

## **INSTITUTIONS AND DEMOCRACY IN RUSSIA (A CRITICAL VIEW)\***

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### **ABSTRACT**

The relationship between democracy – operationalized through (i) competitive elections, (ii) the rule of law and (iii) the legitimacy of the law in terms of its correspondence to everyday practices – and stability of socio-economic development – operationalized through volatility of annual GDP growth rates – is explored. Full-fledged democracy appears associated with more steady development. Several “democratic stabilizers”, including policies of risk-sharing, are discussed. An in-depth case study of a non-democratic institutional arrangement in Russia suggests that rapid economic growth observed in this country since 1999 may not be stable in the middle- and long run. Both quantitative (the Freedom House, the World Bank and the US Agency for International Development datasets) and qualitative (interviews with Russian state officials) data covering the period from 1995 to 2005 are used in the analysis.

**KEY WORDS:** democracy, the rule of law, civil society, economic growth, volatility, Russia, risk, uncertainty, multiple equilibria

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## INTRODUCTION

Institutions as “the rules of the game in a society” (North, 1990: 3) embedded in formal (laws, regulations) and informal (traditions, habitus) norms have attracted the attention of policymakers and experts in Russia relatively recently. The early stages of economic and political reforms carried out in the first half of the 1990s were characterised by ignorance of these country-specific institutional factors. Their design resulted from a “Washington consensus” with emphasis on liberalization of prices, mass privatization and macro-economic stabilization. In the second half of the 1990s the focus of reform policies shifted toward institution-building as reflected in a “post-Washington consensus”; promoting start-up developments and privatizing residual state property (for a comparison of the two consensuses see Andreff, 2003: 9-25). But, mass privatization can produce a more efficient allocation of property rights only if there is an appropriate institutional structure – the police protecting property rights and the courts enforcing contracts (Boycko et al., 1995: 20-25).

Institutions make patterns of interaction more predictable and help actors to foresee their eventual outcomes. In functionalist perspective, “the major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction” (North, 1990: 6). This begs the question as to how to define uncertainty. Uncertainty differs from risk because the latter does not exclude the calculability of all possible outcomes whereas the former makes the task of evaluating them objectively impossible. “We speak of risk when the objective probabilities (long-run frequencies) associated with all possible outcomes are known to the decision maker. We speak of uncertainty if at least some of these objective probabilities are unknown to him (or are not even well defined)” (Harsanyi, 1977: 22). In other words, institutions contribute to reducing uncertainty and transforming it into risk.

Interactions can converge toward several equilibria, each of which is supported by a particular set of institutions. The idea of the plurality of equilibria in interactions is widely accepted in economic and political sciences. Economists question the belief based on the Walrasian general equilibrium model that transactions in a perfectly competitive market tend toward a unique and Pareto-efficient equilibrium (Weil, 1989; Blanchard and Fischer, 1989: Ch. 5; Dasgupta, 2000). Political scientists and political sociologists since Max Weber consider various configurations of an “order”. “In the same social group, a plurality of contradictory systems of order may all be recognized as valid” (Weber, 1968: 32). In spite of all differences, both American and Soviet-type political institutions are able to bring political interactions to a steady state (Huntington, 1968: 1-12; see also Olson: 1993; Rose et al.: 2006 on the possibility of reaching an equilibrium in autocratic political systems). If all interacting parties refer to the same set of institutions, however inefficient these may be, they manage to coordinate their behaviour and reach a steady state.

The equilibria differ by degree of stability defined as the “capacity to withstand shocks” (Bremmer, 2005: 56), both external to the transaction and generated in its process. This article discusses the question as to whether democratic institutions are superior to non-democratic institutions in reducing uncertainty and producing stability, especially in the context of post-Soviet transformations.

The variable “democracy” has several attributes. According to a “minimalist” definition, democracy implies competitive elections held on a regular basis. This attribute can be further operationalized with the help of four criteria. Democracy implies that all four following statements appear false: (i) “the chief executive is not

elected”; (ii) “the legislature is not elected”; (iii) “there is no more than one party” and (iv) “the incumbents held office in the immediate past by virtue of elections for more than two terms or without being elected, and until today or the time when they were overthrown they have not lost an election” (Przeworski and Limongi, 1997: 178). A more encompassing definition of democracy refers to competitive elections and the rule of law. Political “regimes differ in the extent to which governors are accountable to the rule of law or arbitrarily ignore restrictions on their actions” (Rose et al., 2006: 31). Various combinations of the two attributes produce a 2x2 taxonomy (Ibid, 33-36). Finally, a third attribute, the degree to which the law itself can be justified by reference to beliefs shared by both governors and the population, is added in the most encompassing definition of democracy (Beetham, 1991: 11-17).

