

The emerging clan capitalism in the world*

ABSTRACT

In the present article a number of critical economics situations are discussed based on clan capitalism as a starting point. One can see clearly then, that instead of assuming 'ordinary economy' and that clan/crony capitalism is an exception in particular nation because of certain socio-historical context, one should begin with the opposite assumption instead: that clan capitalism can be found almost everywhere in this planet. One can say that *clan capitalism is a norm rather than an exception*, because clan capitalism is part of liberal capitalism itself.

Apparently, more studies on the extent and role of clan capitalism in a nation's economy and also their role in globalized economy can be expected in the coming years.

Foreword

This article started with a concern on many failures and mistakes of a big project called liberal capitalism (liberalization) in many countries, especially developing countries. Those failures can be viewed as a result of the role and extent of clan capitalism which pre-dominate economy of many countries. Therefore it appears very interesting for me to discuss and focus my attention on clan capitalism itself.

This article can be seen as an attempt to *generalize* the conclusions of previous studies in some countries, especially Kunio Yoshihara's study on the so-called 'ersatz capitalism' phenomenon in Southeast Asia region (1988)[12], Kosals's study on Russia (2005)[4], ICFAI's study on banking crisis in Japan [5], and Goodman & Goodman's study on USA [11]. From those studies we can infer that clan capitalism is almost a ubiquitous phenomenon, which can be found almost everywhere in this planet. We can say therefore that clan capitalism can be seen as a norm/rule rather than an exception in many countries. However, there is also distinction between the conclusion of this article and the conclusions of those previous studies mentioned above. For instance, in Yoshihara [12] the

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western countries' economy and Japan itself can be seen as a model, whereas in this article even Japan and many western countries themselves are also plagued by clan capitalism. Therefore clan capitalism can be seen as a virus which can infect any country, regardless its location and its size.

Allow me to admit here that the idea of clan capitalism itself may not be new, considering that studies on the role of clans (ruling families) in French revolution had been made since 18th century. But I also hope that you will find some new ideas here, in particular in the view that clan capitalism should be addressed properly before it hamper national economy as a whole. We can also consider this subject as a new topic, as a search on Google with keyword 'clan capitalism' only revealed a few entries focusing on this topic, with only a JSTOR entry written by Kosals (search was performed at April 9th, 2013).

For sure, this article is not a complete work within itself. It borrows many terminologies from Kosals [4] and others. It also relies on previous studies conducted by other researchers. However, this author hopes that there are new viewpoints here, which cannot be found elsewhere. I also hope that in the near future there will be more studies on how to handle properly those clan capitalism and also how to manage unwanted effects of clan capitalism both in developed countries and also in developing countries as well.

Introduction

Many economists think that economy of any particular nation is something more or less like building a house: in that sense if all people work to maximize their utility (cf. Adam Smith) then eventually the house will be built properly, especially if market mechanism is allowed to function properly without too much government intervention. But nowhere in this world, this simple perceived assumption works. Mostly, either excessive market liberalization advocated by *laissez-faire* and neo-liberalism proponents gives worst result (crises) or government intervention is too heavy, and then there is no incentive for enterprises to innovate and create new products and services.

Based on a number of previous study, (cf. Kunio Yoshihara and Mancur Olson), then we submit another approach, that is: instead of assuming 'ordinary economy' and clan/crony capitalism is an exception in particular nation because of certain socio-historical context, one should begin with the opposite assumption instead: that clan capitalism can be found almost everywhere in this planet (not only in Russia, latin America, or Japan), and if in a few nations there is normal/ordinary economy where all group of functions work well, that is only an exception. West Europe apparently perform quite good compared to other regions in the world in this respect, but one should be aware because as globalization takes full effect in the coming years, then just like a virus can spread all over the world, similarly

clan capitalism can be transported and transformed on board to other countries. Excessive financial liberalization and integration can introduce further vehicle which can be used by those clan groups to take advantages.

Yoshihara [12] has conducted studies on Southeast Asia, while Mancur Olson[18] based his study on Russia economy in 80-90s. But then we know that similar situation can be extended to either USA or Japan economy,[1][6] i.e. that clan capitalism or ersatz capitalism can be found in all national economies both in developing countries and developed countries alike. The old phrase that 'money is the root of all evil' can be extended to become 'the root of all evil is money, power and clan.' To put emphasis on this framework, we should say that there is no such thing as a perfect building or house, because each house imposes particular defects or imperfection, just like in Le Corbusier's imperfection architectural style in the past decades.[17] The question then is to start with such defects as a norm, and then work based on that situation.

We hope that this article can be considered as starting point for imperfect economy study (not only asymmetric information), based on starting hypothesis that there is no such thing as 'normal economy.' All economy is influenced by a number of clan groups and also numerous sub-groups which join to those clans' back wagon, and those create an ersatz-capitalism infected economy.

Quoted from a recent article: "This echoes some other crony capitalism contexts - Russia comes to mind - but differs from others, such as many cases in Latin America, and is unusual in a country with as much recent political stability as America." [1] That is what is supposed to happen in US.

What happened in Russia?

There are a number of arguments which have been pointed out to explain problems in Russia economy in particular after the transition, i.e. neoliberalism, (neo-)keynesian, and clan capitalism argument. Of course, the neoliberalism proponents would argue that liberalism advises have never been put into practice, as quoted from an article: "In short, the neo-liberals explain the collapse of the Russian economy in terms of the perverse incentives provided by the policies and practices of the Russian government: failure, corruption and criminality is rewarded, while legitimate business activity is penalized. The collapse of production and investment is the result of the absence of the 'order and good government' that is the necessary foundation of liberal capitalism." [2] And the Keynesian proponent will argue that excessive liberalization and privatization has been put into effect in the past decade without sufficient preparation and transition, which then make the situation even worse.

