

International Center
for the Study of Institutions
and Development (ICSID)

3rd ICSID conference

Regional Heterogeneity
and Incentives for Government

and

EACES-HSE Workshop

Political Economy
of Development:
A Comparative Perspective

May 29–31, 2014
Pushkin, Saint Petersburg, Russia

About ICSID and the conference

The International Center for the Study of Institutions and Development (ICSID, <http://iims.hse.ru/en/csid/>) is one of the international laboratories created by the Higher School of Economics in 2011, and currently unites a team of researchers from Russia, USA and Europe.

The project focuses on the analysis of the strategies of Russian business elites and how they impact economic and social development in the country. The second stage of the project (2014–2016) will be largely devoted to comparative research, with a special focus on the comparative analysis of Russia and China. To initiate this second stage of the project, the 3rd ICSID conference in 2014 will be mostly devoted to this topic, with the participation of some of the world’s leading experts on China and Russia who have been specially invited by ICSID to attend the conference.

The major goal of the conference is to bring together Russian and foreign experts in political economy and economic policy who have an interest in regional politics, bureaucracy, and property rights. We will focus largely, but not exclusively, on the Russian and Chinese experience in these areas. This topic is motivated by a rethinking of the substantive role of the state in developing economies, as well as the important role of regional heterogeneity and subnational economic and political processes for the successful realization of national programs of political development.

The 2014 conference will be the third annual event of its type organized by the International Center for the Study of Institutions and Development. In May 2012, we focused on Douglass North et al.’s (2009) concept of “limited access orders”, and discussed whether it was helpful for empirical analyses in developing countries (http://www.hse.ru/en/institutions/symposium_en). In June 2013, we gathered Russian and foreign experts in political economy to discuss new data and methods available to researchers of institutions and economic development (<http://iims.hse.ru/en/csid/news/88659626.html>). In 2014, we plan to continue our work on institutions and economic development, with a primary focus on the cases of Russia and China.

CONFERENCE PROGRAM

EACES-HSE Workshop

POLITICAL ECONOMY OF DEVELOPMENT: A COMPARATIVE PERSPECTIVE

MAY 29, 2014 (THURSDAY)

10:00 Registration

10:30 Session 1. Do Institutions Matter? Long and Short-Term Perspectives

Chairman: Michael Rochlitz (Higher School of Economics)

- Igor Fedyukin (Higher School of Economics, Moscow)
War, Political Competition, and Reform in Early Modern
Extra-European Regimes
- Elira Karaja (Institute for New Economic Thinking, New York,
University of California, Berkeley, and Stanford University)
The Rule of Karlowitz: Fiscal Change and Institutional Persistence
- Dina Balalaeva (Higher School of Economics, Moscow)
Democracy and Quality of Governance: What Matters More
for Health?
- Olga Vasilyeva (The Economic Research Institute FEB RAS,
Khabarovsk, and Amur State University, Blagoveshchensk)
Does Political Monopoly Harm the Development of Resource
Rich Countries? Evidence from Russian Regions

12:00 Coffee break

12:30 Session 2. Labor Institutions Compared: Empirical Evidence from Russia and Elsewhere

Chairman: Ora John Reuter (University of Wisconsin and Higher
School of Economics)

- Vladimir Matveenkov (Higher School of Economics
in St. Petersburg and St. Petersburg Institute for Economics
and Mathematics)
Labor Institutions and Vulnerability of Developing Economies
under Capital Inflows

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- Alexander Muravyev (University Graduate School of Management, St. Petersburg), Aleksey Oshchepkov (Higher School of Economics, Moscow)
Minimum Wages, Unemployment and Informality: Evidence from Panel Data on Russian Regions
- Aleksandra Bashina (Higher School of Economics, Moscow), Francesco Bartolucci (University of Perugia), Giovanni S.F. Bruno (Bocconi University, Milan), Olga Demidova (Higher School of Economics, Moscow), Marcello Signorelli (University of Perugia)
The Determinants of Job Satisfaction in Young Russian Workers
- Tatyana Zhuravleva (Gaidar Institute, Moscow and University Toulouse 1 Capitole)
Private-Public Wage Differentials: The Case of Russian Federation

14:00 Lunch

15:30 Session 3. Processes of Institutionalization

Chairman: David Szakonyi (Columbia University and Higher School of Economics)

- Quintin Beazer (Florida State University), Daniel J. Blake (IE Business School, Madrid)
Political Institutions & Relative Perceptions of Political Risk in International Investment
- Jeremy Wallace (The Ohio State University)
Information, Migration Restrictions, and Public Service Provision in Urban China

16:15 Coffee break

16:45 Session 4. Investment Climate, Credit, and Enterprise Location: Empirical Evidence from Transition Countries

