotics Service (2003-2008); Head of Federal Agency for Procurement of Military Equipment (2008-2010); KPRF (Communist Party) Duma deputy (2011-)	None known	Siloviki/Outsider
Mikhail Fradkov	Director of Federal Tax Police (2001-2004); PM (2004-2007); Director of Intelligence (2007-); Permanent Member of the SC (2004-2012)	Member of Advisory Council of Vneshtorgbank. Son Petr is member of Board of Directors of Bank Razvitiia (2007-); son Dmitrii employed at VTB; wife Ol'ga worked at VTB and Gazprombank	Siloviki
German Gref	Minister of Economic Development and Trade (2000-2007)	Member of the Board of Directors of Rosneft', Gazprom, Sheremet'evo, Sviaz'invest, Aeroflot (2000-2005); General Director of Sberbank (2007-)	Liberals/Technocrats

Name	Political position(s)	Position(s) in SOEs	Factional affiliation
Aleksandr Grigoriev (d. 2008)	Director of Federal State Reserves Agency (2001-2008)	General Director of Rosatom subsidiary Tekhnabeksport (2004-2008); Daughter owned 10% of Gazprom subsidiary	Siloviki
Aleksei Gromov	Presidential Press Secretary (2000-2008); Deputy PA head (2008-)	Member of the Board of Channel 1 TV (2004-)	Outsider
Boris Gryzlov	Minister of Internal Affairs (2001-2003); Speaker of Duma (2003-2011); Permanent Member of the SC (2004-)	None known	Siloviki
Sergei Ivanov	Minister of Defense (2001-2007); Deputy PM (2005-2007; 2008-2011); First Deputy PM (2007-2008); PA Head (2011-); Permanent Member of the SC (2000-)	Chairman of the Board of United Aircraft Corporation (2006-); Member of the Boards of GLONASS and Rosavtodor; son Aleksandr works at Vneshekonombank and son Sergei is a VP at Gazprombank (2006-)	Siloviki
Viktor Ivanov	Deputy PA head (2000-2004); Presidential advisor (2000-); Permanent Member of the Security Council (2000-2008)	Chairman of the Board of Almaz-Antei (2001-); Chairman of the Board of Aeroflot (2004-2008)	Siloviki
Ramzan Kadyrov	President of Chechnya (2007-)	Member of the Board of North Caucasus Resorts	Regions/Outsider
Mikhail Kasianov	Prime Minister (2000-2004); Permanent member of the SC (2000-2004)	None known	“El’itsin family”
Viktor Khristenko	Acting PM (2004); Minister of Industry and Energy (2004-2012)	Chairman of the Board of Transneft’ (2004-)	Liberals/Technocrats
Sergei Kirienko	Presidential envoy (2000-2007)	General Director of Rosatom (2005-)	Liberals/Technocrats
Dmitrii Kozak	Deputy PA head (2000-2004); Presidential envoy (2004-2007); Minister of Regional Development (2007-2008); Deputy PM (2008-)	Member of the Supervisory Board of Vneshekonombank	Liberals/Technocrats
Yurii Koval’chuk	None known	Chairman of the Board of Directors of Bank Rossia (2004-)	Siloviki
Aleksei Kudrin	Minister of Finance (2000-2011); Deputy PM (2000-2004; 2007-2011)	Deputy Chairman of United Energy Systems (1999-2004)	Liberals/Technocrats

Name	Political position(s)	Position(s) in SOEs	Factional affiliation
Sergei Lavrov	UN Ambassador (1994-2004); Minister of Foreign Affairs (2004-); Permanent Member of the SC (2004-)	None known	Siloviki
Sergei Lebedev	Director of Foreign Intelligence Service (2000-2007); Executive Secretary of Commonwealth of Independent States (2007-); Permanent Member of the SC (2004-)	None known	Siloviki
Igor' Levitin	Minister of Transportation (2004-2012); Presidential Advisor (2012-)	Chairman of the Board of Aeroflot (2008-) and Sheremet'evo (2008-)	Siloviki
Yurii Luzhkov	Mayor of Moscow (1992-2010)	None known	"El'tsin family"
Valentina Matvienko	Governor of St. Petersburg (2003-2011); Speaker of Federation Council (2011-); Permanent Member of the SC (2012-)	Son Sergei is VP at VTB	Regions/Outsider
Dmitrii Medvedev	First deputy head of PA (2000-2003); Head of PA (2003-2005); First Deputy PM (2005-2008); President (2008-2012); PM (2012-present); Permanent Member of the SC (2004-present)	Chairman of the Board of Gazprom (2000-2008); Chairman of the Supervisory Board of Vneshekonombank	Liberals/Technocrats
Alekssei Miller	Deputy Minister of Energy (2000-2002)	Deputy Chairman of the Board and CEO of Gazprom (2002-)	Liberals/Technocrats
Sergei Mironov	Speaker of Federation Council (2001-2011); Duma Deputy (2011-); Head of A Just Russia (2006-2011); Permanent Member of the SC (2004-2012)	None known	Outsider
Sergei Naryshkin	Cabinet Chief of Staff (2004-2008); Deputy PM (2004-2008); Head of PA (2008-2011); Deputy and Speaker of Duma (2011-); Permanent Member of the SC (2008-)	Chairman of the Board of Channel 1 TV (2004-2009); Deputy Chairman of the Board of Rosneft' (2004-); Member of Board of Directors, Sovkomflot (2004-)	Outsider
Rashid Nurgaliev	Minister of Internal Affairs (2003-2012); Permanent Member of the SC (2004-2012); Deputy Secretary of SC (2012-)	None known	Siloviki

Name	Political position(s)	Position(s) in SOEs	Factional affiliation
Nikolai Patrushev	Head of FSB (2000-2008); Permanent member of the SC (2000-2008); Secretary of SC (2008-)	Son Andrei is advisor to Rosneft' Chairman Igor Sechin; Son Dmitrii is VP at VTB	Siloviki
Sergei Prikhodko	Deputy PA head (1998-2008); Presidential advisor (2004-2012); First Deputy PA Head (2012-)	Chairman of the Board of Directors of Rosatom nuclear arms subsidiary (2004-)	"El'tsin family"
Evgenii Primakov	President of the Russian Chamber of Commerce (2001-2011)	Chairman of the Board of Directors of GLONASS (2011-)	Siloviki/"El'tsin family"
Murtaza Rakhimov	President of Bashkortostan (1993-2010)	Chairman of the Board of Bashneft' subsidiary (2010-); Member of the Board of Bashneft' (2010-)	Regions/Outsider
Dmitrii Rogozin	Duma Deputy (1997-2007); Leader of <i>Rodina</i> party (2003-2007); NATO ambassador (2008-2011); Deputy PM (2011-)	Member of the Advisory Council of Vneshekonombank	Liberals/Technocrats
Igor' Sechin	Deputy PA head (2000-2008); Deputy PM (2008-2012)	Chairman of the Board of Rosneft' (2004-2011; 2012-present); Chairman of the Board of InterRao EES (2008-)	Siloviki
Anatolii Serdiukov	Head of Federal Tax Service (2004-2007); Minister of Defense (2007-); Permanent Member of the SC (2008-)	Chairman of the Advisory Council of Rostekhnologii (2007-)	Siloviki
Mintimer Shaimiev	President of Tatarstan (1991-2010)	Son Radik controls 5% of Tanneft' and is General Director of another company that controls 7% of Tanneft'; son Airat is General Director of Tatar Railways	Regions/Outsider
Sergei Shoigu	Minister of Emergencies (1994-2012); Government of Moscow region (2012-)	Chairman of the Board of Directors of GLONASS (2000-2011)	Siloviki
Igor' Shuvalov	Head of Government Apparatus (2000-2003); Deputy PA Head (2003-2004); Presidential advisor (2004-2008); First Deputy PM (2008-)	Member of the Board of Russian Railways; Member of the Advisory Council of Vneshekonombank; Chairman of the Advisory Council of Rosatom	Outsider

Name	Political position(s)	Position(s) in SOEs	Factional affiliation
Sergei Sobianin	Governor of Tiumen' (2001-2005); Head of PA (2005-2008); Deputy PM (2008-2010); Mayor of Moscow (2010-); Permanent Member of the SC (2004-)	Chairman of the Board of Directors of Channel 1 TV (2009-)	Regions/Outsider
Sergei Stepashin	Head of the Audit Chamber (2000-)	Wife Tamara is a member of the supervisory board of VTB	
Vladislav Surkov	Deputy PA head (1999-2004); Presidential advisor (2004-); Deputy PM (2011-)	Chairman of the Board of Transneft' produkt (2004-)	Democratic statist
Vladimir Ustinov	Prosecutor-General (2000-2006); Minister of Justice (2006-2008); Presidential envoy (2008-)	None known	Siloviki
Vlacheslav Volodin	General secretary of United Russia (2005-2010); First deputy PA head (2010-); Deputy PM (2010-)	None known	Outsider
Aleksandr Voloshin	Head of Presidential Administration (1999-2003)	Chairman of the Board of United Energy Systems (1999-2008)	"El'tsin family"
Vladimir Yakunin	Deputy Transportation Minister (2000-2003)	Deputy Chairman of the Board of Russian Railways (2003-2005); General Director of Russian Railways (2005-)	Siloviki
Aleksandr Zhukov	Deputy PM (2004-2011); First Deputy Speaker of the Federation Council (2011-)	Chairman of the Board of Russian Railways (2004-2011)	Outsider
Viktor Zubkov	Head of the Federal Financial Monitoring Service (2004-2007); PM (2007-2008); First Deputy PM (2008-2012)	Chairman of the Board of Gazprom (2008-)	Outsider
Mikhail Zurabov	Chairman of the Pension Fund (1999-2004); Minister of Health and Social Development (2004-2007); Ambassador to Ukraine (2009-)	None known	Liberals/Technocrats

Sources: Kryshatanovskaya & White (2005); Mukhin (2005); Bremmer & Charap (2007); http://www.compromat.ru/page_30209.htm (last accessed August 26, 2012).

Table 2.5: Profile of Russian billionaires, 2000-2012

Year	Number of billionaires	Number of billionaire-politicians	Total net worth of billionaires (billion US\$)	Billionaire net worth as a percentage of Russia's GDP
2000	0	0	0	0
2001	8	1	\$12.4	5%
2002	7	1	\$14.8	5%
2003	17	1	\$36.6	11%
2004	25	2	\$79.4	18%
2005	27	3	\$90.6	17%
2006	33	4	\$172.1	23%
2007	53	8	\$282.4	28%
2008	87	12	\$471.4	38%
2009	32	5	\$142	9%
2010	62	11	\$297	24%
2011	101	13	\$498.6	33%
2012	96	15	\$446.3	25%

Source: *Forbes Russia*, "Bogateishie Buznismeny Rossii," 2005-2012, available at <http://www.forbes.ru/100-bogateyshih-biznesmenov> (in Russian). 2001-2004 Forbes ratings available at http://www.compromat.ru/page_10882.htm (in Russian).

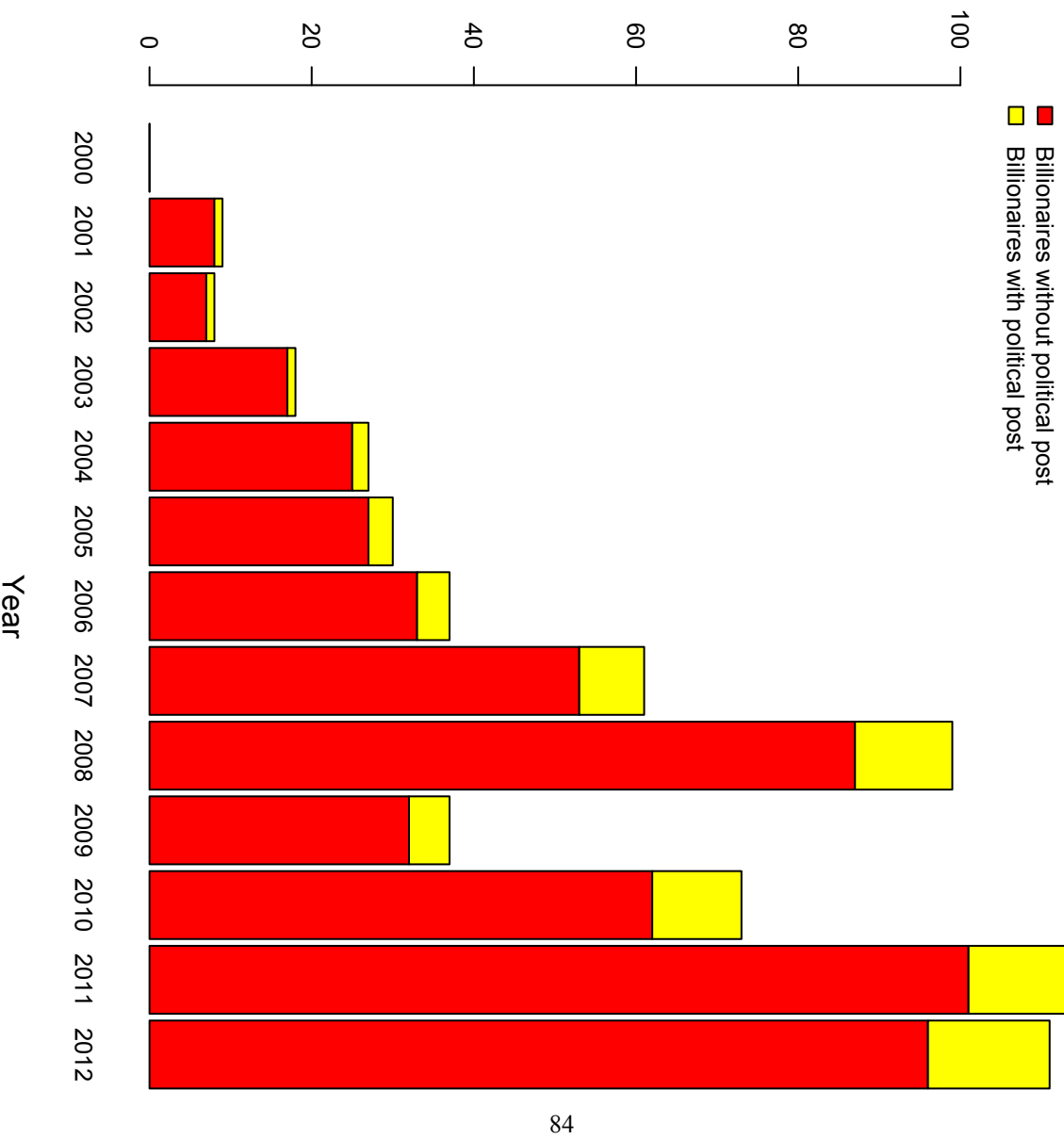
Table 2.6: Top 30 business elites in Russia, 2000-2012

Name	Source of income	Political position(s)	Net worth 2002 (billion US\$)	Net worth 2004 (billion US\$)	Net worth 2008 (billion US\$)	Net worth 2012 (billion US\$)
Roman Abramovich	Oil, metallurgy, investments	Governor of Chukotka (2001-2008); Duma deputy (2008-present)	\$4.2	\$12.5	\$24.3	\$12.1
Vladimir Lisin	Metallurgy, transportation	None	--	\$4.8	\$23.9	\$15.9
Mikhail Fridman	Oil, banking/finance, telecommunications, trade	Member of Public Chamber (2005-present)	\$2.2	\$5.2	\$20.5	\$13.4
Mikhail Prokhorov	Metallurgy, investments	None	--	\$5.4	\$22.6	\$13.2
Vladimir Potanin	Metallurgy, media	None	\$1.8	\$5.4	\$22.4	\$14.5
Oleg Deripaska	Metallurgy, energy, machine-building	None	\$1.1	\$4.5	\$28.6	\$8.8
Aleksei Mordashov	Metallurgy, machine-building	None	--	\$4.5	\$24.5	\$13.3
Vagit Alekperov	Oil, investments	None	\$1.4	\$3.9	\$14.3	\$13.5
Viktor Vekselberg	Oil, metallurgy, investments	None	--	\$5	\$11.4	\$12.4
Alisher Usmanov	Metallurgy, telecommunications	None	--	\$1	\$9.5	\$18.1
German Khan	Oil, banking/finance, telecommunications, trade	None	--	\$2.9	\$13.7	\$8.5
Suleiman Kerimov	Gold, fertilizer, investments	Member of Federation Council (2007-present)	--	--	\$18.4	\$6.5
Iskander Makhmudov	Metallurgy, machine-building, coal, transportation	None	--	\$2.1	\$12.1	\$8.2
Viktor Rashnikov	Metallurgy	Duma deputy (2003-2007); Deputy in Cheljabinsk regional legislature (2007-present)	--	\$1.3	\$13.3	\$5.6
Vladimir Evtushenkov	Telecommunications, oil	None	--	\$2.1	\$10.3	\$6
Aleksandr Abramov	Metallurgy	None	--	\$2.4	\$12.5	\$5.4

Name	Source of income	Political position(s)	Net worth 2002 (billion US\$)	Net worth 2004 (billion US\$)	Net worth 2008 (billion US\$)	Net worth 2012 (billion US\$)
Aleksei Kuzmichev	Oil, finance, telecommunications, trade	None	--	\$1.9	\$10.7	\$6.7
Dmitrii Rybolov'ev	Investments	None	--	--	\$13	\$9
Leonid Fedun	Oil, finance	None	--	\$1.7	\$7	\$6.5
Andrei Mel'nichenko	Coal, fertilizer	None	--	\$1.2	\$6.2	\$10.8
Leonid Mikhel'son	Oil and gas	None	--	--	\$5.9	\$11.9
Nikolai Tsvetkov	Finance	None	--	\$2	\$8.1	\$3
Igor' Ziuzin	Metallurgy	None	--	\$1.1	\$13	\$3.1
Sergei Popov	Banking, coal	None	--	\$1.2	\$6.4	\$5.7
Mikhail Khodorkovsky	Oil	None	\$3.7	\$15.2	--	--
Vladimir Bogdanov	Oil	None	\$1.6	\$2.2	\$2.9	\$2.9
Petr Aven	Oil, banking/finance, telecommunications	None	--	--	\$5.5	\$4.3
Boris Ivanishvili	Investments	None	--	--	\$6.7	--
Aleksandr Frolov	Metallurgy	None	--	--	\$5.9	\$2.4
Aleksandr Lebedev	Banking/investments	None	--	\$1.4	\$3.1	\$1.1

Source: *Forbes Russia*, "Bogateishie Buznismeny Rossii", 2005-2012, available at <http://www.forbes.ru/100-bogateyshih-biznesmenov> (in Russian). 2001-2004 Forbes ratings available at http://www.compromat.ru/page_10882.htm (in Russian).

Figure 2.1 : Political-economic elite overlap in Russia, 2000-2012



Chapter Three

Typical Tin-Pots: Wealth without Welfare in Azerbaijan

“Budget expenditure has increased by over 12 percent. I have already spoken about other economic indicators. But underlying all these successes is the policy of the great leader because in 1993 and afterwards, the main directions of our development were defined precisely on his initiative. The political and economic reforms regarding both foreign and domestic policies were shaped by his outlook, philosophy and vision.”—*Ilham Aliiev, May 10, 2012*

“The children of high officials display obnoxious behavior. They are misbehaving and insulting people. Who gave them the right to do so? If I hear one more time about someone's bad behavior, that person will be arrested and his father will be dismissed. . . . Some officials organize big parties—flashy wedding parties and birthday celebrations. Is this acceptable for public officials?”—*Ilham Aliiev, February 11, 2013*

1. Introduction

In May 2012, Azerbaijan hosted the Eurovision Song Contest, an annual competition held among many active members of the European Broadcasting Division. In preparation for this event and the influx of foreign media, competitors and spectators, the Azerbaijani government embarked on a massive construction campaign to renovate parts of downtown Baku and build Crystal Hall, the site of the contest. *A Transitions Online* investigative report found that this was the most expensive Eurovision in history, where the state spent upwards of 550 million manat (\$720 million) on costs directly and “indirectly” related to the song contest (Sultanova 2012). By comparison, Russia, Norway and Germany, the respective 2009, 2010 and 2011 Eurovision hosts, each spent approximately \$40 million in preparation for the contest. In addition, the report found that funds previously allocated for pensions and improving the country’s water and sanitation systems were diverted in order to construct Crystal Hall. One cabinet order specifically earmarked 50 million manat (\$62.5 million) to be diverted from a project aimed at renovating the country’s decaying network of water pipes for Crystal Hall; another order shifted 50 million manat from the State Social Protection Fund for Eurovision-related costs.

Since the late 1990s, Azerbaijan has enjoyed one of the highest economic growth rates in the world as a direct result of oil and gas exports (Figure 1.1). In 2006, real GDP growth peaked at 35 percent, the highest in the world and nine times the world average in that year (UNICEF 2008). Despite these trends, however, Azerbaijan under Heidar Aliiev (1993-2003) and Ilham Aliiev (2003-present) remains one of the lowest social spenders in the world. For example, at 0.82 percent of GDP in 2008, Azerbaijan tied with Afghanistan in having the fourth lowest public expenditures on health in the world, outspending only Myanmar (0.23%), Guinea (0.77%) and Chad (0.77%) (World Bank 2013a).⁸⁹ While spending on health, education and social security increased in nominal terms between 2000 and 2011, social spending declined precipitously as a share of total state budgetary spending. Buoyed by oil windfalls, total state budget expenditures increased by 20 times in absolute terms from 2000 to 2011, while expenditures on health, education and social security (combined) contracted by more than 20 percent over the same time period. The Azerbaijani government has been blessed with the

⁸⁹ World Bank data on public health spending as a percentage of GDP were available for 213 countries.

⁹⁰ In addition to Ilham Aliiev, recent non-monarchical hereditary successions have occurred in North Korea (Kim

resources to reinvigorate welfare spending since the collapse of the Soviet Union and convert “black gold” to “human gold,” but its spending priorities have instead been directed to “infrastructure projects, defense and general government services” (European Commission 2011: 8). State “infrastructure projects” financed by oil revenues—including the construction of Crystal Hall—are contracted out to companies owned by the Aliev family and a very small group of high-ranking officials (Ismayilova 2012).

In this chapter, I show that a unified political and economic elite in Azerbaijan is the key factor contributing to low levels of welfare spending. While I primarily focus on the period 2000-2011, I also consider welfare spending trends since Heidar Aliev reassumed and consolidated power in Azerbaijan in 1993. Azerbaijan’s political and economic elite consists of tight-knit family networks, where high-ranking officials—who are also the country’s oligarchs—rely on the dictator for access to political and financial resources. With the blessing of the first family, leading members of the elite mutually agree to divide the country’s spoils and keep out of one another’s political and business interests, such that they each control their own sector(s) of the economy, geographic region(s) and/or area(s) of the governing apparatus. Serious intraelite conflict has not emerged since this arrangement promotes a largely symbiotic relationship among elite members, prevents potential independent business rivals (as well as foreign competitors) from entering the economic stage, and fosters dependency on the Aliev family for economic spoils. As a result, the Alievs have faced few challenges to their authority, both before and after the dynastic succession from father to son in 2003. A cohesive elite insulates the autocrat, who minimizes welfare spending because he does not need societal allies to maintain rule. Little evidence of desire on the part of the government to engage in redistribution and flagrant “white elephant” projects demonstrate that Azerbaijan’s rulers have not perceived the need to cultivate a loyal societal constituency.

The case of Azerbaijan demonstrates the causal logic between low levels of welfare spending and a cohesive political and economic elite structure. First, in sharp contrast to Vladimir Putin, who was elevated to the Russian presidency as a relative unknown, Heidar Aliev was able to consolidate power quickly in the early 1990s by surrounding himself with relatives as well as a coterie of people who, like himself, were former Soviet *apparatchiki*. To this day, the key powerbrokers installed by Heidar Aliev in the early 1990s have retained their positions, and a substantial number of political elites have regional or family ties (or both) to the extended Aliev family. In exchange for absolute loyalty to Heidar, and now Ilham, high-ranking elites generate substantial income through illegal payments paid “‘up the food chain’ in an elaborate and well-orchestrated system of payoff and patronage” (*Azerireport* 2010). In addition, Heidar Aliev re-established significant state control over the economy as he consolidated power, which meant that economic resources remained in the hands of the first family and their close associates.

In addition to cross-national differences in elite fragmentation and welfare expenditure levels in the three post-Soviet cases, downward trends in welfare spending in Azerbaijan in the last decade suggest that Ilham Aliev’s need for popular support may be even lower than his late father’s. Beginning in the late 1990s, Heidar, who was in his late 70s and in poor health, began arranging for his son to succeed him in the presidency. Ilham was dubiously elected president in October 2003, two months before his father’s death. While the policy implications of non-monarchical hereditary succession have not been analyzed, it is most often the case that sons who inherit these roles do not have to struggle to build their own coalitions, since they are

literally grandfathered into pre-existing elite networks and structures.⁹⁰ Hereditary succession in authoritarian regimes that lack long-established institutionalized political parties—which is true of Azerbaijan—reduces uncertainties for non-familial elites by signaling to them that their power and influence will be preserved (Brownlee 2007). In Azerbaijan, Ilham Aliev immediately received the backing of entrenched political elites, and easily survived fraudulent parliamentary elections in 2005 in the midst of “Color Revolutions” against established authoritarian rulers in Georgia, Ukraine and Kyrgyzstan. In addition, it is likely that sons who succeed their fathers are more removed from society than the average authoritarian leader who engages in some kind of appeal to the masses to consolidate power.⁹¹

This chapter proceeds in three sections. The next section provides an overview of Azerbaijan’s welfare system and budgetary financing mechanisms, and presents additional data and evidence to show that social spending has not been a priority under the *Alievs père et fils*. The third section establishes that Azerbaijan has had a unified political and economic elite since Heidar Aliev came to power in 1993, and traces the causal mechanism of my argument by comparing longitudinal changes in welfare spending with domestic political events in Azerbaijan. In particular, I show that the threat coming from high officials of the regime—while minimal to begin with—decreased after Ilham Aliev succeeded his father in 2003. The concluding section summarizes my empirical findings, and suggests that Azerbaijan may be more prone to a Syrian-like popular uprising due to the Alievs’ callous disregard of their citizens’ welfare.

2. Welfare spending

The collapse of the Soviet Union ushered in a period of economic and political instability in Azerbaijan, which was accompanied by the loss of the social safety net that guaranteed basic access to health and welfare services for Soviet citizens. In contrast to Russia and Kazakhstan, however, Azerbaijan entered into a full-scale war with Armenia in 1992 over ethnic tensions in the disputed region of Nagorno-Karabakh.⁹² Heidar Aliev brokered a peace deal with Armenia in 1994, but two years of armed conflict demanded that already scant economic resources be devoted to the war effort. Between 1990 and 1995, Azerbaijan’s real GDP contracted by almost 60 percent, and total social spending as a percentage of GDP fell from 14.2 percent in 1990 to 6.6 percent in 1995. Following a ceasefire in 1994, one year after Heidar Aliev returned to power, the government’s primary policy focus was on restoring political and macroeconomic stability (European Commission 2011). As a result of the ceasefire, which represented an Armenian military victory even though the conflict remains unresolved, Azerbaijan lost approximately 20 percent of its territory and was forced to support a new population of 750,000

⁹⁰ In addition to Ilham Aliev, recent non-monarchical hereditary successions have occurred in North Korea (Kim Jong-il in 1994 and Kim Jong-un in 2012), Syria (Bashar al-Assad in 2000), Singapore (Lee Hsein Loong in 2004), Togo (Faure Gnassingbé in 2005), and possibly Turkmenistan (Gurbanguly Berdymukhamedov in 2007). Welfare spending in Azerbaijan, Syria, Singapore and Turkmenistan dropped in percent GDP terms following the succession in each case (World Bank 2012).

⁹¹ Heidar Aliev, for example, initially gained popular support by agreeing to a ceasefire with Armenia over Nagorno-Karabakh and restoring state services.

⁹² Nagorno-Karabakh is a land-locked region within Azerbaijan. Up until the late Soviet period, its population, which consisted of 75 percent ethnic Armenians and 25 percent ethnic Azerbaijanis, lived in relative peace (although ethnic tensions led to acts of brutality on both sides in the early 20th century). Conflict in the region first erupted in 1988 between Armenian secessionists and Azerbaijani troops.

refugees and Internally Displaced Persons (IDPs) who fled the region and the surrounding border areas.

In the latter half of the 1990s, political stability returned to Azerbaijan as Heidar Aliiev centralized and consolidated control, and the economy began to grow steadily as a result of foreign investment in the country's oil and gas sectors. Efforts to reform the welfare system, however, were virtually non-existent. Major features of Azerbaijan's current welfare system and budgetary financing mechanisms are included below in Table 3.1 (p. 112). Out of the three post-Soviet cases examined in this study, Azerbaijan's welfare arrangements are most closely in line with communist-era structures. The largest reforms carried out were the 2001 "Pension Reform Concept," which separated contributory and non-contributory social protection programs, and the 2006 Targeted Social Assistance (TSA) Program, which provides monetary transfers to low-income families. Plans for overhauling the country's healthcare system, including the introduction of mandatory health insurance, were created but have not yet been implemented as a result of disputes between the Ministry of Health and the Cabinet of Ministers.⁹³ In short, the Azerbaijani government and state budget are officially responsible for financing welfare and providing services for the vast majority of the country's citizens.⁹⁴ Yet, even though the state remains the primary actor in health, education and social security financing and service provision, as a result of strict rules, bureaucratic incapacity and informal payments, a high number of Azerbaijani citizens are *de facto* left without a safety net.

2.1 Budget expenditure and revenue flows

In keeping with Azerbaijan's statist welfare system, health, education and social security are primarily financed by the state budget. (As I discuss in more detail later in this chapter, however, informal payments in health and education make up a sizable portion of total spending in these areas.) The consolidated budget consists of the state budget for (mainland) Azerbaijan, the budget of the Nakhchivan Autonomous Republic⁹⁵ and off-budget funds. The state budget for mainland Azerbaijan is further divided between the central state budget and district-level revenues and expenditures, but since Azerbaijan is a unitary state, districts and municipalities do not have a separate budgetary process. Similar to Russia's extra-budgetary funds for revenues and expenditures, the State Oil Fund of Azerbaijan (SOFAZ) and the State Social Protection Fund (SSPF) are off-shoots of the state budget that are designated for specific saving and spending tasks. SOFAZ was the first national oil fund introduced among the petroleum-rich post-Soviet countries, and was created in 1999 to collect and save oil and gas revenues as well as support social investment projects (Jones Luong & Weinthal 2010). For example, SOFAZ directly finances a study abroad program for Azerbaijani youth as well as housing and other programs for refugees and IDPs. The SSPF was created to pool payroll taxes for pension and other social insurance benefit payments, but similar to Russia's Pension Fund, the SSPF is subsidized by the state budget to make up for shortfalls in contributions. Finally, as I will

⁹³ Author interviews with Health Policy Specialist #1, USAID Health Project, and Official #1, Ministry of Health, Baku, Azerbaijan, February 7, 2011 and March 1, 2011. The Ministry of Health has stalled this reform due to its resistance to a separate pooling agency that would fund providers and that would be formed under the Cabinet of Ministers.

⁹⁴ Even though this holds true in the Russian case, as discussed in Chapter 2, Russia's "partially liberalized" welfare model means that—at least in theory—individuals and markets are more responsible for welfare financing and service provision.

⁹⁵ Nakhchivan is an isolated, landlocked region of Azerbaijan that is sandwiched between Armenia, Iran and Turkey.

discuss in more detail below, the State Oil Company of Azerbaijan (SOCAR), while not technically an off-budget fund, supplies the largest source of income to the state budget, provides basic welfare services to its employees and (in theory) funds welfare projects for refugees and IDPs as well as the broader population (Jones Luong & Weinthal 2010).

Health and education. Financing and decision-making for Azerbaijan's health and education systems are entirely centralized and occur at the national level. Approximately 75 to 80 percent of budgetary health and education expenditures are distributed to district-level authorities, which then disburse these funds to hospitals, schools and other providers. Local government authorities and providers have virtually no say as to how resources should be allocated, since these instructions come directly from the federal line ministries once the budget has been passed. The remaining 20 to 25 percent of budgetary expenditures are used directly by the Ministries of Health and Education, which are responsible for funding national-level hospitals, health programs (such as the Sanitary-Epidemiological Service) and universities. Approximately 80 percent of total health and education spending⁹⁶ are earmarked for salaries for doctors, teachers and other personnel.⁹⁷ In addition, in 2007, Azerbaijan started a state study abroad program for bachelor and post-graduate degrees that is administered by the Ministry of Education and funded directly by SOFAZ. Finally, parallel health services are provided by several federal line ministries and state agencies for their employees and cover about five percent of the population (see Table 3.1). Funding comes out of the state budget, but the ministries themselves decide how much to spend on healthcare for their employees. Data on health expenditures in these networks are not available, but the services are often of higher quality because they invest more in training and technology and pay higher wages to personnel (Ibrahimov et al. 2010).

Pensions and social benefits. While the SSPF was formed to move some of the financial burden for social protection away from the government, the state budget still contributes significantly to funding social security. In addition, decision-making with regard to social security expenditures occurs entirely at the national level, beginning with the president and his cabinet, who determine the minimum pension amount for Azerbaijan's three categories of labor pension recipients (old-age, disability and loss of breadwinner).⁹⁸ Approximately 65 percent of pensioners in Azerbaijan are retirees, but in contrast to Russia, Azerbaijanis are only eligible for one pension (or benefit payment) even if they qualify for additional subsidies (European Commission 2011). Responsibilities for benefit payments in Azerbaijan are divided between the Ministry of Labor and Social Protection, which primarily implements the TSA program, and the SSPF, which disburses pension and all other social insurance benefits. Seventy-five percent of public spending on social transfers is allocated to pensions, which comprise over 90 percent of SSPF expenditures. Similar to Russia, the SSPF depends on transfers from the state budget to make up for a deficit in payroll tax contributions; in 2010, transfers comprised 30 percent of total revenues for the SSPF. The state budget continues to subsidize the SSPF because the majority of actively employed Azerbaijanis do not pay into the system. In 2010, barely 40 percent of Azerbaijan's active labor force was registered with the SSPF, and over 70 percent of those registered were state employees. The remaining contributory and non-contributory transfers are

⁹⁶ 92 percent of the general education budget (primary and secondary schooling) is spent on salaries and utilities as opposed to capital investments, teaching training and school supplies (World Bank 2010).

⁹⁷ Author interview with Budget Policy Expert #1, National Budget Group, Baku, Azerbaijan, April 1, 2011.

⁹⁸ Author joint interview with Budget Policy Expert #1, Budget Policy Expert #2, Public Finance Monitoring Center, and Program Coordinator, National Budget Group, January 17, 2011.

categorical or merit-based benefits,⁹⁹ and the TSA program is the only means-tested program in the country based on both income and assets (World Bank 2010). In sum, while mechanisms to collect and pool social insurance contributions are in place in Azerbaijan, the government remains the key financier and decision-maker for health, education and social security spending.

2.2 Citizen dependence on the state

With the exception of tertiary education, most citizens depend on the state for healthcare and schooling due to the lack—and expense—of private alternatives. Only 350 health care facilities had been legally privatized as of 2003, and most of these were dental and pharmaceutical facilities. There has been minimal growth in private providers in the last decade, and most private hospitals and clinics are mainly located in Baku and cater to those who have profited from the recent oil boom (Ibrahimov et al. 2010). Similarly, as of 2008, only 17 private schools were operating in the country (out of 4,562 general education schools) and enrolled less than 0.3 percent of the secondary student population (World Bank 2010). Most public education resources are spent on primary and secondary education as opposed to higher education, which places a high burden on families to send their children to university. Approximately one-third of Azerbaijan's 47 universities are technically private, but both public and private institutions primarily serve the richest quintile, whose enrollment rate in higher education is twice as high as the poorest quintile, and which is responsible for over 40 percent of private spending on education (World Bank 2010).