The third argument, that is by clan capitalism proponent, would say that clan groups always take place in the middle of the transition process and their activities include sabotaging numerous amount of development funds from external sources for their own clan groups. At the end of the transition process, then the economy takes the form of strengthened and consolidated clan capitalism, where excessive power is obtained by a few number of clan groups only, while leaving the rest of the public remain in suffering condition. A short description is given as follows:

"Under crony capitalism selected economic elites receive preferential treatment and privileges, thus making support from the state rather than market forces a crucial factor for maintaining and accruing wealth." [3]

Then one needs to define what clan capitalism is. A useful term is suggested by Kosals [4], that is *clan capitalism*, which possibility to become worsening further and become *oligarch capitalism* [4, p.8]. The purpose of clan is as described as follows:

"First of all, such clan isn't a group of relatives but it is business entity with for profit activity...The general strategic purpose of the clan is to accumulate the resources and to expand its power and influence in the field of operation. Every clan intends to reach a stable position and to control external environment, to create favor external socioeconomic and political conditions. Many clans desire to become a monopoly to protect internal operation." [4, p.11]

According to Kosals, elements of the clan include [4]:

- a. *chieftain*: that is charismatic leader which control all operations of the clan;
- b. *the core*: key persons which are closest collaborators of the chieftain.
- c. *skilled professionals*: that is specialists who are hired with high salary.
- d. *ordinary members*: those are specialists and manual workers employed in business entities.
- e. *agents of influence*: people outside it but serving it because of their unique positions in the media, law enforcement agencies etc.

Quoted from Kosals: "the most powerful clans are in industries dealing with extraction, processing and export of natural resources (oil, gas, metals); FSB; financing; military; law enforcement agencies; defense industries." [4, p.20] Other quote: "The biggest clans at every level headed by so called *oligarchs*. There are around one - two hundreds of oligarchs at every level, therefore, obviously, near one thousand oligarchs are operating in Russia totally" [4, p. 23]

The situation apparently do not happen only in Russia, but also in Latin America. Quoted from Kosals: "Cronyism is one of the specific features of clan capitalism. It was examined in detail within analysis of the specific model of capitalism developing in Latin America crony capitalism." [4, p. 27]

That is why, one needs to take a look further on the impact of clan capitalism and its respective negative impact to overall economy of a given country. One should begin that clan capitalism which is inevitably infectious but already epidemic in numerous states, either in the form of shadow economy, crony capitalism, ersatz capitalism, clan capitalism, or even oligarch economy. One can even hypothesize that actually clan capitalism is more than exception as often assumed; it is market economy governed by small business entities which is an exception. There is no such thing as free market economy, as all economies are cronies-infected.

Clan capitalism is a chronic disease, but the fact is that all economies suffer from more or less the same chronic disease. See Appendix I for responses to a questionnaire conducted among Russia persons.

Japan economy, boryokudan, and botaiho

While it has been neglected in standard economics textbooks, clandestine groups such as yakuza can affect up to 40% of Japan economy problems. Quote: "The emergence of Jusen companies, which had strong links with Japanese mafia, otherwise known as Yakuza, proved to be one of the major hurdles in the Japanese banking reforms. The Jusen problem exposed the nexus between banks, Ministry of Finance and yakuza. ...Later, it was also revealed that some officials in the Ministry of Finance had strong links with yakuza." [5, p.3]

While one can think otherwise that such a yakuza(boryokudan)-related issues are diminishing, it has been concluded that: "The yakuza plays an important role in the Japanese financial system even today, thanks to the involvement of banks in the real-estate sector during the bubble period. These problems continued to haunt the Japanese banking sector and some believe that it was more of a socio-cultural problem than purely an economic one..." [5, p.5]

Unlike in Russia Federation, where clans are mostly organized around their chieftains, yakuza organizations are apparently more stable, with three big syndicates, i.e. yamaguchi-gumi, inagawa-kai, and sumiyoshi-kai [6, p.1]. Quite related to the problems emerge which are caused by such clandestine organizations including yakuza, there are concerns raised recently pertaining to possibility of Japan economy to experience similar crisis compared

to what happen in Greece in the beginning and the first quarter of 2010. However, there is significant difference here, that is that Greece economy problem is not yakuza or clan related, while one great obstacle to reform Japan industrial sectors and also financial sectors alike were their relationship with yakuza and other clandestine groups, which have been tolerated since Showa era.[6]

Then with regards to question whether one should do or not do economics reformation, one can also refer to another recent suggestion by Posen (2009) that "but if you take a broader historical perspective, that essentially hesitation to finally fix the banks is what kept Japan from doing the right thing, in a sense, throughout the 1990s."

Lesson to learn: how to take proper measure on clan capitalism

And with regards to spectrum of choices available to policy makers, one first shall bear in mind that the clan capitalism are already there for quite some time, and that includes possibly a number of politicians, and senate members, and other party alike, including a number of high-profile elites known as '*oligarch*', which mean that it would take more than one sweep to clean up all the mess. Therefore, apparently there are only a limited number of possible approaches in order to take proper measure on those clan capitalists, such as:

a. anti-clan regulation: in Japan there was passage of anti-yakuza regulation which restrict their actions (*botaiho*), while at the same time give time for them to 'evolve' to put their feet on other kind of transactions.[6] In other countries too, such an anti-clan regulation can be put into effect, not only anti-drugdealing or anti-humantrafficking. In the case of Japan, the situation after passage of *botaiho* indicate decreasing attractiveness of joining clan group: "young males are ceasing to find gang membership an attractive career choice." [6,p.11]

b. very strict measures: just as what China did to alleged problematic politicians or governors. But if too many clan-related politicians are involved in law enforcement agencies, and then perhaps this method may not be practically viable. See Figure 1 for illustration.