Chairman: Israel Marques (Columbia University and Higher School of Economics)

- Natalia Davidson (Graduate School of Economics and Management, Ural Federal University)
Factors Determining Enterprise Location Choice in Russia
- Zuzana Fungáčová (Bank of Finland Institute for Economics in Transition)
Does Money Buy Credit? Firm-Level Evidence on Bribery and Bank Debt
- Leonid Polishchuk (Higher School of Economics, Moscow), Georgiy Syunyaev (Higher School of Economics, Moscow)
Investment Climate and Government Turnover in Russian Regions

18:00 Closing

3rd ICSID Conference

REGIONAL HETEROGENEITY AND INCENTIVES FOR GOVERNMENT

MAY 30, 2014 (FRIDAY)

10:00 Session 1

Chairman: William Pyle (Middlebury College and Higher School of Economics, Moscow)

- Thomas Remington (Emory University, Atlanta, and Higher School of Economics, Moscow)
Does Russia Drive a Ford? Administrative Structure and Economic Development in Russia and China
- James Kung (Hong Kong University of Science and Technology)
Land Revenue Windfalls, Signaling, and Career Incentives of China's Local Leaders
- Masayuki Kudamatsu (Stockholm University), Ruixue Jia (University of California, San Diego), David Seim (University of Toronto and Research Institute of Industrial Economics)
Political Selection in China: The Complementary Roles of Connections and Performance

11:30 Coffee break

12:00 Round Table

Moderator: Daniel Treisman (University of California, Los Angeles)

Experts: James Kung (Hong Kong University of Science and Technology), Joseph Fan (The Chinese University of Hong Kong), Andrei Yakovlev (Higher School of Economics, Moscow), Thomas Remington (Emory University, Atlanta, and Higher School of Economics, Moscow), Leonid Polishchuk (Higher School of Economics, Moscow), Alexander Libman (Frankfurt School of Finance and Management)

Topics

- Does it make sense to compare regional policy regimes in Russia and China? Where does the comparative study of political economy regimes in both countries stand today?
- Common problems faced by regional state officials in Russia and China
- What is the effect of incentive regimes in both countries on economic performance and other factors such as urbanization, the environment, social stability or inequality?

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- Do different supervision and monitoring systems, as well as competition between agencies have an impact on incentives, outcomes and the quality of local government?
- Does the quality of regional governments and bureaucracies affect the business (firm) sector and regional development and sustainability?
- How to induce incentives for public and private enforcement of property rights and sustainable growth at both the firm and the regional level in both countries?
- In a comparative perspective, what might be further interesting questions to study?

13:30 Lunch

15:00 Session 2

Chairman: Thomas Remington (Emory University, Atlanta, and Higher School of Economics, Moscow)

- Joseph Fan (The Chinese University of Hong Kong), Feng Guan, Zengquan Li (Shanghai University of Finance and Economics), Yong George Yang (The Chinese University of Hong Kong)
Relationship Networks and Earnings Informativeness: Evidence from Corruption Cases
- Ora John Reuter (University of Wisconsin and Higher School of Economics), Noah Buckley-Farlee (Columbia University and Higher School of Economics)
Patrons, Clients, and Technocrats: A Study of the Effects of Regime Type on Bureaucratic Appointment Strategies
- Alexander Libman (Frankfurt School of Finance & Management and Higher School of Economics), Tomila Lankina (London School of Economics), Anastassia Obydenkova (UPF Barcelona)
Pre-Communist and Communist Modernizations: The Mixed Influence on Modern Democratization
- William Pyle (Middlebury College, Middlebury, and Higher School of Economics), Andrei Govorun (Higher School of Economics, Moscow), Israel Marques (Columbia University and Higher School of Economics)
The Political Roots of Intermediated Lobbying: Evidence from Russian Firms and Business Associations

17:00 Reception

MAY 31, 2014 (SATURDAY)

10:00 Session 1. ICSID Achievements

Chairman: Alexander Libman (Frankfurt School of Finance & Management and Higher School of Economics)

- Vera Kulpina (Higher School of Economics, Moscow), Michael Rochlitz (Higher School of Economics, Moscow), Thomas Remington (Emory University, Atlanta, and Higher School of Economics, Moscow), Andrei Yakovlev (Higher School of Economics)
Regional Bureaucracies Compared: Evidence from Russia and China
- Andrei Yakovlev, Anton Kazun (Higher School of Economics, Moscow)
Who Demands Collective Action in Imperfect Institutional Environment? Case-Study of Attorneys' Professional Community in Russia
- David Szakonyi (Columbia University, New York, Higher School of Economics, Moscow)
Renting Higher Office: Firm-Level Returns from Connections to Elected Politicians