In addition, a large number of Azerbaijanis receive pensions and other benefit payments that subsidize their household income. In 2008, social transfers reached over 60 percent of the population, either directly or indirectly through sharing benefits with family members (World Bank 2010). Approximately 45 percent of the population reported living in a household where at least one person received a pension, and 30 percent reported that at least one person received a non-contributory social transfer. Social transfers (including pensions) comprise 22 percent of household income in Azerbaijan, while TSA transfers make up 50 percent of household income for the poorest quintile. In addition, approximately 30 percent of Azerbaijan's total labor force—or 1.3 million people—consists of state employees. Forty percent of general employment—or 12 percent of the total labor force—is comprised of health and education workers as well as personnel in the social security administration who receive salaries from the state budget (Azstat 2012).

Despite these trends, however, widespread informal employment, inaccurate poverty figures and general bureaucratic incapacity exclude some of the neediest Azerbaijanis from receiving social welfare. For example, as of 2011, there were approximately 40,000 registered unemployed individuals (less than one percent of the population), but the real number is estimated to be 20 times higher, at 900,000 people or ten percent of the population (World Bank 2010). Yet, even among the unemployed who are officially registered, only two to three percent actually receive benefits because they have difficulty justifying their status to the authorities (European Commission 2011). In addition, according to Azerbaijan's State Statistical Committee, between 2001 and 2009, official poverty figures dropped from over 49 percent to 11

⁹⁹ Contributory (social insurance) benefits include child allowances, maternity leave, sanatorium vouchers, sick leave, unemployment benefits and funeral allowances. Besides TSA, non-contributory benefits include the birth grant and in-kind benefits for special citizens (veterans, refugees and IDPs, and so on) that are financed by the state budget.

percent. The real figure, however, hovers between 40 and 60 percent of the population.¹⁰⁰ TSA transfers reach only 4.1 percent of the population, which is less than half of the official number of people living below the poverty line (World Bank 2010). In addition, as noted above, less than half of the actively employed population pays into the SSPF system. Those who do not pay into the system are excluded from receiving all contributory social transfers (maternity leave, temporary disability and so on). Moreover, while no date has been set, the government has been planning to abolish the basic part of the old-age pension,¹⁰¹ making the monthly sum entirely based on insurance accrual (see Table 3.1). In light of the way in which the insurance part of the old-age pension is calculated, this would drastically reduce pensions for retirees in real terms.¹⁰² Finally, Azerbaijan's 750,000 IDPs and refugees depend on the state for housing, healthcare, education and all other benefits, but the vast majority of them live in squalid conditions. Most of the refugees and IDPs living in rural areas (60 percent of the total) live in makeshift tents, and medical facilities, schools and other buildings are similarly constructed. Approximately 100,000 refugees and IDPs living in urban areas were recently moved into new housing, but the rest live in dilapidated buildings.¹⁰³ In contrast to Russia, then, a greater percentage of citizens are technically in need of state support in Azerbaijan, but fewer public resources are devoted to welfare. As a result, a significant number of people do not have a safety net to fall back on, and this problem will only grow more acute if and when the guaranteed basic pension disappears.

2.3 Downward trends in social spending

Like all countries rich in petroleum resources, Azerbaijan's economy has boomed since the increase in international oil prices in 1999. From 1997 to 2009, real GDP growth averaged 14 percent per year (European Commission 2011). Oil and gas revenues as a share of GDP grew from 28 percent in 2000 to 45 percent in 2009, and in 2011 petroleum exports accounted for 95 percent of export earnings (World Bank 2012). In keeping with this, the state budget has become increasingly dependent on the oil and gas sector. Whereas in 2000, oil and gas rents accounted for approximately one-third of budgetary revenues, in 2013 this is projected to be 73.1 percent—the highest in ten years.¹⁰⁴ Tax payments from SOCAR and transfers from SOFAZ together provide the largest source of oil and gas income for the state budget. Yet, in sharp contrast to Russia, this economic boom has not resulted in significant investments in the welfare sector. As a result of oil windfalls, total budgetary spending grew 22 times from 2000 to 2012, but the share of state budget expenditures on the social sector relative to total state spending dropped from 42.9 percent in 2000 to 21.2 percent in 2011. These decreases in spending have occurred across all three welfare sectors. Following the precipitous drop in welfare expenditures as a percentage of GDP between 1990 and 1995, spending on the social sector increased slightly to 7.7 percent of

¹⁰⁰ Author interview with Budget Policy Expert #1, National Budget Group, Baku, Azerbaijan, April 1, 2011.

¹⁰¹ If this does take place, then it will likely be announced following presidential elections in October 2013.

¹⁰² For example, the average Azerbaijani citizen who became a pensioner in 2010 after working for 40 years would receive 65 AZN (\$80) per month from the insurance part of the pension scheme and an additional 85 AZN (\$106) from the basic part of the pension scheme.

¹⁰³ The government opposes full integration of refugees and IDPs in the hope that they can be resettled back into Nagorno-Karabakh and the border regions. This signals to the rest of the population that the land will be returned to Azerbaijan. Thus, as long as Nagorno-Karabakh remains a frozen conflict, refugees and IDPs will remain in a holding pattern.

¹⁰⁴ This includes direct transfers from SOFAZ into the state as well as tax revenues from SOCAR and foreign oil companies.

GDP in 1999, but then began to fall steadily both during and after the presidential succession in 2003. From 2000 to 2008, total spending fell from 6.9 to 5.3 percent of GDP. Spending as a percentage of GDP increased slightly in the midst of the global financial crisis, but has since leveled off at about 6.4 percent since 2010. Projected budgetary expenditures for 2012 and 2013 suggest that social spending will remain more or less constant, with slight decreases in education and social security and a slight increase in health (Table 3.2).

As I note above, public health spending in Azerbaijan is among the lowest in the world and on par with war-torn countries in Africa and Asia. In 2008, public education spending in Azerbaijan (2.4 percent) was the 9th lowest in the world in terms of percentage of GDP, on par with Guinea and Bangladesh and barely outspending Laos (World Bank 2013a).¹⁰⁵ According to the most recent data available in the World Bank's pension expenditure database, pension spending in Azerbaijan is the lowest in the entire postcommunist region.¹⁰⁶ Table 3.2 (p. 113) below displays spending on health, education and social protection as a percentage of GDP, percentage of government spending and real manat (AZN) per capita terms from 2000 to 2011, and Table 3.3 (p. 114) shows real average monthly salaries for medical and education workers as well as real average amounts of social transfers from 2000 to 2012. Between 2000 and 2012, health spending remained relatively stable at about 0.9 percent of GDP, but dropped from 5.4 to 3.2 percent as a share of government spending. Expenditures on education dropped from 3.8 percent of GDP and 23.8 percent of government spending to 2.5 percent and 8.2 percent, respectively. Public social protection spending has also dropped as a share of GDP and government spending. In terms of real AZN per capita, expenditures have increased approximately ten times in health and social security and five times in education. While this growth is substantial, it is largely due to the fact that the starting points in each sector (5 AZN in health, 23 AZN in education and 13 AZN in social security) were extremely low. Salaries, pensions and benefit payments have also increased in real AZN per capita terms, but since 2009 they have leveled off in the wake of the global financial crisis and the 2008 presidential election (Table 3.3). Eighty percent of people receiving the old-age labor pension are receiving the minimum amount of 79 (real) AZN per month (85 AZN in nominal terms).¹⁰⁷ In addition, until 2009, the real average old-age pension (which is reported through household surveys) was actually *less* than the real average minimum pension; this possibly reflects the amount individuals had to pay in bribes to receive their payment in the first place.¹⁰⁸ Salaries and pensions go far less than they did in Soviet times, especially for medical and education personnel and pensioners in Baku. In contrast to Russia, these amounts are not adjusted for differences in the cost of living, which is much higher in the capital and other major cities than rural areas.

In keeping with these expenditure trends, few new initiatives geared toward improving human capital have been introduced in Azerbaijan, and those that have been implemented are not (yet) making a significant impact. First, the SOFAZ youth study abroad program for 2007-2015 aims to send 5,000 students abroad by 2015. While it is still possible that they could reach their

¹⁰⁵ World Bank data on public education spending as a percentage of GDP were available for 124 countries.

¹⁰⁶ See World Bank pensions data, available at:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTPENSIONS/0,,contentMDK:23231994~menuPK:8874064~pagePK:148956~piPK:216618~theSitePK:396253,00.html> (last accessed March 8, 2013).

¹⁰⁷ In 2008, the average replacement rate was 30 percent. According to the World Bank (2010: 105, fn. 33), the replacement rate fluctuates from year to year because pension indexation "is done in an ad hoc fashion."

¹⁰⁸ Author interview with Social Policy Expert #2, Hilfswerk Austria International, February 6, 2011.

target, as of January 1, 2012—five years into the eight-year program—only 1028 students were being educated abroad. SOFAZ’s expenditures on this program represent approximately 0.1 percent of its annual expenditures, and total social sector spending amounts to 7.4 percent of total expenditures; this is because 90 percent of expenditures are transfers to the state budget. Second, while the TSA program has ensured that the extreme poor have basic needs (World Bank 2010), as discussed above, a large swath of Azerbaijan’s poor is not benefitting from these social transfers since it only reaches 4.1 percent of the population and real poverty figures in Azerbaijan are upwards of 40 or 50 percent.

2.4 Corruption

In addition to official statistics having a downward trend, the extent of corruption in Azerbaijan is considerably more extensive than in the other two countries and occurs at every level of budgetary execution. First, even though most services at state healthcare facilities and general education schools are supposed to be provided free of charge, informal payments are typically demanded by medical personnel and teachers. While this practice persists in Russia, Kazakhstan and other post-Soviet countries where salaries in the health and education sectors are extremely low, surveys and other data suggest that informal out-of-pocket (OOP) payments are much more prevalent in Azerbaijan and can have a catastrophic financial effect on poorer households (World Bank 2010). OOP payments constitute approximately 70 to 80 percent of total health spending in Azerbaijan;¹⁰⁹ out of 53 European and post-Soviet countries, only Georgia and Tajikistan’s figures are higher (World Bank 2010). Household survey data suggest that over 30 percent of them are “informal payments and gratuities” and are charged “irrespective of the individual’s ability to pay” (Ibrahimov et al. 2010: 29).¹¹⁰ In the education sector, 62 percent of secondary school students reported receiving “private tutoring”—at a cost of about \$500 per year—in order to perform better on university entrance exams. The majority of tutors, however, were teachers from the students’ own schools, who often threaten to lower grades if their students do not sign up for private lessons (Silova & Kazimzade 2006). Finally, prior to the recent digitization of social transfer payments, pensioners and other social transfer recipients had to go to the local offices of the SSPF or the Ministry of Labor and Social Protection to get their cash payment, and often had to pay a portion of their benefit as a bribe (in order to receive the rest of it). In conjunction with the UNDP, the SSPF reformed its pay-out system such that nearly 100 percent of recipients now receive their payments electronically using an ATM card. While the new electronic system has greatly reduced bribe-taking in monthly social transfer payments, recipients must first open a bank account at their local SSPF center, and are often illegally “charged” upwards of \$600 to do so by SSPF personnel.¹¹¹

Beyond the informal payments and bribe-taking in health, education and social security at the individual-provider level discussed above, corruption also occurs between district-level authorities, who receive budgetary installments from the Ministry of Finance, and healthcare providers and schools. Azerbaijan’s primary system of local government consists of Executive

¹⁰⁹ In the Soviet period, OOP payments never surpassed public funding.

¹¹⁰ Formal OOP payments are required in private clinics, for some services in public hospitals and for some pharmaceuticals. The majority of formal OOP payments are typically for outpatient pharmaceuticals (Ibrahimov et al. 2010).

¹¹¹ Author interview with Social Policy Expert #2, Hilfswerk Austria International, Baku, Azerbaijan, February 6, 2011.

Committees—or “ExComs”—which are in place in each of the country’s 70 administrative divisions.¹¹² In order for hospitals, schools and other providers to receive their funds, however, they often have to pay a bribe to the ExCom in the form of a small percentage of their budgetary allotment. While precise data on this phenomenon are unavailable, it is widespread across the country.¹¹³ Since 80 percent of health and education spending is distributed to district-level authorities, it is likely that the full amounts that are budgeted do not reach the target. Personnel receive their salaries, so what is skimmed off the top is money for infrastructure improvements, supplies and so on.¹¹⁴ For example, 21 percent of principals in Azerbaijan reported that their schools never receive all allocated funds, and 38 percent said they receive them only sometimes (OSI 2010). In addition, the state budget for health is never fully executed: in 2007, for example, only 92 percent of allocated resources were used, but the “reason for continued underspending [in the health sector] is not clear” (Ibrahimov et al. 2010: 21).

Finally, on the extra-budgetary level, the majority of social spending by SOFAZ and SOCAR is devoted to improving the lives of refugees and IDPs. While large sums of money are reportedly spent on these projects by both agencies (see Table 3.4, p. 115), a significant portion of these funds never reaches the target. There is widespread agreement among political analysts and observers that the construction industry in Azerbaijan is a primary conduit through which elites steal and funnel state money for personal gain.¹¹⁵ Since the majority of spending on refugees and IDPs goes to infrastructure projects, including the construction of housing and other facilities, a large amount of money “disappears” through construction companies.¹¹⁶ All of the money allocated for these projects passes through the office of the Head of the Presidential Administration, who then contracts with and disburses these funds to construction companies. While precise data and information documenting these practices are not available, one report found that state budget and SOCAR expenditures on school construction was significantly higher than expenditures by the U.S. Embassy to build schools. For example, a 20-classroom school with all necessary equipment built by the U.S. Embassy on the outskirts of Baku cost \$300,000, which was “six times cheaper than a school of the same size” built by the Ministry of Education using state budget and SOCAR funds (Mehtiyev 2009).

2.5 Alternative explanations for low welfare effort in Azerbaijan

Despite substantial economic growth in the last decade, welfare expenditures in Azerbaijan never recovered following the steep drop in spending in the early 1990s. Several scholars suggest that states may fail to perform certain functions due to the phenomenon of “replacement” (Keck & Sikkink 1998; Lussier & McCullaugh 2009). If non-state actors, such as domestic and international NGOs or companies, are substituting for state actors by providing a range of welfare services for the population, then the state may be less inclined to spend on

¹¹² Azerbaijan has two parallel systems of governance at the local level. The first consists of elected municipal councils that have very limited powers to govern and deliver services to citizens. The second, Local Executive Committees, are part of the state governing structure and directly appointed by the President.

¹¹³ Author joint interview with Social Policy Expert #1, Independent Scholar, and Political Analyst #2, Independent Scholar, Baku, Azerbaijan, February 1, 2011.

¹¹⁴ Author interviews with Official #3, Ministry of Health, and Budget Policy Expert #1, National Budget Group, Baku, Azerbaijan, March 14, 2011 and April 1, 2011.

¹¹⁵ Author interview with Employee, State Oil Company of Azerbaijan (SOCAR), Baku, Azerbaijan, February 19, 2011.

¹¹⁶ Ibid.

health, education and social security. By the mid-1990s, foreign oil and gas companies already had a large presence in Azerbaijan, where the government retains ownership of petroleum resources but foreign oil companies are involved in all aspects of exploration, production and extraction as managers (Jones Luong & Weinthal 2010). By 2005, Azerbaijan had signed production sharing agreements with approximately 30 foreign oil and gas companies. This includes the historic “contract of the century,” which was reached between the state and the Azerbaijan International Operating Company (AIOC) in 1994. This AIOC is a consortium of ten foreign oil companies led by British Petroleum (BP), which has been Azerbaijan’s largest foreign investor since 1992. In the early and mid-1990s, BP and its co-venturers devoted millions of dollars to national-level social sector spending, including a \$5 million donation to the Heidar Aliev Hospital Fund, a \$50 million donation to the government social fund, and donations to other health and education charities (Jones Luong & Weinthal 2010).

While foreign oil companies have engaged in spending “over and above” their contract obligations (Jones Luong & Weinthal 2010: 234), the most extensive national-level spending occurred primarily in the early 1990s when the state lacked the resources to invest in welfare. Since the late 1990s, BP and its co-venturers have mainly engaged in sub-national corporate social responsibility spending (CSR) to renovate schools, hospitals and support local community development along the Baku-Tbilisi-Ceyhan (BTC) pipeline corridor. Despite the formation in 2003 of a “Regional Development Initiative” to improve socioeconomic conditions in the entire Caspian region (Azerbaijan, Georgia and Turkey), the share of CSR funds that goes to Azerbaijan is too small to constitute replacement. As displayed above in Table 3.4, BP and its co-venturers have spent an average of \$5 million per year since 2002; BP on its own has spent an average of \$2 million. The majority of this spending has been devoted to agricultural development and capacity-building for farmers in communities along the BTC pipeline, which primarily passes through rural areas with small populations and where agriculture and livestock breeding are the main economic sectors.

In addition, spending and service provision by domestic and international NGOs and donor agencies are not making up for deficits in government spending,¹¹⁷ in part because there is not enough of a civil society presence in the country (and too few organizations) to impact large swaths of the population.¹¹⁸ As of 2012, approximately 2700 civil society organizations were registered in the country, “the vast majority of which are public unions” (USAID 2012: 29). The political and legal environment makes it difficult for NGOs to operate, including those not engaged in democracy promotion activities.¹¹⁹ A significant number of administrative districts outside of Baku do not allow civil society organizations to operate,¹²⁰ and up until 2011, NGOs were technically not legally allowed to provide services on behalf of the government (USAID 2012).¹²¹ Finally, spending by off-budget funds and state agencies cannot make up for deficits in state budgetary expenditures. As discussed above, social spending by SOFAZ and SOCAR

¹¹⁷ Author interviews with Health Policy Specialist #2, World Bank; Official #1, Ministry of Health; Official #3, Ministry of Health; and Health Policy Specialist #3, USAID Health Project, Baku, Azerbaijan, February 8, 2011, March 1, 2011, March 14, 2011, and March 17, 2011.

¹¹⁸ Author interviews with Employee, United Aid for Azerbaijan, and Education Policy Experts #1 and #2, Center for Innovations in Education Baku, Azerbaijan, March 9, 2011 and March 18, 2011.

¹¹⁹ In 2011, the government shut down two international NGOs, the US-based National Democratic Institute and the Norway-based Human Rights House Network, due to “registration issues” (USAID 2012: 30).

¹²⁰ Author interview with Employee, United Aid for Azerbaijan, Baku, Azerbaijan, March 9, 2011.

¹²¹ In December 2011, the “Law on Social Orders” was adopted, allowing NGOs to provide services to vulnerable populations, including the disabled, orphans, the elderly and victims of human-trafficking (USAID 2012: 33).

primarily target refugees and IDPs, a significant share of which goes to construction and disappears up the food chain. Finally, the Heidar Aliev Foundation, run by First Lady Mehriban Alieva, is a charitable foundation that was established in 2004 to contribute to the social and economic development of the country. While expenditure data for social projects are not available, the descriptions of public health and education programs suggest that impact in these welfare sectors is minimal, and that priority is given to projects that promote the national culture and history of Azerbaijan.¹²²

Second, officials in Azerbaijan widely claim that the main reason social investments cannot be a priority is because of the “war with Armenia,” and the amount of resources that need to be devoted to defense spending.¹²³ Defense spending, however, only represents about eight to nine percent of budgetary expenditures annually; at \$150 per capita in 2012, Azerbaijan’s military expenditures were on par with Brazil and Romania and lower than Poland, which are countries that currently face no sustained domestic or international threats. Finally, Azerbaijan does seem to have the funds to engage in grandiose projects that attempt to promote nationalism at home and the country’s image abroad, including the \$720 spent on Eurovision in May 2012, the millions of dollars spent on building statues of Heidar Aliev in Russia, Ukraine, Turkey, Egypt, Georgia, Romania, Serbia and Mexico (Malkin 2012), and the yearly “Flower Festival” to commemorate Heidar Aliev’s birthday on May 10th, when the authorities import over a million blossoms. The government has never disclosed the exact amount spent on the Flower Festival, but it must cost millions of dollars each year; in 2010, for example, 1.5 million flowers were imported, including extraordinarily expensive (and rare) Dutch tulips named after Heidar Aliev (Zamejc 2010). Finally, the \$100 billion Khazar Islands Project, which includes the \$3 billion Azerbaijan Tower that, when constructed, will stand one kilometer tall and be the tallest building in the world, costs “more than the gross domestic product of most countries, including Azerbaijan” (Savodnik 2013). This project is being developed by the private businessman Ibrahim Ibrahimov through his company Avesta Concern, but “the most crucial factor underpinning the project is that President [Aliev]’s regime seems to want Khazar Islands built” (Savodnik 2013).¹²⁴ These activities suggest that defense spending does not have to be prioritized over expenditures geared toward human development; rather, welfare spending is simply not a government priority at all.

2.6 Lack of transparency in budget formulation

The Office of the President exclusively controls the budgetary process in Azerbaijan. Like Russia and Kazakhstan, an official budgetary process is followed, but the formal rules governing the planning, approval and implementation stages are the most opaque out of the three cases (Makhmutova 2005; Jarmuzek 2006). Formally, the Ministry of Finance is the most important player in the planning stage, which pools requests from line ministries, agencies and local administrations, and sets upper limits for national-level and district-level budgets based on macroeconomic projections and historic expenditure trends. The president’s formal role in the planning stage is virtually non-existent; unlike Russia and Kazakhstan, the president does not

¹²² For additional information, please see <http://www.heydar-aliyev-foundation.org/> (last accessed March 8, 2013).

¹²³ Author interview with Official, Ministry of Labor and Social Protection of the Population, and Official #1, Ministry of Health, Baku, Azerbaijan, February 23, 2011 and March 1, 2011.

¹²⁴ While Ibrahimov no longer holds a position in government (he is from Nakhchivan and served as a member of the NAR parliament from 1995-2000), he has very close ties to the Aliev family.

deliver a budget address to parliament or to the public. The Ministry of Finance sends a draft budget to the Cabinet of Ministers and the Office of the President, which is then submitted to parliament no later than October 15th for approval on or before the end of the year. Not only is this amount of time insufficient to engage in a full-scale discussion of the budget, but also, since 2003, the government increased the number of documents to be submitted along with the draft budget, which (theoretically) hampers analysis and debate among legislators (Makhmutova 2005). Moreover, the parliament has limited rights to introduce amendments to the state budget and the Cabinet of Ministers has the right to veto them.

In addition, due to Azerbaijan's status as a compliant country in the Extractive Industries Transparency Initiative,¹²⁵ SOFAZ's reporting of its revenue and expenditure flows is relatively transparent, especially with regard to the oil profits it accrues from foreign companies (Jones Luong & Weinthal 2010). Like Kazakhstan's National Oil Fund, however, SOFAZ lacks legal and economic criteria for transferring money into the state budget. In 2011, 94 percent of SOFAZ's expenditures were transfers to the state budget, which increased from 42 percent in 2001. SOFAZ's executive director is appointed by the president and only reports to the president, so in reality "all decisions regarding how the revenue in [SOFAZ] is spent lies with the President" (Jones Luong & Weinthal 2010: 241). Finally, since the president and the Cabinet of Ministers determine the amounts of the minimum pension, how to index savings for pensions, and the amounts of salaries and other benefits, they have total control over how much their citizens receive in social transfer payments.

If Azerbaijan's official budgetary process provides limited rights for those outside of the Office of the President and the Cabinet of Ministers to assert control over budgetary expenditures, then the actual process is based on a "classic system of patronage" and personal agreements between the president, ministers and state agency heads.¹²⁶ Ministers and state agency heads "apply directly to the president, first lady or head of the presidential administration" for money.¹²⁷ The largest share of budgetary expenditures goes to industry and construction, which amounts to approximately 35 percent of budgetary expenditures every year. Most of this money gets channeled to the Ministry of Emergency Situations and the Ministry of Transportation, which are led by the powerful figures Kamaladdin Heidarov and Ziya Mammadov, respectively. Heidarov, Mammadov and a few others, including Minister of Defense Safar Abiev, are favored ministers, while social ministers are in the "second echelon" and are "small figures" compared to other elites.¹²⁸ As I will discuss in detail in the next section, Heidar or Ilham Aliev purposefully placed certain elites in positions where they could reap the biggest rewards through budgetary revenues, as well as smuggling and other illegal activities. In other words, the very top elites—or those closest to the Aliev family—would not be placed in the health, education or social welfare ministries in the first place because less money flows through them and there are fewer opportunities for stealing these funds. For example, 30 percent of Azerbaijan's state budget typically gets spent in December, the vast majority of which goes directly to Heidarov and Mammadov's ministries for infrastructure investments and transportation-related construction.

¹²⁵ The EITI is a coalition of governments, international NGOs and companies that monitors fiscal transactions in countries rich in natural resources. In order for a country to be compliant, the state and foreign oil companies must agree to certain reporting and auditing requirements. For more information, see <http://eiti.org/eiti>.

¹²⁶ Author interview with Political Analyst #1, Independent Scholar, Baku, Azerbaijan, January 12, 2011.

¹²⁷ Author interview with Economist #1, Center for Support for Economic Initiatives, Baku, Azerbaijan, January 28, 2011.

¹²⁸ Ibid.

2.7 Summary

The above discussion highlights that the government of Azerbaijan under Heidar and Ilham Aliev has callously ignored investing in the health, education and social welfare of its citizens. Not only are Azerbaijan's officially reported welfare expenditures some of the lowest in the world, but also the extent of corruption—from the Office of the President down to everyday bribes that the average citizen must pay—implies that a significant portion of the resources allocated for welfare is not reaching target populations. Health and education outcomes are particularly dire. As of 2008, 80 percent of 15-year-olds in Azerbaijan had not attained a basic mastery of reading, and enrollment rates at the tertiary level were the second lowest (barely 15 percent) in the entire postcommunist region (World Bank 2010).¹²⁹ In addition, the richest quintile in Azerbaijan is over 50 percent more likely to seek medical care in the event of illness or accident than the poorest quintile, which is largely to the cost of healthcare and the proximity to facilities (World Bank 2010). While the government reports that the number of individuals living below the subsistence minimum decreased by almost 40 percent from 2001 to 2009, it is highly likely that close to half of the population could be considered extremely poor. The next section explains why—in sharp contrast to Russia's Putin—Azerbaijan's rulers have neglected to share the wealth from oil profits by examining the linkages between elite cohesion and the Alievs' welfare policy preferences.

3. Elite cohesion

Elite cohesion in Azerbaijan results from near total overlap of—and low factionalization among—political and economic elites. Upon returning to power in 1993, Heidar Aliev placed family members, friends and colleagues from the Soviet era into important positions in the government and state agencies. At the same time, by partially re-nationalizing key sectors of the economy—oil and gas in particular—economic power became “thoroughly fused with political power” (Radnitz 2010: 139). As a result, an independent business class failed to emerge, and so now the country's top oligarchs all hold positions in ministries, state agencies and the presidential administration. After Ilham Aliev succeeded his father in 2003, the vast majority of top elites remained in politically powerful and lucrative positions, and no significant changes to the “status quo” patronage system took place. Over the past decade, Ilham Aliev's regime has coalesced into a symbiotic political coalition based on family networks and mutual business interests (International Crisis Group 2010). While neither Aliev has been immune to power struggles, the cohesiveness of Azerbaijan's political and economic elite has minimized direct threats and challenges to their rule. Low factionalization translates into the absence of sustained, serious conflict among members of the ruling coalition. Unlike Russia, and to a lesser extent Kazakhstan, wealthy capitalists independent of the dictator who could theoretically challenge him or fund opposition groups are virtually non-existent. Elite cohesion is perhaps best exemplified by how well its members adhere to an understanding about their mutually-agreed upon zones of economic, geographic and political control, and also collude in their exploitation of government agencies—such as the state border, customs and tax authorities—to ensure their domination over the economy (*Guardian* 2010a). In short, the Alievs have structured and maintained a system whereby politics and the economy are run by a select few who reap

¹²⁹ As of 2008, only Uzbekistan was lower at ten percent enrollment in tertiary education. Russia's was over 70 percent and Kazakhstan's was over 50 percent (World Bank *Edstats* 2008).

substantial financial benefits in exchange for absolute loyalty to the ruling family. In sharp contrast to Putin, neither Heidar nor Ilham Aliev has had to rely on popular support to maintain rule.

In this section, I show that members of the political and economic elite have been unified under the elder and younger Aliev by first examining the historical circumstances leading to contemporary elite dynamics in Azerbaijan, as well as how economic resources became concentrated in the hands of the president and top-ranking officials. I then demonstrate that elite cohesion has manifested itself in few instances of contestation and challenges to the Alievs' authority, which has fostered a heightened sense of security for the autocrat and diminished his need for popular support. I suggest that potential threats to Ilham's rule were lower than Heidar's, because Ilham had more funds to distribute to top elite members once petroleum resources came online, thus diminishing the need to expend much effort consolidating his rule. Third, I conduct a process tracing analysis to connect specific signs of elite cohesion to welfare spending trajectories. I mainly rely on biographical and anecdotal data gathered from interviews conducted with political analysts, journalists and academics in Baku, Azerbaijan, from December 2010 to April 2011 to illustrate this argument. I also consult "who's who" encyclopedias, NGO reports, and online news sources in English, Russian and Azerbaijani.¹³⁰

3.1 Dictator-dependent elites and low factionalization

After 25 years rising through the ranks of the Azerbaijani KGB, first as an officer and then finally as chairman, Heidar Aliev was appointed First Secretary of the Communist Party of the Azerbaijan Soviet Socialist Republic in 1969 by Leonid Brezhnev. Aliev served in this position until 1982, when Yurii Andropov promoted him to be a full member of the Soviet Politburo and Deputy Chairman of the Council of Ministers. He was forced to resign in 1987, however, due to allegations of corruption made against him by Mikhail Gorbachev, after which Aliev returned to—and independently governed—his native Nakhchivan during and after the Soviet collapse. He staged a "dramatic comeback" to Azerbaijani national politics in 1993, when then president Abulfaz Elchibey asked him to return to Baku to mediate a political crisis. Elchibey, who lost the support of governing elites and the public due to his perceived mishandling of the war in Nagorno-Karabakh, was forced to flee Baku soon after Aliev's return. In his absence, Aliev was elected speaker of the *Milli Majilis* (Azerbaijan's unicameral parliament) and assumed presidential powers in June 1993, stripped Elchibey of his powers in August 1993, and was elected president in October 1993. Heidar Aliev served as president of Azerbaijan until October 2003—two months before his death—when his son was elected to replace him.

Unlike his father, Ilham Aliev's rise to power was based purely on the fact that he was Heidar's son. From 1994 to 2003, Ilham was vice-president of SOCAR, a member of the *Milli Majilis*, and held ceremonial positions as the head of Azerbaijan's delegation to the Council of Europe and president of Azerbaijan's National Olympic Committee. After Heidar suffered a heart attack in 1998 and contracted cancer in 1999, he began making preparations for his son to succeed him. In 2002, a referendum was passed transferring power, in case of the president's death, to the prime minister as opposed to the speaker of parliament. Heidar then appointed his son prime minister in August 2003 and stepped down two weeks before presidential elections in October 2003, leaving Ilham to run in his place. This move "minimized fears" of established

¹³⁰ The author's research assistant in Baku translated several articles that were only available in Azerbaijani.

elites about a “postsuccession change in coalition,” especially after Heidar died in December 2003 (Hale 2005: 149). Ilham Aliev won the 2003 presidential elections with 77 percent of the vote, and was reelected president in 2008. Following a 2009 referendum that abolished presidential terms limits (but not elections), Ilham became eligible to run in presidential elections for life. In short, with the exception of the six years Heidar Aliev was not in power (1987-1993), the Aliev family has ruled Azerbaijan for over forty years, which has now been extended indefinitely.

Upon assuming the presidency, Heidar Aliev was able to solidify his hold on power quickly due to his pre-existing power base of Soviet-era elites. He immediately dismissed a large number of civil servants and surrounded himself with loyalists. In addition to extended family members, Heidar relied on individuals with a similar upbringing and family history, particularly Nakhchivanis, or Azerbaijanis who originally hailed from the Nakhchivan Autonomous Republic, and Yerazis (short for Yerevan Azerbaijanis), who were forced to leave Soviet Armenia after World War II.¹³¹ These regional groupings, known as the Nakhchivan clan and the Yeraz clan, were “integrated” in Heidar’s time in both the Soviet and post-Soviet period and “were not in conflict with one another.”¹³² In the absence of oil wealth, Soviet-era connections and regional ties enabled Heidar Aliev to consolidate his rule in the early 1990s, but these diminished in importance once oil resources came online in the late 1990s.¹³³ Nakhchivanis and Yerazis continue to hold most of the key positions, but personal and business interests, as well as proximity to Ilham Aliev and first lady Mehriban Alieva, are now much more important than regional affiliation.¹³⁴ The president distributes rents in the form of lucrative sectors of the economy, the right to collect informal fees, and control over certain regions of the country—all in exchange for loyalty, which has become easy to maintain since the massive influx of oil revenues.

I collected biographical data on 184 members of the Azerbaijani elite from 1993 to 2012, which includes all current and former ministers, heads of state agencies, leading members of parliament (speakers and deputy speakers), local executive authorities and heads of state-owned enterprises. Based on my interviews with contemporary political analysts, journalists and scholars in Baku, as well as publicly available print and internet sources, I narrowed this list to 50 persons who are the generally agreed-upon major players in Azerbaijan’s political regime (besides Ilham Aliev). Table 3.5 (p. 116) lists their names, government position, regional affiliation, and whether or not they are related to the Aliev family or another high-ranking official. As in Russia and Kazakhstan, an individual’s title may mask his true standing: for example, Vice Minister of Foreign Affairs Mahmud Mammadguliev is much more powerful than Minister of Foreign Affairs Elmar Mammadiarov due to the former’s marriage to Ilham Aliev’s sister. I discuss the structure of the Azerbaijani elite under Heidar Aliev and Ilham Aliev in more detail below. Since the time period under investigation in this study falls mostly under Ilham Aliev’s reign, more attention will be paid to political and economic elite networks since 2003, including the extent to which the extended Aliev family and a few other top-ranked officials control the majority of the Azerbaijani economy. Table 3.6 (p. 119) presents these persons and their families, as well as the individual businesses and economic sectors in which

¹³¹ Some Yerazis also had family members who were forced to leave areas with majority Armenian populations in the South Caucasus in the early 1900s in what was still the Russian imperial period.

¹³² Author interview with Journalist #1, *Azadliq Radiosu*, Baku, Azerbaijan, February 22, 2011.

¹³³ Author interview with political analyst #5, Member of “Republican Alternative” Movement, April 7, 2011.

¹³⁴ Author interview with Journalist #1, *Azadliq Radiosu*, Baku, Azerbaijan, February 22, 2011.

they are known to be involved, and any available data on their personal wealth and property holdings.

Regional groupings. Heidar Aliev's family background associated him with both the Nakhchivan clan and the Yeraz clan, considered to be the most influential factions in the Soviet period. Heidar's father was originally from the Zangezur region of the Russian empire, which became part of the southern-most province of Soviet Armenia in 1921.¹³⁵ After a series of pogroms against ethnic Azerbaijanis in the early 1900s, Aliev's father fled west to Nakhchivan, where Heidar was born in 1923. Once an independent khanate, Nakhchivan came under imperial Russian control in the 1800s, and was granted autonomous status within the Azerbaijani SSR following the Bolshevik Revolution in 1917. Due to its isolation and detachment from the rest of Azerbaijan since the Soviet period, Nakhchivanis who migrated to Baku "retained strong ties of solidarity years after resettling" (Radnitz 2012: 65). Azerbaijani migrants from Armenia came to Baku and other parts of present day Azerbaijan in the early 1900s, after World War II and during the Nagorno-Karabakh war. As a result of their minority status in Armenia, they also developed a distinct identity and a sense of mutual awareness and support after resettling in Azerbaijan.