A short overview of literature on relationships between institutions of democracy and socio-economic development in Part I is followed by a discussion of some empirical evidence (Part II) in regard to the impact of political institutions on the stability of socio-economic systems as a whole. The discussion (Part III) includes theoretical arguments drawn from various theoretical approaches – ranging from rational choice theory to moral philosophy. The Russian institutional model is considered in depth in Part IV. When speaking about the Russian case special emphasis is put on differentiating two potential sources of uncertainty. The first is simply due to the transitional character of the institutional model that incorporates both institutions inherited from the Soviet past and those shaped according to the Western templates. “The transition from a stable-because-closed state to a stable-because-open state is inevitably marked by instability” (Bremmer, 2005: 56). The second derives from a particular institutional arrangement that seems to be progressively solidified in Russia. Some directions for further research are indicated in the Conclusion, namely the prospect of extending the analysis of power relationships to the micro level by including in its scope managerial practices in the firm, the university, non-governmental organizations, and so on.

## **1. SURVEY OF LITERATURE: FORMULATING A RESEARCH QUESTION.**

At the beginning of reforms in Russia, in the early 1990s, they were thought as a simultaneous movement along three axes: the first going from the centrally planned economy toward a perfectly competitive market, the second – from the monopoly of the communist party toward democracy and the third – from a “small” society toward an “open” society. In this “teleological” perspective, as Vladimir Andreff puts it (1993: 10-11; the teleological character implies prioritizing the point of arrival over the point of departure, the desired situation over the institutional heritage of the past), democratization seemed to naturally accompany economic liberalization and vice versa; both were expected to produce sustainable socio-economic development.

The presumed association of democracy with socio-economic development is still a source of controversies and theoretical debates (from this point of view the initial design of post-Soviet reforms can be compared with the prescription to a seriously ill patient of a promising yet insufficiently tested treatment). Namely, it remains unclear whether causal relationships exist between the two variables, democracy and socio-economic development. The task of time ordering seems especially difficult in this case. Some scholars (Shleifer and Treisman, 2004) argue that economic development brings democracy with it and, for instance, imperfections of democracy

in such countries as Russia or Mexico can be attributed to their membership in the group of middle-income countries. Other scholars demonstrate that democratization creates conditions favourable for economic growth. Alain Touraine (1988: Part 5) indicates that an economic crisis in several Latin American countries can hardly be overcome without democratization because it partly results from inflationary pressures generated by national-populist political regimes characterized by a “fusion” between state and social actors.

Empirical tests of the association between democracy and socio-economic development produce inconclusive and contradictory results. “Democracy is not a robust correlate of economic growth” (Quinn and Wooley, 2001: 647; see also Mobarak, 2005: 353; Polterovich and Popov, 2007). The discrepancy in results has, among others, a methodological explanation. Outcomes of statistical tests depend on the manner in which the two key variables are operationalized. Most commonly, a unidimensional definition of democracy – democracy equals competitive elections – is entered into the equation. Relatively abundant and easily accessible time-series data (e.g., the Freedom House Political Rights Rating from 1973 onward) as well as the popularity of the concept of “realist democracy”, coined by Joseph Schumpeter, account for the predominance of this choice. According to him, democracy as “a competitive struggle for the people’s votes” (1987: 269) seems more realistic as it avoids heroic assumptions about human behaviour – including that concerning the obligation to obey the law – and, hence, makes the two other attributes of democracy irrelevant.

If one takes into consideration the rule of law, the overall picture changes as this attribute highlights other aspects of democracy than those emphasized by the first attribute. The rule of law, or Rechtstaat, has two interpretations: “a state submitted to the law” or “a state power in the form of law” (Troper, 2003: 97). The latter does not exclude the rule by law, or the rule through law, under which the law transforms into an instrument of the sovereign or a particular interest group (Maravall and Przeworski, 2003: 3; Turk, 1976). For example, the strengthening of the courts in the Soviet Union of the 1930s helped to increase the ruler’s power instead of repairing the damage to the authority of law wreaked by forced collectivization (Solomon, 1996: 153-154).

