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'I've Seen This Before' What Failed Democratization Can Teach Us About Democratic Erosion

Economic Society – Responsible Regulated Free Market

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This is the fifth, and final, installment in a series, which was introduced here. The first episode on Civil Society can be read here; the second, on political society, can be read here; the third, on rule of law, can be read here; and the fourth, on bureaucracy and the power of the state, can be read here.

On Sept. 4, 2025, when President Donald Trump gathered tech tycoons at the White House and praised some while chastising others[i], I had a familiar feeling of déjà vu. I thought: I've seen this before. Not in Washington, but in Moscow. In June 2000, shortly after ascending to power, Vladimir Putin summoned Russia's oligarchs to the gilded halls of the Kremlin to remind them explicitly that their fortunes now depended on political obedience to him[ii].

The two contexts differ profoundly of course, but the underlining logic is eerily recognizable. A leader who claims to champion "ordinary people" immediately reshaping the relationship between political power and private wealth – influential players of the economy. The second Trump administration has been marked by its notable relationships with the wealthiest people of the nation and even world, including Elon Musk. So, is there anything to learn from the paralleled situations?

As noted in the introduction to this series, these essays explore what we can learn about the health of democracy by examining cases of failed democratic transitions and consolidations. Four episodes have followed influential comparative politics scholars Juan Linz and Alfred Stepan's framework[iii], exploring civil society, political society, the rule of law, and state bureaucracy. The fifth and final arena — institutionalized economic society that mediates between state and market — is perhaps the least obvious, often missing from popular commentary, yet quietly one of the most decisive, as it addresses not merely the issues or economic growth, but more crucially the issues of acceptable economic inequality. In this episode, we turn to it.

Economic Society: What Kind of Market Can Democracy Live In?

Linz and Stepan argue that no modern democracy can consolidate without a specific kind of economic order — one built not on ideological purity but on institutional balance. They write: "Modern consolidated democracy requires a set of socio-politically crafted and socio-politically accepted norms, institutions, and regulations that mediate between the state and the market."[iv]

This insight emerges from decades of comparative study and leads to two empirically grounded conclusions. First, "there has never been, and cannot be a non-wartime consolidated democracy operating under a command economy" This is because market autonomy and owner diversity cultivate the independence and liveliness in civil and political society needed for democracy to thrive. Second, there has "never been and almost certainly never will be" a consolidated democracy operating under a pure, unregulated market economy."[v] In short, democracies cannot survive under either extreme — total state control or unregulated market anarchy. They depend instead on a carefully balanced economic order rooted in rules, stability, and institutional constraint — a free market that is also responsibly regulated to avoid extreme inequality.

Historically and philosophically, economic freedom and political freedom have long been understood as deeply interconnected. From classical liberalism to 20th-century modernization theory, scholars have argued that democratic institutions and market institutions share not only space but origins — both emerging from the same philosophical commitments to individual autonomy, pluralism, and open competition.

It is no surprise, then, that the economic growth produced by competitive markets has been widely viewed as essential to democratic stability. In his seminal 1959 work, Seymour Martin Lipset famously argued that "the more well-to-do a nation, the greater the chances that it will sustain democracy."[vi] Economic development, he believed, generates education, urbanization, a middle class, and norms of moderation — all conditions conducive to democratic endurance.[vii]

Samuel Huntington echoed this optimism, noting that empirically, economic expansion, civic values, political moderation, and democratic resilience seem to occur together; or as he put it "all good things go together."[viii] Based on the evidence of the 20th century, the idea seemed simple and compelling. As societies become wealthier, they also become more democratic.

Barrington Moore distilled the structural core of that argument into his famous dictum: "No bourgeoisie, no democracy."[ix] According to this modernization argument, economic transformation creates social forces and an empowered middle and working class capable of demanding democratic inclusion.

Later research refined these early theories. Rueschemeyer et al., argued that democracy emerged not simply from wealth, but from industrialization that strengthens labor and weakens the political weight of landed elites.[x] Przeworski and colleagues showed that while economic development does not necessarily cause democracies to emerge, it dramatically increases their chances of survival once established.[xi] Boix and Stokes emphasized that it is not income alone that matters, but the inequality-reducing dynamics that often accompany development.[xii] Relying on decades of research, Inglehart and Welzel famously demonstrated that as GDP rises, values change toward self-expression and autonomy, and participation accelerates, making democratic transitions significantly more likely.[xiii]

Thus, economic modernization does not automatically produce democracy. In fact, plenty of authoritarian systems co-exist with modernity and industrialization. Yet, prosperity does not automatically grow from modernization and industrialization. Despite the popular myth of the "efficient authoritarianism," decades of empirical research show that authoritarian regimes do not reliably produce prosperity. As Przeworski and colleagues demonstrate, dictatorships generate the world's fastest booms and the world's most devastating collapses.[xiv] Democracies, by contrast, produce slower but more stable and sustainable growth, precisely because economic actors operate under transparent, rule-bound conditions rather than personalistic discretion.