Scholars and political analysts identify the Nakhchivan and Yeraz clans as being a salient political cleavage in both the Soviet and post-Soviet periods, but this never developed into a source of intraelite conflict. Disagreements and rivalries have undoubtedly occurred between members of both groups, but they have enjoyed a largely symbiotic relationship both pre- and post-1991. This is largely due to the fact that in the Soviet period, Heidar Aliev promoted Nakhchivanis and Yerazis more or less equally into important political positions, such as ministers and directors of factories, hospitals and scholarly academies. He relied on the loyalty of both the Nakhchivan clan and the Yeraz clan to shore up his regime while, at the same time, these factions enabled their members to maintain political influence and access to state resources because they blocked the entry of other rival elites into the system (Radnitz 2012). After Heidar reassumed power in 1993, "regional identity was not a primary or sufficient indicator for selection," since those who were given preference "demonstrated the former communist skills of management and 'fit' the system" as opposed to "merely originat[ing] from a [particular] region" (Alieva & Torjesen 2007: 9). Moreover, data on 119 members of the Azerbaijani elite who held a top political position under Heidar Aliev from 1993 to 2003 indicate that nine percent were from Armenia, 20 percent were from Nakhchivan, 21 percent were from Baku, 38 percent were from elsewhere in Azerbaijan or other parts of the Soviet Union, and ten percent have unknown origins. With the exception of slightly more members of the elite being from Baku and slightly less from Nakhchivan, the composition of Azerbaijan's political elite has not changed significantly since Ilham came to power and made new appointments. Out of 173 members of the elite in 2011, nine percent were from Armenia, 18 percent were from Nakhchivan, 24 percent were from Baku, 38 percent were from elsewhere in Azerbaijan or other parts of the Soviet Union, and ten percent have unknown origins. While Nakhchivani and Yerazis continue to hold prominent positions (42 percent of the 50 top elites profiled in Table 3.5 are Nakhchivanis and Yerazis), regional ties have declined significantly in importance from the Soviet period as being a necessary condition for obtaining and maintaining a political position, especially since "money got rid of feudalism."¹³⁶ In sum, regional cleavages have not caused significant infighting and conflict among members of the elite during the Alievs' rule.

¹³⁵ This region is now part of the Syunik province in present-day Armenia.

¹³⁶ Author interview with Political Analyst #3, Member of Republican Alternative Movement, Baku, Azerbaijan, March 16, 2011.

Family ties. Kin-based connections in Azerbaijan are of the utmost importance for gaining access to political and economic power. First and foremost, Azerbaijan is the only case of dynastic presidential succession in the entire postcommunist region and, as I note in the introduction to this chapter, hereditary succession from father to son in authoritarian regimes is extremely rare. It has occurred 11 times since 1946, the most recent cases being Gabon (2009) and North Korea (for the second time in 2012).¹³⁷ The president and first lady of Azerbaijan, as well as several other high-ranking ministers and other officials, have networks of relatives who occupy a range of political positions as well as jobs in state-owned companies and academic institutions. Complete data on the number of family members in favorable positions are not available, but publicly available information, along with recent surveys conducted by scholars of contemporary elite politics in Azerbaijan and international NGOs, suggest that kin-based ties are extensive. The Norwegian Helsinki Committee found that following the 2005 parliamentary elections, which were highly flawed, over 50 deputies in the 125-seat *Milli Majilis* (40 percent) “were mainly close relatives and friends of the senior Aliev” (Norwegian Helsinki Committee 2009: 17). In September 2006, a survey of 89 “prominently positioned elite members” by Leila Alieva and Stina Torjesen found that ten percent were relatives of the Aliev family, nine percent had close friendship ties to Ilham Aliev, and 19 percent were relatives of another high-ranking official (Alieva & Torjesen 2007).

Table 3.5 includes available information on family relationships and networks among the highest members of Azerbaijan’s elite. Prominent relatives of the Aliev family, some of whose business empires will be discussed in more detail below, include MP Jalal Aliev (Heidar Aliev’s brother), Head of the Presidential Guard Bailer Eyyubov (related by marriage), Head of Nakhchivan Vasif Talibov (related by marriage), Vice Minister of Foreign Affairs Mahmud Mammadguliev (related by marriage), former U.S. Ambassador and Deputy Foreign Minister Hafiz Pashaev (Mehriban Alieva’s uncle), and Minister of Justice Fikrat Mammadov (Ilham Aliev’s cousin). In addition, Minister of Agriculture Abbas Abbasov, SOCAR Head Rovnag Abdullaev, Deputy Prime Minister Ali Hasanov, Minister of Emergency Situations Kamaladdin Heidarov, Minister of Transportation Ziya Mammadov, Head of the Presidential Administration Ramiz Mehtiyev, and SOFAZ Director Shahmar Movsumov all have relatives who are members of parliament, and Minister of Justice Fikrat Mammadov’s cousin is a deputy prime minister. The next sub-section details the crucial role of family networks in maintaining monopolistic dominance over most sectors of the Azerbaijani economy.

Patronage networks and business ties. Upon assuming power in 2003, Ilham Aliev was grandfathered into the patronage-dependent system that was built by his father. He stressed continuation of his father’s policies, and the dynastic succession sent a signal to old guard elites that the status quo would remain the same once Heidar died (Hale 2005). Despite the dismissal and arrest of two Yeraz ministers in 2005, which will be discussed in further detail below, over 80 percent of Heidar’s political appointees continue to hold most key posts (Table 3.5). Ilham refrained from making any major changes, but he also positioned himself as a “new generation” and “pro-reform” leader who was not just a puppet of his father’s cronies (International Crisis Group 2010: 2). Ilham’s rise to power coincided with exponential economic growth due to the massive influx of petroleum revenues, which facilitated his ability to keep top elites in check, and increased the dominance of political elites with mutual business interests since “everyone [in

¹³⁷ See Brownlee (2007) for additional information on nine dynastic successions between 1946-2006.

the top echelon] benefits from the state's oil profits."¹³⁸ According to economist Azer Mehtiyev, who directs a independent economic research center, "with the big oil money flowing into the budget, a parallel process of monopolization of spheres of economy, redivision of state property...[made] way for the misappropriation of revenues" (quoted in Ismayilova 2013). Importantly, there is an informal understanding between the first family and the country's top players about their areas of control over political, geographic and economic sectors, which serves to minimize intraelite conflict because there is mutual agreement about not stepping on each other's toes. Besides Ilham Aliev and his extended family, the most powerful members of the Azerbaijani elite are Head of the Presidential Administration Ramiz Mehtiyev, Minister of Emergency Situations Kamaladdin Heidarov, Minister of Transportation Ziya Mammadov, and Ilham Aliev's in-laws, the Pashaev family. Together with the extended Aliev and Pashaev family members, Kamaladdin Heidarov and Ziya Mammadov single-handedly own and control the vast majority of the Azerbaijani economy through numerous proxy companies and financial holdings across all geographic regions of the country.¹³⁹ Azerbaijani law prohibits public officials from owning businesses, but they are able to do so through their immediate and extended family members as well as elaborate schemes of company ownership and registration in offshore locations. The country's oil wealth is misappropriated on a massive scale when state contracts for infrastructure projects are awarded to construction and other companies that are owned by these officials, as well as the president himself. Information about company ownership is kept secret and is difficult to obtain, but what I present below—gathered from publicly available news and other media sources—offers a clear snapshot of the extent to which the Azerbaijani economy is controlled by a mafia-like organization consisting of barely a dozen individuals.

The oligarchs. First, Ramiz Mehtiyev, together with Minister of Internal Affairs Ramil Usubov and Prosecutor-General Zakir Garalov, controls the political-administrative side of the regime. Mehtiyev, who has served as head of the presidential administration since 1994, was a high-level official in the Azerbaijani communist party apparatus and Heidar Aliev's close confidante in the Soviet period. He controls the network of local executive committees, and has "key decision-making power in virtually all civil service appointments, including in the legislative and judicial branches" (International Crisis Group 2010: 8). He exercises substantial control over budgetary allocations and oversees revenue and expenditure flows, including those from SOFAZ into the state budget and from the Ministry of Finance to local authorities.¹⁴⁰ While details on Mehtiyev's private financial holdings are not known, he enjoys direct access to funds that come directly from SOFAZ and SOCAR for refugee and IDP construction projects, as well as bribes that travel up the chain from local executive committee authorities and other lower level civil servants.

While Mehtiyev controls the state's administrative resources and oversees certain aspects of budgetary execution, ministers Kamaladdin Heidarov and Ziya Mammadov have close business ties to the president and control sizeable financial and economic resources. Known locally as "oligarch-ministers," Heidarov and Mammadov are most likely the wealthiest people in the country after the Aliev and Pashaev families, and the Heidarov family is considered the second-most powerful family in the country involved in commerce (after the Pashaev family).

¹³⁸ Author interview with Economist #1, Center for Support for Economic Initiatives, Baku, Azerbaijan, January 28, 2011.

¹³⁹ Other major players include SOCAR President Rovnag Abdullaev, Minister of Defense Safar Abiev, and Minister of Energy and Industry Natig Aliev, but their business interests are unknown.

¹⁴⁰ Author interview with Employee, SOCAR, Baku, Azerbaijan, February 19, 2011.

Heidarov was chairman of the State Customs Committee from 1995 to 2006, and then became Minister of the newly created Ministry of Emergency Situations in 2006. His State Customs position enabled him to gain massive wealth since he dominated “most trade flows through control over taxes and customs” (International Crisis Group 2010: 8).¹⁴¹ The Ministry of Emergency Situations acts as a federal emergency management agency and federal fire marshal, oversees health and safety inspections, and regulates other aspects of the economy, including construction licensing and building inspections (*Azerireport* 2010).

Through proxy companies legally owned by his sons Tale and Nijat Heidarov, Kamaladdin Heidarov has built a large business empire that includes real estate development and management, construction, and food and fruit juice processing and production (Table 3.6). If Azerbaijan's economy is dominated by monopolistic business interests, then the Heidarov family is “at the top of this mountain of non-competition” (*Azerireport* 2010). The corporations Gilan Holding and United Enterprises International “have monopolies in the fisheries and caviar markets” (International Crisis Group 2010: 8-9), including the Caspian Fish Company, which controls Beluga caviar production in Azerbaijan (*Azerireport* 2010). In addition, his Jala family of companies is engaged in food processing and has a near monopoly on fruit juice production. It is widely understood that “no one” sells locally produced juice or juice products without Heidarov’s permission, and in the meantime, he maintains absurdly high prices for locally produced juices and other drinks, while keeping foreign competitors out of Azerbaijan with the help of the State Customs Committee (*Azerireport* 2010). In addition, Gilan Holding, which has been at “the forefront of Baku’s highly speculative real estate market,” is rumored to own 98 percent of another domestic corporation, AF Holding, which is involved in construction projects and real estate management (*Azerireport* 2010; International Crisis Group 2010). Finally, Heidarov is rumored to exert control over several regions of the country, including Masalli and Lenkeran in the south and Gabala in the north, which is the district that elected his father, Fattah Heidarov, a member of parliament.

Ziya Mammadov, who has been Minister of Transportation since 2002, controls passenger transportation throughout the country and cargo shipments. It is widely believed that he gets the biggest share of state infrastructure and reconstruction investment money that is then directed to the Mammadov family’s proxy companies. As I note above, a huge amount of Azerbaijan’s oil wealth is poured—both formally and informally—into road and infrastructure construction. Mammadov’s son, Anar Mammadov, formally owns the private company ZQAN Holding, which receives multi-million dollar contracts to implement numerous construction projects on behalf of his father’s ministry, such as bus stations, underground pedestrian walkways, roads and bridges (Asadzade & Ismayilova 2010). ZQAN’s holdings also include the buses that run through Baku, which is the primary mode of transportation for the majority of the city’s 2.1 million residents. The family has never admitted to owning ZQAN, but the letters happen to match the initials of father Ziya, mother Qanira, son Anar, and daughter Nigar (*Guardian* 2010a).

The immediate and extended members of the Aliev and Pashaev families own a vast network of commercial businesses in real estate, banking, tourism, food production, telecommunications, airlines and other sectors. Through relatives, Bilar Eyyubov, head of the Presidential Guard and related to Ilham Aliev by marriage, controls most of the lucrative

¹⁴¹ Heidarov chose his deputy, Aydin Aliev (no relation to Ilham Aliev) to replace him at the State Customs Committee in 2006. It is highly likely that Heidarov still receives a sizable income from Aliev so that the latter can retain his position as chairman of the SCC (*Azerireport* 2010).

businesses and properties in Ganja, Azerbaijan's second largest city, and the western part of the country. The Eyyubov family "is said to control the tourism infrastructure, large farms and much cattle in the area, including in the Goygul national reserve" (International Crisis Group 2010: 10). His family is also associated with Azersun Holding, which is one of the largest food production and retail companies and has a share in the construction business and a monopoly over the import of certain goods. Vasif Talibov, who is the head of the Supreme Assembly of Nakhchivan and also related to Ilham Aliev by marriage, is at the center of Nakhchivan's economic system. Through Talibov's brother and son, the family owns and controls Nakhchivan's Kanal 35 TV channel as well as all important industries in the region through Cahan Holding and Gemigaya Holding. These include production of tobacco, mineral water, juice, building materials, oil products, bazaars, shopping malls, restaurants, car sales, catering services, and real estate development. The Talibovs impose severe restrictions on all other businesses operating outside of their control or those "attempting to be independent" (Norwegian Helsinki Committee 2009: 14-15). Even Ibrahim Ibrahimov, Azerbaijan's only notable wealthy businessman who does not hold a political position but who is presiding over the Khazar Islands and Azerbaijan Tower project discussed in the previous section, is from Nakhchivan, served in the Nakhchivan parliament from 1995 to 2000, and enjoys very close ties with the Aliev family (Savodnik 2013).

Although it is difficult to obtain information about the president's business interests, it is known and accepted among journalists and political analysts that Ilham Aliev owns and controls a large business network as well as extensive financial and property holdings, primarily through his three children. Azenco construction, which was contracted to build Crystal Hall for Eurovision, has been tied to Mehriban Alieva and daughters Arzu and Leila through a legal address in Baku. Arzu is also a co-owner of Silk Way Holding, which has a near monopoly on every aspect of airline service in Azerbaijan, including ticket sales, traveler assistance, duty free stores, upkeep of planes and helicopters, and controls Baku's Heidar Aliev International Airport. The rise of Silk Way Holding and Silk Way Bank "have raised questions about the [2003] privatization of AZAL, the state airline company, including its holdings, like AZAL Bank," especially since the other co-owner of Silk Way Holding is the wife of the current president of AZAL airlines (Asadzade & Ismayilova 2010). In other words, AZAL was essentially privatized to the president himself. Arzu and Leila are also listed as co-owners of front companies based in Panama for Nar Mobile, one of Azerbaijan's largest mobile phone operators. While Ilham Aliev's net worth is not known, his son Heidar became the legal owner at age 11 of nine mansions in Dubai worth \$44 million, and his daughters Arzu and Leila have property holdings in Dubai estimated at \$30 million (Higgins 2010).

Finally, the Pashaev family, Ilham Aliev's in-laws, controls two conglomerates, Pasha Holding and Ata Holding, which are involved in construction, tourism, insurance, banking, travel and real estate (*Guardian* 2010a). The most powerful members of the family are First Lady Mehriban Alieva and her uncle, Hafiz Pashaev, who was the Azerbaijani Ambassador to the United States for thirteen years and currently serves as deputy foreign minister and director of the Azerbaijan Diplomatic Academy. Mehriban Alieva is a member of parliament, and other Pashaev family members hold prominent positions in government and academia, including Mehriban's sister Nargiz Pashaeva, who heads the Azerbaijan branch of Moscow State University, and her father, Arif Pashaev, who is head of Azerbaijan's National Aviation Academy. In addition to their Pasha and Ata holdings, the family owns local TV station Lider TV, the cosmetics company Nargiz, and Baku's one and only Bentley dealership. It is also

believed that the family controls several top banks in Azerbaijan, including Bank Standard, Kapital Bank and (most obviously) Pasha Bank (*Guardian* 2010a).

The above discussion illustrates that the Azerbaijani elite has developed into a cohesive coalition of family networks that have divided control over the country's administrative resources, economic spoils and geographic regions. Nakhchivanis and Yerazis have more or less co-existed peacefully with one another since Soviet times; moreover, regional affiliation has become virtually meaningless along with substantial increases in oil and gas revenues in the late 1990s and Ilham Aliev's accession to the presidency in the early 2000s. Besides the ascendance of the Pashaev family, the major players in the patronage system have not changed. Members of the elite certainly compete with one another, but there is general agreement among the top families not to disturb one another's areas of political, business or geographic control. Since political power and economic power are concentrated in the hands of a few high-ranking officials, they are entirely dependent on the Aliev family for continued access to their financial spoils. In the next section, I demonstrate how low factionalization among members of the elite and the fusion of political and economic power have resulted in few instances of intralite conflict and, therefore, a low level of threat to the Alievs' authority.

3.2 *Low threat to the Alievs' rule*

United elites are much less likely than fragmented elites to become involved in conflicts that could threaten the autocrat. In the case of Azerbaijan, key elites, including Ilham Aliev, have a shared goal to reap financial spoils from the state. The regime's main players do not have opposing ideological or policy preferences, so unlike Putin, neither Aliev has had to appeal to a wide range of viewpoints. Competition among members of the Azerbaijani elite is certainly present, but disputes that emerge are typically of a personal nature and are resolved by the president. In addition, the family and patronage networks surrounding the Alievs and Pashaevs, as well as Kamaladdin Heidarov, Ziya Mammadov and Ramiz Mehtiyev, present a formidable force to content with for any outsider who might emerge as a challenger. Since members of the elite are dependent on Ilham Aliev for access to money and personnel, individuals who fall out of favor with the regime cannot realistically pose a threat, either, as they would be automatically cut off from those resources. Moreover, Kamaladdin Heidarov, who is technically in charge of a paramilitary unit through the Ministry of Emergency Situations, is the only one with the tactical resources at his disposal to stage a palace coup. However, the likelihood of this is slim to none, since he relies on state institutions to generate enormous personal wealth and would have a low probability of political success without the support of the Pashaev family and others with family ties to Ilham Aliev. In short, as long as Ilham Aliev maintains the status quo patronage system, the insiders will remain satisfied. In what follows, I demonstrate that major instances of intralite conflict have been few and far between under both Heidar and Ilham Aliev.¹⁴² I also suggest that, compared to his father, Ilham Aliev has perceived elites as less threatening since assuming power because he survived both the dynastic succession in 2003 and large-scale protests following flawed parliamentary elections in 2005.

Lack of intralite conflict. The only major conflict that transpired during Heidar Aliev's decade as president was a coup attempt in 1995. Soon after the armistice with Armenia over Nagorno-Karabakh, Aliev learned that the OMON (Special Forces) commander, Rovshan

¹⁴² Like the events in Russia and Kazakhstan, these are cases that have spilled over into the public realm and have been documented by mass media and/or discussed by political observers.

Javadov, planned to stage a coup. Troops from Nakhchivan that formed a type of “praetorian guard” were called up to defend the president, which ended in a shoot-out that killed Javadov (Radnitz 2012: 63). It remains unclear, however, whether or not Javadov actually did want to topple the president, or if Heidar Aliev initiated a preemptive strike against him for other reasons. Aliev brooked no other serious challenges to his rule before relinquishing power two months before his death in 2003. In addition to surrounding himself with loyalists in the early 1990s, Heidar Aliev and Ramiz Mehtiyev gathered *kompromat* (compromising material) about all other officials, which deterred their subordinates from insubordination (Radnitz 2012). An informed political observer also notes that Heidar Aliev increased loyalty by “promoting the opposition” and allowing political parties to exist and participate in elections.¹⁴³ A bad image was attached to the opposition because their leaders and active members, particularly those associated with the *Yeni Mütəvət* and Popular Front parties, were radically anti-regime and threatened to dismantle the patronage system built by Aliev. Fearing arrest and expropriation should the opposition prevail, members of the political elite became “even more loyal” to Heidar because they were scared of losing their slice of the pie.¹⁴⁴

A potential opening for members of the elite to challenge the Alievs’ authority came in 2003 with the transfer of power from father to son. Heidar Aliev previously cruised through the 1998 presidential elections with 76 percent of the vote, and his New Azerbaijan Party won 75 out of the 125 seats in the 2000 parliamentary elections. In the October 2003 election, established elites coalesced around Ilham and remained loyal to the Aliev family for several reasons. First, Heidar Aliev, who remained popular among his subordinates, deliberately passed the torch to this son, which signaled to established elites that the *status quo ante* coalition and patronage system would remain in place. Second, Heidar announced that he was stepping down—and that Ilham would be named acting president—just two weeks before the election, which left too little time for elites to unite around a potential rival candidate (Hale 2005). Third, Ilham Aliev “reputedly gave personal assurances to his father’s officials that he would leave them in their posts and refrain from disrupting their informal power centers” (Radnitz 2012: 66). As I show in the previous section, the principal actors on Heidar Aliev’s team retained their positions (or got better ones) after Ilham survived the succession election in 2003 and fraudulent parliamentary elections in 2005.

The only major instance of intraelite conflict that erupted since Ilham Aliev took power involved the dismissals and arrests of two prominent Yeraz ministers and the marginalization of two of Ilham Aliev’s family members in 2005. Ali Insanov, who was Minister of Health from 1996 until 2005, and Farhad Aliev (no relation), who was Minister of Economic Development from 2001 until 2005, were arrested in 2005 and officially charged with conspiring with an exiled opposition leader to stage a coup against Ilham Aliev. What is known about Insanov and Farhad Aliev’s insubordination is that they questioned Ilham’s inheritance. While some scholars (e.g. Radnitz 2012) have painted this as an example of factional conflict between Nakhchivanis and Yerazis, the available evidence suggests that these two ministers were forcibly removed because they threatened the domains of more powerful members of the ruling coalition. The feud also involved Ilham Aliev’s close blood relatives—his sister Sevil and uncle Jalal (who grew up with Heidar in Nakhchivan)—suggesting that this was not a “clash” between Yerazis and Nakhchivanis. Second, Ali Insanov and Farhad Aliev did not jointly challenge Ilham’s

¹⁴³ Author interview with Political Analyst #5, Member of the Republican Alternatives Movement, Baku, Azerbaijan, April 7, 2011.

¹⁴⁴ Ibid.

authority. Ali Insanov and Jalal Aliev came up against Ramiz Mehtiyev in wanting to exert control over Ilham as opposed to challenging his authority as president (International Crisis Group 2010), and Farhad Aliev's demise is primarily due to the fact that he came up against Kamaladdin Heidarov. Farhad Aliev was considered an economic "reformer" whose proposed reforms "stood to hurt [Heidarov]'s interests at the State Customs Committee and the Ministry of Emergency Situations," so Ilham Aliev had him "removed from government" and "seriously damaged" his business interests (*Guardian* 2010a).¹⁴⁵ Ilham Aliev's uncle Jalal and sister Sevil were not arrested because family members are considered "untouchables" (International Crisis Group 2010: 9), but Jalal lost his position as a member of parliament and Sevil currently resides out of the country. In short, this was neither a case of factional conflict nor a serious challenge to Ilham Aliev himself, but a potential incursion into Mehtiyev and Heidarov's zones of political and economic control.

Widespread societal protests in the wake of the 2003 presidential and 2005 parliamentary elections in Azerbaijan occurred in the midst of "Color Revolutions" in Georgia, Ukraine and Kyrgyzstan. In all three of those cases, incumbent authoritarian regimes fell because prominent members of the ruling coalition defected to the opposition. In Azerbaijan, ten thousand citizens took to the streets of Baku to protest Ilham Aliev's victory in 2003. In 2005, the opposition staged a 4,000-person sit-in after massive fraud was committed in favor of the ruling party. These protests in Azerbaijan—by far the largest out of the three cases in this study between 2000 and 2010—suggest that there is more mass dissatisfaction with the regime and ruling elites than in Russia or Kazakhstan. While the number of protesters is smaller in comparison to post-election revolutions that toppled governments in Georgia, Ukraine and Kyrgyzstan in the mid-2000s, the fact that this level of unrest did not destabilize the regime illustrates the robust cohesion of members of the Azerbaijani elite around Ilham Aliev. In Syria, Bashar al-Asaad, who also succeeded his father in a non-monarchical dynastic succession, has managed to hold onto power after two years of brutal civil war because key elites remain united around him. According to one prominent political observer in Azerbaijan, following the October demise of Ali Insanov and Farhad Aliev and the November parliamentary elections in 2005, "absolutely no one threatens the king of the sun."¹⁴⁶ Ilham Aliev won the 2008 presidential election with 89 percent of the vote, and passed a referendum in 2009 eliminating presidential term limits. The next sub-section links the manifestations of a cohesive Azerbaijani elite with welfare spending trends.

3.3 No need for popular support

The Alievs' strategy of doling out money and political positions to members of the elite is sufficient for maintaining power in Azerbaijan. In contrast to Vladimir Putin and Nursultan Nazarbaev, neither Heidar nor Ilham Aliev has needed to depend on popular support to counteract threats to their rule. The above discussion reveals that there have been few serious challenges to the Alievs' authority since the early 1990s, and that the primary conflict that did occur in 2005 was partly personal in nature. In addition, the absence of wealthy economic elites

¹⁴⁵ Heidarov also disliked Farhad Aliev's successor at the Ministry of Economic Development, Heidar Babaev, for similar reasons. Babaev was not arrested, but he was the only member of the cabinet who was not re-appointed to his position following Ilham Aliev's presidential win in 2008.

¹⁴⁶ Author interview with Political Analyst #4, Far Centre for Economic and Political Research, Baku, Azerbaijan, March 29, 2011.

who are capable of funding opposition movements or formally challenging the Aliev dynasty has further guaranteed regime stability. Since neither Aliev—especially Ilham—has had any reason to fear reverberations from intraelite conflict, there is no need for society to serve as a counterweight to potential rivals. In what follows, I show that the Alievs' welfare spending response (or more often their "non-response") to domestic events referenced in the previous section as well as the global economic crisis reveals their security vis-à-vis members of the elite.

After the drop in welfare expenditures from 14 percent to 6.6 percent of GDP between 1990 and 1995, expenditures increased slightly and hovered between seven and eight percent of GDP between 1996 and 2000. The highest expenditure increase occurred between 1995 and 1997, following the March 1995 attempted coup against Heidar Aliev, when expenditures jumped from 6.6 percent to 8.4 percent. Expenditures in 1997 represent the highest welfare spending in Azerbaijan in the last twenty years. However, after Aliev successfully consolidated power in the 1998 presidential elections, in which he won 70 percent of the vote, expenditures began to decline steadily. From 2000 to 2003, welfare spending declined from 6.9 percent to 6.2 percent of GDP, which suggests that there was no pre-emptive move to shore up a societal support base in the lead-up to the presidential succession in 2003. Following Ilham Aliev's rise to power, expenditures experienced their most significant decline in all three welfare sectors, dropping from a combined total of 6.3 percent in 2004 to 5.3 percent in 2008. In addition, while the share of total budget expenditures on welfare had also been declining steadily since the late 1990s, it experienced its most substantial drop to date in this time period—from 35.7 percent in 2004 to 20 percent in 2008. Notably, following the arrests of Ali Insanov and Farhad Aliev in October 2005, total spending as a percentage of GDP dropped from 5.6 percent in 2005 to 5.3 percent in 2006, and the share of budgetary expenditures experienced the largest year-to-year decrease, from 33 percent in 2005 to 25.6 percent in 2006.

This trend demonstrates that Ilham Aliev did not need to build up and maintain a societal support base upon assuming and consolidating power, nor did he feel threatened by the one major instance of intraelite conflict that shook his cabinet in 2005. This is a clear illustration of Ilham's perception of a secure power base among members of the elite, especially considering the massive fraud and resulting civil unrest that accompanied both the 2003 presidential and 2005 parliamentary elections. In 2003, a coalition of NGOs conducted a parallel vote count and found that opposition candidate Isa Gambar most likely won the election (Radnitz 2012; Alieva 2006), which is in sharp contrast to Putin, who, even without fraud, would have most likely been elected president in 2000 and 2004 (Myagkov et al. 2009)—and possibly even 2012. In 2005, the International Election Observation Mission found that "counting in 43 percent of the precincts had been... 'bad' or 'very bad'" and that "these elections had seen at least as much falsification and at least as many violations as previous ones" (Alieva 2006: 154). In 2008, Ilham Aliev won re-election with 89 percent of the vote, which is not only farcical, but also stands in sharp contrast to Putin, who, by winning presidential and parliamentary elections with just over 60 percent of the vote, sends a signal to members of the Russian elite that he can win an election without resorting to outright fraud.

Finally, a very modest increase in welfare expenditure trends during the global financial crisis suggests that Ilham Aliev may have responded to fears of potential elite challenges, since his patronage system relies almost exclusively on oil revenues.¹⁴⁷ Real GDP growth fell from 25 percent in 2007 to five percent in 2010 and 0.1 percent in 2011. At the same time, aggregate welfare spending increased from 5.3 percent of GDP in 2008 to 6.4 percent of GDP in 2010 and

¹⁴⁷ Author interview with Political Analyst #1, Independent Scholar, Baku, Azerbaijan, January 12, 2011.

2011. Also, 2009 was the year of the referendum eliminating presidential term limits, which passed with a 90 percent approval rating. In per capita terms, salaries and social transfer payouts experienced their largest year-to-year increase between 2008 and 2009 (Table 3.3). Pensions, for example, increased by a third, from 56 to 74 real AZN (\$70 to \$92). While this could be called a case of pre-emptive populism, it was very short-lived since economic growth began to recover in 2010. After 2009, salaries for public sector employees in the health and education sectors, pensions and all other social transfer payments began to stagnate in real terms. Salaries for medical and education personnel, monthly pensions and monthly TSA payments either remained the same or declined slightly in real terms between 2009 and 2010, and showed no or marginal increases in 2011 (Table 3.3). While 2012 and 2013 salary and cash transfer data are not available, preliminary aggregate budgetary expenditures in health, education and social security suggest that significant increases in welfare spending have not occurred since 2011, even in the lead-up to the October 2013 presidential election (Table 3.2). In short, Ilham Aliev has been completely insulated from societal demands and has no need to appeal to the masses through welfare provision to ward off potential rivals. He does not fear threats coming from within the elite, even as recent displays of civil unrest have erupted across the country and 34 percent of Azerbaijanis recently polled wish for an “Arab Spring” revolution (Balci 2013). The concluding section summarizes the major arguments of this chapter and speculates on possible future consequences of the Alievs’ welfare policies.

4. Conclusion and implications

This chapter has argued that Azerbaijan’s cohesive elite structure results in low welfare expenditure levels. After 1995, neither Heidar nor Ilham Aliev faced destabilizing threats to their rule because of low factionalization among members of the elite, as well as the concentration of political and economic power within the hands of the country’s top officials and their families. The case of Azerbaijan demonstrates that united elites, and resulting low levels of conflict among them, generate lower social spending since the dictator can primarily depend on patronage and repression to sustain his rule. In the last decade, the sharp divergence between soaring economic growth from oil and gas exports and declining welfare expenditures demonstrates that Azerbaijan’s rulers have not needed to cultivate a loyal constituency.

Ilham Aliev is currently on track to be president for life. The patronage system currently in place, coupled with the lack of redistribution to society and genuine popular support for Aliev, however, could have potentially destabilizing effects on Azerbaijan’s authoritarian regime. First, the patronage system in Azerbaijan that keeps elites satisfied depends almost entirely on continued access to petroleum rents for ready cash. As of 2008, Azerbaijan had saved “less than one-tenth of its total oil revenues” (Jones Luong & Weinthal 2010: 241), and total SOFAZ assets as of April 2012 were \$32 billion (as opposed to \$50 billion in Kazakhstan and \$128 billion in Russia¹⁴⁸ in 2012). Like all resource-rich authoritarian regimes, a sustained drop in oil prices may lead to a loss of loyalty for the dictator. If the regime cannot manage its revenues and the state has no reserves should oil prices fall and remain low for years, then Ilham Aliev could no longer pay off his cronies. In the absence of popular support, mass defection may occur with or even without civil unrest.

Second, out of the three cases, Azerbaijan continues to experience the highest incidence of popular unrest, which in recent years has been violently suppressed by the authorities. For

¹⁴⁸ This is the combined total of the Reserve Fund (\$28 billion) and the National Welfare Fund (\$100 billion).

example, between January and June 2011, at the height of the Arab Spring, ten protests organized by marginalized opposition parties and activists occurred in downtown Baku. Each event drew several hundred to over a thousand people, and hundreds of protesters and activists were beaten and arrested throughout this period. Most recently, a string of protests “denouncing what many see as an increasingly corrupt and overbearing government” occurred throughout January 2013, and “many believe Azerbaijan is in for a lot more political turmoil” in the lead-up to presidential elections in October 2013 (Bigg & Kazimova 2013). On January 17, 2013, one thousand shopkeepers demonstrated in Baku to protest rent increases by the managers of Azerbaijan’s shopping center (who are very likely connected to top government officials), and five thousand more kept their shops closed in support of the protestors. Beginning on January 23rd, thousands rioted in the town of Ismayilli, about 100 miles from Baku, and ended up setting fire to a motel owned by the son of the Minister of Labor and Social Protection, as well as the local executive authority’s residence and several cars. The protestors were dispersed with water canons and tear gas, which then sparked a rally in Baku to express solidarity with the Ismayilli protestors. The frequency of clashes and willingness on the part of both protestors and police to use violence “are expected to grow as anti-government sentiments mounts” in the lead-up to presidential elections in October, in which Ilham Aliev is expected to win a third term as president (Kazimova & Sindelar 2013).

Table 3.1: Azerbaijan's welfare system

Sector	Key features	Financing mechanisms and structure
Health	<p>-Largely based on inherited Soviet <i>Semashko</i> system where access to health care is free for most citizens</p> <p>-State is responsible for providing most services, employing medical workers who work in state hospitals and clinics, and setting a national wage scale for medical workers</p> <p>-The Ministry of National Security, Ministry of Defense, Ministry of Internal Affairs, Ministry of Justice, State Customs Committee, State Oil Company (SOCAR), State Caspian Shipping Company and State Railway Company run parallel health services for current and former employees and serve approximately 5% of the population</p> <p>- Approximately 1% of the population receives voluntary health insurance; limited privatization has occurred in the health system</p>	<p>-The Ministry of Finance defines the annual health budget and allocates funds to the Ministry of Health for services under its control and local governments for services provided at the district level</p> <p>-Approximately 20-25% of public funding is allocated by the Ministry of Health for national-level hospitals, institutes and (as of 2006) all health services in Baku</p> <p>-Approximately 75-80% of public funding is allocated to local government budgets; district health authorities then distribute these funds to hospitals and clinics</p>
Education	<p>-State provides free compulsory education (elementary, lower secondary and upper secondary), sets national standards, sets wage-scales for teachers, offers assistance on the basis of need for specialized secondary and higher education</p> <p>-Ministry of Education administers study abroad program for M.A. and Ph.D. studies</p>	<p>-State finances on per student basis for compulsory education</p> <p>-Individuals/households provide partial or full tuition for pre-school, specialized secondary education (vocational training) and tertiary education</p> <p>-State Oil Fund of Azerbaijan (SOFAZ) pays for study abroad program</p>
Pensions and Social Assistance	<p>--"Social assistance" benefits: disability pension, means-tested child care benefits, birth grant, in-kind benefits for special categories of citizens and targeted social assistance (poverty relief)</p> <p>-"Social insurance" benefits: old age labor pension, survivor pension, temporary disability benefits, unemployment benefits, funeral benefits, maternity leave and sickness cash benefits</p> <p>-Old age labor pensions based on PAYGO system (first pillar) and a Notional Defined Contribution (NDC) scheme (second pillar)</p> <p>-A special "presidential" pension system exists for artists, athletes, writers and other national heroes.</p>	<p>-"Social assistance" benefits are financed by state budget</p> <p>-"Social insurance" benefits are financed through payroll tax contributions made by employers (22% for non agricultural and 2-12% of minimum wage for agricultural), employees (3% of gross earnings) and self-employed persons (20-50% of minimum wage), as well as transfers from the state budget</p> <p>-Pension amounts are calculated according to: (1) a basic minimum pension (set by the president) for each pension category and (2) an additional insurance part for the old-age labor pension.*</p> <p>-The presidential pension amount is set by the president.</p>

Sources: UNICEF (2008); Ibrahimov et al. (2010); European Commission (2011).