12:00 Coffee break

12:30 ICSID organizational workshop (1,5–2 hours) / free time for guests

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EACES-HSE Workshop

POLITICAL ECONOMY OF DEVELOPMENT: A COMPARATIVE PERSPECTIVE

MAY 29, 2014 (THURSDAY)

10:30 Session 1. Do Institutions Matter? Long and Short-Term Perspectives

Chairman: Michael Rochlitz (Higher School of Economics)



IGOR FEDYUKIN
(HIGHER SCHOOL
OF ECONOMICS, MOSCOW)

WAR, POLITICAL COMPETITION,
AND REFORM IN EARLY MODERN
EXTRA-EUROPEAN REGIMES

A growing body of literature focuses on the process of early modern state building as the key for understanding the origins of state capacity, which itself is increasingly viewed as a key condition for economic growth. According to the dominant paradigm, the main driver of state-building was war, as external pressures forced states to adopt new methods of fighting, which increasingly required also building of modern centralized bureaucracies and fiscal systems. What is missing from these accounts, however, is the explanation of why some regimes did successfully underwent the necessary transformations, while others did not, often with fatal consequences for their status as significant international players. In this paper we address this issue by using a sample of extra-European states (including Russia and the Ottomans) to build a model trajectory of such transformations. We point out that such transformations involved significant political costs for the ruler, and thus under certain conditions not reforming might be a rational answer, even in the case of external military pressure. Given that in extra-European states such reform required a particularly radical transformation of economy, society, and even symbolic systems, and that such states tended to

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possess very weak state capacity to effect such transformations, it is not surprising that no incumbent ruler seem ever to successfully launch such a transformation under a stable political equilibrium. It appears preliminary that such transformations were possible only when the equilibrium was disrupted by a political crisis, and that they were driven by challengers working to undermine the existing institutional structures as a way of weakening their opponents and solidify their own grip on power. Our case studies of reform attempts two extra-European powers, Russia and Persia, seem to fit this model well. While not questioning the importance of war as a factor of early modern state building, our main contribution here is to draw attention to the role of internal political competition as a driver of early modern state building.



ELIRA KARAJA

(INSTITUTE FOR NEW ECONOMIC THINKING, NEW YORK, UNIVERSITY OF CALIFORNIA, BERKELEY, AND STANFORD UNIVERSITY)

THE RULE OF KARLOWITZ: FISCAL CHANGE AND INSTITUTIONAL PERSISTENCE

Could the empires that ruled Eastern Europe for centuries and the formal institutions that they implemented have left an imprint on current formal and informal institutions of modern states? This paper sheds light on the legacy of the administrative system of the Ottoman Empire in contemporary states in the region. I investigate a causal mechanism that led to divergent paths of state building and rule of law, interpreted as attitudes toward corruption. The boundary between the Ottoman Empire and the Austro-Hungarian Empire was set in the Treaty of Karlowitz in 1699, contemporaneous with a fiscal shock and a crucial change in the Ottoman fiscal system. This is identified as the historical treatment effect. First, a theoretical model is constructed, focusing on effects of tax system change, which encouraged uncontrolled predatory behavior and spread of abuse and rent extraction in the Ottoman Empire. Using Geographic Information System methods and regression discontinuity analysis with household survey data I investigate persistence of different attitudes about bribery on both sides of the former border. Findings evidence higher willingness to bribe on the Ottoman hereditary lands. These findings are robust to controls. Last, the persistent effect of weak institutions on growth is estimated using household consumption and light intensity data as proxies for development.

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DINA BALALAEVA

**(HIGHER SCHOOL OF ECONOMICS,
MOSCOW)**

**DEMOCRACY AND QUALITY
OF GOVERNANCE: WHAT MATTERS MORE
FOR HEALTH?**

This study explores association between political regime, “good governance” and country social performance measured as infant mortality rate (IMR). It is widely argued that democratic leaders possess more incentives to provide public goods than their authoritarian counterparts, which, inter alia, leads to superior health-related capabilities in democracies. Maintaining assumption that in the modern world public health delivery process is of greater importance for certain health outcomes than macroeconomic and political factors, and capitalizing on the observation that an increasing number of nondemocratic regimes perform well on governance and health indicators, whereas many nascent democracies fare poorly, this article suggests that it is “good governance” that matters more for state performance in the healthcare sector than democracy vs. autocracy dichotomy. On the basis of cross-section and TSCS data analysis, it is shown that “good governance” exerts systematic influence upon IMR, whereas political regime characteristics lose statistical significance once controlled for governance.