The former interpretation – a state submitted to the law – better fits competitive elections. The two attributes of democracy do not exclude each other even in perspective of rational choice theory (at first sight it excludes any restrictions, legal or otherwise, on the freedom of choice). On one hand, free and competitive elections derive from the same principles as competition in a market. On the other hand, a rational ruler can be interested in voluntarily setting some bounds on his or her own discretion and in obeying the law in order to secure cooperation of the citizens if coercion does not suffice (e.g., if mass mobilization is needed to protect the country against the threat of foreign invasion). “The threat to withdraw cooperation... provides a more enduring motivation for the regularization of governmental power than the threat to inflict physical harm”, for instance, by means of a rebellion (Holmes, 2003: 29).

Furthermore, competitive elections without a state submitted to the law or vice versa undermine the principle of rule by the people which is the essence of democracy. Without being restricted by the law, people vested in power may attempt to influence electoral outcomes by using “political technologies” ranging from manipulations of election results to budget financing for electoral projects supported by power holders (Wilson, 2005: Ch. 4). “Political technologies” represent one of the mechanisms of

increasing returns to power putting the incumbent into a more advantageous position compared with the pretender (the idea of increasing returns of scale associated with power is discussed in more detail in Lane, 1979). The rule of law not accompanied by regularly held elections increases the room for changing the content of the law in a discretionary manner. This configuration of the attributes of democracy empowers state authorities to shape and re-shape the law at will. “The rule of law can still be the rule of ‘bad’ laws as long as a government remains within the limits of a hierarchically ordered and logically consistent legal system” (Maravall, 2003: 273; see also Troper, 2003: 99). Hernando de Soto (2005) considers Peru as an attempt to enforce the rule of “bad” laws inherited from the colonial past: their body may be coherent and internally consistent but completely disconnected from everyday practices of the majority of the population.

The third attribute, whether laws are “good” and justifiable or “bad” in terms of beliefs shared by both rulers and ordinary people, partly depends on the first two. Elections combined with the rule of law tend to produce “good” laws. However, even “good” laws sometimes fail to ensure socio-economic development, e.g., if the society itself needs “modernizing”. David Beetham describes such situations in terms of a “legitimation crisis” that happens if “the evolution of the system brings it up against the limits of its own organizing principles, and in so doing erodes the beliefs that are necessary to sustain them” (1991: 186). The degree of congruence between formal and informal institutions is especially difficult to operationalize. This task requires field work and the systematic collection of data on customs, traditions and other types of informal norms (Cornell and Kalt, 1995; Oleinik, 2002). Very few sets of time-series or cross-sectional data are available so far, which can explain the omission of the third attribute of democracy in most statistical tests.

This discussion sheds new light on difficulties related to empirical tests of the association between democracy and socio-economic development. Democracy is a multi-faceted variable with several attributes. If the researcher takes into consideration only one of its attributes, this reduces both validity and reliability of the analysis (because not all scholars enter the same attribute into calculations). As for validity, “partial democracies”, i.e. democracies meeting one criterion out of the three, are seven times more likely than full democracies or autocracies to become “failed states”; unable neither to ensure security nor to maintain decent living standards for their citizens (François and Sud, 2006: 146-147).

A methodologically sound approach requires constructing a kind of “democracy index” incorporating all three attributes.<sup>1</sup> In fact, the famous motto of the French Revolution, “liberté, égalité, fraternité” suggests their unity and interdependence. Liberty refers to fundamental rights, i.e., the rule of law; equality – to civil society translating social demands into the language of legal texts; and fraternity – to representative government, a key outcome of competitive elections (Touraine, 1994: 44-47). National models of democracy differ in function of the relative weight given to each of these elements. For instance, the rule of law (liberty) gets priority in Common Law countries, especially in Britain (Ibid, 47-49; Maravall, 2003: 265fn). Nevertheless, all full-fledged democracies are at least to some degree liberal, egalitarian and representative.

A similar problem exists with socio-economic development, the other variable in the equation. Socio-economic development is most commonly operationalized as GDP growth rate because of the accessible and reliable character of the data (collected, aggregated and regularly released by the World Bank). GDP does not allow catching all aspects of socio-economic development, namely how efficient a particular

institutional system is at transforming economic wealth into quality of life. The Human Development Index (HDI), calculated since 1975 in the framework of the United Nations Development Program (UNDP), seems a better candidate because it covers not one but three dimensions of socio-economic development: its purely economic component (GDP per capita), quality of life (life expectancy), and progress in accumulating knowledge (the enrolment ratio for primary, secondary and tertiary schools). The principal disadvantage of this dataset is that the UNDP calculates it only every five years. Thus, only three observations – 1995, 2000 and 2004 – are available for the period under consideration in this article (radical reforms in post-Soviet countries started with the fall of the Soviet Union in 1991). The choice of a particular measure of socio-economic development also has an impact on the robustness of its association with democracy.