c. clean up the government offices first: this can be effective if one can estimate how many number of politician in government body and also in regional offices which are involved or participate in the predominating clans, then removing all of those clan-related officers can

be a good choice. However, such a policy may not be viable in other countries, perhaps Russia, where state-clan relationship is quite neat and where it is not so easy to imagine that government officers can function without those chieftains entity. Military involvement in a number of clan-groups can make matters more difficult.

d. breaking the chains: one possible countermeasure of the clan's improper involvement in policy making is to identify the clandestine people which are not exactly part of the clans, but they play the role of intermediaries among clandestine groups and government officials. For instance, if one think that there are a few huge clans which can affect US national economy and those are oil-industrial-military complex clans, then perhaps one should track down to d. rockefeller and zbigniew brzezinski if one wishes to break their chains. For other example of oil-military industry clan group, see Carlyle group as discussed in Goodman & Goodman[11]. One can think that it is not unlikely that those clan groups can affect also news media and academic institutions (see diagram 2).

e. network analysis: one of recent tool to analyze gang's network is using network analysis. This method has been advanced by a number of theoreticians, but in principle the same method can be used to find out how a clan is related to media, government officer, scientist, economist, public media, and perhaps policy maker/influencer. Stop to think that economists including neoliberalist proponents are only doing their job as scientist. Of course, some economists are doing their job well for the wellness of a nation, but others are only profit maximizer, hence one good solution is to minimize their role as good policy-maker as a counter-measure to the clan groups' influence to their advantage.

f. autopoiesis[8] and bacteria analogy: Autopoiesis can be defined broadly as ability and mechanism of bacteria and other life cell to retain its life: "The main feature of autopoiesis is the self-maintenance due to a process of self-generation from within. Although this concept came from the analysis of a living cell, it can be metaphorically applied to social systems." [8, p.9] One can think that bacteria rely on and make interaction with their environment in order to get what they need and to give supporting conditioning. Similarly, a mafia or clan groups take much from their environment and people surrounding them in order they can continue their excessive spending. For example, it has been estimated that Japan economy suffer from yakuza clan groups because some 40% of transaction or project involve them. If then we assume a moderate estimate of 3% to 5% of 'security protection' then the amount siphoned for their clans amount to $40\% \times 3\% = 1.2\%$. Similarly, in Russia economy, especially in metallurgy and oil producing and other natural resources

industries, there are significant role played by clans and oligarchs, which at a time can influence Russia economy and private business up to 70-80% around 90s.[10] Some of them ask that fee with label such as security protection, but you know that sometimes such extra security fee takes place because there is competition among clans themselves (that is, a client should hire a clan for protection against violence threat exercised by another clan). Therefore, in order to suppress and reduce actions of those clan groups, one needs to understand better how the autopoiesis mechanism are used by bacteria to survive and grow in their environment, and then how to minimize their activities. One possible approach is to introduce obstacle in order those bacteria and virus will not escalate and move beyond their present environment. And after that, reduce and minimize their effect within that obstacle/barrier.

Other problem is that a number of those clan groups are already moving abroad, that is they become so large group and then they decide to go global. Such a globalization of clan groups can be thought of as parallel with virus which becomes epidemic.[8] There is no such easy measure to counter this tendency, for instance considering the increasing transactions related to human trafficking, drug dealing etc., which sometimes those large clan groups got support from other clandestine groups, that is secret agencies. Some of those secret agencies may need large support to continue their programs abroad, and they think that drug dealing etc. can be their vehicle for finding those support.[11]

g. counter-incentive measures: another difficult part for breaking the chains among the state and clan groups is to provide a proper scheme for young people in order they can stay away from clan groups. For instance, during a conversation with a Russian young man sometime ago, this writer was told that it is often a compulsory for an average high-school graduate young boy whose parents are not rich to be a military officer, at least to serve there for a number of years, while other high-school graduate young boys who have rich parents are not required to be military officer. Then after a while, that average young boy would find himself to get lack of option to become a normal wealthy man. Perhaps this reasoning can explain why for some young boys/girls the only choice is to support or join a clan group in one or other way (for example, to become drug dealer), especially if he/she got lack training in other skills. That is why: being a part of clan groups (be it yakuza, or drug dealer, or other clandestine groups in Asia) is an 'incentive' for those average young people because that path offers a short-cut to become wealthy in short time. One can reason that perhaps a proper counter-incentive scheme to reduce such a tendency to join clan group, is by offering support, perhaps by some kind of business start-up support to at least 10-20% of the brightest of those average young high-school graduates in order they can begin their own start-ups. Therefore, giving good incentives to new start-ups by young people is not only good practice for economics reason (creating new entrepreneurs), but

perhaps it is also a good counter-measure toward joining clan groups which can devastate a nation's economy in the long-run.

Along with an effective anti-clan regulation such as *botaiho* in Japan, then implementing such a counter-incentive can be an effective approach.

Different paths towards healthier economy

The following figure (Figure 1) is a simplified diagram on how each nation can follow different paths towards the idealized model that is economy composed of business enterprises which are less oligopolized and all of them work to be more effective and efficient while creating better and useful products and services to the market. There can be six possibilities, i.e. ranging from equal enterprises, clan capitalism, and oligarch capitalism (the worst situation), in a condition of either laissez-faire or state intervention. What characterizes region 6 is that there should be more or less equal playing field for all equal enterprises, which prevent them to form oligarch formation which can make the entire economy less competitive. Of course such an idealized condition is difficult to achieve, because each large enterprise always have tendency to form oligopolistic situation.

For example, the path experienced by Russia is not from centralized state-owned oligarch corporate (for instance in metallurgy industry) toward many private enterprises in a liberalized and *laissez-faire* environment (region 6), but instead from region 1 to region 4. That is a path to clan capitalism. And if the situation is worsening, then it can move toward region 2 (oligarch capitalism).