* As of January 1, 2006, the insurance part of the old-age labor pension accrues as follows: 170 AZN (\$212) is added for each year of work prior to 2006, and is indexed for 2006-present. The whole sum is then divided by 144 months (12 years), which is the life expectancy after retirement. This amount comprises the monthly insurance part of the labor pension, which is added to the basic pension (European Commission 2011: 113).

Table 3.2: Total public expenditures on health, education and social security in Azerbaijan, 2000-2011**

Sector	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Health	% GDP	0.9	0.8	0.7	0.8	0.9	0.9	0.9	0.9	0.9	1.1	1.0	1.0
	% Total budget expenditures	5.4	5.2	4.8	4.5	4.9	5.4	4.3	4.2	3.2	3.8	3.6	3.2
Education	Real AZN per capita*	5	5	5	7	9	14	19	30	39	45	48	54
	% GDP	3.8	3.5	3.2	3.3	3.4	3.0	2.6	2.5	2.4	2.7	2.8	2.5
Social Protection	% Total budget expenditures	23.8	23.1	20.5	19.0	19.6	17.4	12.6	11.9	9.1	10.9	10.0	8.2
	Real AZN per capita	23	23	23	28	35	44	56	83	112	129	131	139
Education	% GDP	2.2	1.9	2.4	2.1	2.0	1.7	1.8	2.0	2.0	2.4	2.6	2.9
	% Total budget expenditures	13.7	12.8	15.6	12.4	11.2	10.2	8.7	9.5	7.7	9.9	9.5	9.7
Social Protection	Real AZN per capita	13	13	18	19	20	26	39	67	94	116	125	164

Sources: Budget AZ, "Azərbaycan Respublikasının dövlət büdcəsinin icrası haqqında," 2000-2011, available at <http://www.budget.az/budget/>; World Bank, *Balancing Protection and Opportunity: A Strategy for Social Protection in Transitional Economies* (Washington, D.C.: World Bank, May 3, 2000),

available at

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:20219326~iscURL:Y~pagePK:146736~piPK:146830~theSitePK:258599,00.html>.

* 1 AZN = \$0.8.

** Projected expenditures as a percentage of government spending are 3.8 for health, 9.3 percent for education and 10.4 percent for social protection in 2012 and 3.4 percent for health, 7.7 percent for education and 9.2 percent for social protection in 2013 (See <http://www.budget.az/budget/en/main?content=1310> for additional information in English).

Type of payment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Average monthly salary for medical workers	14.4	14.6	17.5	21.4	27.7	41.2	64.3	80.7	107.7	151.8	146.8	152
Average monthly salary for education workers	30.7	31	32.8	41.4	48.1	60.2	73.5	124.6	177.5	256.2	257	262.7
Average monthly salary (total labor force)	43.5	51.2	61.4	75.7	93.2	112.7	137.6	185	227.2	293.6	313.6	337.5
Average monthly old-age pension	14.3	15.3	15.6	18.2	23.2	22.8	27.2	35	53	98	98	108
Average monthly pension (all categories)	12.7	14.2	14.3	17.3	22.3	21.9	26.3	35.2	52.1	94.4	95	104.6
Monthly minimum pension	9.8	9.6	9.7	19.6	18.7	22.8	30	38.5	55.9	73.9	71	78.7
Average monthly aid to persons below poverty level	--	--	--	--	--	--	--	7.2	14.4	21.7	23.6	22.4
Average birth grant	--	--	--	--	--	--	27.7	28.6	31	47.9	65.5	74.3

Source: Azərbaycan Respublikası Dövlət Statistika Komitəsi (State Statistical Committee of the Republic of Azerbaijan), *Statistical Yearbook of Azerbaijan* (2011), data in English available at <http://www.stat.gov.az/indexen.php> (last accessed March 8, 2013).

*Based on author's calculations.

Table 3.4: Off-budget state and non-state spending on social projects (million USD), 2000-2011

Fund	Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
SOFAZ	Youth education abroad	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$2.9	\$10	\$12	\$18.8
	IDP housing construction	\$4.5	\$21	\$25	\$19	\$50.5	\$138	\$192	\$181	\$112	\$131	\$175
SOCAR	Hospital, school and IDP housing construction (total)	N/A	N/A	N/A	N/A	N/A		\$200		N/A	N/A	N/A
BP & Co-venturers (BP only)	BTC pipeline community investment	N/A	\$0.6	\$2.7	\$8.6	\$6.3 (\$2.2)	\$6.7 (\$2.2)	\$7.4 (\$2.6)	\$6.4 (\$2.1)	\$3.4 (\$1.3)	\$4.8 (\$2.3)	\$3.1 (\$1.1)

Sources: British Petroleum, *BP in Azerbaijan Sustainability Report* (2004-2011), available at <http://www.bp.com/sectiongenericarticle.do?categoryId=9029687&contentId=7054436>; SOFAZ, Annual Report (2001-2011), available at http://www.oilfund.az/index.php?page=hesabat-arxiv&hl=en_US; Public Association for Assistance to Free Economy, *SOCAR Financial Flows* (Baku, Azerbaijan: Qanun Publishing House, 2010).

Table 3.5: Top political and economic elites in Azerbaijan, 1993-2011

Name	Political position(s)	Regional affiliation or place of birth	Relatives
Abbas Abbasov	Deputy Prime Minister		Son Aydin Abbasov is a YAP MP
Ismat Abbasov	Minister of Agriculture (2004-present)	Armenia	
Ali Abbasov	YAP MP (2001-2004); Minister of Communications and Information Technology (2004-present)	Nakhchivan	
Rovnag Abdullaev	Manager of Caspian Sea Oil & Gas Trust (1997-2003); Director of Heidar Aliev Baku Oil Refinery (2003-2005); President of SOCAR (2005-present);	Nakhchivan	Cousin Sadagat Valieva is a YAP MP
Safar Abiev	Minister of Defense (1993; 1995-present)	Baku	
Vahid Akhundov	Presidential Economic Advisor (1991-present)	Baku	
Avaz Alakbarov	Chairman of SSPF (1992-1999); Minister of Finance (1999-2006)	Armenia	
Fizuli Alakbarov	Minister of Labor and Social Protection (2006-present)	Nakhchivan	
Murtuz Alasgarov	Speaker of Parliament (1996-2005)	Ganja	
Aydin Aliev	Deputy Chairman of State Customs Committee (1999-2006); Chairman of State Customs Committee (2006-present)	Baku	
Farhad Aliev	Deputy Minister of Trade (1997-1999); Minister of State Property (1999-2001); Minister of Economic Development (2001-2005)	Jalilabad, Azerbaijan	
Jalal Aliev	YAP MP (1995-present)	Nakhchivan	Brother of Heidar Aliev/ Uncle of Ilham Aliev
Natig Aliev	President of SOCAR (1993-2004); Minister of Industry and Energy (2004-present)	Baku	

Name	Political position(s)	Regional affiliation or place of birth	Relatives
Mehrriban Alieva (née Pashaeva)	First Lady (2003-present); UNESCO Goodwill Ambassador (2004-present); Head of Heidar Aliev Foundation (2004-present); YAP MP (2005-present)	Baku	Married to Ilham Aliev
Oqtay Assadov	Speaker of Parliament (2005-present)	Armenia	
Jahangir Askerov	President of Azerbaijan Airlines	Baku	
Heidar Babayev	Chairman of (1999-2005); Minister of Economic Development (2005-2008)	Baku	
Huseingulu Bagirov	Minister of Ecology and Natural Resources (2001-present)	Guba (Azerbaijan)	
Elchin Efendiev	Deputy Prime Minister (1993-present)		
Bahtar Eyyubov	Head of the Presidential Guard (1993-present)	Nakhchivan	Heidar Aliev's niece's son-in-law / Married to Ilham Aliev's cousin's daughter
Yaqqub Eyyubov	First Deputy Prime Minister (2003-present)		
Abulfaz Garaev	Minister of Culture and Tourism (2006-present)	Baku	
Zakir Gatalov	Prosecutor General	Georgia	
Vilayət Guliyev	Minister of Foreign Affairs (1999-2004)	Ağlabadi (Azerbaijan)	
Agabala Hajiyev	Head of the Apparatus of the Cabinet of Ministers (2003-present)	Baku	
Ali Hasanov	Head of the Department on Social Political Issues in the Presidential Administration (1996-present); Deputy Prime Minister (1998-present)	Nakhchivan	Son-in-law's father Sattar Mehbaliev is a YAP MP
Karam Hasanov	Chairman of the Committee on State Property Control (2009-present)		Brother Malik Hasanov is head of Azenko Construction Company
Kamaladdin Heidarov	Chairman of the State Customs Committee (1995-2006); Minister of Emergency Situations (2006-present)	Nakhchivan	Father Fattah Heidarov is a YAP MP
Ali Insanov	Minister of Health (1993-2005)	Armenia	
Yamar Jamalov	Minister of Defense Industry (2006-present)	Sabirabad (Azerbaijan)	
Eldar Mahmudov	Minister of National Security (2004-present)	Nakhchivan	

Name	Political position(s)	Regional affiliation or place of birth	Relatives
Mahmud Mammadguliev	Vice Minister of Foreign Affairs	Ganja (Azerbaijan)	(Ex)-husband of Ilham Aliiev's sister Sevil Alieva
Elmar Mammadjarov	Minister of Foreign Affairs (2004-present)	Baku	
Fazil Mammadov	Minister of Taxes (2000-present)	Shamakhi (Azerbaijan)	
Fikrat Mammadov	Minister of Justice (2000-present)	Baku	Ilham Aliiev's cousin; Mammadov's cousin Abid Sarifov is Deputy Prime Minister
Ziya Mammadov	Minister of Transportation (2002-present)		Brother Elton Mammadov is a YAP MP
Misir Mardanov	Minister of Education (1998-present)	Armenia	
Ramiz Mehdiyev	Head of the Presidential Administration (1994-present)	Nakhchivan	Son-in-law Ilham Aliiev is a YAP MP
Shahmar Movsumov	Executive Director of SOFAZ (2006-present)		Cousin Sevin Hasanova is a YAP MP
Salim Muslumov	Chairman of State Social Protection Fund (2002-present)	Agsu (Azerbaijan)	
Shahin Mustafaev	Minister of Economic Development (2008-present)	Armenia	
Alev Nagiev	Minister of Labor and Social Protection (1996-2006)		
Hafiz Pashaev	Deputy Minister of Foreign Affairs; Rector of Azerbaijan Diplomatic Academy; Ambassador to the United States	Baku	Mehriban Alieva's uncle
Azad Rahimov	Minister of Youth and Sports (2006-present)	Baku	
Artur Rasizade	Prime Minister (1996-present)	Nakhchivan	
Abid Sharifov	Deputy Prime Minister (1995-present)	Shaki (Azerbaijan)	
Samir Sharifov	Executive Director of SOFAZ (2001-2006); Minister of Finance (2006-present)		
Ogtai Shiraliev	Minister of Health (2005-present)	Baku	
Vasif Talibov	Chairman of Nakhchivan Assembly; YAP MP (1997-present)	Nakhchivan	Ilham Aliiev's cousin's son-in-law
Ramil Usbov	Minister of Internal Affairs	Nagorno-Karabakh (Armenia)	

Sources: *Azərbaycanda Kim Kimdir* (Who's Who in Azerbaijan) (2010); International Crisis Group (2010); Norwegian Helsinki Report (2009).

Table 3.6: Economic domination in Azerbaijan

Name	Political position	Associated businesses	Economic sectors	Family member participation	Indicators of personal/family wealth
Ilham Aliiev & Family	President (2003-present)	Silkway Holding (including AZAL Airlines and AZAL Bank), Azenco Construction, Azersun Holding, Cahan Holding, Gemigaya Holding	Airlines, construction, real estate, banking, most industries (tourism and farming) in Ganja, all industries in Nakhchivan	Daughter Arzu legally co-owns Silkway Holding, Baylar Eyyubov controls Azersun Holding, Vasif Talbov's brother and son own Kanal 35 TV (Nakhchivan) and Cahan and Gemigaya Holdings	Daughters Arzu and Leyla and son Heidar own \$7.5 million in Dubai properties
Mehriban Aliieva & Pashaev Family	First Lady (2003-present)	Pasha Holding, Ata Holding, Lider TV (Baku), Nargiz Cosmetics, Nar Mobile, Bank Standard, Kapital Bank, Pasha Bank, Bentley Dealership	Construction, real estate, tourism, banking, telecommunications, cosmetics, car sales	Sons Tale and/or Nijat Heidarov legally own Gilan, Jale companies and United Enterprises International; father Fattah Heidarov oversees control of Gabala region economy	Family owns corporate Airbus A319 jet; Tale and Nijat each own a \$20 million Gulfstream jet; Tale and/or Nijat own Gabala football club
Kamaladdin Heidarov	Chairman of the State Customs Committee (1995-2006); Minister of Emergency Situations (2006-present)	AF Holding, Gabala Holding, Gilan Holding, Jale companies, United Enterprises International	Construction, real estate management, fruit juice production, food production (including Beluga caviar)		Anar reportedly paid \$1.2 million to have an attraction bear slaughtered for dinner at one of Kamaladdin Heidarov's restaurants in Gabala
Ziya Mammadov	Minister of Transportation (2002-present)	ZQAN Holding	Road and infrastructure construction; Baku city buses	Son Anar Mammadov legally owns ZQAN Holding	

Sources: *Azerireport* 2010, *Guardian* 2010a, Ismayilova (2010, 2011 & 2012), International Crisis Group (2010), Norwegian Helsinki Report (2009).

Chapter Four

Vulnerable Stability on the Steppe: Modest Welfare Effort in Kazakhstan

“Sure enough, the discarded system offered more secure minimum social benefits and was a success in a number of areas. However, we must remember that this system fell apart because it proved to be noncompetitive from an economic standpoint...In this respect our attention in the coming years will concentrate on the real sector of the economy, meaning rehabilitation and growth, and an effective social policy, but in conditions of tough fiscal and monetary limitations.”

–Nursultan Nazarbaev, October 10, 1997

“Since 2000, budgetary allocations for education, health care and social security have grown more than five-fold. Continued improvement of the social well-being of the Kazakhstanis...has been and will remain at the forefront of government policy.”

–Nursultan Nazarbaev, February 6, 2008

1. Introduction

Kazakhstan is an intermediary case of welfare effort within the universe of mineral-rich authoritarian regimes. Spending levels fall in between the two extremes of Russia and Azerbaijan, and are similar to those of several countries in Latin America and the Middle East that boast more demonstrable competition between members of the political and economic elite, including Iran, Kuwait, Libya,¹⁴⁹ Ecuador and Venezuela (Table 1.1). Since 1991, Kazakhstan has followed an economic growth trajectory that practically parallels Russia’s (Figure 1.1), but the 1990s and 2000s represent two distinct time periods with regard to the state’s overall welfare effort. Kazakhstan experienced a deep economic downturn in the first half of the 1990s, cut social expenditures significantly, attempted (but failed) to switch its healthcare system over to insurance financing, slashed social entitlements, and successfully implemented an extensive privatization of its pension system. After 2000, spending levels in health and education began to see noticeable increases along with rising economic growth rates. State employee salaries in these sectors have quadrupled, and several federal programs and projects aimed at increasing state investments in health and education have been implemented, including the “100 schools, 100 hospitals” campaign and two consecutive national programs for healthcare. In addition, substantial investments have been made in Nazarbaev University, which opened in the capital Astana in 2010. Nazarbaev University strives to become a world-class teaching and research university and is free of charge for all undergraduates and most graduate students. At the same time, public spending on pensions and social protection has contracted, in part as a result of reforms that drastically reduced the state’s role in providing social assistance.

In this chapter, I demonstrate how a hybrid elite structure contributes to moderate levels of welfare spending in Kazakhstan. Members of the Kazakhstani elite were relatively homogenous in the 1990s, but growing heterogeneity due to conflicting economic interests resulted in several significant challenges to the regime in the 2000s. Nursultan Nazarbaev, the last First Secretary of the Kazakh Soviet Socialist Republic and first and only president of the Republic of Kazakhstan, allowed most *nomenklatura* with whom he had served in the Soviet period to remain in government post-1991, and installed family members in influential positions

¹⁴⁹ Welfare spending levels in Libya under Qaddafi were also very similar to Kazakhstan, and we know in hindsight that there was tremendous elite disaffection in that case.

in companies in which the state remained a majority shareholder. The country's oil and gas sectors were privatized early on to private foreign companies,¹⁵⁰ as opposed to domestic actors, and taxed heavily, which enabled the president, his family members, and other allies in government to receive a steady flow of petroleum revenues (Jones Luong & Weinthal 2010; Radnitz 2010). During the 1990s, Nazarbaev experienced little formal and informal competition to his rule as he presided over rapid economic reforms and privatized significant non-mineral economic assets to domestic elites, some of whom grew very wealthy in the banking, utilities, telecommunications, and transportation industries. As a result, there were “two major groups of beneficiaries from Kazakhstan's political economy—an independent capitalist class and a favored clique around the president” (Radnitz 2010: 141). In the early 2000s, several high-ranking political officials began to break away from Nazarbaev amidst frustration that they were barred from entering the more lucrative oil, gas and minerals markets. In addition, wealthy oligarchs who have not depended on Nazarbaev for access to resources, though not as numerous as in the Russian case, have had significant financial means at their disposal and have demonstrated their willingness to fund opposition movements and challenges.

In Kazakhstan, factional conflict in the 2000s manifested itself as competition between different financial industrial groups “which represent the business interests of key economic and political elites” in the inner and second-tier circles around the president (Junisbai 2010: 236). The new economic cleavage that appeared in the country's previously homogenous elite first led to the formation of the Democratic Choice of Kazakhstan (*Demokraticeskii Vybor Kazakhstana*) in 2001, an opposition movement whose members had both “experience in the political system” and “independent resources with which to finance their activities” (Junisbai & Junisbai 2005: 380). This was followed by additional challenges to Nazarbaev's rule, and even penetrated his own family when the autocrat's former son-in-law, Rakhat Aliev (no relation to Azerbaijan's rulers), threatened his authority and was forced into exile. This and several other high-profile instances of inraelite conflict have increased the level of threat to Nazarbaev's position, but not to the same extent as in Russia. What we see overall in Kazakhstan with regard to welfare spending since the mid-1990s is an intermediate effort that gained momentum in the mid-2000s in response to greater elite fragmentation. This is in keeping with the fact that we would expect an increase in Nazarbaev's level of concern about maintaining legitimate popular support since the Democratic Choice of Kazakhstan (DCK) episode in 2001.

The case of Kazakhstan very clearly demonstrates how and why an authoritarian regime adjusts social policies in response to threats coming from members of the political and economic elite. In contrast to both Russia and Azerbaijan, the formal rules of the game in Kazakhstan have remained steady under a single dictator since the Soviet collapse. Genuine formal political competition has been non-existent since the 1995 constitution concentrated authority in the executive and emasculated all other institutions. Nazarbaev's welfare policy-making strategies, however, clearly shifted in response to greater informal competition coming from within elite circles in the 2000s. While I focus more on the relationship between inraelite conflict and welfare spending since 2000 to remain consistent across cases, this chapter also compares and contrasts welfare spending policies in the 1990s with those in the 2000s, since there are clear distinctions between the two decades regarding the levels of elite cohesion, inraelite conflict and Nazarbaev's need for popular support. The within-case analysis is crucial from a comparative and longitudinal standpoint, since it shows how redistribution can be used selectively as a tool of

¹⁵⁰ These include Chevron and ExxonMobil, which collectively own and control 75 percent of the giant onshore Tengiz field in Atyrau *oblast'* (Jones Luong & Weinthal 2010; Tengizchevroil 2010).

authoritarian survival when the formal rules—and the ruler himself—remain constant. The experience of Kazakhstan also illustrates that elite cohesion is a conceptually dynamic variable; in this case, elites became more fragmented over time due to continuing disputes over access to economic resources. Finally, the Kazakhstan case study further supports one of the larger claims of this dissertation, which is that states' welfare spending responses to export-led economic growth are not uniform, but conditioned by elite dynamics in each country's authoritarian regime structure.

Similar to the Russia and Azerbaijan case studies, this chapter proceeds in three sections. In addition to discussing Kazakhstan's welfare system and budgetary financing mechanisms, the next section addresses differences in welfare spending and policies between the 1990s and 2000s. I show that social spending has increased in the 2000s, but it has not become a top policy priority. The third section demonstrates that Kazakhstan's political and economic elite became less cohesive over time, and that the threat coming from high officials of the regime and wealthy independent capitalists increased after 2000. I illustrate Nazarbaev's response to threats by comparing the level of intraelite conflict in the 1990s and 2000s with shifts in welfare spending and policies. Yet, I qualify this comparison by showing that, even though challenges to Nazarbaev's authority became more frequent in the 2000s, they were not constant or severe enough to warrant a welfare spending spree. In addition to longitudinal expenditure data, I use annual presidential speeches to show that Nazarbaev's attempt to secure popular support through welfare spending was more prominent—albeit intermittent—in the 2000s than in the 1990s. The concluding section summarizes my empirical findings and suggests that Kazakhstan represents a best-case scenario for an autocrat in a resource-rich country, since its citizens are neither rent-seeking nor restive.

2. Welfare Spending

Kazakhstan's political transition was very stable in comparison to Russia and Azerbaijan, which both experienced extreme turmoil in the early 1990s. Following the Soviet collapse, Nazarbaev smoothly switched titles from First Secretary to President and retained most of his subordinates in the state apparatus. While Russia and Azerbaijan became embroiled in wars in Chechnya and Nagorno-Karabakh, respectively, Kazakhstan did not engage in any violent conflicts in its own territory or with a neighboring state.¹⁵¹ The country did experience a severe economic recession in the early 1990s, during which time Nazarbaev pursued policies of privatization, stabilization and liberalization of the economy. At the same time, Nazarbaev dismantled and transformed welfare state structures that were inherited from the Soviet period. Relying primarily on executive orders and decrees, Nazarbaev pushed through reforms in health, education, and especially social protection that were intended to reduce the state's role in social provision and welfare financing by shifting more responsibility to individuals and insurance mechanisms. The government began means-testing for social assistance, raised the age for pension eligibility, and tried (but failed) to move the health system over to insurance financing. In addition, Kazakhstan was “the first postcommunist state to create invested pension accounts and to legislate nearly complete privatization of its pension system for new retirees” (Cook 2007b: 56). Not surprisingly, total public spending on welfare declined alongside these structural changes. Combined health, education and social security expenditures fell from 16.2

¹⁵¹ There was some concern that conflicts would break out between ethnic Kazakhs and ethnic Russians, who make up 30 percent of Kazakhstan's total population, but this never occurred.

percent of GDP in 1991 to 10.8 percent in 1995, but the biggest cuts were made in social security and social benefit expenditures. Pensions, which constituted the bulk of social transfers, declined from 8.2 percent to 4.3 percent of GDP between 1992 and 1996, and the real value of pensions declined by two-thirds in the same time period (Cook 2007b). In sharp to Russia under Yeltsin, then, radical retrenchment of the welfare state—especially in the social security sector—became a top policy priority in Kazakhstan in the 1990s (Cook 2007a).

The last decade, however, tells a different welfare state story. In the mid-2000s, Kazakhstan began to devote significantly more resources to welfare, particularly healthcare and education. For example, after the failed health insurance reform of 1996, which will be discussed in more detail below, major reforms to the healthcare sector clarified and increased the state's responsibility for providing guaranteed services free of charge. In addition, a highly publicized federal program to renovate the country's hospital and school infrastructure was launched in 2008. Finally, in 2005, a first-tier redistributive base pension was introduced to Kazakhstan's pension scheme in order to "cover all citizens" with a minimum guarantee (Seitenova & O'Brien 2010: 7). In the same year, however, the government introduced an obligatory social insurance scheme to make employers and individuals more responsible for the vast majority of benefits, including disability, unemployment, sickness and maternity leave. To this day, no changes in the eligibility for or number of entitlements have been made since the initial reform period. In keeping with these changes, public spending on health and education has increased since 2004, while state expenditures on social security have decreased due to the extent of privatization in this sector. The vast majority of Kazakhstanis continue to rely on the state for health and education financing and service provision, but social assistance subsidies are primarily targeted to the very poor. Major features of Kazakhstan's current welfare system, including financing responsibilities and mechanisms, are outlined below in Table 4.1 (p. 148).

2.1 Budgetary revenue and expenditure flows

The government of Kazakhstan remains the key player in health and education spending, but employers and individuals play a more dominant role than the state in financing pension and social assistance benefits. The consolidated budget consists of a national level or "republican" budget as well as regional-level budgets for the country's fourteen *oblasti* (regions) and two large cities with special status (Almaty and Astana¹⁵²). Like Azerbaijan, Kazakhstan is a unitary state where budget formulation is centralized at the national level, and local authorities are responsible for budget management and implementation. Similar to Russia and Azerbaijan, Kazakhstan also has an extra-budgetary fund for oil revenues—the National Fund of the Republic of Kazakhstan (NFRK)—which was established in 2001. The NFRK acts as both a savings and a stabilization fund, where petroleum revenues flow into two separate portfolios (Jones Luong & Weinthal 2010). In addition to the NFRK, Kazakhstan has an institution unique to the other cases in this dissertation known as the Sovereign Wealth Fund, Samruk-Kazyna, which was formed in 2008 from the merger of two state holding agencies, Samruk and Kazyna. Samruk-Kazyna is technically a joint stock company that owns (in whole or in part) almost all of

¹⁵² Kazakhstan's largest city, Almaty (formerly Alma-Ata) was the capital of Kazakhstan until 1997, when Nazarbaev moved the capital to Astana (formerly Akmola and Tselinograd).

Kazakhstan's national companies.¹⁵³ The state is the sole shareholder, and Samruk-Kazyna essentially protects the state's interest in public sector companies and helps to maintain economic stabilization. As of 2011, Samruk-Kazyna controlled \$77.5 billion in assets, or approximately 55.5 percent of Kazakhstan's GDP (International Monetary Fund 2011), and aims to control \$100 billion by 2015 (*Bloomberg* 2012). As I will discuss in more detail below, Samruk-Kazyna has engaged in some social spending, including a massive housing bailout following the global economic crisis in 2008.

With regard to extra-budgetary welfare funds, in 1996, a compulsory health insurance reform was implemented that was similar to the Russian case, and a Mandatory Health Insurance Fund (MHIF) was created at the national level to pool funds from contributions from employers, individuals and *oblast'* administrations. Within two years, however, the health insurance fund ran large deficits because of inadequate contributions, primarily from *oblast'* administrations, which owed the MHIF nearly 30 billion tenge (\$204 million) by the end of 1998. As a result, the MHIF defaulted on its contracts and left 25 percent of the population without coverage (Cook 2007a). Since Kazakhstan was also affected by the Russian currency crisis in the same year, the state budget could not compensate for shortfalls, so the government abandoned the reform and reverted back to budgetary financing. That same year, the government set up the State Accumulative Pension Fund (*Gosudarstvennyi Nakopitel'nyi Pensionnyi Fond*, or GNPf) as an alternative to private retirement funds since many citizens feared investing in private accounts in the 1990s. As of mid-2013, the GNPf held approximately 20 percent of total pension assets in Kazakhstan, but as I discuss in more detail below, this will change now that the government plans to nationalize the country's pension system.

Health and education. The public sector contributes approximately 60 percent of total expenditure on health and the vast majority of expenditures on primary and secondary education in Kazakhstan (Katsaga et al. 2012; Cook 2007a; World Bank 2000). Out-of-pocket payments (formal user fees, tuition and informal payments) make up the rest. The bulk of public spending on health and education has traditionally come out of *oblast'*-level budgets, although this has been changing since the mid-2000s. In 2001, the share of *oblast'*-level budget expenditures on health was 78 percent, but by 2010 the share had decreased to 33 percent, with the republican budget accounting for approximately 70 percent of health spending since 2010 (Makhmutova 2006; Katsaga et al. 2012). Responsibilities for health spending have gradually fallen back on the republican budget since the Concept on the Unified National Health Care System was implemented in 2004. *Oblast'* health departments (through the Ministry of Health) became the single payer for all services provided free of charge to users under the State Guaranteed Benefits Package (SGBP),¹⁵⁴ which include emergency care, specified in-patient and outpatient services (which change frequently), and a drug benefit for children, adolescents and women of childbearing age. In 2010, the Ministry of Health began financing most hospitals in Kazakhstan with centralized, national-level budgetary funds, while primary health care clinics and some specialty hospitals continue to be financed through *oblast'*-level budgets (Katsaga et al. 2012). Similar to Azerbaijan, parallel health systems run by certain ministries and large state-owned

¹⁵³ These include, but are not limited to, Kazakhstan Temir Zholy (railways), Kazakhstan Development Bank, KazMunaiGas (oil and gas), Air Astana, Kazpost and KazakhTelecom. For additional information in Russian and English, please see <http://sk.kz/?lang=ru>, last accessed April 30, 2013.

¹⁵⁴ Spending on the SGBP (which is inclusive of salaries for some doctors and medical personnel) comprises upwards of 60 percent of public funding for health (Katsaga et al. 2012).

companies¹⁵⁵ comprised 1.1 percent of public health spending in 2010, but “more detailed data on the health infrastructure, the number of health workers employed and health expenditure for these systems are not available” (Katsaga et al. 2012).

The republican budget finances national education institutions controlled by the Ministry of Education and Science, activities related to the state’s Bolashak study abroad program, and virtually all expenditures (infrastructure, salaries, tuition and so on) related to Nazarbaev University. The Bolashak Presidential Scholarship, which was launched in 1993, is awarded to Kazakhstani students to study overseas for undergraduate and graduate degrees. All expenses are paid by the state with the stipulation that the students return to work in Kazakhstan for five years.¹⁵⁶ Since 1993, close to 7,000 students have received the scholarship, and most have studied in the United States, United Kingdom and Western Europe. Starting in 2010, the Bolashak program eliminated scholarships for undergraduate studies and now only funds Masters and Ph.D. studies, because the government prefers that high-performing students attend Nazarbaev University. Local-level education budgets cover primary and secondary schooling as well as some expenditures for vocational and technical schools, and local education departments are responsible for distributing these funds to schools in their region. Following trends in the health sector, the local level share of consolidated budgetary spending on education fell from 84 percent to 64 percent between 2000 and 2012. This is primarily due to the republican budget funding more tuition and scholarships for Nazarbaev University and other institutions of higher education.¹⁵⁷

Decision-making and policy implementation for health and education are entirely centralized, whereby *oblast*’ health and education departments receive orders from the Ministries of Health, Education and Science and Finance on how and how much money to spend. Similar to the Russian case (although Kazakhstan is not technically federal), *oblasts* receive a considerable amount of revenue from federal transfers. Beginning in 1999, regions with high revenues began paying into the republican budget, from which subsidies are allocated to lower income *oblasts* to eliminate gaps between income and expenditures (Makhmutova 2006). Since petroleum resources came online in the early 2000s, the majority of regions are now receiving subsidies. In 2005, 11 out of 16 regions received subventions from the national budget (Makhmutova 2006); in 2009 all regions received transfers. With the exceptions of Atyrau and Mangistau *oblasts*—the largest oil-producing regions—all other *oblasts* (including Almaty and Astana) received over forty percent of their revenue from transfers from the republican budget. Special transfers to local budgets for building schools and hospitals have been in effect since 2002, but little information on the criteria for and amounts of these transfers is available (Makhmutova 2006).

Pensions and social benefits. Kazakhstan privatized its pension system “more rapidly and radically” than any other postcommunist country (including those in East-Central Europe) in the 1990s (Cook 2007b: 56). The pension reform of 1998 provides for phasing out a solidarity pension system (PAYG) and replacing it with a minimum pension guarantee and mandatory

¹⁵⁵ These included, for example, the presidential administration, government, Ministry of Defense, Ministry of Internal Affairs, Kazakh Railways, and several other state agencies and companies, but some have been closed down (Katsaga et al. 2012).

¹⁵⁶ The student’s family has to put up capital (such as an apartment) to ensure that the student returns to Kazakhstan for a five-year period. Therefore, while the Bolashak Program is technically open to all regardless of income level, recipients tend to come from higher income households (Author interview with Bolashak Program Scholar, Almaty, Kazakhstan, August 31, 2010, and Bolashak Program Representative #2, Astana, Kazakhstan, September 30, 2010).

¹⁵⁷ Author interview with Bolashak Program Representative #2, Astana, Kazakhstan, September 30, 2010.

private accumulative accounts. In addition, citizens who entered the labor market prior to January 1, 1998 are eligible to receive a solidarity part of their retirement pension, which is a defined benefit calculated according to average pay for any three successive years and length of service up January 1, 1998. (Citizens who entered the labor market after this date are not eligible for the solidarity pension.) Thus, the current pension scheme consists of: (1) a basic pension, introduced in 2005, which covers all citizens regardless of whether or not they receive a solidarity or accumulative pension (first pillar); (2) a solidarity pension as defined above (second pillar); and (3) an accumulative pension (third pillar). For the accumulative pension, since 1998, all employed and self-employed persons have had to contribute ten percent of their income to either a private retirement fund or the GNPF. Up until 2013, 80 percent of Kazakhstan's pension assets were in private funds, but in March 2013 Nazarbaev ordered the government to nationalize the pension system by merging the assets of the three largest private pension funds into the state-owned GNPF. As of January 1, 2013, total pension assets in Kazakhstan amounted to over \$21 billion. The government intends to pay for these funds by offering shares in state-owned local banks in return. For example, Samruk-Kazyna was ordered to offer Halyk Bank, whose pension fund accounted for a third of all pension assets in Kazakhstan, shares in the state-owned bank BTA. The stated rationale behind this move is "to support fast economic growth" (*Reuters* 2013), but re-nationalizing these assets suggests that the central government wants to exert more control over pension provision in the future. In addition to pensions, Kazakhstan also shifted the burden for financing social insurance benefits onto employers and employees. The 2005 Law on Obligatory Social Insurance mandated both employers (for all employees) and self-employed individuals to acquire insurance for disability, unemployment, loss of breadwinner, pregnancy and childbirth and childcare benefits, which are calculated according to a defined formula. The government gradually increased contribution rates from 1.5 percent in 2005 to five percent in 2010 to ease the transition from the solidarity system (Seitenova & O'Brien 2010).

The government of Kazakhstan is still responsible for financing some social welfare benefits, but the pension and social insurance reforms discussed above, as well as additional legislation, have reduced the state's overall role in providing social protection. The republican budget share in consolidated state social welfare expenditures is approximately 90 percent, and funds disability and survivor allowances in addition to the first two pillars (basic and solidarity) of the old-age labor pension. Pensioners are the primary social transfer recipients in Kazakhstan, 96 percent of whom were retirees in 2011 (compared to 75 percent in Russia and 65 in Azerbaijan). In the 1990s, most Soviet-era categorical benefits and entitlements were replaced with income-based eligibility requirements. In 1998, 47 categories of recipients received 202 different types of benefits and price discounts; in 1999, these entitlements were eliminated and replaced with the State Social Allowance, which is a cash allowance targeted to a significantly reduced number (14) of benefit categories, including veterans, Chernobyl victims and so on (World Bank 2000). In addition, the government introduced a State Social Assistance Program to target cash transfers (birth grants, funeral allowances and so on) to the poor. Nazarbaev is the key decision-maker for the amounts of the basic pension, categorical benefits and means-tested subsidies, which constitute the bulk of public spending on social protection in Kazakhstan. In short, the above discussion illustrates that while the government remains the key financier and decision-maker for health and education, a substantial share of pension and social assistance spending is the responsibility of private funds and insurance companies.