The absence of robust association between democracy and socio-economic development highlights, in addition to methodological issues, an important theoretical question. Strictly speaking, in a modern society composed of a number of autonomous functional subsystems, by definition there should be no association between occurrences in various spheres, namely politics and the economy. Modernity means that institutional complexity replaces uniformity and homogeneity. “The functional differentiation of subsystems, particularly the separation of politics and religion or the economy and politics, the formation of a universe devoted to science, art, private life, are all conditions of modernization” (Touraine, 1992: 237; see also Przeworski and Limongi, 1997: 148).<sup>2</sup> In other words, the most popular – and commonly subject to empirical testing – research question does not seem to make much theoretical sense: the more complex and differentiated society, the fewer chances to discover robust associations between political and economic processes.

The absence of direct links between functional subsystems in modern conditions does not exclude indirect links between them: they can influence each other through various externalities, both negative and positive. One negative externality consists in shocks generated within a functional subsystem that make interactions within other subsystems less predictable. Economic crises might affect the legitimacy of political institutions, and, conversely, political crises might slow down economic growth. Then a more relevant research question is whether democratic institutions generate less negative externalities in the form of uncertainty than other types of political institutions. Uncertainty, in turn, complicates the task of coordination and, hence, hampers socio-economic development. Otherwise stated, do democratic institutions make socio-economic development more stable? The present analysis follows these lines and focuses on links between democracy and stability.

The research question can be further refined by differentiating (a) the capacity of democratic institutions to generate less uncertainty on their own and (b) their capacity to withstand external shocks, including those generated within the economic subsystem. As for the former aspect, it has a long record in social research. Max Weber hypothesised that democracy with its regularly held elections reduces the level of rationality in political decision-making. “The presence of elective officials is a source of disturbance to formally rational economic life” (1968: 270). Adam Przeworski objects, saying that democracy produces calculable risks because it is a system of decentralized strategic action but not uncertainty. Actors are able to predict results of competitive elections “because the probability of particular outcomes is determined jointly by the institutional framework and the resources that the different political forces bring into competition” (1991: 12-13). Empirical evidence does not support Weber’s claim either. On the contrary, recent studies demonstrate that “the

greater the level of base-line democracy, the more stable subsequent economic growth” (Quinn and Wooley, 2001: 647; see also Mobarak, 2005: 359).

As for the latter aspect, Przeworski and Limongi (1997) demonstrate that democracies withstand shocks generated in the economic subsystem better than alternative political institutional arrangements if the country reaches a sufficiently advanced level of economic development. Conversely, democracies in low-income countries seem extremely fragile in the face of economic crises. Along with the level of economic development, a particular configuration of the attributes of democracy also influences its capacity to withstand external shocks. “Democratic stability is not just a matter of economic, social, or cultural conditions because specific institutional arrangements differ in their ability to process conflicts” (Przeworski et al, 1995: 43).

In more practical terms, the variable “stability” is conventionally operationalized as volatility of economic growth rates (the standard deviation of annual GDP growth rates, for instance, see Mobarak, 2005: 352; Quinn and Wooley, 2001: 638). A direct measure of stability, e.g., Global Political Risk Index by Eurasia Group (Bremmer, 2005), seems less appropriate mainly for methodological reasons (the data are available for a very limited and heterogeneous sample; the index is based on evaluations by a narrow group of experts, etc.).

Taking into consideration that volatility of economic growth has been particularly high in post-Soviet countries since the start of reforms in the early 1990s (Table 1), this article aims at exploring the possible impact of a particular institutional arrangement in politics on volatility in the Russian case. A better knowledge of this impact seems necessary to answer the question as to whether or not high rates of economic growth observed in Russia since 1999 have a sustainable character; to indicate if the country has finally reached a steady-state equilibrium.

Table 1 about here

## **2. DEMOCRACY AND STABILITY: SOME EMPIRICAL EVIDENCE.**

For the purposes of exploring the eventual association between democracy and volatility of economic growth rates, the former variable is operationalized with the help of (i) the Freedom House Political Rights rating varying from 1 for “completely free elections” to 7 for “no elections”, (ii) the Freedom House Civil Liberties Rating and (iii) the United States Agency for International Development (USAID) NGO Sustainability Index, both with a scale of 1 to 7. The construction of the first with heavy emphasis on electoral process suggests that it highlights competitive elections as a component of democracy. The second measure refers to the protection of civil rights; hence it helps operationalize the other attribute of democracy, the rule of law. The third measure can be used as a proxy for the degree of legitimacy of laws expressed in terms of their correspondence to everyday practices because it covers various activities of civil society. A strong and statistically significant correlation existing between the three indicators confirms that they measure various aspects of the same political institutional arrangement, namely democracy (Table 2).