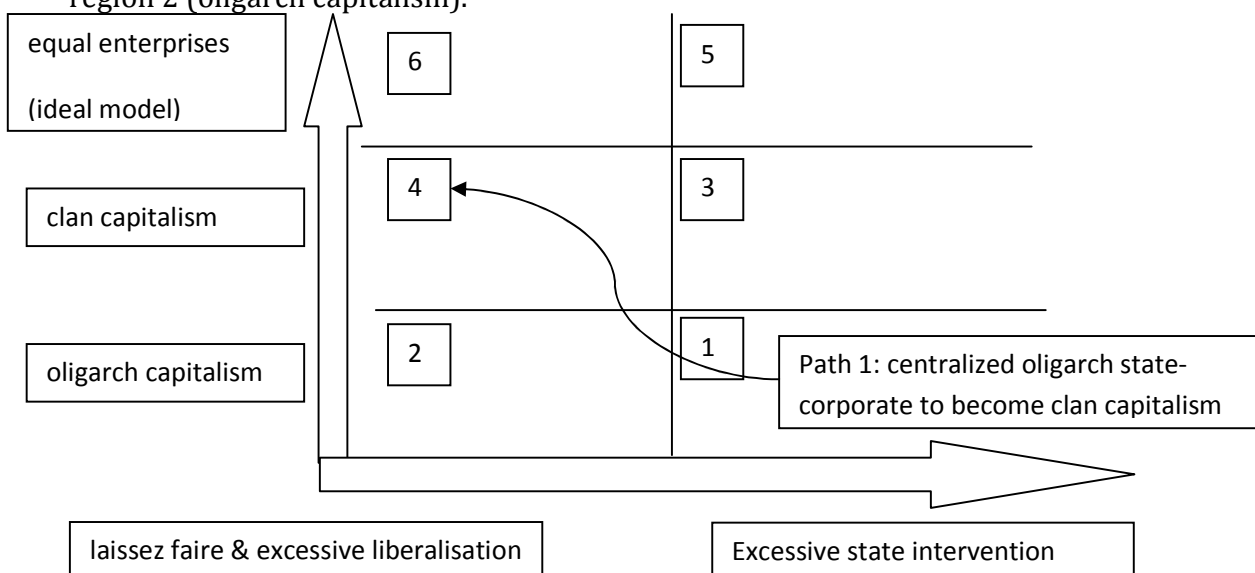


Figure 1. six possibilities of a nation's economy path toward healthy economy

Therefore, without strict, realistic and drastic measures to handle those clan groups, then they can turn the entire economy to become oligarch economy, which is unlikely to bring a better and healthier economy for most people in the federation.

The situation of Japan economy is a bit more advanced, because there are no apparent clan groups, except those boryokudan clans and also a few major enterprises who form interrelated groups called a cartel and predominate the industries.[5] Quote:” They also acted as cartels that led to *monopolization of the Japanese industries.*”[5]. It is not quite clear what is the present path of progress, whether that is to reach region 2, or to region 4, where a few number of clan groups predominating the whole economy. Nonetheless, Japan economy seems in a bit better situation compared to Russia because Japan did not experience long time period under state planning and state-owned corporate who control all production capacity and supplies.

Another thing worth to consider is to study the pattern of ‘clotting’ of those clan groups among other democracy and economy institutions. In this regards, one can remember Amartya Sen’s hypothesis sometime ago that is: that democracy can affect distribution of wealth in a given nation, and that bad democracy may bring unequal distribution of products, which make many people in a nation suffer much more. If we extend this hypothesis a bit further, then one can hypothesize that (i) *there is always tendency for clan groups to influence democracy system including news/media as the fourth pillar of democracy, in order to alter the course of distribution of resources for their advantage.* To put this effect, see the diagram 2 below.

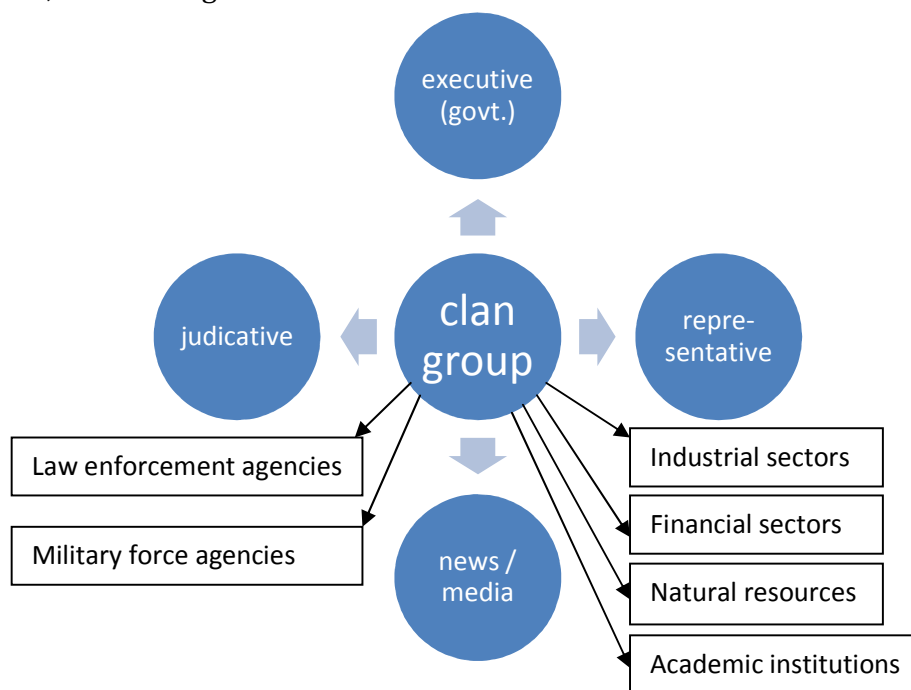


Diagram 2. Tendency to influence democracy institutions

That is why we learn that it is quite common in Russia that a major clan group to own not only manufacturing or metallurgy corporate, they also own mass media channel in order to serve their own needs.