2.2 Citizen dependence on the state

In keeping with Kazakhstan's partially liberalized welfare state, most citizens rely on the government for healthcare and primary and secondary schooling, but individuals are responsible for financing vocational and tertiary education. Private health care services were introduced in the early 1990s, but overall privatization in the health sector remains limited and mostly involves pharmacies and dental services. Hospitals and polyclinics are still primarily state-owned, although the private sector's share in health provision is increasing. From 1999 to 2004, private hospitals and private clinics had doubled and tripled in number, respectively, and by 2004 over 15 percent of physicians were working in the private sector (Katsaga et al. 2012), although the majority of private medical professionals were located in Almaty or Astana. In 2009, out-of-pocket payments comprised nearly 99 percent of private health expenditures, while private health insurance contributed 0.18 percent (Katsaga et al. 2012). As part of the move to obligatory social insurance, the government is currently promoting voluntary health insurance financed by both individuals and employers. In 2009, only 1.2 percent of the population was covered by voluntary health insurance, a market that is "currently dominated by contracts with companies, such as large industrial enterprises, the financial sector, and the gas and oil sector" (Katsaga et al. 2012: 56).

In the education sector, primary and secondary schooling is publicly financed and free of charge, but book charges and other fees were introduced in 1996 (Cook 2007a). As of 2011, only 110 private schools were operating in the country (out of 7,706 total primary and secondary education schools) and enrolled less than one percent of the general student population. The bulk (70 percent) of public education resources are spent on non-vocational primary and secondary education as opposed to higher education, which was privatized in the mid-1990s. In 2011, over 60 percent of universities in Kazakhstan were private. As of 1996, public universities began charging tuition, which can range from 259,000 tenge (\$1,760) to 505,000 tenge (\$3,430) per year depending on the prestige of the university (European Commission 2010). Private universities and technical colleges charge even higher tuitions. These sums are prohibitively expensive for some families, but a number of merit and need-based grants are available from the government as well as specific institutions to subsidize full-time students. As of 2010, approximately 20 percent of university students received tuition grants from the government (European Commission 2010), but this number should increase in the coming years as enrollments grow at Nazarbaev University.

Fewer Kazakhstanis receive pensions and social transfers to subsidize their income than in Russia and Azerbaijan, although the size of public employment is comparable. In 2011, 3.7 million people total received a pension or a government allowance. The raw number represents 22 percent of the population, but the real number is somewhat lower since some recipients receive more than one benefit.¹⁵⁸ There are fewer total pensioners in Kazakhstan than in Russia or Azerbaijan, since the government raised the retirement age from 60 to 63 for males and 55 to 58 for females in the 1990s. In 2011, less than 10 percent of the total population consisted of pensioners, compared to nearly 30 percent in Russia and 15 percent in Azerbaijan. In the mid-1990s, targeted means-testing and the monetization of benefits reduced eligibility for certain types of benefits; for example, the number of households receiving child benefits was reduced by 50 percent (Cook 2007b). In addition, the number of individuals receiving targeted social assistance fell from over 500,000 in 2005 to under 100,000 in 2012, representing an 80 percent

¹⁵⁸ Data on benefit recipient overlap are not available.

drop.¹⁵⁹ Between 2009 and 2012, social transfers comprised approximately 14 percent of household income, compared to nearly 20 percent in Russia and Azerbaijan. Similar to Russia and Azerbaijan, the majority of state employment in Kazakhstan consists of doctors and teachers. In 2011, state employees comprised 24 percent of the total active labor force, 60 percent of whom (or 14 percent of the total labor force) were health, education and social security administration personnel.

2.3 Moderate welfare expansion

Following Kazakhstan's initial economic recession in the early 1990s and stagnation triggered by the Russian currency crisis in 1998, the economy boomed along with steep increases in international oil prices in the 2000s. Real GDP growth averaged ten percent a year between 1999 and 2008, making Kazakhstan one of the fastest growing economies in the world. Growth slowed to 3.3 percent in 2008 and 1.2 percent in 2009 as the global economic crisis deepened, but recovered to 7.3 percent in 2010 and 7.5 percent in 2011. Like Russia and Azerbaijan, Kazakhstan's economy is highly dependent on the petroleum sector, which accounts for over 30 percent of GDP, over 70 percent of export earnings, and over 40 percent of consolidated budget revenues. Since 2000, social spending in Kazakhstan (health, education and social protection combined) has remained relatively stable in terms of percent of GDP, averaging 10.8 percent for 2000-2011 and peaking at 12.5 percent in 2009. Table 4.2 (p. 149) below presents spending on health, education and social protection in terms of percent of GDP, percent of government spending and real tenge per capita from 2000 to 2011. Table 4.3 (p. 150) shows real average monthly salaries for medical and education personnel as well as real average amounts for monthly pensions and social benefits over the same time period. Aggregate social spending has remained relatively constant since pension and social protection expenditures steadily declined between 2000 and 2008 as investments in health and education rose. In 2009, total social spending grew by almost two percent of GDP in the midst of the global financial crisis due to across the board increases in health, education and social protection from 2008, but declined in 2010 and 2011. Projected republican budget expenditures for 2013 suggest that spending on health, education and social protection may increase again to 2009 levels (*Ministerstvo Finansov RK* 2013).

In a comparative context, total public welfare spending in Kazakhstan is now on par with what Chile and Mexico spend on the social sector (World Bank 2011), and state health expenditures are approximately the same as China, Malaysia and Venezuela (World Bank 2013a). Beginning in 2004, the state began to increase health and education expenditures moderately which, combined, grew from 5.2 percent of GDP in 2000 and 2001 to 7.9 percent of GDP in 2009 (Table 4.2). More significant increases can be seen in the health and education shares in budgetary spending: health expenditures as a percent of total budget spending grew from 7.3 percent in 2001 to 12.4 percent in 2010, and education grew from 12.4 percent in 2001 to 18.2 percent in 2011. Health and education expenditures both grew approximately four times in real tenge per capita terms between 2000 and 2009, which represents a much more modest increase than in Russia, where health and education spending rose ten times in real ruble per capita terms in the same time period (Table 2.2). In keeping with overall trends in health and education

¹⁵⁹ While most allowances and transfers are given after a means-test, there are still some categories where the majority of recipients may not be poor (such as "families with many children").

spending, average monthly salaries nearly tripled for medical personnel and nearly doubled for education employees in real tenge per capita terms (Table 4.3).

In contrast to longitudinal spending trends in health and education, social security expenditures declined in the 2000s. The decrease in public social security expenditures can be explained in part by pension privatization as well as the move to obligatory social insurance to finance a number of benefit categories. Between 2000 and 2008, public spending on social protection was almost cut in half in terms of percent of GDP and government spending, falling from 6.6 percent to 3.9 percent of GDP and from 25.4 to 13.9 percent of budgetary expenditures. Growth in social protection expenditures doubled in real tenge per capita terms during the same time period, which is very modest compared to Russia's 20-fold increase (Table 2.2). Between 2000 and 2011, the average monthly retirement pension grew by about 1.5 times in real tenge per capita terms compared to 11.5 times in Russia (Table 2.3). At the same time, social security expenditures are still twice as high as Azerbaijan's in terms of percent of GDP and percent of government spending (Table 3.2), even though Kazakhstan's social security sector is much more liberalized. In the wake of the global financial crisis, expenditures in all three welfare sectors saw a moderate spike in 2009. In 2010 and 2011, overall expenditures have declined or leveled off, while salaries, pensions and subsidies appear to be increasing steadily in real tenge per capita.

Increases in health and education spending have coincided with the development and implementation of several federal reforms and initiatives aimed at improving infrastructure and access to services and developing the country's human capital resources.¹⁶⁰ The most comprehensive initiatives have occurred in the health sector. Following the failed health insurance reform of 1996 and the switch back to budgetary financing in 1998, the government committed to increasing the state's role in health care financing and provision (Johnson 2011). In 2004, the government initiated a significant increase of the health budget and adopted the National Program for Health Care Reform and Development for 2005-2010, which was Kazakhstan's first comprehensive national health care plan. The main objectives of this reform were to improve access, quality and efficiency in the healthcare system and to introduce the State Guaranteed Benefits Package (SGBP), which formalized the services provided free of charge. The next stage of health reforms aims to prioritize overall population health and demographic development, encourage competition between providers, and continue to improve the quality of and access to health services and the efficiency of health financing (Katsaga et al. 2012).¹⁶¹ They are laid out in the Strategic Development Plan 2020, the 2009 Concept on the Unified National Health Care System and the State Health Care Development Program for 2011-2015, "Salamatty Kazakhstan." In contrast to Russia's Priority National Project for Health, the stated goals and direction of spending are not geared specifically towards increasing salaries and benefits payments or adding new benefit categories.

In addition, the high profile national project, "100 schools, 100 hospitals," which was announced in March 2007, aims to construct or renovate 103 medical facilities and 106 primary and secondary schools. This project is highly ambitious, expensive and widely publicized, but it is not embedded in long-term health and education development goals. Moreover, there have been significant problems with the project's implementation. In January 2012, Nazarbaev publicly berated the Minister of Health, Salidat Kairbekova, since in five years only 58 out of

¹⁶⁰ Author interview with Official #1, Ministry of Education and Science, Astana, Kazakhstan, September 29, 2010.

¹⁶¹ For more information about "Kazakhstan 2020" and other strategic plans, please see http://akorda.kz/special.php?r=page/category&sefname=gos_programmi_razvitiya&language=en (in English and Russian), last accessed June 30, 2013.

103 health facilities had been built (*Tengri News* 2012). Echoing problems similar to Azerbaijan, many construction contracts have been awarded to companies with ties to officials. In addition, even though most hospital and school construction was intended for disadvantaged communities, several large clinical hospitals were built in Astana under the auspices of the program, “some of which have now been incorporated in the National Medical Holding” (Katsaga et al. 2012). The construction boom has also reached higher education, where the government has likely spent upwards of \$500 million on Nazarbaev University, a public international university that opened in Astana in 2009. University tuition is covered by the republican budget for all undergraduates, who also receive a living stipend if they are in good standing.¹⁶² Nazarbaev University has also been actively recruiting international professors from all fields and paying them close to \$100,000 per year in addition to a housing allowance. Finally, in 2005, the government adopted a package of measures to support students with greater need, including the Presidential Specialized Scholarship, which is awarded to high-performing full-time students in both public and private universities (European Commission 2010).

In addition to state-funded federal initiatives, the activities of Samruk-Kazyna and the Bota Foundation are relevant to the government’s renewed focus on welfare. While housing issues do not fall within the welfare scope of this dissertation, it is significant that Samruk-Kazyna offset a major housing crisis in 2008. Following the global economic collapse, when building sites were left unfinished that had thousands of pre-purchased apartments, Samruk-Kazyna used its funds to complete the construction and re-issue loans for buyers with extremely low interest rates.¹⁶³ In addition, both Samruk-Kazyna and the state currently have housing programs to make buying and renting homes more accessible and affordable.¹⁶⁴ The initial capital for the Bota Foundation, which is technically a non-governmental organization that was established in 2008, consisted of funds that had been “stolen” from Kazakhstan in a scandal known locally as “Kazakhgate.” In 2003, U.S. businessman James Giffen was arrested in New York for allegedly funneling tens of millions of dollars in bribes to Kazakh officials—including Nazarbaev himself—to a Swiss bank account that was used in part to pay for Nazarbaev’s youngest daughter and the children of other Kazakh officials to attend elite boarding schools in Europe. Kazakh officials denied all charges, but in 2007, \$84 million was repatriated to the country and earmarked for improving the health, education and social welfare of children and youth in Kazakhstan. The Bota Foundation currently funds three programs: a conditional cash transfer program to impoverished families, a social services program that provides grants to NGOs working in health, education and poverty relief, and a tuition assistance program for higher education. As of 2012, over 20,000 beneficiaries received cash transfers, over 200 social projects had been funded, and nearly 650 students had received tuition assistance. While the Bota Foundation operates independently of the government, it is highly likely that Nazarbaev decided to earmark this capital for funding social welfare initiatives exclusively.

Finally, like Russia and Azerbaijan, the bulk of welfare expenditures are directed to salaries, pensions and benefits, while the remainder goes to construction and other infrastructure

¹⁶² In 2012-2013 there were approximately 1500 undergraduates; in 2013-2014 there will be approximately 2000 (Author e-mail correspondence with Faculty Member, Nazarbaev University, May 20, 2013).

¹⁶³ Author interview with Employee, Samruk-Kazyna Real Estate Department, Astana, Kazakhstan, November 12, 2010.

¹⁶⁴ The objectives of both programs include the construction of new housing, issuing favorable mortgages to prospective buyers, and lotteries for low-income housing. For additional information, see <http://sk.kz/page/zhilischnye-programmy> and <http://sk.kz/page/gosudarstvennaja-programma-dostupnoe-zhile-2020> (in Russian), last accessed May 15, 2013.

investments and costs. As in the other post-Soviet cases, similar problems with informal payments persist in both the health and education sectors. Food and drugs are supposed to be provided free of charge in hospitals, but patients are often asked to pay for them. In addition, prior to being admitted, patients are often given a list of medicines and supplies to bring with them to the hospital (Katsaga et al. 2012). For example, at a women's maternity hospital built by Tengizchevroil in the village of Kul'sary, which is close to the giant onshore Tengiz field in Atyrau *oblast'* and where many Tengizchevroil employees live, women are routinely asked to bring water, blankets and other supplies when checking in to give birth. Moreover, even though this hospital cost millions of dollars to build and was supposed to be state of the art, women who require caesarian sections must be transported via helicopter 100 miles to Atyrau city in order to have the relatively routine surgery,¹⁶⁵ which suggests that the funds to build this facility were misappropriated. Despite these issues, recent survey data indicate that citizens' out-of-pocket (OOP) health spending is much higher in Azerbaijan than in Kazakhstan or Russia. In 2010, total OOP payments for health, including formal and informal fees, were estimated at approximately \$20 in Kazakhstan (Katsaga et al. 2012) and \$191 in Azerbaijan (World Bank 2010). OOP payments comprised 34 percent of total health spending (public and private) in Kazakhstan in 2010, compared to 68 percent in Azerbaijan and 28 percent in Russia, and 0.15 percent of annual GDP per capita in 2009, compared to 1.03 percent in Azerbaijan and 0.17 percent in Russia (Balabanova et al. 2012).¹⁶⁶ Private tutoring has also become more common for students from higher income families to prepare for university entrance exams. Teachers subsidize their salaries with private tutoring and some schools offer "extra-curricular activities" to help offset maintenance costs (World Bank 2000). Finally, anecdotal evidence suggests that parents bribe teachers for better grades for their children, but in contrast to Azerbaijan, parents in Kazakhstan are much less often coerced or threatened into making informal payments (OSI 2010).

2.4 Alternative explanations for welfare spending trends

Two alternative explanations could account for Kazakhstan's welfare spending trends in both comparative and longitudinal terms. The previous chapter demonstrates that the phenomenon of replacement is not occurring in Azerbaijan. In a comparative context, replacement is also worth investigating in this case to explain why welfare spending is lower in Kazakhstan than in Russia. This is especially true since foreign private oil companies—especially Chevron—has had such a large presence in the country since the early 1990s. As Jones Luong and Weinthal (2010: 274) demonstrate, a large share of foreign oil company spending in Kazakhstan "is directed towards the regions in which they operate" and "often takes the form of a social contribution fund at the sub-national level, whereby the [foreign oil companies] are required to allocate a portion of their profits to local development projects." Chevron's social investment spending throughout the world is restricted to local areas in which the company operates (e.g. Tengizchevroil 2010 and Chevron 2011), and Tengizchevroil's spending in Atyrau *oblast'*, the site of the Tengiz field, illustrates the sub-national nature of foreign oil company spending. Data on Tengizchevroil's social spending in Atyrau, as well as sub-national welfare spending in eight *oblasts*, are presented below in Table 4.4 (p. 151) and

¹⁶⁵ Author interview with Employee #2, Tengizchevroil, Kul'sary (Atyrau *oblast'*), December 2, 2010.

¹⁶⁶ Survey data on household OOP health spending is not a precise measure of corruption since it comprises both formal and informal user fees, but it is the best proxy available to gauge the extent of shadow payments.

Table 4.5 (p. 151), respectively. Tengizchevroil has spent upwards of \$700 million in Kazakhstan since 1993 (including voluntary benefits to employees) and the vast majority of the company's social investment projects have been implemented in the cities of Atyrau and Kul'sary. My data illustrate that during this period, social spending by the government in Atyrau, Manistee and West Kazakhstan—the three primary oil-producing regions on the Caspian Sea—was slightly above the regional average for 2000-2009.¹⁶⁷ Therefore, it is clear that replacement is not occurring at either the national or the sub-national level in Kazakhstan.

Second, Jones Luong and Weinthal (2010) argue that increases in social spending since the mid-2000s can be attributed to the fact that the Kazakhstani state reasserted control over its petroleum sector. They identify a shift in Kazakhstan's ownership structure from foreign private ownership (P2) to state ownership without control (S2) in 2005, when a new production sharing agreement law was ratified that required the national oil company, KazMunaiGaz, to obtain a 50 percent stake in all new deals. While this implies that following the 2005 policy change, the state has become less fiscally constrained and therefore more willing to increase social spending, my data indicate that increases in health and education budgets actually began prior to this date (Table 4.2), and the national health care reform was introduced in 2004. Moreover, the 2005 Obligatory Social Insurance Law, which shifted the burden for a number of benefits onto individuals and employers, contradicts Jones Luong & Weinthal's (2010) assumption that the state began engaging in less fiscally sound policies.

2.5 Lack of transparency in budgetary formulation

Kazakhstan is no different from Russia and Azerbaijan in that policy and budgetary decision-making are concentrated in the presidential administration, even though a formal budgetary process is more or less routinely followed on the national and regional levels.¹⁶⁸ Unlike the other two cases, though, there is considerable importance placed on aligning budgetary spending with the goals of Kazakhstan's strategic plans. The country currently has two long-term development plans: the "Strategy for Development of the Republic of Kazakhstan through 2030," which was outlined in Nazarbaev's national address in October 1997, and the "Strategic Plan for the Development of the Republic of Kazakhstan through 2020," which was announced in February 2010. These strategic plans envision long-term goals for the country, including economic growth, national security and human capital development. In theory, budgetary spending is supposed to reflect these priorities. In addition, emulating Russia, Kazakhstan switched from one to three-year budgetary planning in 2008.

Formally, Nazarbaev has a small role in the budget planning process. He delivers an annual address to the public on domestic and foreign policies in which he identifies main budget priorities for the coming year, but the speech "lacks macroeconomic and financial information" and "does not reflect general levels of revenue, expenditures, budget deficit or surplus, or debt" (Makhmutova 2005: 10). In 2002, Nazarbaev began delivering the speech in spring as opposed to autumn, which destabilizes the budget process because it results in numerous amendments to

¹⁶⁷ Unfortunately, however, the comparatively higher amounts of budgetary and foreign oil company funds these regions devote to social investment are not translating into better outcomes. For example, between 2007 and 2011, the number of people living below the subsistence minimum was two or three times as high in Mangistau than the national average (Kazstat 2013).

¹⁶⁸ The 2008 Budget Code outlines the budget planning and implementation procedure. For more information, see http://online.zakon.kz/Document/?doc_id=30364477&sublink=590000 (in Russian), last accessed May 10, 2013.

the current year budget. In this way, the government can use “resources hidden from the parliament for implementation of initiatives proposed by the president in his address six months later” (Makhmutova 2005: 10). Similar to Russia, Kazakhstan has a Republican Budget Commission, which together with the Ministry of Economic Development and Trade¹⁶⁹ exerts the most formal control over the planning stage. The Ministry develops macroeconomic forecasts, sets budget limits for each of the ministries “based on historical spending levels and the strategic priorities of the government” (Katsaga et al. 2012: 29), and pools budget requests from each of the line ministries. The Republican Budget Commission then drafts the budget law that passes through the presidential administration before getting submitted to the *Mazhilis* on or before September 1st (Fond “Soros” Kazakhstan 2010).

There are fewer set rules governing the composition of the Republican Budget Commission in Kazakhstan than in Russia; the budget code only states that “the president of Kazakhstan forms the commission” and “determines its composition” (Biudzhetniy Kodeks RK 2008).¹⁷⁰ The last known members of the Republican Budget Commission from 2005 were 19 individuals, including the prime minister and deputy prime ministers, the Ministers of Justice, Labor and Social Protection, Economy and Budget Planning and Finance, a presidential advisor, the head of the national bank, and a few members of the *Mazhilis*.¹⁷¹ The primary purpose of Kazakhstan’s Republican Budget Commission is to mediate negotiations between the Ministry of Economy and Budget Planning, the Ministry of Finance and line ministries, and make sure spending priorities are in line with Kazakhstan’s strategic plans. However, since the Budget Commission is mostly composed of representatives from the government and presidential administration, and leaves out most line ministers, no meaningful negotiations or debate can realistically occur. While the annual budget law technically requires parliamentary approval, the *Mazhilis* is a rubber-stamp institution that has minimal say in the budget process. Since 1995, the *Mazhilis* has never rejected the budget law, and no substantive changes have been made to the draft version once it leaves the presidential administration. Changes have only occurred via amendments that the presidential administration pushes through mid-year. In addition, similar to the State Oil Fund of the Republic of Azerbaijan (SOFAZ), the National Fund of the Republic of Kazakhstan lacks clear criteria for transferring money into the Republican Budget. The NRFK was established by presidential decree, and Nazarbaev retains sole decision-making authority over how the funds are spent (Tsalik 2003; Jones Luong & Weinthal 2010). No oversight mechanisms exist, which means that the president can “usurp the fund for discretionary spending” and “change the rules and procedures governing the fund” whenever he sees fit (Jones Luong & Weinthal 2010: 280-81). In short, like the other two cases in this dissertation, welfare spending decision-making occurs in a vacuum since the president retains exclusive control over every aspect of the budget planning process.

¹⁶⁹ In 2004, the Ministry of Economy and Budget Planning, which was renamed the Ministry of Economic Development and Trade in 2010, assumed the responsibility for budget planning and allocation from the Ministry of Finance, which is now only responsible for budget execution and oversight over regional-level spending in welfare and other sectors.

¹⁷⁰ See Article 57 of the budget code: http://online.zakon.kz/Document/?doc_id=30364477&sublink=590000 (in Russian), last accessed May 10, 2013.

¹⁷¹ For more information on the members of the 2005 Republican Budget Commission, please see http://ru.government.kz/docs/n050000537_20090704.htm (in Russian), last accessed May 10, 2013.

2.6 Summary

The above discussion demonstrates Kazakhstan's increased commitment to social sector funding in the 2000s, particularly in health and education, and trends in outcomes are consistent with higher spending. The latest available data on access to health care services in Kazakhstan reveal that health care utilization is relatively equal among income groups. For example, 82 percent of children in the highest income quintile were fully immunized in 2006, compared to 70 percent in the lowest quintile (World Bank 2012c). In addition, tertiary education enrollments more than doubled between 1998 and 2008 (Kazstat 2013). At the same time, social security spending declined overall in the 2000s, and direct cash payments to citizens, including pensions, benefits and salaries, have increased moderately, though not nearly to the same extent as in Russia. Official statistics indicate that the number of people living in absolute poverty declined from 7.9 percent in 2005 to 1.1 percent in 2010 after the introduction of the minimum pension. While this is a steep decline, economists and budgetary experts independent of the government confirm that this figure is accurate.¹⁷² In sum, Kazakhstan's level welfare effort in the 2000s falls in between those of Russia and Azerbaijan. Nazarbaev has certainly not neglected to share the wealth from oil profits, but neither has he embarked on an endless campaign to line the citizenry's pockets with cash. The next section explains how increased fragmentation among political and economic elites in Kazakhstan in the 2000s influenced Nazarbaev's welfare policy preferences.

3. Growing elite fragmentation

Like Azerbaijan's Heidar Aliev, Nursultan Nazarbaev enjoyed a pre-existing network of loyal officials and bureaucrats who rallied around him in the early years of Kazakhstan's independence from the Soviet Union. Nazarbaev allowed most *nomenklatura* to remain in important government positions, and he also enabled close friends and family members—especially his two eldest daughters and their husbands—to obtain significant control over the energy and metals infrastructure. In sharp contrast to Azerbaijan, however, Kazakhstan embarked on an ambitious privatization program that dispersed significant non-mineral assets to domestic actors, leading to the formation of an independent business class that amassed significant wealth in the 1990s. Unlike Russia's oligarchs, though, these domestic actors “were denied entry into the most lucrative sectors of the economy” (Junisbai 2010: 236). As a result, separate tiers of political and economic elites formed around Nazarbaev. The inner circle of Kazakhstan's ruling elite consists of political elites who hold the most influential government posts, as well as Nazarbaev's extended family members and Soviet-era friends who have significant business interests in the country's oil, gas and metal industries. The second tier circle consists of economic elites who “have been allowed to amass a fortune and build up Kazakhstan's domestic economy, but have not been given access to sectors reserved for the inner circle” (Junisbai 2010: 247). Beginning in the early 2000s, prominent members of Kazakhstan's second tier economic elite turned against Nazarbaev because of disputes over the allocation of resources. Intraelite conflict escalated in the 2000s and included several public, direct challenges to Nazarbaev's rule that were financed by disillusioned members of the elite, beginning with the 2001 Democratic Choice of Kazakhstan (DCK) opposition movement, and peaking in 2007

¹⁷² Author interviews with Policy Advisor and Program Coordinator, Soros Foundation-Kazakhstan, September 10, 2010; and Poverty Expert, Institute for Economic Strategies, Almaty, Kazakhstan, September 16, 2010.

when Nazarbaev's former son-in-law, Rakhat Aliev, was expelled from the country and convicted *in absentia* for a host of crimes. Despite the DCK movement and other challenges, which will be discussed in greater detail below, the inner circle economic elites have succeeded in retaining exclusive control over Kazakhstan's most highly sought after natural resources, and remain dependent on Nazarbaev for continued access to these economic sectors. In addition, with the (albeit significant) exception of "Rakhatgate," challenges to Nazarbaev's authority have come from second tier political and economic elites as opposed to those in the inner circle. Thus, even though Kazakhstan's ambitious privatization program had the unintended consequence of driving a substantial wedge between a previously homogenous political and economic elite, the level of in-traelite conflict has not been as high—or sustained—as it has been in Russia.

In this section, I show that members of Kazakhstan's elite became less cohesive over time by examining the economic origins of increasing elite fragmentation. Like the other two case study chapters, I first outline the contours of Kazakhstan's political and economic elite structure and composition. I then demonstrate that growing elite fragmentation manifested itself in several high profile episodes of in-traelite conflict that raised the level of threat to Nazarbaev's position. Finally, I use process tracing to link up specific challenges to Nazarbaev's rule, including the global financial crisis, to longitudinal welfare spending patterns. My analysis relies on empirical data and information collected during four months of fieldwork in Almaty, Astana and Atyrau, Kazakhstan, between August and December 2010. I collected relevant biographical data on members of Kazakhstan's elite and Nazarbaev's shifting perceptions from interviews conducted with established political observers, journalists and opposition politicians, as well as a prominent "Who's Who" encyclopedia, publicly available print and online news sources available in Russian, and Nazarbaev's yearly addresses to the public. Finally, recent work by Dosym Satpaev (2007) and Barbara Junisbai (2010) on the Kazakhstani elite informs the analysis in this section.

3.1 Hybrid elites

In December 1991, Nazarbaev was automatically elected president of Kazakhstan with over 90 percent of the vote in an election in which no other candidate ran. Nazarbaev had risen up through the ranks in the Communist Party of the Kazakh Soviet Socialist Republic, and was appointed head of the Council of Ministers in 1984 and First Secretary in 1989 by Mikhail Gorbachev.¹⁷³ Like his counterparts in Kyrgyzstan, Uzbekistan and Turkmenistan, Nazarbaev seamlessly switched titles from First Secretary to President following the Soviet collapse, and he was able to consolidate power quickly by relying on *nomenklatura* as well as family members. Despite an elected legislature and incipient opposition political parties in the first years of transition, Nazarbaev pushed through a constitution in 1995 that centralized authority in the presidential administration and rendered parliament and other check-and-balance institutions powerless. A 1995 referendum extended his term to 2000, and in presidential elections in 1999 and 2005, Nazarbaev won with 80 percent and 91.5 percent of the vote, respectively. In 2007, a constitutional amendment was passed allowing Nazarbaev to seek re-election as many times as

¹⁷³ Kunaev, an ethnic Kazakh who served as First Secretary of the Kazakh SSR from 1964 to 1986, was dismissed by Gorbachev under charges of corruption and replaced with Gennday Kolbin, an ethnic Russian who had no ties to the Kazakh SSR. This sparked the *Zheltoksan* (December) riots in 1986, which started out as a peaceful student demonstration in Almaty (then Alma-Ata) but resulted in violent clashes between protestors and Soviet special forces and spread to a number of other cities over the course of a couple of days.

he wishes,¹⁷⁴ and in 2011 he was re-elected with 95.5 percent of the vote. In this most recent election, the three officially registered (but entirely unknown) opposition candidates all expressed support for Nazarbaev, and one of them, Mels Eleusizov, admitted publicly on election day that he had voted for the president (*Economist* 2011). Since Nazarbaev has remained healthy, manipulated electoral rules and consistently made clear that he has no plans to leave office, Kazakhstan, unlike the other two cases in this study, has yet to experience a presidential succession. As of 2013, Nazarbaev, now 73 and known locally as “papa,” has ruled Kazakhstan for nearly 25 years. Almost all political analysts and observers in Kazakhstan—as well as the general public—assume that Nazarbaev will leave office only upon his death or serious illness.

As alluded to above, political and economic elites in Kazakhstan can be most easily analyzed according to tiers that surround Nazarbaev, which in recent analyses typically include an inner circle and a second tier (e.g. Junisbai 2010).¹⁷⁵ I collected biographical data on approximately 230 members of the Kazakhstani elite from 1995-2010. This list includes current and former ministers, heads of state agencies and state-owned enterprises, speakers and deputy speakers of the Senate and *Mazhilis*, *akims* (governors) of Kazakhstan’s sixteen regions, as well as Nazarbaev’s family members and known close associates. I reduced this list to 48 individuals who are (or have been) top political and economic elites in the inner or second tier circles surrounding Nazarbaev since the late 1990s. Table 4.6 (p. 152) lists by tier group their names, government or state-owned company position (if any), business interests, known wealth, and whether or not they are related to Nazarbaev. Due to the numerous horizontal reshuffles within the upper echelons of the state apparatus, this list is not intended to be exhaustive, but rather a snapshot of the regime’s major political and economic players. Most members of the Kazakhstani elite have held numerous positions in the central government, regional administrations and/or state-owned enterprises as a result of the extraordinarily high frequency of cadre rotation, whereby “a person today is an *akim*, tomorrow a minister, after that an ambassador, then a deputy, then a senator.”¹⁷⁶

Inner circle. The inner circle primarily consists of the president’s immediate family members and close companions. While family connections are not nearly as prominent in Kazakhstan as they are in Azerbaijan, the president’s children came to play an increasingly dominant role in politics and especially business beginning in the mid-1990s. Members of the inner circle who are the country’s top economic elites include the president’s son-in-law, Timur Kulibaev, who is married to Nazarbaev’s middle daughter Dinara; the president’s nephew, Kairat Satybaldy; the president’s close companion (and possible relative), Nurtai Abykaev; businessmen Aleksandr Mashkevich, Patokh Shodiev, Alidzhan Ibragimov, Vladimir Kim, Vladimir Ni and Bulat Utemuratov, and (up until 2007) the president’s oldest daughter Dariga and her now ex-husband Rakhat Aliev (Satpaev 2007; Junisbai 2010). Dariga Nazarbaeva and Rakhat Aliev had significant holdings in oil refining, banking, sugar, and media, while Timur

¹⁷⁴ This amendment applies only to Nazarbaev. Future presidents still have to abide by the two presidential term limit rule.

¹⁷⁵ Similar to Azerbaijan, *zhus* (horde) identity has been cited as a main fault line that structures political and economic conflict in Kazakhstan (e.g. Schatz 2004; Collins 2002, 2003, 2004), but no observable outcomes of inter-clan conflict exist to shore up support for this argument. In addition, Nazarbaev has consistently engaged in “clan balancing,” whereby representatives from all clans hold official positions of power. Kazakhs are typically grouped into the senior horde, middle horde and junior horde.

¹⁷⁶ Junisbai interview with anonymous political scientist, Almaty, Kazakhstan, February 12, 2007, (quoted in Junisbai 2010: 258). Nazarbaev uses this strategy in an attempt to prevent elites from entrenching themselves in a particular ministry, state agency or *oblast*.’

Kulibaev has headed and/or controlled state-owned banks and state-owned oil companies involved in everything from production to refining to transport (Satpaev 2007; Junisbai 2010). The inner circle's other billionaires, including Kazakhstan's wealthiest individual, Vladimir Kim, all have significant interests in metals, mining and banking. In short, all of the elites whose business interests are known own and have significant control over some aspect of petroleum and/or metals exploration, production, refining or transport, as well as banking and other industries.

The inner circle also includes political elites who have been rotated among the country's highest-ranked official positions, including former chiefs of the presidential staff Sarybai Kalmyrzaev and Aslan Musin, former Secretary of State and Minister of Foreign Affairs Kanat Saudabaev, current Secretary of State Marat Tazhin, current chief of the presidential staff Karim Masimov, current Chairman of the Board of Samruk-Kazyna Umirzak Shukeev, and current *akim* of Almaty Imangali Tasmagambetov. As of 2010, the five most powerful gatekeepers surrounding Nazarbaev were Kalmyrzaev, Musin, Saudabaev, Masimov and Kulibaev (*Guardian* 2010b).¹⁷⁷ Timur Kulibaev has been on the *Forbes* list of billionaires since 2007, and is arguably the second most influential person in Kazakhstan, and the position of chief of the presidential staff, which is currently occupied by Karim Masimov, is considered the most politically powerful next to the presidency.

The inner circle have at times competed with one another, joined forces, split apart, and shifted places in the pecking order closest to the president (Junisbai 2010). In 2010, for example, political analysts and observers spoke of prominent alliances that were formed between Timur Kulibaev and political officials Karim Masimov and Aslan Musin, on one side, and Sarybai Kalmyrzaev and Umirzak Shukeev on the other. These "alliances," however, are usually fluid and fleeting in nature, and do not necessarily reflect sustained competition or conflicts between members of the elite.¹⁷⁸ Similar to the tight-knit Azerbaijani elite, the inner circle is not heavily factionalized, since its members have an incentive to work together in order to protect—and keep others from gaining access to—their lucrative business interests.¹⁷⁹ Membership in the inner circle has remained relatively stable, and outright expulsion and movement between the inner and second tier circles are rare occurrences (Junisbai 2010). In contrast to Azerbaijan, however, family members are not immune to harsh consequences should they come up against "papa." As will be discussed in more detail in the following sub-section, a significant amount of intraelite conflict arose that involved Rakhmat Aliyev and (by default) Dariga Nazarbaeva, who were both expelled from the inner circle in 2007, although Dariga has since regained her father's favor.