OLGA VASILYEVA

**(THE ECONOMIC RESEARCH
INSTITUTE FEB RAS, KHABAROVSK,
AND AMUR STATE UNIVERSITY,
BLAGOVESHCHENSK)**

**DOES POLITICAL MONOPOLY HARM
THE DEVELOPMENT OF RESOURCE RICH
COUNTRIES? EVIDENCE FROM RUSSIAN
REGIONS**

Does political monopoly harm the development of resource rich countries? Studying data from Russian regions 2004–2011 provides an opportunity to test this hypothesis at the subnational level. Results show that resource abundance is associated with lower income and higher infant mortality rate, but it doesn't affect infrastructure development. However political monopoly at the regional level (specifically in regional legislatures) mitigates, if not overcomes, the negative effect of resource abundance on income and infant mortality. These results are robust to different measures of resource abundance. The findings are not affected by controls for institutional quality in Russian regions.

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12:30 Session 2. Labor Institutions Compared: Empirical Evidence from Russia and Elsewhere

Chairman: Ora John Reuter (University of Wisconsin and Higher School of Economics)



VLADIMIR MATVEENKO

(HIGHER SCHOOL OF ECONOMICS
IN ST. PETERSBURG AND
ST. PETERSBURG INSTITUTE FOR
ECONOMICS AND MATHEMATICS)

**LABOR INSTITUTIONS AND VULNERABILITY
OF DEVELOPING ECONOMIES UNDER
CAPITAL INFLOWS**

The aim of the paper is to argue that labor institutions such as efficiency wages or their analogues more typical for former planned economies can aggravate a vulnerability of developing economies related to windfalls such as oil income or foreign aid. The economy is modeled by use of an endogenous growth model — so called FK model. The FK model generalizes the well-known AK model but takes labor institutions into account. Analytical results as well as computer simulations show that despite the presence of short-run possibilities to accelerate development of the economy, the unstable windfalls prevent a long-run sustainable development.



ALEXANDER MURAVYEV

(UNIVERSITY GRADUATE SCHOOL
OF MANAGEMENT,
ST. PETERSBURG),

ALEKSEY OSHCHEPKOV

(HIGHER SCHOOL OF ECONOMICS,
MOSCOW)

**MINIMUM WAGES, UNEMPLOYMENT AND
INFORMALITY: EVIDENCE FROM PANEL DATA
ON RUSSIAN REGIONS**

This paper revisits labor market effects of the minimum wage by taking advantage of a unique institutional setting and rich data from Russia that cover 89 regions over 10 years, from 2001 to 2010. Our empirical analysis draws on the methodology introduced by Neumark

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and Wascher, in which labor market outcomes at the regional level are related to the relative minimum wage (captured by the Kaitz index) in a panel setting. We find that the minimum wage raises unemployment among young workers aged 15 to 24. In contrast, there is no evidence of disemployment effects of the minimum wage for workers aged 25–72, including women. In addition, minimum wage hikes are associated with an increase in informal employment.



ALEKSANDRA BASHINA

(HIGHER SCHOOL OF ECONOMICS,
MOSCOW),

FRANCESCO BARTOLUCCI

(UNIVERSITY OF PERUGIA),

GIOVANNI S.F. BRUNO

(BOCCONI UNIVERSITY, MILAN),

OLGA DEMIDOVA

(HIGHER SCHOOL OF ECONOMICS,
MOSCOW),

MARCELLO SIGNORELLI

(UNIVERSITY OF PERUGIA)

**THE DETERMINANTS OF JOB SATISFACTION
IN YOUNG RUSSIAN WORKERS**

A growing economic literature regards the analysis of job satisfaction; however, as for young people the investigations are still scarce. In this paper we analyse job satisfaction among Russian young workers by using the data collected for four items, the first of which concerns the general satisfaction about the job; the other three items concern specific aspects of job satisfaction with respect to work condition, earning, and opportunity for professional growth. The longitudinal dataset also contains personal information about the respondents. We estimate ordered logit models of job satisfaction with individual fixed effects. If wages adjusted to fully compensate workplace disamenities, we would expect that differences in job satisfaction across individuals would not be systematically related to wage differentials, *ceteris paribus*. But this is not the case for our panel: for all but one of the samples considered there is at least one job satisfaction variable with a significantly positive wage effect. We, therefore, interpret this result as a failure of the theory of compensating wage differentials in the Russian youth labour market. There is the interesting exception, though, that compensating wage differentials do seem at work among the older subjects in the panel.