In summary, not only those clan groups want to control industrial sectors, financial sectors, and natural resources for preservation of their interests, they also want to influence democracy institutions including law enforcement agencies for their advantage. That is typical acute problem in Russia and perhaps in other countries including latin America, and that is exactly what makes the ordinary people/public suffer more. One can distinguish how such 'clotting' developed among clan and democracy institutions by using analogies of malevolent virus or bacteria take over human body:

- a. Stadium 1: they will accumulate influence in mass media /news corporate. An anti-oligopoly of mass media ownership such that no big clan can own more than 40% of total mass media can be put in effect. In USA similar regulation apparently has been put into effect to avoid such massive media ownership. See a bracket in diagram 3.

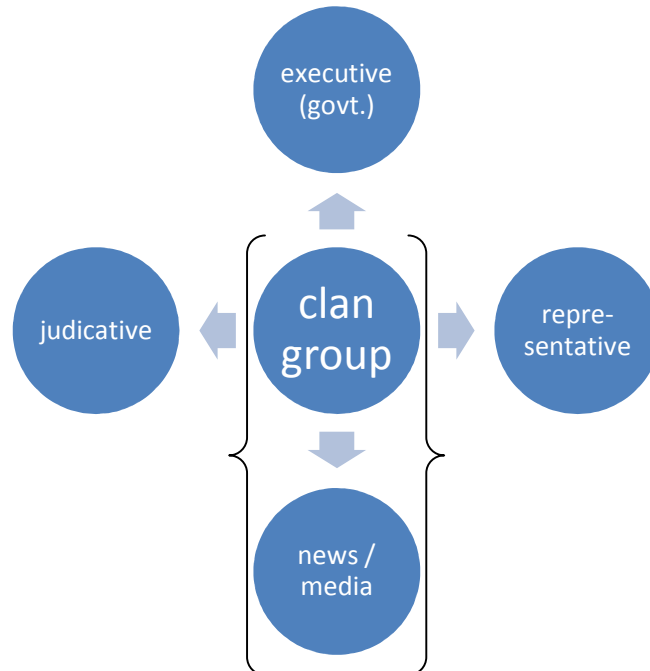


Diagram 3. Tendency to influence news / media

- b. Stadium 2: they will accumulate influence in executive institutions, to become associate or senior staffs of the ruling government (clans). Such a practice apparently have become quite common in russia. See another bracket in diagram 4.

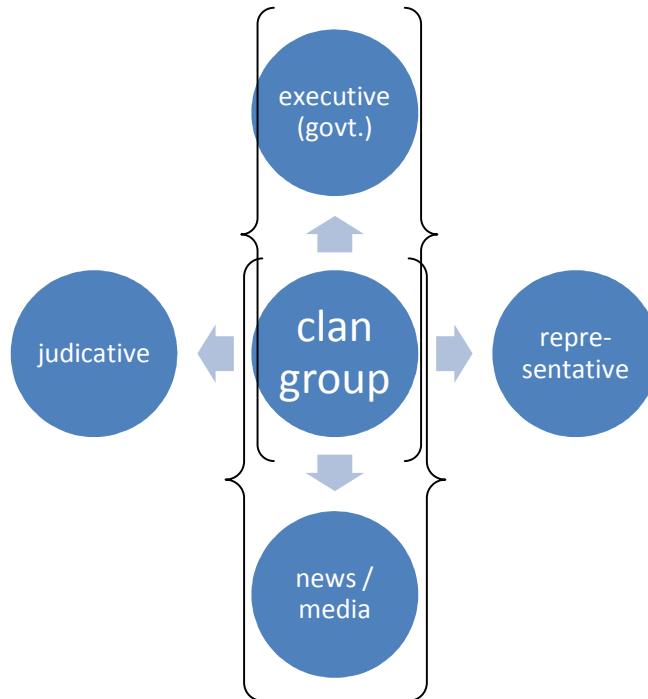


Diagram 4. Tendency to influence news and also executive (government officers)

- c. Stadium 3: they will accumulate influence among house of representative (senate), including but not limited to buying vote in order to put a number of their member in house of representative. Similar to diagram 4, but there is also bracket from clan groups to house of representative.
- d. Stadium 4: they will accumulate influence among judicative institutions, including if possible in law enforcement agencies. They will do their best attempt to block each new regulation which are intended to limit their clandestine activities. Pattern toward this attitude can be found in almost all clan groups including in developed countries. Similar to diagram4, but there is also bracket from clan groups to house of representative, and also from clan group to judicative institutions.
- e. Stadium 5: is perhaps the worst possible scenario, where a number of predominating clan groups already take over the entire democracy institutions including executive, house of representative, judicative institutions, and also they manage to control majority of mass media. Not only that, they also extend their influence to military force agencies, which mean that they are practically control a nation.(see diagram 2) If this situation take place, then it would be very difficult to reverse democracy institutions to become function normally again, because each

effort to return back normal democracy can be blocked by those clan members in other institutions. Therefore government and other democracy institutions in particular nation should work hard in order that the clan group virus will not take over all institutions and reach stadium 5.

Of course, the above diagram is merely a simplified sketch, and the real situation can be much more complicated, for example a number of clan groups can manage to control a number of education institutions which make them favorable in the opinion of academicians, and that perception can be proved to be beneficial them in the long-run because some of those academicians can be persuaded to follow their actions. For instance, if those academicians are participants of adviser group in a country, then they can make false suggestion and advice because of particular interests. That is example: shleifer as adviser to Russia transition. [15]

Note: the above analogy of clan actions and 'stadium' of cancer in human, is not a new analogy. There is a review of book with title The cancer stage of capitalism. Quoted: "the host body's immune system does not respond to the cancer's advance, because the communication systems of host social bodies across the world are themselves subordinate to transnational capital and largely reject and refuse to disseminate messages that identify the source of the disease." [16] That kind of neglecting that clan groups is part of the problem, not solution, can be found among students and other academicians, because they do not realize where the problem begin, and to some of them those clan groups are really powerful and look amazing, so they tend to submit to their power.