The deeper reason economic society matters goes to the heart of democracy itself — interpersonal and institutional trust and credible commitment. As Przeworski and Wallerstein argue, economic relations depend on shared expectations: workers must trust that business owners will not exploit or expropriate them, and business owners must trust that workers — and the state — will not threaten their investments or property.[xv] Democracy stabilizes these expectations by extending the time horizon of competition. When economic rules are predictable, today's losers can plausibly believe they might win tomorrow. Joseph Schumpeter captured this logic in his insight that democracies survive because they "institutionalize uncertainty" — no political or economic outcome is final, and no defeat is permanent.[xvi] Political freedom and economic freedom reinforce each other, not by magic, and not through markets alone, but through the institutional structures that mediate between the two. In short, as I have argued all along throughout these series, institutions and norms matter.

Russia's "Command Kelptocracy" - When only rule is loyalty

Russia in the 1990s offers a vivid illustration of what happens when economic transformation outpaces institutional capacity and establishment of norms. Post-Soviet reformers and liberalizers sought to dismantle the command economy and establish markets quickly, almost overnight, advocating for the so-called policy of "shock therapy." Yet, as many scholars observed, markets cannot function without stable rules like property rights, regulatory bodies, and predictable enforcement.[xvii] Where these are absent, markets do not emerge. Instead, as we have seen in case of so many former soviet republics of the 1990s, including Russia plunder ensues.

The combination of voucher privatization, insider auctions, and collapsing state oversight generated the notorious wild capitalism of the Yeltsin era.[xviii] A narrow group of well-connected insiders acquired Russia's most strategic assets, such as energy, metals, banking, and media, while millions experienced wage arrears, loss of savings, and the erosion of the welfare state. Instead of forming the "economic society" Russia developed an oligarchic economy in which legality was fragile, the state weak, and economic rewards flowed upward to those best positioned to exploit disorder.[xix]

By the late 1990s, oligarchs had become autonomous political actors with media properties, regional networks, and access to the presidency.[xx] As discussed in previous episodes, the oligarchs shaped and helped capture the fledgling state that emerged after 1991 by influencing politics and elections.

This fragile balance shifted dramatically in July 2000, when Putin, himself a beneficiary of oligarchic support, summoned the leading oligarchs to a now-infamous Kremlin meeting.[xxi] There, he delivered his telling admonition: "I want to draw your attention to the fact that you built this state yourself… So there is no point in blaming the reflection in the mirror."

Some initially hoped this signaled a move toward a more "civilized" economic playing field, one that would adhere to the rule of law. But even in this early encounter, it was evident what Putin did not intend to do: he had no interest in breaking the structural link between property and political power. He did not seek to build an autonomous regulatory state or institutionalized transparency. What he wanted was not reform, but control.

The turning point came in October 2003 with the arrest of Mikhail Khodorkovsky, head of Yukos, oil company, and Russia's wealthiest man. Although officially charged with tax violations, Khodorkovsky's real offense was political. He financed opposition parties, supported independent NGOs, spoke publicly about high-level corruption, and challenged Putin directly on national television.[xxii] His arrest—executed by masked security forces—and the subsequent dismemberment of Yukos sent an unambiguous message: property rights existed only at the pleasure of the Kremlin.

The oligarchic pluralism of the 1990s gave way to a single-pyramid patronal system with the presidency at its apex.[xxiii] Independence, particularly of the wealthy, was no longer tolerated and loyalty was the sole guarantee of survival.
The demolition of Yukos was a poignant message. The prosperous private company was appropriated and incorporated into Rosneft and later into Gazprom, Russia's energy giant. Through the 2000s, Gazprom was consolidated into a core instrument of state power. A "state corporation" in name, it has effectively become a political and financial arm of the Kremlin.[xxiv] As discussed in previous episode 4, Putin's loyalists, "*siloviki*," were placed in leadership of strategic assets absorbed through coercive takeovers. Thus, pipelines and export contracts were used to reward allies and pressure Putin's adversaries. Control of gas became control of regions, elites, and foreign partners.

Sadly, but predictably, this consolidation amplified the effects of the resource curse—the tendency for resource-rich states to develop weak institutions, high corruption, and authoritarian politics.[xxv] As global oil and gas prices surged, Russia gained massive revenue streams that did not rely on taxation. Resource rents enabled the Kremlin to finance vast patronage networks, maintain elite loyalty through contracts and rents, expand the powers and budgets of security services, bankroll media consolidation and propaganda, and cushion the public with selective social-welfare spending, securing populist loyalties.[xxvi]

At the same time, resource revenues enriched the political elite personally. Members of Putin's inner circle amassed extraordinary wealth via state contracts, undervalued acquisitions, offshore schemes, and opaque corporate structures.[xxvii] Hydrocarbon wealth became not only the basis of state capacity but also of personal patrimonial wealth accumulation.