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TATYANA ZHURAVLEVA
(GAIDAR INSTITUTE, MOSCOW,
UNIVERSITY TOULOUSE 1
CAPITOLE)

**PRIVATE-PUBLIC WAGE DIFFERENTIALS:
THE CASE OF RUSSIAN FEDERATION**

In this study we use a panel micro data set from the Russian Longitudinal Monitoring Survey to investigate the private-public wage differentials in Russia. We distinguish between public servants and workers of state owned enterprises. We establish that the private sector premium, that is significantly higher for females, decreases slowly since 2003. This decrease is mainly due to the increase of public servant wages, although the gap between private sector and SOE is also reduced. We account for the unobserved heterogeneity by using the switching regression model with the number of children and marital status of males as instruments. After controlling for the unobserved heterogeneity we find a different pay structure in two sectors. Education, both secondary and university degree, and experience yield higher return in the private sector. Analysing the motivation of workers we do not find support for significantly higher job security and flexibility in the public sector but we do establish that differences in fringe benefits could explain the choice of individuals.

15:30 Session 3. Processes of Institutionalization

Chairman: David Szakonyi (Columbia University and Higher School of Economics)



QUINTIN BEAZER
(FLORIDA STATE UNIVERSITY),
DANIEL J. BLAKE
(IE BUSINESS SCHOOL, MADRID)

**POLITICAL INSTITUTIONS & RELATIVE
PERCEPTIONS OF POLITICAL RISK
IN INTERNATIONAL INVESTMENT**

Why do some firms invest in countries with “bad” or “risky” institutions? We investigate the idea that investors’ perceptions of political risks may be relative to their domestic political benchmarks. Existing research on foreign direct investment (FDI) and political

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institutions tends to focus exclusively on the conditions in host countries, overlooking the fact that the home countries of today's international investors and multinational enterprises (MNEs) increasingly represent a variety of institutional environments. We argue that, rather than assessing political risk in absolute terms, international investors evaluate the institutional environment of possible investment locations using their home country as a baseline for comparison. This paper tests this hypothesis at the micro level, using a series of ongoing survey experiments on international business managers-in-training to determine the effect of political institutions on investors' perceptions of investment attractiveness and risk. Preliminary results from these experiments suggest that subjects who come from countries with difficult political and governance conditions assess poorly-performing institutions (such as unreliable courts) less severely than subjects who come from developed economies with more predictable political environments.



JEREMY WALLACE

(THE OHIO STATE UNIVERSITY)

**INFORMATION, MIGRATION RESTRICTIONS,
AND PUBLIC SERVICE PROVISION IN URBAN
CHINA**

Population migration places pressure on the information collection mechanisms of the state and the distribution of public services. China has urbanized rapidly without the massive slums that plague the large cities of other developing countries, with its system of migration restrictions (the hukou system) often given credit. Until recently, central policy decisions dominated the migration control regime, yet such powers have devolved to cities and lower level governments. This paper uses local variation in reform of the hukou system to analyze its ability to prevent slums-coded as high density areas with low public service provision. In the late 1990s, the Chinese regime selectively relaxed restrictions on migrants to over 400 cities at the county-level and below. The analyses evaluate the effects of freer migration on public spending patterns and the development of slums and show strong differences between local and national priorities.

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16:45 Session 4. Investment Climate, Credit, and Enterprise Location: Empirical Evidence from Transition Countries

Chairman: Israel Marques (Columbia University and Higher School of Economics)



NATALIA DAVIDSON
(GRADUATE SCHOOL
OF ECONOMICS
AND MANAGEMENT,
URAL FEDERAL UNIVERSITY)

**FACTORS DETERMINING ENTERPRISE
LOCATION CHOICE IN RUSSIA**

Determinants of enterprise location decisions are analyzed using data on the Russian enterprises for the year 2007. The impact of agglomeration level, home market potential (HMP), transport infrastructure are considered. Special attention is paid to institutional environment, using an index of Analytical Agency “Expert”. It is assumed that firms choose locations where profits are expected to be the highest. Parameters of profit equation are estimated using conditional logit model. Dependent variable is location choice for a city. Results confirm that agglomeration level and HMP affect foreign firms’ location choice and probability that national firms will work in a city. Urbanization economies and HMP positively affect location choice; localization economies have an inverted U shape. Estimation shows that foreign enterprises are interested in large demand, i.e. pursue market seeking strategy. They do not seem to pursue efficiency seeking strategy, as far as lower wages are concerned. Under assumption that there are more innovations in diversified cities and cities with favourable business climate, strategic asset seeking might be present. Concerning institutional factors, results confirm negative impact of regional business environment risks on the foreign firms’ location choice.