There are variations of clan group interaction with external sources

Diagram 2 above indicate possible interaction made by a number of clan groups to extend their influence to democracy institutions in their country. But there are situations where such a clan group can also influence other country's democracy process (such as Carlyle group[11]), and some clan groups can also take advantage of external sources, such as development fund (that is what happened in Russia, and perhaps a number of Africa countries).

Ordinary people may think that oil-industries have nothing to do with them, but they forget that sometime those large oil-industries can make effect such that the state supports their actions in foreign countries, and that can mean a long-period of economic stagnation because the state and public as a whole effectively should take the burden to finance those oil-industries' foreign adventures. [11]

Other example, during privatization process in Russia under Anatoly Chubais, A. Shleifer can be thought of as playing clandestine role while allowing a huge amount of sum went to Russia under the flag of privatization program, which in reality the sum were siphoned off the Russia economy [9]. The net result is that the Russia economy is not getting better, even if we compare with other formerly-socialist nations.

One can think that actually there was not privatization at all, but only a huge sum of foreign money which were used to boost power equity of such clans. Therefore A. Shleifer et al. who have also written their version of transition in their book 'Without a map' can be considered of such a chain or intermediaries of those clandestine clans in Russia. See for instance Lyndon LaRouche's report [7]. Shleifer's wife Nancy Zimmerman is a close associate of present minister of treasury of U.S, that is Larry Summers.[9]

Furthermore, there has been allegation that Shleifer and his colleagues who have to assist Russia in their transition, has purchase a number of stake in oil corporation, which can make his decisions to be influenced by a number of special interests. Quoted: "Shleifer and Hay, who ran Harvard's Russia project, secretly bought large personal stakes in Russian oil companies." [15]

The effect of clan groups to development fund can be tremendous, because they will make sure to get beneficial effects from development fund and other external sources. And they will use all government (executive officers) in their disposal to make a way to accomplish their purposes. And if there is 'trickle-down' effect, then such development fund will be trickling down only to those clan groups. Such a problem can be found not only in Russia, but also in other developing countries, where a number of reports say that development fund only make a dictator in developing country to be more powerful.

This situation can be illustrated by diagram no.5, where there are double triangles, where a clan group will try to influence and gain control, i.e. military forces agencies, oil (natural resources), development fund, and advisers. Now you see that even economic advisers and development fund from external sources can be influenced and altered during the process in order the net effect is always beneficial for those ruling clan groups.

We do not mention here other black market activities such as illegal import and export activities, which may or may not be related to clan group activities. Of course, if those activities in particular illegal importing or exporting of things related to drugs, then these activities are more likely related to clan groups. Limiting and decreasing plantation area of those plants which form as natural source of those illegal drugs can be effective (let say to decrease plantation area by 1-10 km² per year), in this regards, but of course that would not be an easy task for law enforcement agencies in particular country, in particular because there are external market which include their own clans who are interested in those plants, and they already form connection with legal or illegal military forces (see

diagram 5). That is why, one necessary step is to detach tentacles of those clans in government and military offices.

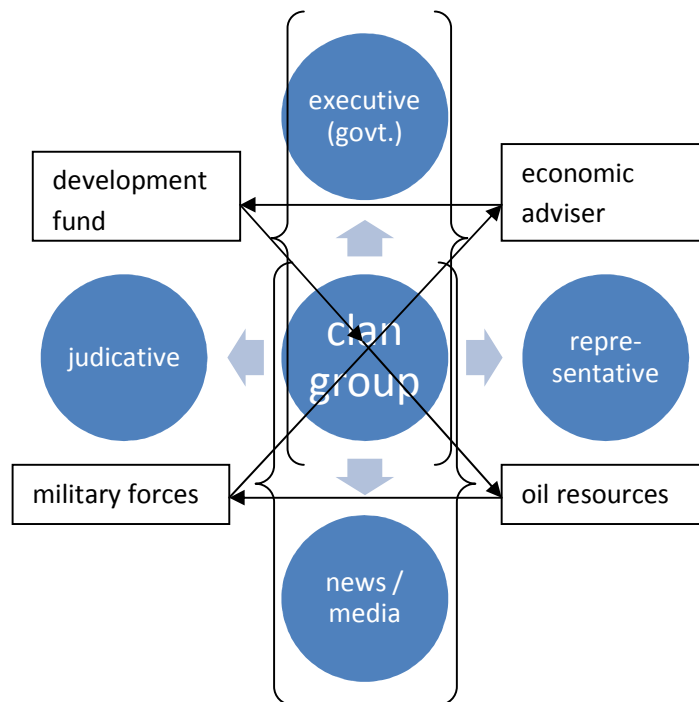


Diagram 5. Tendency to influence military, oil, adviser, and development fund

Is there advantage of an excessive liberalization?

Unlike the common view based on neo-liberalism ideology, one should realize that going to excessive liberalization (region 6) is very unlikely to bring a healthier economy, especially when there are influential clan and oligarch groups, because they are likely to form better situation for their own advantage, and that is why there is strong tendency to prevent other private enterprises to grow and to be mature. At the end the result will be more or less like oligopoly situation in almost all industries, which real effect is likely to turn the entire economy to be less competitive, and domestic effect can be as far as scarcity of products and bad distribution because those clan and oligarch groups enjoy monopoly or oligopoly systems where there is lack of competitors.