Table 2 about here

Unfortunately the dataset for the third indicator includes only post-Soviet and post-socialist East European countries (N=29), whereas the Freedom House dataset contains information about most countries in the world (N=193 in the 2006 wave). The advantage of working on a limited yet very homogenous sample of post-socialist countries is that it allows significant reduction in the number of control variables: all countries in the USAID sample are located in the same geographical region, Eurasia; before 1991 they were all, except those of former Yugoslavia, economically and politically dependent on the Soviet Union or were a part of it, Russian language was a compulsory part of the high school curriculum in most of them and so forth. The analysis covers the period from 1995 to 2005 because of the focus of the proposed analysis on post-socialist reforms and their outcomes.

The analysis starts with a series of bivariate correlations followed by partial correlations and regressions. The choice of simple techniques for “mining” the data is conscious. A commonly observed trend toward increasing as much as possible the number of variables entered into the regression equation makes the task of their meaningful interpretation virtually impossible: the researcher has to take into account interaction effects. Furthermore, in multivariate analyses the exact specification of a particular control variable (confounding, intervening or a source of spuriousness) appears relegated to the backstage.<sup>3</sup>

Bivariate correlations (Table 3) confirm that there is a statistically significant and theoretically meaningful association between, on one hand, all three attributes of democracy, and, on the other hand, volatility of socio-economic growth. While previously published studies (Mobarak, 2005; Quinn and Wooley, 2001) focus on just one attribute of democracy, here the entire set of attributes is taken into consideration. Because the USAID time-series dataset starts in 1997, for the sake of comparability in what follows only mid-point values of the FH Political Rights rating and the FH Civil Liberties rating (i.e., their values in 2000) are entered into analysis. This substitution does not seem to decrease reliability keeping in mind that mid-point values of these variables are strongly correlated with their average values for the period being examined. In spite of the fact that both volatility of annual GDP growth rates and volatility of HDI appear associated with democracy, only the former variable is retained for further analysis (the latter is calculated only on the basis of three observations).

Table 3 about here

To go beyond simple associations one needs to rule out alternative explanations for co-occurrence of democracy and low volatility of socio-economic development. In other words, one should confirm that the observed empirical correlation between the two variables cannot be explained in terms of some third variable. For instance, low volatility can be attributed to rational governance, as Weber and his followers argue. The variable “rational governance” can be operationalized with the help of either (i) the indicator “Government effectiveness” that measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies or (ii) the Corruption Perception Index. Both indicators are based on expert assessments as well as surveys of businesspeople (the former is run by the World Bank since 1996, it varies from -2.5



to +2.5; the latter – by Transparency International since 1995, its scale goes from 1 for an absolutely corrupt government to 10 for an absolutely transparent one). Jay Ulfelder further argues that the natural resource endowment of a country also has an impact on the stability of political regimes. Resource rents make governments less dependent on the citizens and their willingness to cooperate in terms of paying taxes or otherwise (1997: 997). This suggests that democracies may lose their comparative advantage over non-democracies in withstanding external shocks. The degree of energy depletion, referring to a country's gross national income derived from the depletion of natural resources (oil, gas, coal) helps operationalize natural resource endowment. It is equal to the product of unit resource rents and the physical quantities of oil, natural gas and coal, divided by gross national income. Bivariate analysis confirms that the quality of government, the natural resource endowment and the level of GDP per capita (as Przeworski and Limongi's analysis predicts) indeed appear associated with volatility of socio-economic development (Table 4), which calls for control of these variables. Yet the sign of the correlation between natural resource endowment and volatility is the opposite of what should be expected on the basis of the above mentioned considerations: the bigger endowment, the higher volatility. This further necessitates controlling for the degree of openness of an economy, measured as the ratio of exports of goods and services to GNP. Arguably, countries deriving a significant part of their resources from exports of natural resources are less protected against shocks generated in world markets.