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ZUZANA FUNGÁČOVÁ (BANK OF FINLAND INSTITUTE FOR ECONOMIES IN TRANSITION)

DOES MONEY BUY CREDIT? FIRM-LEVEL EVIDENCE ON BRIBERY AND BANK DEBT

This study examines how bribery influences bank debt ratios for a large sample of firms from 14 transition countries. We combine information on bribery practices from the BEEPS survey with firm-level accounting data from the Amadeus database. Bribery is measured by the frequency of extra unofficial payments to officials to “get things done”. We find that bribery is positively related to firms’ total bank debt ratios, which provides evidence that bribing bank officials facilitates firms’ access to bank loans. This impact differs with the maturity of bank debt, as bribery contributes to higher short-term bank debt ratios but lower long-term bank debt ratios. Finally, we find that the institutional characteristics of the banking industry influence the relation between bribery and firms’ bank debt ratios. Higher levels of financial development constrain the positive effects of bribery whereas larger market shares of state-owned banks have the opposite effect. Foreign bank presence also affects the impact of bribery, albeit this effect depends on the maturity of firms’ bank-debt.



LEONID POLISHCHUK (HIGHER SCHOOL OF ECONOMICS, MOSCOW),



GEORGIY SYUNYAEV (HIGHER SCHOOL OF ECONOMICS, MOSCOW)

INVESTMENT CLIMATE AND GOVERNMENT TURNOVER IN RUSSIAN REGIONS

In this project, we provide empirical evidence on Russian regional data indicating that the rotation of ruling elites in conjunction with elites’ asset ownership could improve property rights protection in non-democracies. The mechanism that upholds property rights

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is based on elites' concern about the security of their own asset ownership in the event they lose power. Such incentives provide a solution to the credible commitment problem in maintaining secure property rights when institutional restrictions on expropriation are weak or absent. To address possible endogeneity bias, we use exogenous variation in probability of leaving the office, introduced in Russia by the reform of regional governors' appointment system.

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3rd ICSID Conference

REGIONAL HETEROGENEITY AND INCENTIVES FOR GOVERNMENT

MAY 30, 2014 (FRIDAY)

10:00 Session 1

Chairman: William Pyle (Middlebury College and Higher School of Economics, Moscow)



THOMAS REMINGTON

(EMORY UNIVERSITY, ATLANTA,
AND HIGHER SCHOOL
OF ECONOMICS, MOSCOW)

DOES RUSSIA DRIVE A FORD?
ADMINISTRATIVE STRUCTURE
AND ECONOMIC DEVELOPMENT
IN RUSSIA AND CHINA

Theoretical arguments based on the concept of U-form vs. M-form organizational models are sometimes used to explain the sharp difference in economic performance of Russia and China in the reform era. Yet although stylized facts have been cited in support of the theory, the theory has never been tested empirically. This paper uses data from surveys of business-government relations in the two countries conducted by the World Bank in 2012 to test the theory by observing differences in the business environment of Russia and China, differences in firm behavior, and differences in the degree of cross-regional institutional variation. The survey data are consistent with the theory, but some facts in the records of economic development in the two countries are not well accounted for by the theory.

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JAMES KUNG
(HONG KONG UNIVERSITY
OF SCIENCE AND TECHNOLOGY)

**LAND REVENUE WINDFALLS, SIGNALLING,
AND CAREER INCENTIVES OF CHINA'S
LOCAL LEADERS**

We analyze a dataset constructed on the political turnovers of 3,623 county leaders in China during 1999–2008, and find that their career incentives — the institutional foundations of China's three decades of sustained economic growth — remain powerful. This is in spite of a policy shock that assigns to them the residual claiming rights over land revenues and their having substantially more discretionary revenue to spend as a result. Specifically, the county leaders spend significantly more to signal their achievements (for promotion), and on a variety of activities that benefit mostly the government bureaucracy, than on projects that enhance social welfare.



MASAYUKI KUDAMATSU
(STOCKHOLM UNIVERSITY),

RUIXUE JIA

(UNIVERSITY OF CALIFORNIA,
SAN DIEGO),

DAVID SEIM

(UNIVERSITY OF TORONTO AND
RESEARCH INSTITUTE
OF INDUSTRIAL ECONOMICS)

**POLITICAL SELECTION IN CHINA:
THE COMPLEMENTARY ROLES
OF CONNECTIONS AND PERFORMANCE**

Who becomes a top politician in China? We focus on provincial leaders — a pool of candidates for top political office — and examine how their chances of promotion depend on their performance in office and connections with top politicians. Our empirical analysis, based on the curriculum vitae of Chinese politicians, shows that connections and performance are complements in the Chinese political selection process. This complementarity is stronger the

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younger provincial leaders are relative to their connected top leaders. To provide one plausible interpretation of these empirical findings, we propose a simple theory in which the complementarity arises because connections foster loyalty of junior officials to senior ones, thereby allowing incumbent top politicians to select competent provincial leaders without risking being ousted. Auxiliary evidence suggests that the documented promotion pattern does not distort the allocation of talent. Our findings shed some light on why a political system known for patronage can still select competent leaders.