Furthermore, from history one can learn a good principle, that is: excessive liberalization is often a precursor of financial crises. The example can be given here, that is knickerbocker trust collapse in 1907 was a signal of a crises. And you should know that in that period, there are numerous trust which work as investment units but they are not banks, and there were lack of regulation for them. Similarly there are investment units with lack of regulation in 2007-2008 which then lead to financial turmoil. For simplicity, we include

here a table (Table 1) to summarize some disadvantages related to excessive liberalization in a particular country, from the viewpoint of clan capitalism. Note that these results are often very different compared to benefits of excessive liberalism which neo-liberalism proponents often advertise and promote as receipt.

Table 1. Disadvantages of excessive liberalization from the viewpoint of clan capitalism

Disadvantage of excessive liberalization	Description
Oligopoly risk	There is tendency that clan groups will form oligopoly if there is not anti-trust or anti-clan law enacted.
Clan groups will pay incentive to their clan associate in democracy institutions	There is tendency that those clan groups or their oligopolistic association are more willing to pay more to their 'associates' in democracy institutions included law enforcement agencies in order they can continue their clandestine operations. Such practice is often found in a number of countries. This practice cannot be stopped without introducing special regulation.
Clan groups pay less tax rate	There is tendency that such oligopoly associations and clan groups expect a sort of benefits from influencing democracy institutions, especially tax collecting agents and law enforcement agencies, that is benefits in the form of lower tax rates, compared to what they actually ought to pay. Member of those clan groups expect that discounted tax rate as their benefit.
Reduce benefits for common people	In practice, excessive liberalization would mean less regulation, but that often would mean benefit only for larger clan groups. And common people will receive less benefit, especially because large clan groups will affect both market and democracy institutions alike to their advantages.
Hidden opportunity cost	Clan groups often play their role as middle-men and intermediaries who stay in the middle of a number of transactions type, including negotiation of certain projects, those practices can be found in number of countries including Japan, for example. In other word, both the buyer (user of a

particular service) and the seller will pay more for those clan's services. That cost would imply a hidden opportunity cost. Other type of hidden opportunity cost is that those intermediaries often make a sale of piece of land or particular product become much higher more than necessary. Without specific regulation (such as botaiho), that kind of practice cannot be stopped.

Precursor of financial crises

It is found that excessive liberalization is often a precursor of financial crises (see McKinnon for instance). Liberalization here also includes allowing excessive noise trading without any restriction whatsoever. Excessive liberalization often gives more advantage for clan groups to do trading with external clan without restrictions, including drug dealing and human-trafficking. Other restriction in terms of taxing of international foreign exchange market have been discussed elsewhere (Tobin tax) but no one can put that into practice.

Another problem in excessive liberalization is that there will be numerous noise traders which often create noises (fluctuation in prices) for their own advantages. We discuss this issue in the following lines.

Krugman have published a recent book on depression economics, the title of his recent book is: the return of depression economics [13]. A good chapter is devoted to history of America recession since 1907, exactly when knickerbocker trust collapse completely after failure to support numerous stock market trader, and they do not support anymore because of rush in their office that indicate that people lose their confidence in their scheme of investment (see page 156). And then you can compare that story of collapsing knickerbocker pseudobanking organization with Krugman's explanation of logic behind America recession in 2008, exactly because a number of investment company do similar risky investment including in secondary mortgage, stock market and also foreign exchange market (page 190), and they are not properly regulated just like knickerbocker trust in 1907, and that is indicating one hundred year cycle of crisis (1907-2007). And you should know that there are numerous pseudo-banking company in America who accept investment from their client (--exactly similar to what they call as 'trust' around one hundred year ago, see again page 156 of that book--), but they do not provide security nor

they provide insurance if something happen to their client's investment, and don't you know that America always are reluctant to regulate those pseudo-banking system.

That is a good article to ponder if you are really a good economist without a cruel heart, that is because you will find that volatility is often caused by foreign exchange trader, which you can call as 'noise trader.' Don't you know that noise trader is everywhere, but there is no regulation at all especially to foreign exchange trader, as explained by Krugman in page 190:

'there were some calls for long-term restrictions on international capital flows, not just temporary controls in times of crisis. For the most part of these calls were rejected in favor of a strategy of building up large foreign exchange reserve that were supposed to stave off future crises. Now it seems that this strategy didn't work.' [13] p.190

And that is why: you should not believe to noise trader, and you should not lend your money to them too, because there is high likelihood that your investment money to them will disappear with probability chance more than 75%, just as what happen with Itcm. Don't you know that noise trader is well defined by J.A. Frankel,[14] and noise traders can and are willing to create needless volatility and thereby force more risk-averse investors to stay away from marketplace. And that is the meaning of noise trader: they often create a number of gossip story in order a number of investment company collapse and then there will be huge market volatility.

Concluding remarks

One perhaps would think that a good idea to comprehend real situation behind economy of a given nation is to study the relation and interaction among the actors of such a clan capitalism. That is, to begin with network analysis instead of doing cumbersome mathematical analysis which mostly are based on unrealistic assumptions such as information symmetry, efficient market hypothesis, or the social utility of market exchange, or value of liberalization and privatization process.

Based on Amartya Sen's hypothesis, then one can extend further that hypothesize to become: (i) *there is always tendency for clan groups to influence democracy system including news/media as the fourth pillar of democracy, in order to alter the course of distribution of resources for their advantage.*

Survey summary: while the number of respondents are very low compared to what we initially expect, one can draw a rough summary with respect to perception of Russia economy at present days. Out of five respondents, 80% of which are below 26 years old, there are 60% of them who perceive that Russia economy is in bad condition, and government in general do not do their best to take care all people. 40% of the respondents

think that government doing badly to take care all people, and the other think that Russia government doing very badly. But as to the living condition in their town, the perception diverse widely, as shown that 60% think that living condition is bad or very bad, and only 40% think that living condition in their town is good or very good.