Second tier. It is generally agreed by scholars and political observers that—excluding the individuals mentioned above—certain high-level officials and state administrators comprise the political arm of the second tier, while national-level business elites occupy the economic arm. Political elites in the second tier include *oblast akims*, especially those of more economically important regions (Almaty, Astana and the oil-producing regions in western Kazakhstan), heads of the power ministries (i.e. defense, foreign affairs, internal affairs and justice), deputy prime ministers, and members of the presidential administration. Second tier economic elites include

¹⁷⁷This information was also confirmed in the author's interviews with Political Analyst #1, Risk Assessment Group; Political Analyst #2, Independent Scholar; and Journalist #2, *Respublika*, Almaty, Kazakhstan, September 26, 2010, November 20, 2010 and December 13, 2010. In 2012, Musin fell out of favor with Nazarbaev and Kalmyrzaev passed away.

¹⁷⁸ Author interviews with Journalist #2, *Respublika*, and Political Analyst #3, Center for Political Alternatives, Almaty, Kazakhstan, December 13, 2010.

¹⁷⁹ Author interview with Political Analyst #2, Independent Scholar, Almaty, Kazakhstan, November 20, 2010.

business owners, entrepreneurs and oligarchs who benefitted from privatization in the 1990s, but who, as mentioned earlier in this chapter, do not have access to the petroleum and metal industries. These include wealthy businessman Mukhtar Abliazov (currently in self-imposed exile) and billionaire Nurzhan Subkhanberdin, who have both demonstrated their capacity to finance challenges to Nazarbaev's rule. As will be discussed in more detail below, they were both co-founders of the 2001 DCK movement, which represents the most significant alliance that formed between second tier political and economic elites, as well as the greatest challenge to Nazarbaev's authority since he assumed power in 1989.

Political – economic elite overlap. Similar to Russia, Kazakhstan boasts a sizable class of wealthy capitalists as a result of extensive privatization in the 1990s. According to the European Bank for Reconstruction and Development's privatization index, Kazakhstan's average score during 2004-2010 is seven out of a possible eight points (eight representing the most extensive privatization), placing it on par with Russia (7.1) where economic assets are widely dispersed, and Azerbaijan (5.7), where significant assets are concentrated in state hands (EBRD 2010). Nazarbaev never systematically "dealt" with the oligarchs like Putin did in the early 2000s, in part because they have played a substantial role in building up Kazakhstan's domestic economy. Unlike Russia, however, the number of businessmen who wield assets in the billions of US dollars has remained relatively stable, since most of them are members of the inner circle.

Table 4.6 provides information about Kazakhstan's top economic elites, and Table 4.7 (p. 157) displays aggregate data on Kazakhstan's billionaires and their net worth. Between 2005 and 2012, three individuals had a net worth of \$1 billion or more in at least one year. In 2008, their combined net worth was \$20 billion, or 20 percent of Kazakhstan's entire GDP in that year. One-third of Kazakhstan's top economic elites held a position in government or a state-owned company, but all were members of the inner circle, including Nazarbaev's two sons-in-law and his daughter Dariga. Table 4.6 also reveals distinct differences in these individuals' business interests—namely, that inner circle billionaires have significant oil, gas and metals holdings, while those in the second tier do not. Yet, banking, investments, real estate, telecommunications, transportation and other sectors of the economy have clearly enabled several individuals to reap financial rewards in the multi-millions and billions. In addition, out of 43 Kazakh multimillionaires profiled in *Forbes Kazakhstan* in 2012 (but not included in Table 4.6), none occupied a government post. In short, while there may be greater fusion between political power and economic power within the inner circle, all of Kazakhstan's wealthiest individuals outside of it do not rely on income generated from state-owned (or controlled) companies or a political post for access to economic resources.

The above discussion shows that the composition of Kazakhstan's political and economic elite bears similarities with both Azerbaijan and Russia. Elites in the inner circle surrounding Nazarbaev include the president's family members and friends who also double as the country's richest and/or most powerful players. Regular in-fighting undoubtedly occurs, but as a group the inner circle has remained more or less cohesive, is devoid of crystallized factions, and continues to depend on Nazarbaev for exclusive access to the country's oil, gas and metals industries as well as placement in top political positions. At the same time, however, privatization and economic asset dispersion to capitalists outside of the coveted inner circle created a wealthy and powerful group of individuals who are capable—and have indeed tried—to publicly challenge the Nazarbaev regime. In short, Kazakhstan represents a unique case of elite fragmentation, since minimal factionalization within the inner circle is coupled with minimal political – economic elite overlap in wider tiers. In what follows, I illustrate how the

economic split that occurred in the early 2000s ultimately increased the level of threat to Nazarbaev's authority, although not to the same extent as in Russia, since the majority of challenges involved second tier elites and could be more easily quashed. The 2007 Rakhat Aliev scandal, however, was seen as particularly unnerving to Nazarbaev because it involved his own son-in-law who was (at the time) arguably the most powerful member of the inner circle.

3.2 Moderate threat to Nazarbaev's rule

As I discuss in the first two chapters of this dissertation, formal institutions in Russia, Azerbaijan and Kazakhstan, namely legislatures and parties of power, do not manage intralite conflict. In Kazakhstan, the party of power, called *Nur Otan* ("Fatherland's Ray of Light" in Kazakh) since 2006, and the parliament are rubber stamp institutions that exist mostly to showcase a charade of democracy to internal and external audiences. In addition, as Table 4.6 makes clear, Kazakhstan's major players are a mix of billionaire businessmen, heads of lucrative state-owned banks or companies, and/or occupy posts in the presidential administration. As I note above, as a result of Kazakhstan's political economy and hybrid elite structure, intralite conflict since the early 2000s has almost always involved second tier elites posing threats to Nazarbaev's authority. Since Nazarbaev has been more or less insulated by a loyal team of inner circle elites, it has been easier for him than for Putin to suppress challenges and deal with dissenters. At the same time, however, an increasing number of public challenges to Nazarbaev's authority instigated a domino effect of high-level defections in the mid-2000s, since they signaled to other elites that more and more individuals in the highest echelons of power were losing faith in "papa." Between 2001 and 2007, a series of direct, public challenges to Nazarbaev's rule by second tier political and economic elites culminated in an inner circle defection by a family member.

Greater elite fragmentation is more likely to destabilize the autocrat's hold on power. Whereas in Russia intralite conflict can be traced to opposing ideological, policy and personal preferences, in Kazakhstan it initially resulted from diversifying economic and business interests. In what follows, I briefly discuss Kazakhstani politics in the 1990s to demonstrate the homogeneity of the country's political and economic elite. I then show how the "economic split" that occurred between inner circle and second tier elites catalyzed the founding of the DCK movement in 2001. Several high-level elite defections took place immediately following the DCK movement's demise, and I suggest that the ultimate defection and expulsion of Rakhat Aliev in 2007 grew out of these earlier manifestations of intralite conflict. Since 2008, two high-level governments reshuffles indicate that internal divisions among members of the Kazakhstani elite continue to exist today. Similar to the Russian case, information about the events I highlight is publicly available, and thus it is highly likely that more has played out behind the scenes.

Opposition activity in the 1990s. The only significant challenge to Nazarbaev's authority in the 1990s occurred when Akezhan Kazhegeldin, who served as Prime Minister from 1994 to 1997, had a "falling out" with Nazarbaev in 1998 (Junisbai & Junisbai 2005). Kazhegeldin had presided over Nazarbaev's complete consolidation and centralization of power in the executive in the mid-1990s, and after breaking with Nazarbaev he founded an opposition party and announced his intention to run for president in 1999. His candidacy was soon nullified and, like some of his successors who openly challenged Nazarbaev, corruption and other charges were brought against him. He fled the country and now lives in exile since he was tried and convicted

of money laundering, tax evasion and other crimes in absentia. A few more opposition parties were founded in the 1990s, and some are still technically active, but they have not had much impact on Kazakhstan's political development due to a lack of financial support and membership. With the exception of Kazhegeldin, party founders and opposition leaders of this era were mostly intellectuals who lacked independent economic resources as well as experience in the post-independence political system. As such, political opposition activity in the 1990s was not a viable force capable of posing a serious challenge to Nazarbaev. Members of the political and economic elite enjoyed relatively homogenous preferences and interests, and did not engage in any kind of sustained conflict until the economic split and resultant internal divisions that persisted into the 2000s.

Democratic Choice of Kazakhstan. In 2001, Nazarbaev faced his most significant challenge since assuming power in 1989 when over twenty members of the Kazakhstani ruling and business elite defected to form the Democratic Choice of Kazakhstan. While ostensibly an anti-Nazarbaev, pro-democracy opposition movement, what catalyzed the DCK's formation was actually a business conflict that erupted between second-tier economic elite member Mukhtar Abliazov, one of Kazakhstan's wealthiest businessmen at the time, and the president's son-in-law, Rakhat Aliev. Abliazov's business group had a majority share in Bank Turan Alem (BTA), one of the country's largest and most successful private banks, while Aliev and Dariga Nazarbaeva controlled Nurbank, one of BTA's main competitors. In 2001, Aliev tried to usurp control over BTA, but Abliazov refused to give Aliev his controlling share. Aliev then used his position at the time as head of the Committee for National Security to take over BTA as well as some of Abliazov's media holdings and other businesses. Around the same time, Abliazov's business group was contending to win the state's share in Halyk Bank (then the largest state-owned bank) at an auction, but Abliazov lost the bid to a latecomer financial group that was known to have close ties to Rakhat Aliev. Following the auction, prominent members of Kazakhstan's second-tier political and economic elite publicly criticized Aliev, but Nazarbaev stood by his son-in-law and expressed his support for Aliev's actions on national television. The following day, the anti-Nazarbaev DCK was officially founded by disaffected elites who disliked Aliev and feared that he would succeed Nazarbaev as president (Junisbai & Junisbai 2005). Second-tier economic elites were frustrated by the increasingly obvious glass ceiling of economic possibilities and business opportunities in Kazakhstan, which prompted Abliazov and others to break with Nazarbaev. For example, Bulat Abilov, a former DCK member and current head of the *Azat* opposition party, "repeatedly stated" that he joined the opposition because he was blocked from participating in the privatization of a large metallurgical complex in the 1990s (Junisbai & Junisbai 2005: 382). Second tier political and economic elites alike feared the power of the ruling family to arbitrarily interfere with their business activities and political ambitions, and as such they tried (but ultimately failed) to use political channels to change the rules of the game and advocate for transparent laws that would protect their business interests (Junisbai & Junisbai 2005).

Along with Abliazov, DCK founders included the governor of wealthy Pavlodar *oblast'* Galymzhan Zhaki'ianov, deputy prime minister Oraz Zhandosov, deputy defense minister Zhannat Yertlesova, deputy finance minister Kairat Kelimbetov, wealthy businessman Nurzhan Subkhanberdin (discussed above), and Erzhan Tatishev, then head of BTA. They did not call directly for the ouster of Nazarbaev, but their demands included a strong and independent legislature and judiciary as well as the direct election of regional *akims*. Importantly, what set this movement apart from other opposition groups in Kazakhstan was that its primary members

had significant experience in the political system, bureaucracy and key business sectors, and that it was financed by “the substantial wealth of founders and supporters” (Junisbai & Junisbai 2005: 389). Within weeks, however, Abliazov and Zhaki’ianov had been sentenced to prison for tax evasion, and DCK members in government positions were dismissed. Some members formed the more moderate *Ak Zhol* opposition party, but most renounced their participation, since they knew not doing so would most likely mean the end of their career in government or business. The author had the opportunity to attend a talk and roundtable discussion on Kazakhstani politics with DCK co-founder Zhannat Yertlesova, who in 2010 was an advisor to Prime Minister Karim Masimov. At one point during her talk, she mentioned Mukhtar Abliazov’s name, but then said in a low voice, “well you know we must not speak about him.”¹⁸⁰ In short, the Nazarbaev regime swiftly and effectively put an end to the DCK, since the inner circle was threatened by the prospect of both democratic reforms and the second tier economic elite gaining an equal economic footing. Importantly, however, the DCK episode ignited a series of defections immediately following its demise.

Elite defections and “Rakhatgate.” Political developments in Kazakhstan in the mid-2000s suggest that intraelite conflict and internal divisions among the country’s main players remained ongoing. In 2003, after a long career in top-level government positions in the Soviet era and post-1991, including *akim* of Almaty, presidential advisor and Minister of Information Altynbek Sarsenbaev defected to the newly created *Ak Zhol* opposition party in protest of the regime’s increasingly authoritarian tactics (Ashimbaev 2010). After publicly contesting presidential election results in 2005, Sarsenbaev was physically threatened, and in February 2006 he and his driver and bodyguard were found shot in the head at point-blank range outside of Almaty. Shortly thereafter, five members of Kazakhstan’s National Security Service (KNB) were arrested for committing the murder, and a sixth law enforcement officer was charged with organizing the operation, but Sarsenbaev’s colleagues and friends remain convinced that the order for the hit “came from above.”¹⁸¹ Following parliamentary elections in 2004, Zharmakhan Tuyakbai, the speaker of parliament and leader of the ruling *Otan* party, resigned and publicly condemned election officials for committing fraud. He soon became the leader of the “For a Just Kazakhstan” opposition movement, which was made up of former DCK members as well as *Ak Zhol*. After narrowly escaping an assassination attempt, he managed to run against Nazarbaev in the 2005 presidential election and win six percent of the vote (Bowyer 2008). Finally, a longtime friend of Nazarbaev, Zamanbek Nurkadilov, also a former *akim* of Almaty, was fired from his post as Minister of Emergency Situations in 2004 after stating that he planned to speak publicly about corruption in Nazarbaev’s government. Specifically, he threatened to disclose information allegedly proving that Nazarbaev and other high-level officials had received millions of dollars in bribes during contract talks with American oil companies in the 1990s (Kramer 2005). He immediately joined a coalition of opposition parties known as “For a Just Kazakhstan” after he was dismissed from government, which, along with *Ak Zhol*, was kept alive because of the substantial wealth and experience of its founders and supporters. Unfortunately, Nurkadilov was found murdered in his home three weeks before the 2005 presidential elections. Not surprisingly, the Almaty police immediately ruled out a political motive for the killing.

In 2007, the most significant split in the Kazakhstani ruling elite took place when the president’s former son-in-law, Rakhat Aliev, was forced into permanent exile and broke from

¹⁸⁰ Roundtable discussion with Zhannat Yertlesova, Advisor to the Prime Minister, sponsored by the Astana Alumni Association, Astana, Kazakhstan, November 10, 2010.

¹⁸¹ Author interview with Member of the Presidium #1, *Azat*, Almaty, Kazakhstan, September 21, 2010.

Nazarbaev. Despite Aliev's kinship ties to Nazarbaev, he was always "unpredictable and rebellious" (Schatz & Maltseva 2012). As head of the tax police in the late 1990s, for example, he supposedly collected *kompromat* (compromising materials) on regime officials, including the president himself. As I alluded to above, Aliev did not enjoy good relations with second-tier economic elites because he repeatedly threatened their business interests, and he was also on very poor terms with several members of the inner circle, including Nurtai Abykaev and Imangali Tasmagambetov (Adilov 2007; Junisbai 2010). Following the DCK affair, Aliev was sent to Austria as Kazakhstan's ambassador, but returned in 2005 and started causing trouble again, including a declaration of his intentions to run for president in 2012. In January 2007, two former executives and another official of Nurbank, which was part of Aliev's and Dariga Nazarbaev's business group, were kidnapped, and two of the three men were never found and presumed dead. The incident allegedly occurred on Aliev's orders so that he could broker a favorable real estate deal (Junisbai 2010). Within days, Aliev was exiled to Vienna for a second time, and news of the incident—as well as Aliev's possible connection to it—was all over the news. By May 2007, Aliev had been charged with abduction and extortion and stripped of all official positions. He also "received belated notice that [Dariga Nazarbaeva] had divorced him" while he was abroad (Junisbai 2010: 254). The Kazakhstani government formally asked Austria to arrest and extradite Aliev back to Kazakhstan so he could be tried at home, but a Vienna court rejected the extradition request since they were concerned Aliev would not be given a fair trial (Schatz & Maltseva 2012: 58). Aliev has been living in exile ever since, and in 2009 he came out with a memoir in which he claims all charges against him were baseless and motivated by his presidential ambitions (Aliev 2009). In 2008, he was tried *in absentia* and sentenced to 20 years in prison. In the aftermath of the scandal, Dariga Nazarbaeva was stripped of a significant portion of her assets and her seat in the *Mazhilis*, where she had been a deputy since 2004. In addition, Timur Kulibaev, Nazarbaev's other son-in-law, was demoted from his position as deputy chairman of a government holding company. Both Nazarbaeva and Kulibaeva have since regained the president's favor, but Nazarbaev's actions clearly signal to other elites that members of the inner circle—including his own kin—can pay a harsh price for disloyalty.

Some analysts point to how "a state of constant turmoil" among members of the elite has become "the norm" in Kazakhstani politics in recent years (Lillis 2010). Since 2007, however, no elite defections or incidents have occurred that reach the "Rakhatgate" level of political theater. Mukhtar Abliazov, who was jailed on corruption charges following the DCK episode in 2002 and fled the country after getting released, returned to Kazakhstan in 2005 and resumed his business activities on the condition that he would not meddle in politics. In 2009, however, the government confiscated Abliazov's remaining assets and charged him with money laundering and fraud. Abliazov has been living in exile since 2009 and is rumored to finance opposition parties and newspapers. Additional evidence of infighting surfaced in the fall of 2010, when Zhaksylyk Doskaliyev, who served as Minister of Health from 2001 to 2004 and was reappointed to the post again in 2008, was detained on corruption charges. The next sub-section links the manifestations of an increasingly fragmented elite in Kazakhstan with longitudinal changes in welfare spending from 2000 to 2011.

3.3 Increasing need for societal allies

In the case of Azerbaijan, the strategy of distributing money and (income-generating) political positions to governing elites enables the Aliev regime to maintain rule by "buying" their

loyalty. In the Russian case, patronage is a necessary but insufficient means of ensuring dictatorial survival. Putin must actively design policies that appeal to the masses, since popular support counteracts threats coming from within political and economic elite circles. Kazakhstan falls in between these two extremes with regard to the dictator's need for popular support. The level of threat Nazarbaev has faced from first and second tier elites certainly requires that he go beyond the "strategic minimum investment" to maintain popular support. At the same time, intraelite conflict has not been as intense or consistent as it has been in Russia. The above discussion reveals that intraelite conflict in Kazakhstan—which initially stemmed from diversifying economic interests among members of the political and economic elite—escalated after the 2001 DCK movement and peaked in 2007 with "Rakhatgate." The DCK episode and the activities of other disaffected political and economic elites demonstrate that some of Kazakhstan's wealthiest citizens have used their vast financial resources to fund anti-Nazarbaev opposition activities. In addition, the high-level defections of political elites who were once part of the inner circle or second-tier group illustrate the willingness of members of the elite—including Nazarbaev's immediate family members—to oppose the autocrat publicly. Unlike Russia, however, the number of independent billionaires and multi-millionaires has remained relatively stable since the early 2000s, and most of them are concentrated within the inner circle. In addition, the inner circle's exclusive control over oil, gas and metals, combined with the fact that most challenges to Nazarbaev have come from second-tier elites, makes it easier for the autocrat to manage internal divisions and quell manifestations of intraelite conflict. That said, over the course of the past decade, the number of people Nazarbaev fully trusts has steadily diminished, such that now political observers speculate that "the president does not trust anybody."¹⁸² Substantial increases in state revenue from oil and gas windfalls have provided Nazarbaev with sufficient funds to distribute to the public in exchange for their continued loyalty, though while the masses do represent a counterweight to would-be usurpers, Nazarbaev's actual need for popular support is not as great as Putin's.

As I discuss above, the first major instance of intraelite conflict in Kazakhstan since its independence from the Soviet Union was the Democratic Choice of Kazakhstan movement. Albeit short-lived, the DCK episode signaled the severity of the regime's internal divisions to members of the political and business establishment as well as the public. In the budget cycles immediately following the November 2001 rise and demise of the DCK, we begin to see steady increases in health and education expenditures. Health expenditures had hovered around two percent of GDP between 1998 and 2003, but they jumped from 1.9 percent in 2002 to 2.3 percent in 2003 and 2.7 percent in 2004 (Table 4.2). These increases occurred in the 2002-2003 and 2003-2004 budget cycles, which came in the wake of the DCK episode and the Sarsenbaev defection, respectively. In addition, education expenditures began to rise incrementally after 2002, jumping from 3.2 percent of GDP in 2002 to 3.7 percent in 2005 (Table 4.2). Following the high level defections of Tuyakbai and Nurkadilov in March and October of 2004, respectively, health and education expenditures continued to rise. The highest year-to-year increase in health expenditures prior to the global financial crisis occurred between 2004 and 2005, when spending rose from 2.3 percent of GDP to 2.7 percent. Health and education spending continued to rise in the midst of the Rakhat Aliev scandal, reaching 2.8 percent and four percent of GDP, respectively, in 2007. In total, health and education expenditures each increased by nearly one percent of GDP between 2001 and 2007, which corresponds to the

¹⁸² Author interviews with Former Senator and Member of the Presidium #2, *Azat*, Almaty, Kazakhstan, November 16, 2010 and November 24, 2010.

period of heightened intraelite conflict in Kazakhstan. As I mention in the previous section of this chapter, the government has invested more in health and education than social security, which is partly due to the implementation of liberalizing reforms and policies in that sector. But considering that expenditures in health and education had remained more or less stagnant up until 2002, in the eyes of the Kazakhstani public, these spending increases undoubtedly signaled a greater government commitment to health and education.¹⁸³

Evidence of Nazarbaev's changing perception about the importance of social spending to secure popular support can be seen when comparing his annual addresses to the people of Kazakhstan over a fourteen year period from 1997 to 2011. In the late 1990s and early 2000s, the majority of Nazarbaev's speeches were devoted to macroeconomic development and the need for Kazakhstan to become a modern country. In 1997, he barely mentioned the welfare sector, except to emphasize that effective social policies can only be carried out under "tough fiscal and monetary limitations."¹⁸⁴ This is in keeping with the government's push at the time to liberalize and privatize the health and pension sectors. In his September 2001 address, which occurred two months prior to the DCK episode, Nazarbaev gives one nod to welfare toward the end of his speech when he remarks that "the government should carry out all measures in order to introduce the system of compulsory social insurance in the country together with the budget for 2003."¹⁸⁵ In the 2003 address, however, Nazarbaev's attitude towards welfare spending and the government's social obligations appears to have shifted. Towards the very beginning of his speech, Nazarbaev states that "the government will assign additionally about 120 billion tenge [\$800 million] for social welfare programs for the next year and a half."¹⁸⁶ This represents a significant departure from the content of his earlier speeches and, after 2003, social welfare issues began to figure more prominently into his addresses. Nazarbaev's 2005 address, for the first time, featured separate sections for welfare spending increases, education, health and housing, which comprised over half of the length of the speech; this model continued in 2006 and thereafter. By 2008, welfare policies had supplanted macroeconomic development as being the state's top priority. Nazarbaev's 2008 address—coming on the heels of "Rakhatgate" and in the midst of the global financial crisis—is entitled "Welfare Growth for Kazakhstan's Citizens is the Primary Goal of State Policy." He discusses switching to three-year budgets, projects rises in pension and other categorical benefits, and states that "continued improvement of the social well-being of the Kazakhstanis...has been and will remain at the forefront of government policy."¹⁸⁷ In sharp contrast to his address just a decade earlier, he emphasizes the state's role in guaranteeing health and education for all citizens, and signals the government's commitment to raise the base old-age pension so that it exceeds the subsistence minimum. The focus on social modernization, including education, health, employment, and housing, remained a primary focus of Nazarbaev's speeches in 2010 and 2011. In short, an analysis of Nazarbaev's public addresses to the nation reveal an obvious change in emphasis—from macroeconomic goals and GDP growth in the late 1990s and early 2000s to improving citizens' social welfare by the mid- and late 2000s—which corresponds with increasing elite fragmentation and intraelite conflict.

It is possible that spending increases beginning in 2003 were acts of pre-emptive populism leading up to the 2004 parliamentary and 2005 presidential elections, but elections in

¹⁸³ Author interview with Economist #4, World Bank, Astana, Kazakhstan, November 9, 2010.

¹⁸⁴ Nursultan Nazarbaev, "Address Prezidenta RK narodu Kazakhstana," Astana, Kazakhstan, October 10, 1997.

¹⁸⁵ Nursultan Nazarbaev, "Address Prezidenta RK narodu Kazakhstana," Astana, Kazakhstan, September 16, 2001.

¹⁸⁶ Nursultan Nazarbaev, "Address Prezidenta RK narodu Kazakhstana," Astana, Kazakhstan, April 4, 2003.

¹⁸⁷ Nursultan Nazarbaev, "Address Prezidenta RK narodu Kazakhstana," Astana, Kazakhstan, February 6, 2008.

Kazakhstan have been virtually meaningless since the country gained its independence from the Soviet Union. Since 1991, Nazarbaev and his party of power have consistently “won” elections with upwards of 90 percent of the vote. In Russia, Putin and United Russia have won by significant margins, but they were still low enough to signal to other elites that the votes were legitimate and that Putin is genuinely popular. Since elections in Kazakhstan are essentially ceremonial, it is unlikely that increases in social spending would have any meaningful effect on election outcomes. Moreover, unlike Putin and Heidar Aliiev, Nazarbaev has not had to manage a presidential succession. In addition, we know from the case of Azerbaijan that increases in international petroleum prices and high GDP growth in resource-rich countries do not automatically result in the expansion of welfare expenditures and programs. Therefore, increases in health and education spending beginning in 2003, the introduction of the comprehensive state healthcare package in 2004, and Nazarbaev’s burgeoning focus on welfare issues in his addresses more likely correspond to the upswing in elite defections after 2001. A new flurry of welfare-related activity also took place in 2007 and 2008 in the midst of “Rakhatgate,” when both the “100 schools, 100 hospitals” initiative and the establishment of the Bota Foundation were announced and given substantial media attention in state-run newspapers and television news.¹⁸⁸ The wave of elite defections that occurred between 2001 and 2008 undoubtedly made Nazarbaev less secure vis-à-vis members of the political and economic elite. Thus, the modest expansion of welfare expenditures and programs in the mid-2000s was most likely a strategic move to shore up societal support to counterbalance escalating threats coming from within political and economic elite circles—as well as Nazarbaev’s own kin.

Finally, Nazarbaev’s welfare spending response to the global financial crisis is another clear illustration of his insecurity with political and economic elites. As I discuss in the second chapter of this dissertation on Putin’s Russia, an economic crisis in mineral-rich authoritarian regimes can lead to their demise, because the autocrat may be temporarily unable to continue distributing rents to members of the elite. Since many of Kazakhstan’s inner circle and second tier political and economic elites either sit on the boards of state-owned companies or run private companies, the impact of the financial crisis was potentially destabilizing. In 2007, Kazakhstan boasted seven billionaires, but in 2008 this number was reduced to four. Coming on the heels of “Rakhatgate” and earlier high-level defections which happened in just six years, Nazarbaev responded to the crisis by raising expenditures in health, education and—for the first time since 1999—social security.¹⁸⁹ Between 2008 and 2009, total social spending in Kazakhstan rose from 10.7 percent to 12.5 percent of GDP. Health and education increased by 0.6 percent and 0.5 percent of GDP, respectively, and social security, which had declined from 6.6 percent of GDP in 2000 to 3.9 percent of GDP in 2008, jumped back up to 4.6 percent in 2009. In addition, the “Kazakhstan 2020” strategic plan, which includes the new health initiative “Salamatty Kazakhstan” discussed in the previous section, was announced immediately following the September 2008 financial crash, and is much more focused on improving the well-being of the country’s citizens. Unlike Russia, however, where 2009 spending levels have been more or less maintained and pensions continue to rise, welfare expenditures declined again in Kazakhstan in 2010 and 2011 to pre-economic crisis levels. Pensions, wages and other benefits have stagnated in real tenge per capita terms, but the share of budgetary expenditures on health and education continues to increase. This trend correlates with the considerably less threatening post-“Rakhatgate” political atmosphere in Kazakhstan. While signs of internal divisions are still

¹⁸⁸ Author interview with Journalist #1, opposition newspaper (name of media outlet withheld), November 19, 2010.

¹⁸⁹ Social security expenditures grew between 1998 and 1999, but declined steadily for the next ten years (Table 1.4).

present, no major instances of intraelite conflict have occurred since 2008, thereby lessening Nazarbaev's need to appeal to the masses. The concluding section summarizes this chapter's major arguments, and considers whether or not Kazakhstan's welfare strategy represents a "best-case scenario" for resource-rich authoritarian regimes.

4. Conclusion and implications

This chapter has argued that increasing elite fragmentation in Kazakhstan in the 2000s resulted in higher social expenditures and a greater commitment on the part of Nazarbaev to improving his citizens' welfare. Kinship ties permeate the inner circle of political and economic elites and, with the notable exception of Rakhat Aliev, the make-up of this group has remained the same since the early 1990s. Privatization disproportionately benefitted Nazarbaev, his family members, and others in the inner circle, who together control the country's extractive sectors. However, its "unintended consequence" was to create another class of economic elites who began to realize that this group—and the patrimonial system in place—threatened their business interests and stymied their economic ambitions. As the resulting intraelite conflict escalated, so too did expenditures on health and education. Yet, despite the fact that Nazarbaev has faced serious challenges to his authority when compared to Heidar and Ilham Aliev, intraelite conflict remains far more severe in Russia. In addition, Nazarbaev's embeddedness in the inner circle has enabled him to quell most challenges quickly and without serious repercussions. Kazakhstan is a crucial case for this study since it represents the dynamic nature of elite fragmentation. As political and economic elites became less cohesive over time, Nazarbaev increased welfare expenditures and exploited his largesse to increase his public support—even though there was no succession and no actual change to the rules of the game.

While welfare spending in Russia and Azerbaijan are at opposite ends of the spectrum due to contrasting elite dynamics, both leaders' strategies could have potentially destabilizing effects on their regimes. Russia is now going into debt due to its exponential increase in welfare spending—specifically pensions—as a result of Putin's (perhaps unintended) creation of a rent-seeking populace that expects social expenditures to grow indefinitely. Should oil prices drop, Russia will have to borrow heavily in order to cover social pay-outs, which is reminiscent of resource-cursed Venezuela in the 1980s. In Azerbaijan, where the Aliev regime has very little genuine popular support, civil unrest is increasing in frequency in response to the lack of redistribution to society, on one hand, and the shameless display of wealth and conspicuous consumption by the country's top elites, on the other. At present, Kazakhstan seems to have avoided both of these scenarios: Kazakhstanis are receiving more than enough to remain complacent, but not enough to expect much more. The political, economic and social outlook for a post-Nazarbaev Kazakhstan, however, remains unclear. Political analysts speculate about any number of potential successors, from family members Dariga Nazarbaeva, Timur Kulibaev and Kairat Satybaldaev to Karim Masimov, Marat Tazhin and Kasymzhomart Tokaev (Table 4.6). The way in which Nazarbaev orchestrates and manages this process will have a significant impact on the ability of the Nazarbaev family to maintain their dominant position, the general make-up and integrity of the inner circle, as well as opportunities for welfare expansion (or retrenchment) in years to come.

Table 4.1: Kazakhstan's welfare system

Sector	Key features	Financing mechanisms and structure
Health	<p>-State Guaranteed Benefits Package (SGBP) includes emergency care and specified outpatient and inpatient services (revised every two years);</p> <p>-Outpatient drug benefit entitles women of reproductive age, children and adolescents and to free outpatient pharmaceuticals;</p> <p>-Health services not included in the SGBP are covered by out-of-pocket payments, voluntary insurance, employers or other sources;</p> <p>-Certain ministries and state agencies run parallel health systems;</p> <p>-Mandatory health insurance system was established in 1996 but abandoned in 1998. Approximately 1% of the population was covered by voluntary health insurance in 2009.</p>	<p>-Republican budget expenditure on health is primarily spent on:</p> <ul style="list-style-type: none"> • Services included in the SGBP (approximately 44% in 2010); • Transfers to <i>oblast'</i> budgets (38% in 2010) <p>-Majority of <i>oblast'</i> budget expenditures are devoted to SGBP services;</p> <p>-User charges for services outside of the SGBP are decided by individual <i>oblast'</i> administrations;</p> <p>-Parallel health systems accounted for only 1.1% of public health spending in 2010;</p> <p>-Financing according to state budgets was reintroduced in 1999 after failed attempt at insurance reform.</p>
Education	<p>- State provides free compulsory education (12 years of primary and secondary schooling), sets national wage scale for teachers and national standards/curriculum</p> <p>-Tertiary education is private but the government provides merit and need-based grants and vouchers</p>	<p>-State finances compulsory education on per student basis;</p> <p>-Ministry of Education decides minimum amount universities should spend per student on providing courses;</p> <p>-University students who do not receive government grants have to pay tuition fees, which varies by university and level of study</p>
Pensions and Social Assistance	<p>- Pension system based on: (1) base pension for all citizens of retirement age regardless of employment history (first pillar); (2) mandatory solidarity or PAYGO system (second pillar); and (3) individuals voluntary contributions (third pillar);</p> <p>-Social assistance benefits, the majority of which have income-based eligibility requirements, are monthly payments for certain categories of people (e.g. disabled and dependents who have lost a breadwinner) and child allowances;</p> <p>-Contributory benefits (in addition to pension scheme) include: obligatory social insurance (for disability, unemployment, maternity leave and childcare) and worker's compensation compulsory insurance.</p>	<p>-State budget finances social assistance benefits, base pension and solidarity (PAYGO) pension;</p> <ul style="list-style-type: none"> • Employers pay a social tax (11% as of 2009) that is intended for solidarity pensions. <p>-All employed and self-employed persons must contribute 10% of their income which goes to private pension funds;</p> <p>-Employee payroll taxes cover obligatory social insurance and worker's compensation insurance which are contracted out to private insurance companies</p>

Sources: Cook 2007a (p. 214); Katsaga et al. (2012); European Commission (2010); Seitenova & O'Brian (2010).

Table 4.2: Public expenditures on health, education and social security in Kazakhstan, 2000-2011*

Sector	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Health	% GDP	2.0	2.0	1.9	2.1	2.5	2.7	2.6	2.8	2.7	3.3	2.6	2.3
	% Total budget expenditures	8.2	7.3	7.7	7.7	8.7	8.9	9.9	10.3	9.7	11.0	12.4	11.5
	Real KZT per capita	5,163	5,436	5,855	7,169	9,727	13,575	15,897	19,417	19,627	23,233	21,016	21,706
Education	% GDP	3.2	3.2	3.2	3.3	3.4	3.7	3.5	4.0	4.1	4.6	3.5	3.6
	% Total budget expenditures	12.6	12.4	13.1	12.8	12.9	12.1	13.4	14.7	14.7	15.3	16.9	18.2
	Real KZT per capita	7,994	9,282	9,973	11,860	14,411	18,383	21,599	27,761	29,861	32,360	28,790	34,198
Social Protection	% GDP	6.6	5.7	5.3	5.3	4.7	4.6	4.2	3.9	3.9	4.6	4.2	4.2
	% Total budget expenditures	25.4	21.8	21.7	20.1	17.5	15.0	15.9	14.3	13.9	15.2	20.3	20.9
	Real KZT per capita	16,151	16,285	16,581	18,626	19,485	22,922	25,603	27,093	28,251	32,252	34,507	39,286

Sources: Kulzhanova and Healy (2007); Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Statisticheskii Bulletin", 2000-2005, available at <http://www.minfin.kz/index.php?uin=1119501016&lang=rus>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Dannye ob ispol'nenii budzhetov", 2006-2011, available at http://www.minfin.gov.kz/itj/portal/anonymous?NavigationTarget=ROLES://portal_content/prototype_mf/roles/com.saprun.mf_anonymous.ru/BudgetExecutionAndStatistics_Folder/StateBudgetRK_Folder/ConsolidatedBudget_Folder

*Based on author's calculations.