This contradiction—rising elite wealth amid stagnating public welfare—was laid bare by Alexei Navalny and the Anti-Corruption Foundation (FBK). Through meticulous investigative work, FBK documented the secret estates, yachts, vineyards, and offshore networks of Russia's political elite.[xxviii] Navalny's most famous exposé—Putin's alleged Black Sea "palace"[xxix]—became symbolic of the system's kleptocratic core. No wonder dictator Putin's personal hate for Navalny cost the latter his life.

But the fusion of economic rent and political power extends beyond enrichment. It also finances parallel coercive structures loyal to the president personally. One of the most consequential products of this ecosystem was Yevgeny Prigozhin and the Wagner Group, funded in part through inflated state contracts and in part through resource concessions abroad.[xxx] Wagner provided the Kremlin with deniable military force in Ukraine, Syria, Libya, and across Africa, securing resource deals that fed back into elite patronage networks. Even after Prigozhin's death, Wagner, renamed and reframed remains both an instrument of foreign policy and a manifestation of Russia's rent-fed political economy of violence.

These same resource flows finance Russia's wars, from Chechnya to Georgia, Crimea, Syria, and ultimately the full-scale invasion of Ukraine in 2022. Oil and gas rents give Putin the fiscal resilience to modernize the military, expand security services, withstand sanctions, and pursue geopolitical adventurism. [xxxi]

By the 2010s, Russia had neither a true market economy nor a command economy. Instead of economic society, Putin had constructed a command kleptocracy: a hybrid system in which markets exist on paper but function through political discretion of the "first person". Nominally commercial corporations serve political goals of Kremlin. Property is never secure but simply permitted. Putin's resource-backed, personalized autocracy sustained by rents, loyalty, coercion, and corruption was built step by step, oligarch by oligarch, pipeline by pipeline.

Responsible, Regulated Free Market – Lessons for Democracy

Unlike Russia under Putin, the United States operates within a long-standing constitutional framework in which institutions and democratic norms are designed to constrain executive power. Yet Russia's failed democratic transition nonetheless offers a critical warning. When personal political loyalty to executive authority becomes a major factor shaping access to regulatory decisions, government contracts, or tariff advantages[xxxii], the result is a drift toward transactional authoritarianism in economic governance. Even when the threats of lawsuits, tariffs, or withdrawal of funding, contract, or permit do not materialize, the messages are still loud and clear – one must "pay to play" . The rules of the game are determined by the size of financial contribution to campaign war chest, ballroom, or future library.

Challenges to the boundaries of credible commitment through tariffs, politically targeted subsidies, and proposals to reconfigure federal revenue all signal a dangerous trajectory. Tariffs on steel, aluminum, and Chinese goods injected deep uncertainty into business planning and supply chains. Massive subsidies to farmers, deployed after retaliatory tariffs created the need, functioned as political side payments, disproportionately benefiting regions central to Presdient's coalition. Trump even floated eliminating income taxes entirely and financing the government through tariffs — a shift that would move fiscal authority from stable, rule-based taxation to discretionary executive control.

These actions do not dismantle American market institutions, but they blur the line between economic policy and political loyalty, introducing a discretionary logic into decisions that market actors expect to be rule-bound. In this sense, they mirror, albeit in a democratic context and to a far lesser degree, the same underlying impulse visible in more authoritarian systems: to politicize economic outcomes and weaken the impartial, predictable rules that democratic economic societies depend on.

The broader lesson from Russia, from comparative politics, and from democratic backsliding more generally, is clear — democracy requires a responsible, regulated free market. Not a command economy, and not laissez-faire romanticism, but a structured economic society in which the rule of law protects citizens and firms from both state and oligarchic abuse, competition policy prevents monopolies and crony capture, transparency limits corruption, social protections buffer extreme inequality, and norms tie economic life to democratic accountability.

Democracy becomes "the only game in town" only when all five of Linz and Stepan's arenas hold. When one falters, or when leaders begin to test its limits, authoritarianism finds its opening.

Many of us in comparative politics have seen these dynamics before. Not identically, not deterministically, but recognizably. Economic society, the final arena, reminds us that democracies erode not only through political choices but also through economic ones. When rules become distorted, institutions become captured, and markets cease to be free. Thus, preserving democracy also means supporting your local mom and pop stores and farms, investing into the wellbeing of your own neighborhood and neighbors, protecting small local businesses and workers alike.

And so, the series ends we've come full circle. If Civil Society is where values and ideas are formed, economic society is where those commitments are tested—where we ultimately put our money behind our beliefs.

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[i] https://www.cbsnews.com/news/trump-hosting-dinner-tech-giants-business-leaders-white-house/
[ii] https://www.rferl.org/a/1094438.html
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[v] Ibid.
[vi] Lipset, S. M. (1959). Some social requisites of democracy: Economic development and political legitimacy. *American Political Science Review*, 53 (1), 69–105 see page 75. [https://doi.org/10.2307/1951731]
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