And to the question concerning what Russia government have to do, two respondents write that corruption should be vanished. And to improve living condition in their town, they suggest to do more on traffic, social programs, and to keep the face of the city.

We do not mention here other black market activities such as illegal import and export activities etc. which may or may not be related to clan group activities. Of course, if those activities in particular illegal importing or exporting of things related to drugs, then those activities are more likely related to clan groups. Limiting and decreasing plantation area of those plants which form as natural source of those illegal drugs can be effective (let say to decrease plantation area by 1-10 km² per year), in this regards, but of course that would not be an easy task for law enforcement agencies in particular country, in particular because there are external market which include their own clans who are interested in those plants, and they already form connection with legal or illegal military forces (see diagram 5). That is why, one necessary step is to detach tentacles of those clans in government and military offices.

In the present article a number of critical economics situations are discussed based on clan capitalism as a starting point. One can see clearly then, that instead of assuming 'ordinary economy' and that clan/crony capitalism is an exception in particular nation because of certain socio-historical context, one should begin with the opposite assumption instead: that clan capitalism can be found almost everywhere in this planet. One can say that *clan capitalism is a norm rather than an exception*, because clan capitalism is part of liberal capitalism itself.

Apparently, more studies on the extent and role of clan capitalism in a nation's economy and also their role in globalized economy can be expected in the coming years.

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Appendix I. Response to a questionnaire

In order to see whether the situation in Russia is getting better or not, a questionnaire have been sent to a number of people via online invitation, but alas there are only five respondents giving response to questionnaire sent to them (so far). Nonetheless this response can be considered as more or less reflecting frustrating situation experienced by common people. Respondents are Russian ordinary people or previously they stay in Russia, and the responses were given from last week in July 2010 until 5 Aug 2010.

The small survey was carried out online with the help of online survey form:
<http://www.surveymonkey.com/s/YBXNYJ8>

Survey summary: while the number of respondents are very low compared to what we initially expect, one can draw a rough summary with respect to perception of Russia economy at present days. Out of five respondents, 80% of which are below 26 years old, there are 60% of them who perceive that Russia economy is in bad condition, and government in general do not do their best to take care all people. 40% of the respondents think that government doing badly to take care all people, and the other think that Russia government doing very badly. But as to the living condition in their town, the perception diverse widely, as shown that 60% think that living condition is bad or very bad, and only 40% think that living condition in their town is good or very good.

And to the question concerning what Russia government have to do, two respondents write that corruption should be vanished. And to improve living condition in their town, they suggest to do more on traffic, social programs, and to keep the face of the city.

We do not use advanced statistics here, we only present the commentaries and responses as is, and let the reader draw more insight from those answers.

1. Question: What is your present occupation?
 - a. College student. (20%)
 - b. Teacher. (20%)
 - c. Scientist
 - d. Model
 - e. Musician
 - f. Other. (60%)

2. Question: How old are you?
 - a. Less than 20.
 - b. 21 to 25. (80%)

- c. 26 to 35.
- d. 36 to 45.
- e. Above 46. (20%)

3. Question: Do you think that overall economy of Russia is good in the past few years? Give rate from 1-4 scale. (result is shown beside each choice)

- a. Rate 1 (very good).
- b. Rate 2 (good).
- c. Rate 3 (bad). → (60%)
- d. Rate 4 (very bad). → (20%)
- e. I do not know. → (20%)

Explanation: We have had no any economy - we just sale the gas only

4. Question: Do you think that government has done their best to take care all people? Give rate from 1-4 scale.

- a. Rate 1 (very good).
- b. Rate 2 (good).
- c. Rate 3 (bad). → (40%)
- d. Rate 4 (very bad). → (60%)
- e. I do not know.

Explanation:

They did nothing

5. Question: Do you think that overall living condition in your town is better compared to ten years ago? Give rate from 1-4 scale.

- a. Rate 1 (very good). → (20%)
- b. Rate 2 (good). → (20%)

- c. Rate 3 (bad). → (40%)
- d. Rate 4 (very bad). → (20%)
- e. I do not know.

Explanation:

prices grow up, but salary is the same

6. Question: According to a number of study (see for example: Mancur Olson, Power and Prosperity), the Russian economy is affected by crony capitalism or sometimes referred to as clan capitalism.

- a. I strongly agree.
- b. I agree.
- c. I disagree. (25%)
- d. I strongly disagree.
- e. I do not know. (75%)

Answer:

- (i) Our economy depends of prices for oil only and of what kind of Putin`s friends are in Government.
- (ii) I am not familiar with the mentioned study and thus do not want to be too quick to either or agree or disagree with the statement.

7. Question: How Russia's economy can be improved in your opinion?

Describe what government can and should do to improve present economy.

Please explain.

Answer:

- (i) The economy depends of sort of government. If this government is really voted by people, they will put money from selling gas, oil in to development of science, into very poor social problems, into private industry to help them. But, alas ...
- (ii) corruption should be vanished

- (iii) It is impossible to sum it up in a few words, really.
- (iv) They have to change their minds, i guess, cause all that they do is good only for someone's pocket, the first thing to do is to destroy corruption.

8. Question: Do you have other suggestion to improve overall living condition in your town?

Please explain.

Answer:

- (i) In my town only? No, it depends of all country... The only I wish to our mayor is to safe, to keep the face of my town, of my very old and beautiful town, to not destroy it any more, for people could appreciate their history... And may be, it helps them to stay a good people.
- (ii) They need to do something about the traffic.
- (iii) In my opinion we need more social programs.
- (iv) No.

9. Question: what is your hometown city?

- a. Moscow. (75%)
- b. St. Petersburg.
- c. Other. (25%)