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**PROSPECTS OF ANALYSIS  
OF RUSSIAN HISTORY IN  
FRAMEWORK OF LIMITED  
ACCESS ORDER APPROACH**

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# TWO VIEW ON RENTS OR NOVELTY OF LAO APPROACH

- 1) Traditional (mainstream) logic: rent-seeking behavior hampers economic development. The goal of reforms – to eliminate barriers creating rents. (Shleifer et al, Hellman et al, etc => WB policy advice)
- 2) Alternative approach (NWW): concept of LAO and OAO. Rents as necessary element of LAO – because the *control on violence opportunities* dispersed between influential elite groups is the key challenge for governments. These groups are agreed to restrain violence only in exchange for rents. Elimination of rents => chaos and violence

# MAIN ELEMENTS OF NWW CONCEPT

**Elites as key actors**

**Fragile, basic and mature stages of LAO**

**Doorstep conditions for transition to OAO:**

- **Transition from personal privileges to the rights recognized as rights of certain elite groups on impersonal basis ( => 'rule of law' for elites )**
- **Sophisticated elite organizations (political parties, business corporations, associations as useful devices for social development – opposite to M.Olson etc)**
- **Centralized political control of armed forces**

**Open access is not free access**

**Examples of transition – US, UK, France in early XIX century**

**South Korea and Chile – in last two decades**

# LIMITATIONS OF LAO CONCEPT

- Why elites were ready to move to more open access in one countries and did not do it in other countries? => External and internal pressure on elites. Factors influencing on elite's response to internal pressure (social unrest) => Acemoglu and Robinson (2006)
- Common values and beliefs as precondition of cooperation between elites. North (2005), Greif (2006) => Beliefs matter. But how can they emerge? Expensive experience of mutual warfare and social "learning by doing"?
- Sustainability of open access order – like communism in the case of Karl Marx 😊. Is there a clear borderline between LAO and OAO? => Real differences between UK, France and Germany in early XX century vs. outcomes of 1920-1930s? What about crisis of 2008-2009 – including Greece etc.?

Empirical test of NWW concept is needed...

# APPLICATION TO RUSSIAN CASE

**Why it can be important?**

**Crisis of late 1980s and crash of Soviet system in 1991 (unexpected for many experts) => the attempt to introduce OAO institutions: democracy, liberalization, privatization => sharp increase in violence (criminal activity, war in Chechnya etc.) without any improvements in economic efficiency under Boris El'tsin => backward shifts to LAO institutions under Putin (with restrictions for democracy and rent-seeking behavior of elites)**

**What about future?**

# LOGIC OF ANALYSIS

**On the basis of case study guidelines in NWWW(2012):**

- i. the relation of **openness and limits to access** on the economic and political dimensions;**
- ii. the nature of the **key rents** in the society;**
- iii. the distribution of **violence potential** and the effectiveness with which the society's institutions control it; and**
- iv. the **role that organizations from the rest of the world** (especially OAOs) play in the country's 'transition to capitalism' during last 20 years**

**Description of main characteristics of Soviet system – as preconditions for strong changes in 1980-1990s**

**Analysis of important sub-periods of 1990s and 2000s**

# STARTING CONDITIONS: ACCESS, ELITES AND RENTS IN USSR

## Limited access to economic and political activity:

- Plan system in economy – without any private initiative (legally)
- Strong restrictions on mobility (between regions and travel abroad)
- State monopoly on export and import + price regulation at domestic market – as important instrument of rent extraction
- Strong hierarchical organization of society
- Huge violence executed by the state: collectivization of 1930s, mass repressions in 1930-50s (with millions people in GULAG ), military interventions in Poland, Baltic states, Hungary, Czechoslovakia, Afghanistan. KGB repressions against dissidents in 1970-80s...

## But at the same time – elements of ‘open access’ for non-elite groups (in the case of loyalty to political regime):

- Lowering inequality, access to education and healthcare system
- Propaganda of science, high social status of scientists and engineers
- Support of personal initiative via national-wide organizations (CPSU, Komsomol, professional unions, societies of inventors, chess-players...)
- Opportunities of ‘social lift’ for working-class representatives

# BETWEEN FRAGILE AND MATURE LAO

**Some attributes of mature LAO:**

- **Not ‘rule of law’ but rights and rules for elites – with enforcement from CPC & KGB**
- **Elite organizations (CPSU, creative unions...)**
- **Political control on armed forces and violence**

**However: not material (economic) interests, but ideology as a basis for all system**

- **Ideology, propaganda and ‘mobilization of mass’ as instruments of governance, non-material incentives as important resource**
- **Restricted access to information – for elite members too**

**Contradiction between ideology and real life => informal institutions (‘blat’, personal connections – Joseph Berliner on late 1930s)**