Table 4.3. Selected average yearly salaries and social benefits in Kazakhstan (real KZT), 2000-2011*

Type of payment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Average monthly salary for medical workers	10,373	10,818	13,133	13,927	16,347	18,043	19,625	27,567	25,438	30,107	33,741	38,608
Average monthly salary for education workers	12,119	13,149	15,985	16,565	19,326	20,326	22,064	26,540	24,449	27,751	30,386	33,745
Average monthly salary (total labor force)	20,174	22,413	24,873	26,593	30,476	34,060	37,563	43,629	43,150	44,529	47,916	51,300
Average monthly subsistence minimum	4,390	4,699	4,851	5,896	5,838	6,014	7,745	8,025	8,774	8,990	8,327	9,158
Minimum pension	4,912	5,181	5,307	6,324	6,240	6,200	6,170	6,016	5,606	6,531	7,621	9,144
Average monthly old-age pension	6,032	6,408	7,120	9,426	9,282	9,061	9,115	8,857	9,522	11,302	13,112	15,606
Average monthly social assistance	4,844	4,702	5,012	5,052	4,951	6,627	6,932	6,955	8,033	8,523	8,666	8,844

Sources: Aгенство Республики Казахстан по Статистике (State Statistics Agency of the Republic of Kazakhstan, or Kazstat for short), "Kazakhstan v 2011 godu," available at <http://www.stat.kz/publishing/20121/kazakhstan%202011.pdf>; Kazstat, "Kazakhstan v 2007 godu," Kazstat, "Kazakhstan v 2002 godu." \$1 = 147 KZT.

*Based on author's calculations.

Social investment*	1994	1996	1998	2000	2002	2004	2006	2008	2010	Total
<i>Excluding</i> voluntary employee benefits	\$8.3 million	\$9.1 million	\$13.2 million	\$5.1 million	\$8.2 million	\$37.9 million	\$49.4 million	\$13.8 million	\$23.2 million	\$296.5 million
<i>Including</i> voluntary employee benefits	N/A									

Source: Data provided by Tengizchevroil employee via e-mail correspondence.

*This includes a community investment program, a social infrastructure program, technical water donations to villages, small and medium business loan costs, road repairs to Republican roads and special projects such as flood relief and relocations.

<i>Oblast'</i>	Regional GDP	Health	Education	Social protection	Total
Atyrau	1,417,509	12,425	20,856	3,894	37,175
Almaty (city)	947,490	10,774	11,919	2,421	25,114
Mangistan	924,909	13,823	21,706	4,151	39,680
Astana	916,545	20,786	17,586	4,715	43,087
West Kazakhstan	553,496	12,387	20,020	3,499	35,906
Pavlodar	467,576	10,956	15,966	3,022	29,944
<i>Kazakhstan</i>	<i>1,068,000</i>	<i>12,198</i>	<i>18,003</i>	<i>2,698</i>	<i>32,899</i>

Sources: Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Statisticheskii Bulletin", "2000-2005, available at <http://www.minfin.kz/index.php?uin=1119501016&lang=rus>; Ministerstvo Finansov Respubliki Kazakhstan (Ministry of Finance of the Republic of Kazakhstan), "Dannye ob ispol'nenii biudzheto", "2006-2009, available at

http://www.minfin.gov.kz/irj/portal/anonymous?NavigationTarget=ROLES://portal_content/prototype_mf/roles/com.saprun.mf_anonymous_roles/com.saprun.mf_anonymous_ru/BudgetExecutionAndStatistics_Folder/StateBudgetRK_Folder/ConsolidatedBudget_Folder

Bold denotes a petroleum-producing region.
\$1 = 147 KZT.

*Based on author's calculations.

Table 4.6: Top political and economic elites in Kazakhstan, 2000-2011

Name	Type of elite	Political or SOE position(s)*	Business interests	Net worth (billions US\$), 2012 or last available date	Nazarbaev relative
<i>Inner circle</i>					
Nurtai Abykaev	Both	Speaker of Parliament (2004-2007); Head of the National Security Committee (2010-present)	Oil, gas metals	--	Maybe
Rakhmat Aliiev	Both	Ambassador to Austria (2002-2007); First Deputy Minister of Foreign Affairs (2005-2007)	Oil, gas, banking, media	--	Yes
Nurlan Balgimbaev	Both	Presidential Advisor (2007-2009); General Director of <i>KazMunaiGaz</i> (2009-present)	--	--	No
Alidzhan Ibragimov	Economic	None	Metals	\$2.8	No
Sarybai Kalmyrzaev	Political	Head of the Financial Police (2005-2008); Head of the Presidential Administration (2008-2011)	--	--	No
Vladimir Kim	Economic	None	Metals	\$3.5	No
Timur Kulbaev	Both	Chairman of the Board of Samruk-Kazyna (2011)	Oil, gas, transportation, banking	\$1.3	Yes
Dinara Kulibaeva (Nazarbaeva)	Economic	None	Oil, gas, transportation, banking	\$1.3	Yes
Karim Masimov	Political	Prime Minister (2007-2012); Presidential Chief of Staff (2012-present)	--	--	No
Aleksandr Mashkevich	Economic	None	Metals	\$2.8	No

Name	Type of elite	Political or SOE position(s)*	Business interests	Net worth (billions US\$), 2012 or last available date	Nazarbaev relative
Aslan Musin	Political	Deputy Prime Minister (2007-2008); Presidential Chief of Staff (2008-2012)	--	--	No
Dariga Nazarbaeva	Both	<i>Mazhilis</i> deputy (2004-2007)	Oil, gas, banking, media	\$0.6	Yes
Vladimir Ni	Economic	None	Metals	--	No
Kairat Satybaldav	Political	First Vice President of Kazakhstan <i>Temir Zholys</i> (2005-2006); Head of Youth Policy for <i>Nur Otan</i> (2010-present)	--	--	Yes
Kanat Saudabev	Political	Secretary of State/Minister of Foreign Affairs (2009-present)	--	--	No
Rashit Sarsenov	Economic	None	Oil	\$1.8	No
Patokh Shodiev	Economic	None	Metals	\$2.8	No
Marat Tazhin	Political	Minister of Foreign Affairs (2007-2009); Presidential Advisor/Secretary of the Security Council (2009-present)	--	--	No
Imangali Tasmagambetov	Political	<i>Akim</i> of Almaty (2004-2008); <i>Akim</i> of Astana (2008-present)	--	--	No
Kasymzhomart Tokaev	Political	Minister of Foreign Affairs (2003-2007); Speaker of the Senate (2007-2011)	--	--	No
Bulat Utemuratov	Economic	None	Metals, banking, media	\$1.5	No

Name	Type of elite	Political or SOE position(s)*	Business interests	Net worth (billions US\$), 2012 or last available date	Nazarbaev relative
<i>Second tier</i>					
Oralbai Abdykarimov	Political	Senator, <i>Nur Otan</i> (2007-present); Chairman of the Anti-Corruption Commission (2008-present)	--	--	No
Mukhtar Ablyazov	Economic	Minister of Energy (1998-1999)	Banking, media, utilities	Billions***	No
Daniial Akhmetov	Political	Prime Minister (2003-2007); Minister of Defense (2007-2009)	--	--	No
Serik Akhmetov	Political	Minister of Transportation (2006-2009); <i>Akim</i> of Karaganda (2009-2012); Prime Minister (2012-present)	--	--	No
Erlan Atankulov	Economic	President, Kazakhstan <i>Temir-Zholy</i> (2002-2007)	Transport, insurance	--	No
Bakhytbek Baiseitov	Economic	None	Banking	--	No
Raimbek Batalov	Economic	None	Food production	--	No
Serik Burkhitbaev	Political	Presidential Advisor (2007-2008); President of <i>KazMunaiGaz</i> (2008)	--	--	No
Adilbek Dzhabysbekov	Political	Presidential Advisor (2008); Minister of Defense (2009-present)	--	--	No
Asset Issekeshev	Political	Presidential Advisor (2008-2009); Ministry of Industry and Trade (2009-present); Deputy Prime Minister (2010-present)	--	--	No

Name	Type of elite	Political or SOE position(s)*	Business interests	Net worth (billions US\$), 2012 or last available date	Nazarbaev relative
Berik Imashev	Political	Deputy Head of the Presidential Administration (2005-2007); Secretary of the Security Council (2007-2008); Minister of Justice (2012-present)	--	--	No
Kairat Kelimbetov	Political	Head of the Presidential Administration (2008); Minister of Economic Development and Trade (2011); Deputy Prime Minister (2012-present)	--	--	No
Victor Khrapunov	Political	<i>Akim</i> of Almaty (1997-2004); <i>Akim</i> of East Kazakhstan (2004-2007); Minister of Emergency Situations (2007)	--	--	No
Dzhakysbek Kulekeev	Political	Minister of Education (2003-2004); President of Kazakhstan <i>Temir-Zhoiy</i> (2007-2008)	--	--	No
Kairat Mami	Political	Chairman of the Senate (2011-present)	--	--	No
Ural Mukhamedzhanov	Political	Chairman of the <i>Mazhilis</i> (2004-2007 & 2008-2012)	--	--	No
Sauat Myrbaev	Political	Ministry of Energy (2007-2010); Minister of Oil and Gas (2010-present)	--	--	No
Nurlan Nigmatulin	Political	<i>Akim</i> of Karaganda (2006-2009); Chairman of the <i>Mazhilis</i> (2012-present)	--	--	No

Name	Type of elite	Political or SOE position(s)*	Business interests	Net worth (billions US\$), 2012 or last available date	Nazarbaev relative
Zamanbek Nurkadilov	Political	<i>Akim</i> of Almaty (1997-2001); Minister of Emergency Situations (2001-2004)	--	--	No
Yerbol Orynbaev	Political	Deputy Head of the Presidential Administration (2004-2007); Deputy Prime Minister (2008-present) <i>Akim</i> of Pavlodar (2008-2012); Minister of Economic Development and Trade (2012)	--	--	No
Bakhytzhan Sagintaev	Political	Presidential Advisor (2001); Ambassador to Russia (2002-2003); Minister of Information (2004)	--	--	No
Margulan Seisenbaev	Economic	None	Finance	--	No
Nurlan Subkhanberdin	Economic	None	Banking	\$1	No
Zharmakhan Tuyakbai	Political	Speaker of Parliament (1999-2004)	--	--	No
Akhmetzhan Yesimov	Political	Deputy Prime Minister (2004-2006); Minister of Agriculture (2006-2008); <i>Akim</i> of Almaty (2008-present)	--	--	No
Galimzhan Zhaki'ianov	Both	<i>Akim</i> of Pavlodar <i>oblast'</i> (1997-2001)	Coal	--	No

Sources: Saipbaev (2007); Junisbai (2010); Ashimbaev (2010); *Forbes Kazakhstan* (2012). Complete lists of the world's billionaires and their net worth for 2000-2013 available at http://stats.areppin.com/stats/links_billionairexlists.htm.

*Due to the extremely high frequency of cadre rotation and horizontal reshuffles, only the last two most recent posts as of 2012 are provided.

**Currently in exile.

***The exact amount of Abilazov's personal assets are not known, but BTA (which was taken over by the state in 2009) is attempting to recover \$10 billion in claims Abilazov has hidden in offshore accounts.

Table 4.7: Profile of Kazakh billionaires, 2005-2012

Year	Number of billionaires	Billionaires in “inner circle”*	Billionaires in “second tier”	Total net worth of billionaires (billion US\$)	Billionaire net worth as a percentage of Kazakhstan’s GDP
2005	3	3	0	\$3	7%
2006	4	4	0	\$8.7	15%
2007	7	6	1	\$16.9	21%
2008	7	7	0	\$21	20%
2009	4	3	1	\$4.6	3%
2010	7	6	1	\$16.9	15%
2011	7	6	1	\$19.4	14%
2012	6	5	1	\$15.2	8%

Sources: *Forbes Kazakhstan*, “50 Bogateyshikh Ljudel Kazakhstana - 2012,” available at http://forbes.kz/ranking/50_bogateyshih_lyudey_kazahstana_-_2012 (in Russian). Complete lists of the world’s billionaires and their net worth available at http://stats.areppim.com/stats/links_billionairexlists.htm.

Chapter Five

Redistribution Revisited: Taking Society Seriously

“To understand any conflict it is necessary, therefore, to keep constantly in mind the relations between the combatants and the audience because the audience is likely to do the kinds of things that determine the outcome of the fight...*This is the basic pattern of all politics.*”

—*E.E. Schattschneider, 1960*

1. Introduction

This study began with a simple question not previously explored in the comparative politics literature: what explains welfare spending variation in resource-rich authoritarian regimes? Over half a billion people live in non-democratic regimes that are highly dependent on hydrocarbons and other high-value metals and minerals, yet existing scholarship on welfare expenditures in authoritarian regimes and resource-rich states cannot answer this question. Cross-national analyses of welfare spending tell us that democracies typically spend more on health, education and social security than their authoritarian counterparts, but not why social expenditure levels vary among authoritarian regimes. Case studies of petro-states lead us to assume that all petroleum-rich countries engage in massive public spending programs during periods of high export growth, when international petroleum prices soar, in order to “buy off” society and dampen popular pressure for democratization. This dissertation thus sits at the nexus of conflicting theoretical expectations: one strand predicts that autocrats will keep everything for themselves and their cronies, while the other assumes autocrats will use oil rents to pacify the population. The reality is that both outcomes actually happen. This study clearly demonstrates that resource-rich authoritarian regimes vary in their policies and priorities, which are not determined by resources alone. The basis of this variation can be explained by the degree of fragmentation or cohesion among political and economic elites, which corresponds directly to the level of threat to an autocrat’s rule.

The post-Soviet region is a compelling site to investigate welfare spending variation in mineral-rich countries with autocratic regimes. Five countries with enormous endowments of oil and gas—Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan—emerged independent from the Soviet Union at the same time. In the early 1990s, they all faced, to varying degrees, political, economic and institutional crises that resulted in plummeting welfare expenditures and the collapse of the communist-era social safety net. By the late 1990s, their economies were seeing positive growth, but politics in Azerbaijan and the Central Asian states had coalesced around personalist dictators who rose to power in their respective republics prior to the collapse of communism. By the end of Vladimir Putin’s first term as president of Russia in 2004, not only had authoritarian political systems been consolidated in all five countries, but also state coffers were exploding with revenues from oil and gas exports. Yet, these five cases, which are comparable in terms of regime type, natural resource wealth, levels of development, and corruption, and which share the communist legacy of a cradle-to-grave welfare system, have exhibited vastly different social spending trajectories since 2000. A systematic comparison of health, education and social security spending in Russia, a generous welfare state; Azerbaijan, a stingy welfare state; and Kazakhstan, an intermediary case, unravels this puzzle. Social spending in Russia more than doubled in terms of percentage of GDP in less than ten years, and the state is literally going into debt because of unsustainable growth in pension expenditures. Azerbaijan

juxtaposes one of the highest economic growth rates in the world with rock bottom health and education expenditures that rival Afghanistan and Myanmar for last place. Welfare spending in Kazakhstan falls in between these two extremes. In-depth case study analyses illustrating the causal logic between the degree of elite fragmentation and the level of social expenditures in these three countries reveal compelling new evidence of the dynamics that affect an autocrat's welfare policy preferences, which are inextricably linked to his strategy for maintaining power.

In Russia, Kazakhstan, Azerbaijan, and most other highly repressive petroleum-rich authoritarian regimes, the degree of threat the autocrat perceives to his rule comes from political and economic elites that surround him in the upper echelons of power. We can assume that all authoritarian rulers buy off their narrow group of supporters in an attempt to maintain their loyalty. In Russia, out of 50 top political elites, 37 have (or have a family member who has) at least one position on the board of a bank or a lucrative state-owned company that undoubtedly provides a plentiful payment stream. In Kazakhstan, over half of the members of Nazarbaev's inner circle are proven (or most likely) billionaires. In Azerbaijan, the president's family, his in-laws, and the families of two other high-ranking officials are not only the wealthiest people in the country, but they also own and control virtually the entire economy. In some cases, however, buying off elites alone is an insufficient strategy for the autocrat to remain in power. This study finds that dictators in repressive regimes engage in broad, generous welfare provision—or in other words, they reach beyond their narrow base of supporters to society-at-large—when there is a higher probability of serious challenges to their rule. In Russia, where political and economic elites are divided, the threats from crystalized factions, presidential successions, the enormous wealth of independent economic elites, and Putin's periodic lack of control over his cronies have made him consistently vulnerable to overthrow. In response, Putin designs policies aimed at securing widespread popular support. By getting the crowd on his side, Putin tips the scales in favor of himself, signaling to would-be defectors and coup-plotters that mass popular uprisings would spell their imminent defeat should they try to remove him. By contrast, in Azerbaijan, where elites are cohesive, Ilham Aliev—like his father before him—is insulated by family members and close friends with mutual business interests. They run the country like it is their own personal fiefdom and milk the spoils of Azerbaijan's resource wealth at the expense of the masses. In this case, since the dictator does not perceive that he needs the people on his side to maintain power, he does not try to court them. Finally, in Kazakhstan, where political and economic elites became more fragmented over time, Nazarbaev readjusted his welfare policies to reflect changing “behind-the-scenes” dynamics in an attempt to shore up more support among the citizenry.

It is not within the scope of this dissertation to explore in detail the relationship between elite cohesion and redistribution on a global scale. Some observations can be made here, however, to put Russia, Kazakhstan and Azerbaijan in a broader comparative framework. In the remainder of this chapter, I examine whether the central argument of this dissertation is unique to the three cases I have explored, or if a similar phenomenon can be observed in other mineral-rich authoritarian regimes. I first examine the two remaining post-Soviet cases that are both closed polities with hydrocarbon wealth, Turkmenistan and Uzbekistan. I then go beyond the post-Soviet bloc and consider two additional cases, Algeria and Gabon, that exhibit high and low levels of welfare spending, respectively. These comparisons, while brief, provide additional confirmation that variation in welfare expenditures results from differences in the level of elite cohesion. Table 5.1 (p. 171) below provides a snapshot of health and (where available) education and social security expenditures from 1998 to 2010 for the four additional countries

examined in this chapter, and Table 5.2 (p. 171) demonstrates their fit within the overall frame of the theory. I rely on secondary sources for data and information on these countries' welfare expenditures and elite dynamics, including (where available) World Bank *Public Expenditure Review* analyses, Bertelsmann Stiftung (BTI) country reports, Economist Intelligence Unit (EIU) country reports, and academic scholarship. The additional cases reviewed here offer insight into how the questions explored in this dissertation are immediately relevant to recent uprisings and the fall of long-lived authoritarian rulers in the Middle East and North Africa. I conclude with a discussion of the implications of elite cohesion and welfare spending levels on regime stability, as well as questions and directions for future research.

2. Social spending and elite cohesion in Turkmenistan and Uzbekistan

The most similar cases for further comparison are those that share the political, economic and social legacies of the Soviet Union. Like Kazakhstan, the rulers of post-independence Turkmenistan and Uzbekistan assumed executive positions in their respective republics prior to the Soviet collapse. Saparmurat Niyazov, who became known as “Turkmenbashi,” or ruler of all Turkmen, was appointed first secretary of the Turkmen Soviet Socialist Republic in 1985 and elected president of newly independent Turkmenistan in 1992. Islam Karimov was appointed first secretary of the Uzbek Soviet Socialist Republic in 1989 and elected president of Uzbekistan in 1991. Niyazov died unexpectedly in 2006, and was succeeded by a prominent member of his cabinet, Gurbanguly Berdymukhammedov. Like Nazarbaev, Karimov still rules Uzbekistan to this day. Both Turkmenistan and Uzbekistan—but especially the former—boast even more extreme forms of autocratic rule than Russia, Kazakhstan and Azerbaijan.¹⁹⁰ Unfortunately, the availability of reliable public expenditure data for Turkmenistan and Uzbekistan is limited, but World Bank figures and qualitative accounts of social policies paint a reasonably accurate picture of these leaders' commitments to their citizens' welfare. In short, Turkmenistan and Uzbekistan boast low and medium levels of welfare expenditures, respectively (Table 5.1). While both countries are similar to Azerbaijan in that they exhibit significant—if not nearly complete—overlap between political and economic elites, political elites in Uzbekistan are more heavily factionalized than they are in Turkmenistan. This results in different levels of elite cohesion in each case (Table 5.2), which accounts for why welfare expenditure levels in Uzbekistan are higher than they are in Turkmenistan and Azerbaijan, roughly on par with those in Kazakhstan, but still lower than those in Russia.

Turkmenistan

Welfare spending. Almost immediately after the Soviet Union disintegrated, Saparmurat Niyazov set his country on a path of extreme isolationism and authoritarianism that is perhaps second only to North Korea. Turkmenistan gained notoriety a result of Niyazov's megalomania and cult of personality, which was reified in the *Ruhnama* (half holy book, half reconstructed history of Turkmenistan with Niyazov as its divine leader) and grandiose architecture and

¹⁹⁰ For example, Turkmenistan's average Freedom House score for 1999-2011 was 14 and Uzbekistan's was 13 (on a 2-14 scale where 2 is most politically open and 14 is most politically closed), compared to Russia, Kazakhstan and Azerbaijan, which all average approximately 11 for the same time period. Turkmenistan and Uzbekistan were not chosen as field sites for this study because the climate for conducting this type of research, would have been too restrictive and unsafe.

monuments in the capital, Ashgabat. Niyazov infamously renamed the months of the year and days of the week after himself, his family members, and various heroes of the Turkmen nation, and constructed a 40-foot golden statue of himself in Ashgabat that rotates slowly throughout the day so that his face always catches the sun. At the same time, Turkmenistan has some of the largest natural gas reserves in the world as well as significant oil reserves. Unlike Russia, Kazakhstan and Azerbaijan, Turkmenistan does theoretically provide free natural gas, water, electricity and food subsidies to the population, which can be considered part of the country's welfare regime (Jones Luong & Weinthal 2010), although the extent to which these resources are available to residents is unclear, especially outside of Ashgabat (BTI 2012b).

Niyazov and Berdymukhammedov's draconian social welfare policies can best be interpreted as a strategic attempt to keep the population unhealthy, uneducated, unemployed and impoverished. According to the World Bank, health expenditures in Turkmenistan fell from 3.2 percent of GDP in 1991 to 0.8 percent in 1994 during the first years of transition. They rose again to 3.5 percent in 1998, but as international prices for hydrocarbons soared, health expenditures dropped to 1.5 percent in 2006 (prior to the global financial crisis) and were at the same level in 2010 (Table 5.1). Beginning in the early 2000s, Niyazov began to adopt increasingly irrational welfare policies. In 2004, he dismissed one-third of the medical workforce, which amounted to some 15,000 doctors and nurses, who were replaced by military conscripts. In 2005, Niyazov issued a drastic decree to close all hospitals outside of Ashgabat. The reform was not comprehensively implemented, however, due to protests from the international community, and following Niyazov's death, Berdymukhammedov brought doctors back into hospitals and reopened rural medical centers (Peyrouse 2012). Yet, adequate health care can only be obtained in Ashgabat, which is inaccessible for the majority of the rural population due to high costs and a decrepit transportation infrastructure. Moreover, in 2006, a compulsory health insurance system was introduced requiring that medical "premiums" be deducted from workers' salaries. However, the system covers only a small range of services, meaning that patients are still required to pay additional fees for most treatments. According to Sebastien Peyrouse (2012: 138), one of the only social science scholars who has conducted fieldwork in Turkmenistan, the health reforms that Berdymukhammedov has launched since assuming power are "cosmetic and confined to specific domains, such as cancer or eye surgery in the capital," and do not address severe shortages in personnel and lack of funding outside of Ashgabat.

In the education sphere, Niyazov cut the mandatory number of schooling years from eleven to nine in the early 1990s, and in 2001 he slashed 10,000 teaching positions (out of 76,000), stating publicly on television that teachers did not serve any purpose (Peyrouse 2012). Berdymukhammedov reintroduced a ten-year mandatory education requirement soon after assuming the presidency, but has made no significant changes in the education system in terms of funding. For the most part, only children of elites can enroll in universities due to enrollment restrictions and costs (BTI 2012b). With regard to social security, Niyazov virtually eliminated the pension system in January 2006, whereby only people who had worked for at least 38 years could receive a full pension. Prior to the reform, 336,000 people were eligible to receive a pension, but 107,000 were excluded as a result of the new rules, and nearly all others saw their pensions fall by 20 percent. Moreover, the reform was retroactive, such that those who did not meet the criteria between 2004 and 2006 were expected to reimburse the state for being overpaid (Peyrouse 2012). When Berdymukhammedov took power, he restored pensions for those 107,000 who had lost their benefits, but no other reforms or changes have been made.

Turkmenistan's social security system has provided very low levels of basic assistance for decades. Thus, it goes without saying that Niyazov was not seeking widespread popular support while he was alive, and though Berdymukhammedov reversed the most drastic changes implemented by his predecessor, his policies to date have not gone beyond the bare minimum.

Elite cohesion. Even though Berdymukhammedov is not Niyazov's son, the political trajectory of post-Soviet Turkmenistan largely mirrors that of Azerbaijan.¹⁹¹ Immediately after independence, Niyazov moved quickly to neutralize threats to his power both in society and among political elites. An omnipotent security service apparatus guaranteed the absence of political opposition and civil society activity among the population. Niyazov also adopted the Stalinist model of preventing internal opposition by constantly and systematically purging members of the political elite. Many surrounding Niyazov were actually not Turkmen, including Israeli and Russian businessmen, and thus could not compete with the president because they were barred from political office (Peyrouse 2012). In fact, Niyazov's purges were so frequent that it would have been next to impossible for factional coalitions to coalesce and compete with one another in any meaningful way. The only threat to Niyazov that ever materialized was in 2002, when the presidential motorcade came under machine gunfire. Yet the truth behind the attack, as well as the perpetrators' identities, remain unknown, leading many observers to believe it was orchestrated by the president as a "pretext to initiate a major purge of the political elite" (Peyrouse 2012: 73). In an additional parallel to Stalin's Soviet Union, no one around Turkmenbashi was ever safe; for example, in 2005, Niyazov had his closest friend and colleague, a deputy prime minister, arrested on charges of treachery and polygamy. Along with the lack of serious threats coming from political elites, an independent business class is non-existent in Turkmenistan. The government adopted state ownership over its petroleum sector in the early 1990s (Jones Luong & Weinthal 2010), and privatization was limited to small businesses and unprofitable state-owned enterprises (BTI 2012b). Since the state continues to control almost all aspects of the economy, the only independently wealthy economic elites operating in the country are the foreigners mentioned above who periodically advise Niyazov.

Turkmenistan's new ruler, while perhaps not as paranoid as Niyazov, was absorbed into the same power structure and, like Ilham Aliev, seamlessly navigated the presidential succession. Turkmenbashi's death was announced at the end of December 2006, and Berdymukhammedov was elected the following February 2007. The manner in which Berdymukhammedov governs is virtually unchanged: he has embarked on establishing his own cult of personality, and keeps political elites in check through frequent purges. The only significant difference seems to be Berdymukhammedov's move to surround himself with family members, whereas Niyazov worked in isolation and avoided contact with his advisors and ministers (Peyrouse 2012). Berdymukhammedov has placed cousins, in-laws and other relatives in high-ranking positions and purged some of Niyazov's appointees, and he and his extended family have taken possession of Turkmenistan's lucrative petroleum sector, turning it into a virtual monopoly.

In light of this anecdotal evidence, there is nothing to suggest that Berdymukhammedov perceives any serious threats to his rule. If anything, the new president seems less paranoid than Niyazov, which may explain why—despite his undoing of some of Niyazov's most severe policies—expenditures in the health sector declined between 2007 and 2009 and have remained low. The narrow concentration of power and wealth in Turkmenistan, and a political system characterized by low factionalization, frequent purges and (now) domination by the president's

¹⁹¹ The physical resemblance between Niyazov and Berdymukhammedov, however, is strong enough to raise suspicion that the two are related.

relatives, both reflect and explain why the country's past and present rulers have perceived no threat to their security, and thus no need to court societal allies.

Uzbekistan

Welfare spending. Like other Central Asian states, Islam Karimov's regime in Uzbekistan is a neo-patrimonial system where formal rules and institutions are a façade and corruption and clientelism dominate politics and policy-making. Karimov rose to power and prominence through the Communist Party of the Soviet Union and, like Nazarbaev, has ruled Uzbekistan since 1989. He eliminated political opposition and consolidated authoritarian rule in the early 1990s and, while he has not officially become "President for Life," since 1995 a series of referendums, presidential term limit extensions, and elections in which Karimov has won over 90 percent of the vote have effectively guaranteed this outcome. Uzbekistan has sizable reserves of oil and especially natural gas, but not nearly as much in comparison to the other four post-Soviet cases. The economy, however, is still very much dependent on petroleum exports, which account for approximately 40 percent of total exports (compared to approximately 95 percent in Azerbaijan, 80 percent in Kazakhstan, and 65 percent in Russia). Similar to Turkmenistan, Uzbekistan subsidizes household consumers of oil, natural gas and coal, which are sold at a fraction of world market prices (Jones Luong & Weinthal 2010). With regard to social policies and spending, however, Uzbekistan demonstrates a higher commitment to providing for its citizens' welfare needs than its neighbor to the west.

As Table 5.1 demonstrates, health expenditures in Uzbekistan have remained stable at approximately 2.5 percent of GDP since 2000, and saw a modest increase during and in the aftermath of the global financial crisis. Uzbekistan has by and large preserved the inherited Soviet healthcare system, which suffers from a poor infrastructure, but drastic cuts to spending, the workforce and other extreme policies have not taken place. Like the other post-Soviet cases, salaries make up over 60 percent of the healthcare budget. While health expenditures saw a decline in the 1990s, they remained much higher into the 2000s than those in neighboring Central Asian states and were three times as high as the low income country average in terms of percentage of GDP (World Bank 2005). Health care services (theoretically) remain completely free of charge for many categories of citizens, including orphans and the disabled. In addition, Uzbekistan stood out in the early and mid-2000s "for the extraordinary effort it has made to maintain education expenditures. Uzbekistan devoted a higher percentage of its GDP and state budget to education than any other country in the region—indeed, even higher than in any OECD country" (World Bank 2005: 29). In the early 2000s, about nine percent of GDP was spent on education; this rose to 12 percent by 2010 (UNICEF 2010). In 2005, government expenditures allocated to pensions were 6.5 percent of GDP, which was much higher than other postcommunist countries, including Azerbaijan and (one can assume) Turkmenistan, as well as Georgia, Armenia and Albania (World Bank 2013c). Uzbekistan also adopted a targeted social assistance program that relies on residential community associations to deliver goods and services to the poor. While these efforts have largely failed to alleviate poverty, design flaws that disproportionately benefit high-income households and discriminate against non-traditional households, including single mothers, are more to blame than a lack of funding being allocated to the program (Jones Luong & Weinthal 2010).

Hybrid elites. Uzbekistan's post-Soviet political and economic development shares similarities with both Turkmenistan and Kazakhstan. Like Turkmenistan, Uzbekistan adopted

complete state ownership over its petroleum resources (Jones Luong & Weinthal 2010), and privatization beyond the small business sector has failed to occur. The government retains a majority share in all state-owned enterprises, and “state companies and monopolies built up by regime members dominate all strategic business sectors” (BTI 2012c: 3). Private companies and businesses are subject to frequent and ongoing harassment, and in reality the country’s oligarchs consist of the Karimov family as well as his ministers and other cronies who occupy ministerial and other positions in government. Uzbekistan’s most infamous “robber baron” is Karimov’s eldest daughter, Gulnara Karimova, who “bullied her way into gaining a slice of virtually every lucrative business in the Central Asian state” (Leigh 2010). While her net worth is not known, she is considered one of the wealthiest people living in Switzerland, where she serves as Uzbekistan’s ambassador to the United Nations. Even though she is one of the most hated people in Uzbekistan (Leigh 2010), Gulnara Karimova is currently rumored to be her father’s chosen successor in the event of his illness or death.

Despite the fact that political and economic elites are virtually one and the same in Uzbekistan, Karimov’s regime has been plagued by ongoing factional conflict between two groups that are almost equally representative in the government and bureaucratic apparatus, and which constantly compete with one another for power, privilege and access to rents. By the end of the post-Soviet transition, Karimov had cracked down on all political opposition and potentially destabilizing civil society movements. At the same time, however, Karimov’s regime has been marred by factional struggles. Kathleen Collins, who has conducted extensive research on identity and group networks in Uzbekistan and other Central Asian states, identifies two groups that emerged as the most powerful in national politics: the “Tashkent clan” and the “Samarkand clan,” which represent Uzbekistan’s largest cities and regional hubs. A third group, the “Ferghana clan,” is comprised of several families that are influential, but not nearly to the same extent as the two primary groupings. Within the Tashkent and Samarkand clans, “multiple smaller clans compete for influence” (Collins 2006: 255). While they all initially backed Karimov and provided him with support in exchange for access to, and autonomy over, their economic interests, by the mid-2000s, Karimov had begun to face “increasing difficulties in maintaining that balance, in satisfying the demands of power-hungry clan elites fighting over scarce resources, and in cutting their power when he deem[ed] they [were] gaining too much control” (Collins 2006: 255). Gulnara Karimova’s rise to power beginning in the early 2000s has not succeeded in institutionalizing Karimov’s personal power because she is such a polarizing figure, and internal divisions and conflict between groups remain rampant. In addition, one of the most powerful security forces agencies in Uzbekistan, the Ministry of Internal Affairs (MVD), is controlled by the Samarkand clan, which withdrew support for Karimov in the early 2000s (Collins 2006). Karimov has thus far succeeded in balancing the MVD with the other powerful security force structure, the National Security Service (SVB), since the head of this agency has ties to the Tashkent clan. A worrisome trend that began in the mid-2000s, however, was that armed units within these agencies became divided enough to engage in violent conflict in the event of a succession struggle. According to Collins (2006: 276), Karimov’s fragile hold over the regime truly manifested itself when he started rigging elections in 2000, since his “legitimacy among clan elites...plummeted.” Ongoing internal conflict most likely accounts for the regime’s modest increase in health expenditures during and after the global financial crisis, in an attempt to gain more societal support to stave off discontent among elites over stifled resource flows. In short, welfare spending remains at a higher level in Uzbekistan because Karimov’s need for societal allies is greater. Even though political power and economic power are

concentrated in the same hands in Uzbekistan, Karimov's lack of complete control over competing clans—not to mention the force structure apparatus—translate into a higher level of threat to his rule.

3. Beyond the former Soviet Union

A cross-regional comparison highlighting the relationship between levels of welfare spending and elite cohesion highlights the relevance of this study for scholars of the political economy of the developing world. Two appropriate cases to consider are Algeria and Gabon, which, much like Russia and Azerbaijan, fall on opposite sides of the welfare spending spectrum (Table 1.1 and Table 5.1). In addition, several core similarities in political, economic and structural factors between the post-Soviet cases and Algeria and Gabon can be identified. As Table 5.3 (p. 172) demonstrates, Algeria and Gabon are closed polities that are highly dependent on hydrocarbons. Average Freedom House scores for Algeria and Gabon from 2000 to 2011 were 11 and 10.1, respectively. Gabon's petroleum sector contributes to 81 percent of exports, 48 percent of GDP and 60 percent of budgetary revenues, while Algeria's contributes to 97 percent of exports, 25 percent of GDP and 70 percent of budgetary revenues (Revenue Watch 2013). A more thorough investigation of these cases lends additional support to the notion that structural and economic factors *do not* play a role in determining welfare expenditure outcomes among the subset of mineral-rich authoritarian regimes. Algeria and Gabon have much smaller populations than Russia and Azerbaijan, respectively. In addition, Algeria is at a lower income level than Russia, while Azerbaijan is at a lower income level than Gabon (Table 5.3). Based purely on economic and structural factors, we would expect Gabon to be the highest spender in this small sample. At over \$13,000, Gabon's GDP per capita (in purchasing power parity, or PPP) is on par with Russia and classifies it as a high-middle income country. At the same time, Gabon's population, at 1.5 million people, is 1/100 the size of Russia's, 1/40 the size of Algeria's and 1/9 the size of Azerbaijan's. Yet, Gabon exhibits some of the lowest welfare expenditure levels in the universe of authoritarian resource-rich states. Algeria, on the other hand, boasts a GDP per capita that is one half the size of Gabon, yet in 2010 it spent five times as much on health. This warrants a closer examination of welfare spending patterns in Algeria and Gabon,¹⁹² as well as the composition of—and dynamics between—political and economic elites in each country's authoritarian regime structure.