15:00 Session 2

Chairman: Thomas Remington (Emory University, Atlanta, and Higher School of Economics, Moscow)



JOSEPH FAN

(THE CHINESE UNIVERSITY
OF HONG KONG),

FENG GUAN, ZENGQUAN LI

(SHANGHAI UNIVERSITY
OF FINANCE AND ECONOMICS),

YONG GEORGE YANG

(THE CHINESE UNIVERSITY
OF HONG KONG)

**RELATIONSHIP NETWORKS AND EARNINGS
INFORMATIVENESS: EVIDENCE FROM
CORRUPTION CASES**

The measurement difficulties arising from relationship-based business transactions can result in accounting opacity. We test this hypothesis by exploiting a natural experiment. Using a sample of firms that were networked with 45 high-level Chinese bureaucrats involved in corruption scandals between 1996 and 2007, we examine the patterns in the earnings informativeness of these firms before and after the exogenous break of the networks. We predict that the costs and benefits of business-politics relationships, which are not measurable by the current accounting systems, diminish the ability of accounting earnings to track a firm's economic performance. In turn, a break in a political relationship due to anti-corruption enforcement reduces the measurement noise and improves the earnings

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informativeness. We find that, relative to the matched control firms, there is indeed a significant increase in the earnings informativeness of the networked firms following the public exposure of a scandal. Robustness tests fail to show that the documented improvement in the earnings informativeness is primarily due to systematic changes in the firms' earnings management behavior or disclosure policies.



ORA JOHN REUTER

(UNIVERSITY OF WISCONSIN AND
HIGHER SCHOOL OF ECONOMICS),



NOAH BUCKLEY-FARLEE

(COLUMBIA UNIVERSITY AND
HIGHER SCHOOL OF ECONOMICS)

**PATRONS, CLIENTS, AND TECHNOCRATS:
A STUDY OF THE EFFECTS OF REGIME
TYPE ON BUREAUCRATIC APPOINTMENT
STRATEGIES**

We examine how regime type affects the criteria politicians use to evaluate high-level bureaucrats who are responsible for economic policy making. We distinguish between two different evaluation criteria that can be employed: personal loyalty (i.e., clientelism), and economic competency. Using data on turnover among high-level economic policy bureaucrats in Russia's 89 regions between 2001 and 2011, we find that clientelistic appointments are more frequent in autocratic settings. At the same time, we also find that autocracies are more likely to evaluate bureaucrats on the basis of economic performance criteria. Ultimately, we conclude that democracy can help improve bureaucratic capacity by reducing levels of clientelism, but, under certain conditions, it may also harm bureaucratic capacity by reducing the incidence of competency-based appointments.

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ALEXANDER LIBMAN

(FRANKFURT SCHOOL OF FINANCE
& MANAGEMENT AND HIGHER
SCHOOL OF ECONOMICS),

TOMILA LANKINA

(LONDON SCHOOL
OF ECONOMICS),

ANASTASSIA OBYDENKOVA

(UPF BARCELONA)

**PRE-COMMUNIST AND COMMUNIST
MODERNIZATIONS: THE MIXED INFLUENCE
ON MODERN DEMOCRATIZATION**

The paper investigates how policies of the Communist period affected the legacies of pre-Communist modernization and their ability to influence democracy in contemporary Russia. During the Tsarist period, different parts of the modern Russian territory differed substantially in terms of the level of modernization, which is proxied by the literacy levels of the late 19th century). These differences still affect the sub-national variation of democracy in contemporary Russia. However, this effect is substantially weakened by the policies of the Communist period — in particular, the spread of CPSU membership over the territory of Russia. We show that the CPSU membership spread, which has a negative effect on democratization, was particularly large in Russian regions with higher pre-Communist literacy. Using causal mediation analysis, we confirm that the negative effect of the Communist-period policies substantially weakened the influences of pre-Communist period.

CONFERENCE PAPERS



WILLIAM PYLE

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**THE POLITICAL ROOTS OF INTERMEDIATED
LOBBYING: EVIDENCE FROM RUSSIAN FIRMS
AND BUSINESS ASSOCIATIONS**

How does political competition shape the way that firms pursue institutional change? Making a distinction poorly developed in the literature, we contrast attempts to influence laws, rules and regulations directly, through unmediated contacts with officials, with those that are channeled through lobby groups acting as intermediaries. Drawing on a survey of 1013 firms across 61 Russian regions, we show that firms in more politically competitive regions are more apt to lobby through business associations performing this intermediating function. This finding is consistent with a hypothesis that officials in more politically competitive settings will be more sensitive to appeals made through collective actors whose interests are apt to align more closely with social welfare. We test this hypothesis further with a survey of 315 business associations and show that the relative influence of more encompassing associations (i.e., those that represent a broader cross-section of economic interests) increases in more politically competitive regions.