**Access to distribution system – as informal source of rent**

**Common values in elites – but their erosion after 1960s**

**Not enough incentives for innovations => Failure in economic competition with US => frustration of the system in 1970-80s**



# 1986-1993: OPENING ACCESS

**Driving elite groups:** younger strata in *nomenklatura* and *intelligentsia* + mass support for reforms (relative high living standards in cities, low inequality, demand for democracy)

**Rents:** decline in natural rents, but huge transformational rents (due to price distortions, privatization, WB loans and technical assistance...) + *informal rents became monetary forms*

**Violence potential:** weak positions of army and securities services elites ('base of old regime'), lost political control on armed forces and clear increase in violence (Sumgait, Nagorno-Karabakh, national separatism, attempt to military coup in August 1991, strong criminal groups...)

**International influence:** increased (peak in 1991-1993)

**Economic performance:** deepening crisis (due to populism and absence of basic economic knowledge in Soviet elite)

**1993-1998:**

# **ECONOMICS OF TOTAL RENT-SEEKING**

**Driving elite groups:** federal bureaucracy & new business against regional elites and 'red directors'

**Decline in mass support for reforms => huge manipulations in elections**

**Rents:** search for new 'ruling coalition', need for rents and limiting access (financial sector, privatization, real estate and land), dominance of *individual privileges* and informal rents (consumption vs. investment), corruption

**Violence potential:** conflict between El'tsin and parliament, war in Chechnya, criminal control on business

**International influence:** high, via IMF and WB loans and technical assistance

**Economic performance:** deepening crisis (due to distorted incentives to redistribution instead of production and huge rent-seeking), raise in inequality

**Crash in August 1998 – as natural result**

# 1999-2004: COMPETITION BETWEEN ELITES

**Driving elite groups:** federal bureaucracy (*siloviki* & *liberal technocrats*) against regional elites and ‘oligarchs’. New non-oligarchic business and ‘red directors’

Mass support for ‘strong hand’ (starting from Lebed in 1996 elections => 2003-2004 elections)

**Rents:** incomes from economic growth, attempts to create ‘elite organizations’ (new RSPP) and fix ‘elite rights’. But: claims to control on natural rent => conflict between federal bureaucracy and big business (resulted in Yukos affair).

Subordinations of regions to federal center

**Violence:** regular terrorist attacks, pressure on criminals, increase in financing for army and judiciary

International influence: limited

**Economic performance:** economic recovery (due to ruble devaluation and more adequate economic policy), but raise in inequality

# 2004-2008: 'VERTICAL OF POWER' AND CAPITALISM 'WITH KOREAN FACE'

**Driving elite groups:** federal bureaucracy (*siloviki* with subordinated *liberal technocrats*). Changes in regional elites (via governors appointment) and in business elite (informal control on big business). But: privileges instead of rights

Mass support for Putin – with restrictions for democracy and media freedom. OPORA – as base in business

**Rents:** natural rent + incomes from economic growth. Attempt to use this rent for development (state corporations, SEZ, Investment Fund, Development Bank etc). But: lack of incentive in bureaucracy, increase in corruption, high transaction costs

**Violence:** increasing pressure on business

**International influence:** very limited

**Economic performance:** economic growth and increase in investment (due to perception of political stability), slow decline in inequality

# 2009-2012: GLOBAL CRISIS AND INEFFICIENCY OF SYSTEM

**Driving elite groups:** top federal bureaucracy (divided between *siloviki* and *liberal technocrats*) + non-oligarchic business vs. middle-level bureaucracy vs. big business with political connections vs. regional elites vs. new opposition

**Rents:** natural rents but huge corruption due to opportunistic incentives. Buying mass support (anti-crisis policy of 2009, electoral populism of 2011) – and decline in the volume of rents for elites

**Violence potential:** attempts to limit pressure on business and improve judiciary (reform of police), mass protests of December 2011 and high increase in financing of army and police

**International influence:** limited but started to increase in terms of benchmarking, foreign support for NGO and very negative response of Russian government

**Economic performance:** deep decline in 2009, slow economic recovery in 2010-2011, but strong negative expectations

- *Search for new model of interactions with elites.*
- *Are they ready to dialogue and self-restrictions?*

# NEXT STEPS OR SOME IDEAS ON THE STRUCTURE OF RUSSIAN CASE

- **Role of violence in Soviet society:** organizations with violence potential, political control on violence
- **Rents and elites:** rules and norms for elites, industrial policy and development of ‘special interest’ groups, educational system and social lift opportunities
- **Formal organizations, values and personal connections:** communist ideology, social beliefs and their evolution, social capital, the role and evolution of mass organizations

**In all cases: Basic hypotheses? What is empirical data?  
How can we collect this data?**