Algeria

Welfare spending. Algeria's proven reserves of natural gas are the eighth largest in the world, and it is also a significant exporter of oil. The state's long-term budget deficit, which stood at two percent of GDP in 1999, swiftly turned into a surplus of 14 percent of GDP by 2005 as a direct result of oil windfalls (World Bank 2007). Like the post-Soviet cases, budgetary decisions within the social sector are highly concentrated within the central ministries and executive branch. The government embarked on two public expenditure programs in the 2000s, including a massive campaign from 2005 to 2009 known as the *Programme Complémentaire de Support à la Croissance Economique* (Additional Program Support for Economic Growth, or PCSC). The initial allocation for the PCSC was roughly \$55 billion, but more than doubled to

¹⁹² Unfortunately, comprehensive data on social security spending in each country are not available; thus the discussion is limited to health and education.

\$114 billion over the four-year period (World Bank 2007). The government's primary intention for the PCSC was to modernize and expand public services, and thereby improve the population's standard of living. Under the auspices of this program, social spending—especially health—saw substantial increases in the 2000s. Like the post-Soviet cases, Algeria's health system is almost entirely public. The entire population has coverage for publicly provided health services, and the country has very few private providers (World Bank 2007). In tandem with oil windfalls, the government's fiscal commitment to health doubled from 2.5 percent of GDP in 2000 to five percent in 2010. In 2002, at 3.2 percent of GDP, Algeria already outspent the Middle East and North Africa (MENA) region middle income country average for health; only Jordan had slightly higher expenditures. Under the PCSC program, Algeria spent approximately \$10 billion for improving the health infrastructure, and “estimates for 2009 to 2025 suggest that more than \$24 billion will be spent on upgrading existing facilities judged to be sub-standard, the acquisition of medical equipment, and building new hospitals in order to double the number of hospital beds” (BTI 2012: 34).

In the education sector, real expenditures grew by 56 percent between 2000 and 2005, while the government's fiscal priority given to education remained stable at about six percent of GDP. In 2003, with the exception of higher expenditures in Tunisia, per pupil spending on primary and secondary education was on par with or exceeded other MENA countries, including Jordan, Morocco and Egypt. Spending on tertiary education is the highest in the region; in 2003, per pupil spending averaged \$5,805 (PPP), compared to Tunisia, which boasted the next highest expenditure at \$4,803 (World Bank 2007). Part of why Algeria spends so much more on university students has to do with the high social expenditures allocated to them, including boarding, scholarships, food and transport. This is a noteworthy comparison in light of the Arab Spring. Algeria did not experience massive revolt or regime change, even though, like many of its MENA counterparts, it has a bulging youth demographic, which formed the bulk of popular uprisings in Tunisia, Egypt and other countries. Finally, while comprehensive social security spending data are not publicly available, the government implemented a series of pension and public sector wage increases that became more aggressive in the midst of and after the Arab Spring. An 11 percent pension increase came into force at the end of June 2013, which will benefit two million pensioners and cost the government close to half a million dollars a year (EIU 2013). Similar to the Russian case, “continued increases in public spending are becoming increasingly unsustainable for the government” (EIU 2013: 23). In sum, then, available data and information seem to suggest that Algeria—much the same as Russia—has demonstrably used its oil windfalls for its citizens' welfare, especially beginning in the mid-2000s.

Elite fragmentation. Algeria gained independence from France in 1962 after a brutal war for independence that lasted for eight years. The National Liberation Front (FLN), which had been the key political and armed force during the war, gained power and installed a single-party authoritarian regime that lasted for 25 years, was backed by the military and largely ruled by generals. Between the late 1980s and 1999, Algeria succumbed to inner political turmoil and intense civil conflict between the government's security forces and Islamist groups. In 1992, an Islamist revolt began after the army canceled elections that the Islamic Salvation Front party was set to win. In the 1990s, more than 150,000 people were killed as the country was mired in civil war. Abdelaziz Bouteflika, who was elected president in 1999, restored peace to the country through a combination of crackdowns on Islamist rebels as well as amnesty for Islamist leaders and groups which had not engaged in violence. Since 1999, which was also the year that Putin came to power, Algeria's political development has shared several core similarities with Russia's.

Algeria under Bouteflika “has increasingly assumed the qualities of a façade democracy with formally pluralistic elections and...a weak parliament” (BTI 2012: 3). Bouteflika has now been reelected twice: in 2005 with 85 percent of the vote, and in 2009 with 90 percent of the vote after a constitutional amendment allowed him to run for a third term.

While Bouteflika has succeeded in consolidating formal power and rendering the parliament and other governmental institutions virtually meaningless, he faces consistent threats from political and economic elite circles. In the 1990s, the FLN split, and several prominent members formed a different faction around Liamine Zéroual, who was president prior to Bouteflika from 1994 until 1999. In addition to this group of political elites whose loyalties lie elsewhere, the biggest threat to Bouteflika’s hold on power is the military. Even though the military made a formal gesture to remove itself from politics in 2003, “the military security services have long been the locus of real power in Algeria, together with the clans within the army command and the military’s connections within the political elite” (BTI 2012: 9). Lurking in the background, the military represents a source of constant threat to Bouteflika, whose hold on power is fragile vis-à-vis Algeria’s political players. In addition, though it was once a Soviet-style socialist economy,¹⁹³ privatization reforms that occurred in the mid to late 1990s succeeded in dispersing assets to private actors. Beginning in 1994, Algeria took steps toward establishing a more market-oriented economy by implementing radical structural reforms as well as privatization, which resulted in the lay-offs of nearly half a million people from the state sector as well as slew of new entrepreneurs who gained control of major sectors and industries (BTI 2012). Privatization of the petroleum sector stalled in the 2000s once the price of hydrocarbons skyrocketed since the state wanted to retain control of these assets. Although not completely state-owned, Algeria’s ownership model is such that the state retains a majority share in all production contracts. While the government does not want to pursue market-oriented reforms further, a significant number of non-petroleum assets, especially in the banking, pharmaceutical and food processing sectors, have been privatized and dispersed to non-state actors (Williams 2006).

The rise in welfare expenditures and the implementation of large public expenditure programs—especially the PCSC in 2005—occurred in tandem with increasing revenues from petroleum exports. They also occurred during Bouteflika’s presidency which, though stable following the political turmoil of the 1990s, is threatened by a fragmented elite, in particular the military. The experience of Algeria during the Arab Spring highlights the relationship between redistribution and elite fragmentation. Protests did occur in Algeria as part of a “demonstration effect” across the Middle East and North Africa, but the difference in scale and outcomes between Algeria, on the one hand, and Egypt, Tunisia and Libya, on the other, suggests that there is a different dynamic at play between Bouteflika and those around him. Between January and March of 2011, protests broke out in Algiers and other cities along the Mediterranean coast. With the exception of a demonstration on February 12, 2011—the day after Hosni Mubarek resigned—which numbered in the thousands, other protests were ad hoc, numbered in the hundreds, and were easily dispersed by the police. In response to this wave of activity, the government decreased the price of food and announced new increases in pensions—as opposed to the violent crackdowns witnessed in Syria, Libya and elsewhere. During this time, the Algerian regime remained intact, suggesting that Bouteflika’s strategy of buying the citizenry’s

¹⁹³ While Algeria shares the similar legacy of a socialist economy with the post-Soviet states, the variation observed between Russia, Kazakhstan and Azerbaijan indicates that the communist legacy does not have a significant effect on welfare spending.

loyalty through generous welfare programs has paid off, and that despite Algeria's fragmented elite, he is popular enough to stave off a military putsch.

Gabon

Welfare spending. Although Gabon saw a decline in oil production in the last decade, it still generates a significant amount of petroleum revenue and its economy is almost entirely dependent on this sector. As I note above, Gabon's small population enables the country to have a per capita gross national income that is among the highest in the whole of Africa. Like Algeria, a substantial budget surplus was generated in the 2000s and averaged 8.8 percent of GDP between 2005 and 2009. Yet, the majority of the population lives in poverty, and spending in the social sector is "well below the average in sub-Saharan countries" (World Bank 2012c: ix). In 2009, spending on health was 1.4 percent of GDP, which was lower than the average for sub-Saharan Africa, which was 2.1 percent. In keeping with this trend, average education expenditures from 2005 to 2009 were 3.2 percent of GDP, which was lower than both the sub-Saharan Africa average (four percent) and much lower than the average for countries at a similar income level (5.8 percent), including Kenya, Mauritius, Tanzania and South Africa. Like the pattern observed in Azerbaijan, while total budgetary spending increased substantially in the midst of the oil boom in the mid-2000s, a disproportionate amount has gone to "general services," which includes public works and infrastructure projects. Spending on the social sector has increased in absolute terms since 2005, but the share of budgetary expenditures on the social sector has declined, particularly in the education sphere (World Bank 2012c). Education spending as a percent of total budgetary expenditures dropped from 16.5 percent in 2005 to 9.4 percent in 2010.

The share of social sector budgetary expenditures places Gabon lower than other sub-African countries, and much lower than countries at the same income level. In 2008, for example, the share of expenditures on health and education, at 3.8 percent and 13.6 percent, respectively, were lower than in Kenya (5 percent on health and 23.2 percent on education), Mauritius (8.9 percent on health), Cote d'Ivoire (24.6 percent on education) and Cameroon (8.6 percent on health and 17 percent on education). While Gabon instituted a Growth and Poverty Reduction Strategy in 2006 in an attempt to achieve the Millennium Development Goals by 2025, the actual payments made toward health and education under the auspices of this program "were between 55 percent and 70 percent of the amounts envisaged" (World Bank 2012c: 14). Since no overall increases in budget share or percentage of GDP have occurred in these sectors, it is likely that this program is not pumping any extra money into the system. Finally, despite the influx of oil revenues and Gabon's extremely small population, absolute poverty rates actually increased between 1990 and 2005. Thus, it is clear that the Gabonese government has not prioritized the welfare of its citizens in the last decade.

Elite cohesion. As of 2013, Gabon has been ruled by the Bongo family for 46 years. Gabon achieved independence from France in 1960 and, seven years later, Omar Bongo Ondimba became president, established a one-party authoritarian state under the dubiously named *Parti Démocratique Gabonais* (Democratic Party of Gabon, or PDG), and ruled until he died in 2009. Gabon saw some instability in the early 1990s, when two coup plots were discovered and aborted. Following these events, Bongo agreed to hold multiparty elections for the National Assembly for the first time in 30 years, and the polity technically moved from "Not Free" to "Partly Free" in 1990 and remained in that status until 2009 (Freedom House 2013).

The PDG gained the largest majority, however, and Bongo coasted to easy re-elections in 1993, 1998 and 2005. When Bongo died in 2009, his son, Ali Bongo Ondimba, who was Minister of Defense under his father from 1999 until 2009, was elected president. While thorough data on the number of Bongo relatives in the government and bureaucracy are not known, the Bongo family seems to permeate the highest echelons of power. As a rule, “many cabinet portfolios and other high-ranking government positions have been given to personal friends and relatives of President Bongo” (Yates 1996: 208). In addition to Ali Bongo’s position under his father, Omar Bongo’s daughter, Pascaline, was Minister of Foreign Affairs (1991-1994) and director of the presidential cabinet (1994-2009) under her father. Since 2009, she has been an aide to her brother Ali. Omar Bongo’s nephew, Martin Bongo, was Minister of Foreign Affairs under his uncle and now serves as a high level diplomat in his cousin’s administration. Thus far, the younger Bongo’s style of rule appears no different than his father’s, and since taking power in 2009, “he has withstood criticism of his victory; the self-proclamation as president by the third-placed runner-up...and condemnation over the December 2011 legislative election, which saw a landslide victory for the ruling PDG” (EIU 2013b: 4). While the military always strongly backed Omar Bongo, the risk of an army coup is perhaps even lower now under Ali Bongo, since he forged good relations with top generals and other commanders in his ten years as defense minister.

Gabon’s economy is entirely dependent on mineral exports, which are completely owned and controlled by the state. In addition to oil and gas, Gabon has significant timber and manganese mining sectors, but no privatization has occurred that has dispersed these assets to persons outside of the Bongo network. Along with the economic dominance of the Bongos’ friends and family, the small market of one million people, continued dependence on French imports, and elite reliance on oil rents have stymied diversification and dispersion of assets. Gabon does have small processing and service sectors, but these are dominated by a few prominent local investors who all undoubtedly have government ties. Omar Bongo himself was known as one of the world’s wealthiest heads of state; among other assets, he was connected to “no less than 39 residences across France” (Ghosh 2013). Like Azerbaijan, the complete overlap of political and economic elites in Gabon ensures cohesion among the regime’s main players to continue reaping rewards from the *rentier* economy. In sum, the Bongo dynasty has faced little to no threats to its rule, and thus perceives no strategic need to give back to its citizenry—especially since Gabon is “one of the region’s more stable countries” (EIU 2013b: 4).

4. Implications and future directions

This dissertation fills a gap in the political economy literature on regime type and redistribution. In addition to exploring the root causes of autocrats’ welfare policies preferences, and how these are linked to their strategies for maintaining power, this study also sheds light on the nature of the relationship between rulers and citizens in authoritarian regimes. A common thread in the literature on authoritarianism is that citizen loyalty is instrumental for dictatorial survival, but what degree of loyalty do autocrats really need from the masses? The findings from this analysis suggest that the level of popular support necessary for an autocrat to stay in power is variable and conditioned by elite dynamics. Thus far, however, this study has not addressed the *implications* of the relationship between elite cohesion and redistribution in resource-rich authoritarian regimes. Although I briefly discuss instances of civil unrest throughout this dissertation, my theory first and foremost has implications for regime survival and breakdown.

While I suggest that there are elements of instability in the countries I explore, none of them—including the cases briefly examined in this chapter—have actually experienced regime breakdown. This is because the mechanism that balances the relationship between elite cohesion and popular support puts these countries at regime stability equilibrium. The assumption behind my theory is that the level of elite cohesion and the level of popular support are equally weighted vis-à-vis ensuring the autocrat's security. In light of recent popular uprisings and regime breakdowns in the Middle East and North Africa, as well as large-scale protests in Russia following elections in late 2011 and early 2012, what factors could push these countries out of equilibrium? What would tip the scales away from the dictator? In the event of a massive popular uprising, could we speculate on a regime's response to civil unrest and the autocrat's chances for staying in power? A better understanding of elite cohesion and patterns of redistribution in authoritarian regimes can help us to at least begin answering these questions.

Figure 5.1 (p. 173) depicts Russia, Kazakhstan and Azerbaijan at equilibrium in terms of both elite and societal stability. For Russia and Azerbaijan, the extreme cases in this study, the arrows demonstrate movement out of equilibrium toward the lower right quadrant, where both elites and society are unstable. Currently, since elites are united in Azerbaijan but Aliev does not engage in redistribution, Azerbaijan can be classified as having a stable elite but an unstable society. Conversely, in Russia, where elites are divided but Putin redistributes rents to the masses, society is stable but elites are unstable. Therefore, Russia and Azerbaijan would fall out of equilibrium for different reasons. In Azerbaijan, elites would have to become more fragmented, which could occur from a variety of endogenous and exogenous shocks. Considering the structure of the economy in Azerbaijan, we can assume that Aliev would be most vulnerable to regime instability—and ultimate breakdown—should the international price of hydrocarbons plummet and remain low. In this case, Aliev would lose the ability to dole out money to his supporters. Considering Aliev would have no popular support mechanism to counterbalance elite threats and defections, he would most likely be ousted. If elites remained united around Aliev in the event of a substantial popular uprising, however, Aliev would be much less vulnerable in this scenario, as long as he maintained a critical mass of support among his cronies. Alternatively, society would have to become unstable in Russia to push the country out of equilibrium. Again, this could occur from a variety of factors, including a drop in welfare spending,¹⁹⁴ an international demonstration effect, or significant underground mobilization of the opposition. In the event of substantial civil unrest, a critical mass of disaffected elites would likely defect from Putin. In general, Putin's popularity seems to be of increasing concern to the autocrat. One of the only explanations put forth for his recent implementation of harsh anti-gay laws—a mere six months before the 2014 Winter Olympics in Sochi, when international athletes, media personnel and spectators could be vulnerable to arrest if they are “suspected of being gay or pro-gay” (*New York Times* Editorial Board 2013)—is that he is desperately trying to increase his support base among conservative nationalists in the Russian population.

It is difficult—if not impossible—to predict authoritarian breakdown in Russia, Azerbaijan, Kazakhstan and other countries that are seemingly very stable. For casual observers and country experts alike, the collapse of communism and the Arab Spring, for example, seemingly came out of nowhere. The recent tide of authoritarian collapse, in particular the “Color Revolutions” that swept through the postcommunist region in the early and mid-2000s and the Arab Spring in 2011, demonstrates that breakdown occurs when civil unrest pushes

¹⁹⁴ This is probably less likely to occur even in the event of an oil price drop, since the government would start borrowing heavily to maintain and even increase spending levels.

enough elites to defect from the autocrat that he no longer has the critical mass of elite supporters he needs to remain in power. Although elites withdrew their support for the dictator—albeit in different ways—in Egypt, Libya and Tunisia, enough have remained united around Bashar al-Assad that two years of brutal civil war have not caused his regime to fall. Future research might further probe the relationship between elite cohesion, redistribution and an autocrat’s response to popular uprising. What are the political and economic conditions under which an authoritarian regime responds to the threat of civil unrest using repression, redistribution, both tactics, or neither strategy? What are the effects of this strategic response (or non-response) on regime survival? Recent cases of popular protest already provide nice variation: Syria (united elites) responded with violent crackdown and is still intact; Libya (hybrid elites) responded with violent crackdown but Qaddafi fell; Egypt (divided elites) responded with no strategy and Mubarek fell; and Russia and Algeria (divided elites) responded with (and delivered on) promises of greater redistribution.

Future research might also expand the scope of this project to include all authoritarian regimes. I limited the dataset in this study to countries rich in petroleum, in part to ensure that the variation observed was not due to some countries’ sheer lack of funds, and also to compare and contrast the longitudinal trajectory of welfare spending with the recent oil boom. The general argument and mechanism I propose, however, could very well apply to resource-poor authoritarian regimes, especially in light of contrasting developments in Egypt and Syria. Does the phenomenon play out in much the same way in states with more limited resources, or does the theory not apply because, in these cases, leaders *do* have to choose between buying off elites and buying off society? Would the findings from a study with an expanded dataset yield broader generalizations?

Finally, future research might address the directionality of the causal mechanism I outline. Instead of rulers redistributing rents to society-at-large to buy their support, in specific cases, can resources be withheld from the wider population in order to catalyze civil unrest? Recent developments in Egypt—while perhaps unique—suggest that this phenomenon can occur. Following the ouster of Mohamed Morsi in July 2013, the quality of life for Egyptians miraculously improved almost overnight. Personnel left in place in the bureaucracy after Mubarek fell “played a significant role—intentionally or not—in undermining the overall quality of life” under Morsi’s rule (Hubbard & Kirkpatrick 2013). In addition to social welfare benefits, basic services, such as utilities, gas and even a police presence on the streets, reappeared after Morsi was arrested. Was this a reflection of Morsi’s incompetence, or did disloyal personnel conspire to fuel anger and frustration among the populace? In cases where elites are divided, can those who want to see the leader go strategically deny services to the public to dampen the ruler’s popularity? These questions loom large in an era marked by the fall of seemingly indestructible dictators and continuing turmoil in the Middle East and North Africa.

Table 5.1: Public welfare expenditures (% GDP) in comparison countries

Country	Sector	1998	2000	2002	2004	2006	2008	2010
Algeria	Health	3.0	2.5	2.8	2.7	3.5	4.6	5.0
	Education	--	5.5	6.8	6.2	4.9	4.3	--
Gabon	Health	1.4	1.0	1.2	1.4	1.2	1.0	1.8
	Education	3.4	3.8	--	--	3.0	3.1	--
Turkmenistan	Health	3.5	3.2	2.4	2.4	1.5	1.0	1.5
	Education	--	--	--	--	--	--	--
Uzbekistan	Health	3.0	2.5	2.4	2.3	2.4	2.5	2.7
	Education	7.9	9.4	8.8	--	--	--	--

Source: World Bank, *World Development Indicators* (2013), available at <http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators>.

Table 5.2: Applicability of theory to comparison countries

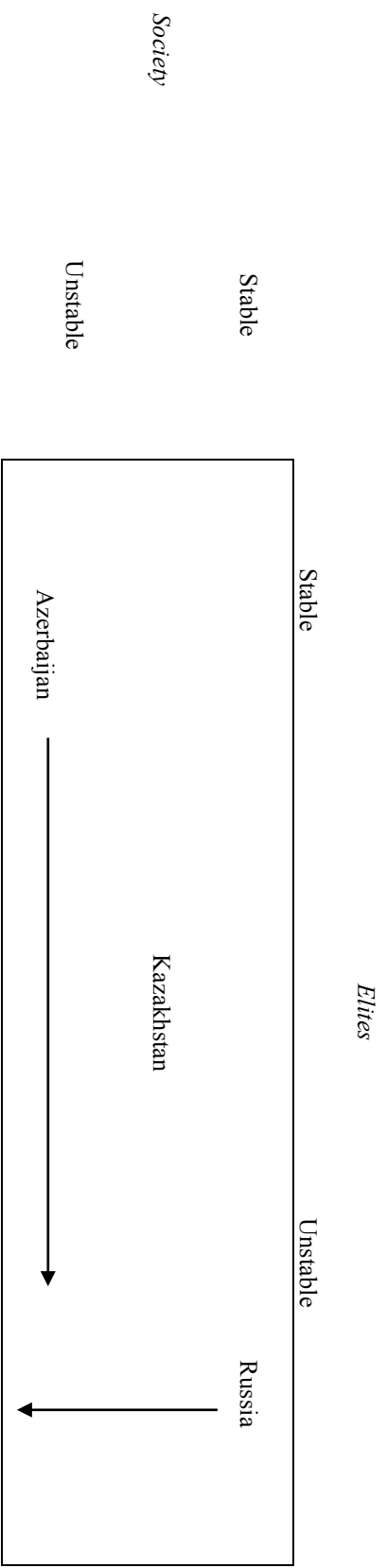
Country	Political elite factionalization	Political-economic elite overlap	Elite fragmentation	Welfare spending
Algeria	High	Low	Divided	High
Gabon	Low	High	United	Low
Turkmenistan	Low	High	United	Low
Uzbekistan	High	High	Hybrid	Medium

Table 5.3: Snapshot of shadow cases

1	Indicator	2005	2011
<i>High spenders</i>			
Algeria	Population (million)	32.89	35.98
	GDP per capita, PPP (constant international \$)	\$7,769	\$7,643
	Oil & gas revenue (% total government revenue)	76%	67%
	Freedom House Score	11 (Not Free)	11 (Not Free)
Russia	Population	143.15	141.93
	GDP per capita, PPP (constant international \$)	\$11,853	\$14,821
	Oil & gas revenue (% total government revenue)	27%	28%
	Freedom House Score	11 (Not Free)	11 (Not Free)
<i>Low spenders</i>			
Gabon	Population	1.37	1.53
	GDP per capita, PPP (constant international \$)	\$13,014	\$13,998
	Oil & gas revenue (% total government revenue)	63%	64%
	Freedom House Score	10 (Partly Free)	11 (Not Free)
Azerbaijan	Population	8.39	9.17
	GDP per capita, PPP (constant international \$)	\$4,496	\$8,890
	Oil & gas revenue (% total government revenue)	54%	65%
	Freedom House Score	11 (Not Free)	11 (Not Free)

Sources: World Bank, *World Development Indicators* (2013), available at <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators>; Revenue Watch Country Profiles, available at <http://www.revenuewatch.org/rgi/countries>; Freedom House, Freedom in the World index, available at <http://www.freedomhouse.org/report-types/freedom-world>. Countries receive two scores for political liberties and civil liberties, which can range from 1 (most open polity) to 7 (most closed polity). Combined scores therefore range from 2 (most open polity and “Free”) to 14 (most closed polity and “Not Free”).

Figure 5.1 : Countries at regime stability equilibrium*



*Arrows depict direction of movement to instability at both the elite and societal levels.

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Appendix A: List of Author's Interviews

Azerbaijan

1. Professor, Azerbaijan Diplomatic Academy, Baku, January 11, 2011 and January 28, 2011.
2. Employee, Caucasus Resource Research Center, Baku, January 11, 2011.
3. Political Analyst #1, Independent Scholar, Baku, January 12, 2011.
4. Budget Policy Expert #1, National Budget Group, Baku, January 17, 2011 and April 1, 2011.
5. Budget Policy Expert #2, Public Finance Monitoring Center, Baku, January 17, 2011
6. Program Coordinator, National Budget Group, Baku, January 17, 2011
7. Program Advisor, UNDP, Baku, January 18, 2011.
8. Director, USAID Health Office, Baku, January 26, 2011.
9. Economist #1, Center for Support for Economic Initiatives, Baku, January 28, 2011.
10. Social Policy Expert #1, Independent Scholar, Baku, February 1, 2011.
11. Political Analyst #2, Independent Scholar, Baku, February 1, 2011.
12. Social Policy Expert #2, Hilfswerk Austria International, February 6, 2011.
13. Health Policy Specialist #1, USAID Health Project, Baku, February 7, 2011.
14. Health Policy Specialist #2, World Bank, Baku, February 8, 2011.
15. Democracy and Governance Specialist, USAID, Baku, February 8, 2011.
16. Official #1, State Oil Fund of Azerbaijan (SOFAZ), Baku, February 14, 2011.
17. Official #2, SOFAZ, Baku, February 14, 2011.
18. Employee, State Oil Company of Azerbaijan (SOCAR), Baku, February 19, 2011.
19. Journalist #1, *Azadliq Radiosu*, Baku, February 22, 2011.
20. Official, Pension Policy Department, Ministry of Labor and Social Protection of the Population, Baku, February 23, 2011.
21. Official #1, Ministry of Education, February 28, 2011.
22. Official #1, Ministry of Health, Baku, March 1, 2011.
23. Official #2, Ministry of Health, Baku, March 1, 2011.
24. Official, State Social Protection Fund (SSPF), Baku, March 1, 2011.
25. Employee, United Aid for Azerbaijan, Baku, March 9, 2011.
26. Official #3, Ministry of Health, Baku, March 14, 2011.
27. Political Analyst #3, Member of “Republican Alternative” Movement, March 16, 2011.
28. Health Policy Specialist #3, USAID Health Project, Baku, March 17, 2011.
29. Former Head of SOCAR, March 17, 2011.
30. Education Policy Expert #1, Center for Innovations in Education, March 18, 2011.
31. Education Policy Expert #2, Center for Innovations in Education, March 18, 2011.
32. Political Analyst #4, Far Centre for Economic and Political Research, March 29, 2011.
33. Regional Associate, Revenue Watch, March 29, 2011.
34. Member, *Milli Majilis*, Baku, April 6, 2011.
35. Political Analyst #5, Member of “Republican Alternative” Movement, April 7, 2011.
36. Economist #2, Center for Economic and Social Development, April 8, 2011.
37. Employee #1, British Petroleum (BP), April 13, 2011.
38. Employee #2, BP, April 13, 2011.

Kazakhstan

1. Editor-in-Chief, *Liter*, Almaty, August 31, 2010.
2. Bolashak Program Scholar, Almaty, August 31, 2010.
3. Budget Policy Expert #1, Public Policy Research Center, Almaty, September 3, 2010 and September 24, 2010.
4. Former Minister of Finance, Almaty, September 6, 2010.
5. Professor of Political Science, Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP), Almaty, September 10, 2010.
6. Policy Advisor, Soros Foundation-Kazakhstan, Almaty, September 10, 2010.
7. Program Coordinator, Soros Foundation-Kazakhstan, Almaty, September 10, 2010.
8. Economist #1, Institute for Development of Kazakhstan, Almaty, September 16, 2010.
9. Poverty Expert, Institute for Economic Strategies, Almaty, September 16, 2010.
10. Domestic Policy Expert, Institute of Political Solutions, Almaty, September 17, 2010.
11. Economist #2, Institute of Political Solutions, Almaty, September 17, 2010.
12. Member of the Presidium #1, All-National Social-Democratic Party *Azat*, Almaty, September 21, 2010 and November 24, 2010.
13. Economist #3, Independent Scholar, Almaty, September 22, 2010.
14. Political Analyst #1, Risk Assessment Group, Almaty, September 24, 2010 and November 15, 2010.
15. Political-Economic Section Representative #1, Embassy of the United States of America, Astana, September 27, 2010.
16. Bolashak Program Representative #1, Astana, September 28, 2010.
17. Local Budget Expert, Aimak Foundation, Astana, September 28, 2010.
18. Director, Political and Economic Consulting Firm, Astana, September 28, 2010.
19. Official #1, Ministry of Education and Science, Astana, September 29, 2010.
20. Bolashak Program Representative #2, Astana, September 30, 2010.
21. Official, Astana Department of Economy and Budget Planning, Astana, September 30, 2010.
22. Former Official, Ministry of Finance, Astana, September 30, 2010 and November 8, 2010.
23. Official, Astana Trade Union, Astana, October 1, 2010.
24. Employee, Eurasia Foundation, October 22, Almaty, 2010.
25. Pension and Social Policy Expert #1, Rakurs Foundation, Almaty, October 30, 2010.
26. Political-Economic Section Representative #2, Embassy of the United States of America, Astana, November 5, 2010.
27. Economist #4, World Bank, Astana, November 9, 2010.
28. Former Official, Ministry of Economy and Budget Planning, Astana, November 11, 2010.
29. Former Official, Ministry of Labor and Social Protection, Astana, November 12, 2010.
30. Employee, Samruk-Kazyna Real Estate Department, Astana, November 12, 2010.
31. Former Senator, Almaty, November 16, 2010.
32. Journalist #1, opposition newspaper, Almaty, November 19, 2010.
33. Political Analyst #2, Independent Scholar, Almaty, November 20, 2010.
34. Official, Almaty Department of Labor and Social Programs, Almaty, November 23, 2010.
35. Member of the Presidium #2, All-National Social-Democratic Party *Azat*, Almaty, November 24, 2010.
36. Pension and Social Policy Expert #2, Independent Scholar, Almaty, November 28, 2010.

37. Employee #1, Tengizchevroil, Atyrau, November 30, 2010.
38. Human Rights and Environmental Activist, Atyrau, December 1, 2010.
39. Employee #2, Tengizchevroil, Kul'sary (Atyrau *oblast'*), December 2, 2010.
40. Head Doctor, Village Hospital, Kul'sary (Atyrau *oblast'*), December 2, 2010.
41. Official, Education Department, Kul'sary (Atyrau *oblast'*), December 2, 2010.
42. Official #2, Ministry of Education, Astana, December 6, 2010.
43. Journalist #2, *Respublika*, Almaty, December 13, 2010.
44. Political Analyst #3, Center for Political Alternatives, Almaty, December 13, 2010.

Russia

1. Journalist #1, *Moscow Times*, April 27, 2011.
2. Political Analyst #1, Carnegie Moscow Center, Moscow, April 28, 2011.
3. Social Policy Expert #1, UNICEF, Moscow, May 3, 2011.
4. Former Representative, IMF (Russia), Moscow, May 4, 2011.
5. Labor and Employment Specialist #1, Independent Scholar, May 5, 2011.
6. Health Expert #1, Federal Research Institute of the Ministry of Health and Social Development, May 11, 2011.
7. Education Expert #1, Center for Universal Programs, May 13, 2011.
8. Social Policy Expert #2, Institute of Contemporary Development (INSOR), May 16, 2011.
9. Labor and Employment Specialist #2, Center for Labor Market Studies, Higher School of Economics, Moscow, May 16, 2011.
10. Senior Consultant, Center for Fiscal Policy, Moscow, May 17, 2011.
11. Professor of Economics, Higher School of Economics, Moscow, May 18, 2011.
12. Journalist #2, *BBC – Russia*, May 19, 2011.
13. Political Analyst #2, Center for Political Information, Moscow, May 23, 2011.
14. Director, Budget Monitoring Center, Petrozavodsk State University, Petrozavodsk, June 14, 2011.
15. Former Head, Karelia *Oblast'* Ministry of Finance, Petrozavodsk, June 14, 2011.
16. Education Expert #2, Institute for Education Studies, Higher School of Economics, Moscow, June 17, 2011.
17. Official, Ministry of Education and Science, Moscow, June 24, 2011.
18. Representative, Moscow Mayor's Office, Moscow, June 26, 2011.
19. Journalist #3, *Moscow Times*, Moscow, July 1, 2011.
20. Political Analyst #3, Advisor and Consultant to *Pravoe Delo* (Right Cause), Moscow, July 5, 2011.
21. Education Expert #3, Interregional Association for Monitoring and Statistics of Education, Moscow, July 5, 2011.
22. Health Expert #2, Institute for Health Economics, Higher School of Economics, Moscow, July 6, 2011.
23. Budget Policy Expert #1, Economic Expert Group and Ministry of Finance Public Council, Moscow, July 7, 2011.
24. Health Expert #3, National Institute of Public Health, Moscow, July 7, 2011.
25. Social Policy Expert #3, Independent Institute of Social Policy, Moscow, July 13, 2011.
26. Social Policy Expert #4, Independent Institute of Social Policy, Moscow, July 13, 2011.

27. Pension Expert #1, Independent Actuarial Informational Analytical Center, Moscow, July 18, 2011.
28. Pension Expert #2, Center for Social Policy, Institute of Applied Economic Research, Moscow, July 20, 2011.
29. Journalist #4, *Kommersant*, Moscow, July 26, 2011.
30. Political Analyst #4, Carnegie Moscow Center, July 26, 2011.
31. Budget Policy Expert #2, “Strategy” Center of Humanities and Political Studies, St. Petersburg, July 28, 2011.
32. Representative #1, Alfa-Bank, Moscow, August 4, 2011.
33. Representative #2, Alfa-Bank, Moscow, August 10, 2011.
34. Pension Expert #3, Center for Strategic Research, August 12, 2011.

Appendix B: List of Conferences and Meetings Attended

1. Roundtable discussion on current state of politics in Kazakhstan, sponsored by *Azat*, Almaty, Kazakhstan, October 18, 2010.
2. Open Budget Conference, sponsored by Soros Foundation-Kazakhstan, Astana, Kazakhstan, November 4, 2010.
3. Roundtable discussion on current state of politics in Kazakhstan, sponsored by the Risk Assessment Group, Almaty, Kazakhstan, November 15, 2010.
4. Roundtable discussion with Zhannat Yertlesova, Advisor to the Prime Minister, sponsored by the Astana Alumni Association, Astana, Kazakhstan, November 10, 2010.
5. Tengizchevroil Town Hall Meeting, Atyrau, Kazakhstan, November 30, 2010.
6. Assessment of Azerbaijan's Macroeconomic Policy in 2010, sponsored by the National Budget Group, Baku, Azerbaijan, March 14, 2011.
7. Roundtable discussion on current state of politics in Russia with "For a Just Russia" Duma Deputy Il'ia Ponomarev, Moscow, Russia, July 5, 2011.