MAY 31, 2014 (SATURDAY)

10:00 Session 1. ICSID Achievements

Chairman: Alexander Libman (Frankfurt School of Finance & Management and Higher School of Economics)



VERA KULPINA

(HIGHER SCHOOL OF ECONOMICS,
MOSCOW),



MICHAEL ROCHLITZ

(HIGHER SCHOOL OF ECONOMICS,
MOSCOW),

THOMAS REMINGTON

(EMORY UNIVERSITY, ATLANTA,
AND HIGHER SCHOOL
OF ECONOMICS, MOSCOW),

ANDREI YAKOVLEV

(HIGHER SCHOOL OF ECONOMICS)

**REGIONAL BUREAUCRACIES COMPARED:
EVIDENCE FROM RUSSIA AND CHINA**

What determines the effectiveness of regional bureaucracies in large federal or quasi-federal states? In this paper, we systematically compare the characteristics and performance of regional officials in China and Russia during the last 15 years. We find that in contrast to China, provincial leaders in Russia are unlikely to be promoted, have a lower turnover, are older when leaving office, are almost never transferred from one region to another, and are more likely to come from the region they govern than their Chinese counterparts. We argue that this results from the Chinese system being designed in a way that permits to measure the performance of regional officials and to use performance-related criteria in evaluating and promoting them, which in turn has a direct effect on the effectiveness of regional bureaucracies in both countries.

CONFERENCE PAPERS



ANDREI YAKOVLEV
(HIGHER SCHOOL OF ECONOMICS,
MOSCOW),



ANTON KAZUN
(HIGHER SCHOOL OF ECONOMICS,
MOSCOW)

**WHO DEMANDS COLLECTIVE ACTION
IN IMPERFECT INSTITUTIONAL
ENVIRONMENT? CASE-STUDY
OF ATTORNEYS' PROFESSIONAL
COMMUNITY IN RUSSIA**

We analyze the case of attorneys' professional community in Russia in order to understand their potential for collective actions in imperfect institutional environment. In 2013 we conducted a survey of 372 attorneys in 9 regions of Russia. Two main hypotheses are tested: 1) lawyers with strong ethical values have higher demand for collective actions; 2) negative experience of clients rights violation by law enforcement officers can motivate attorneys to support the foundation of strong professional association. As a result we suggest that attorneys' professional community with bona fide members in the core could be an instrument for estimation of quality of law enforcement system in Russia. In the next step we hope to make a nationwide survey based on our pilot study.



DAVID SZAKONYI
(COLUMBIA UNIVERSITY,
NEW YORK, HIGHER SCHOOL
OF ECONOMICS, MOSCOW)

**RENTING HIGHER OFFICE: FIRM-LEVEL
RETURNS FROM CONNECTIONS
TO ELECTED POLITICIANS**

Why do businessmen run for public office? This project looks at the incentives for businessmen to put forth their candidacy to legislative office as a strategy of promoting their firm's interests. Building on existing work on businessmen candidates, I develop a theoretical

CONFERENCE PAPERS

framework that addresses the delegation problem between firms and politicians at the heart of a firm's choice between indirect and direct strategies for influencing politics. I then derive predictions about how various forms of economic competition increase the value of direct corporate political strategy over other indirect lobbying avenues, as well as how various institutional and candidate-level factors affect the benefits that firms receive. To test these arguments, I examine businessman politicians in Russia, who on average hold a majority of deputies in 83 regional legislatures from 2004–2012. A unique dataset of over of 100,000 politically connected firms is used to examine the determinants of businessman candidacy as well as the returns to office for their companies. A regression discontinuity design of data on close elections is used to identify a variety of rents allocated to firms who have direct political representation in legislative institutions.

CONFERENCE VENUE

The conference will be held at Management training center of HSE — a multifunctional complex, including a hotel, conference halls and working rooms, located in Pushkin. Pushkin is a historical town 40 minutes away from Saint Petersburg city center, with the famous Tzarskoe Selo 10 minutes away from the conference venue (<http://spb.hse.ru/en/1291728/mtc/>).

Address:

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+7 (812) 449-54-38 (accommodation and events)

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How to get there

- from Saint Petersburg:
 - by underground to “Pushkinskaya” station (Vitebsky railway station). Then by commuter train to “Detskoye Selo” railway station (it takes 30 minutes);
 - by underground to “Moskovskaya” station. Then by taxi-buses NN 287, 347a to Pushkin, the stop is “Parkovaya Street” (it takes 20 minutes);
- from «Pulkovo» airport: bus N 39 to “Aeroport” railway station. Then by bus N 187 to the railway station in Pushkin;
- in Pushkin from the railway station: buses NN 273, 370, 378, 380, 381, 382 to “Parkovaya Street” stop.

CONFERENCE VENUE

Map



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