Table 4 about here

After controlling for natural resource endowment and the dependence on world markets, the association between various attributes of democracy and stability remains the same (Table 5). In other words, the original relationship was replicated under test conditions, which allows assuming that democracy produces less volatility regardless of the country's endowment in natural resources and its dependence on export revenues. The control for the level of GDP per capita produces similar outcomes. When the Gini coefficient is entered into analysis, as suggested by Eric Uslaner (2008), this does not significantly affect the original relationship either. Uslaner argues that social inequality has a strong and negative impact on the level of corruption and, further, on the perspectives for strengthening democracy in a country. The control for the quality of governance produces less conclusive results. The strength of the original association decreases but it remains statistically significant in most cases (the reader should keep in mind that the two measures of rational governance are used interchangeably and there is a very strong correlation between them). This outcome indicates that rational governance is either an intervening variable (if it temporally occurs between democracy and stability) or a confounding variable (if it occurs prior to both democracy and stability). The sequence of changes in post-socialist countries lies closer to the former; in most of them political liberalization happened “not by design” and at any rate before administrative reform, whose key objective consists in rationalizing the system of governance (in Russia and Ukraine first steps toward administrative reform were made in the late 1990s, see Oleinik, 2008). David Stark comments on “unplanned” outcomes during initial stages of post-socialist reforms: “the notion that more rational institutions can be implemented by conscious design duplicates the rationalist fallacy evidenced during the introduction of socialism” (1995: 71).

Table 5 about here

Six simple regression models (Table 6) help evaluate the joint impact of various aspects of democracy and the quality of government on stability. In terms of standardized coefficients, every one standard deviation increase in FH Political Rights rating (indicating, in fact, a worsening of the situation with competitive elections) leads to 0.163 standard deviations of an increase in volatility of economic growth, whereas a similar change in the quality of government reduces volatility by 0.310 standard deviations (Model 2). Civil society seems to interact with the quality of government particularly well. Changes in these two variables taken together explain more than one-half of variance in the dependent variable (Model 6).<sup>4</sup> Unfortunately the limited size of the dataset for the USAID NGO Sustainability score does not allow generalizing this finding, yet in post-socialist societies the stronger civil society putting pressure on the government between elections and providing it with feedbacks, the more stable economic growth. Low values of R-squared in Models 1 to 4 suggest that a composite “index of democracy” including all three attributes would be a better predictor for stability, yet the non-compatibility of the datasets for its various components prevents its construction in the present situation.

Table 6 about here

### **3. DEMOCRACY AND STABILITY: DISCUSSION.**

Before considering the Russian case in depth it is worth briefly outlining principal arguments that explain the stabilizing role of democratic institutions in general and in post-socialist countries in particular. The previous analysis shows that even if democracy does not necessarily speed up economic growth, it makes it more stable and outcomes of interactions – more predictable. “The choice between regimes of autocracy and democracy is conceptually equivalent to a choice between high-risk-high-return and low-risk-low-return technologies” (Mobarak, 2005: 356).

The first argument refers to the plurality of equilibria in interactions mentioned in the Introduction. The transaction reaches a steady-state equilibrium if those involved correctly predict each other’s behaviour, make adjustments accordingly, and allow others to correctly anticipate and interpret their actions. Pierre Livet and Laurent Thévenot introduce in this regard the notion of “interpretative rationality” (1994: 157) that paves the way to the convergence of the expectations toward the same point and to the mutual adjustment of subsequent actions. The problem consists nevertheless in the fact that virtually everything can potentially transform into a key to the puzzle of interpretation; a “focal point” in Thomas Schelling’s terms. “Finding a key – any key that is mutually recognized as the key becomes the key – may depend on imagination more than on logic, it may depend on analogy, precedent, accidental arrangement, symmetry, aesthetic or geometric configuration, casuistic reasoning, and who the parties are and what they know about each other” (Schelling, 1960: 57). Informal norms may serve as a key; the habitus as an unspoken and unconscious model of behaviour – a second one; an explicit agreement between the parties involved – a third one and so forth. Democracy, namely the rule of law as one of its attributes, provides interacting parties with a clear signal about which one of the models of behaviour to select – the one embedded in the law. The law helps them “to

pick one among several possible rules” (Maravall and Przeworski, 2003: 5). In democracy the law becomes the key and so supports the unique equilibrium.

The second mechanism through which democracy can produce stabilizing effects consists in decreasing incentives to overturn the current institutional arrangement and to try to introduce a new one. In this instance competitive elections, the other attribute of democracy, are at work. Even those who lose in contestation tend to endorse its outcomes because in the long run – if elections are held fairly and on a regular basis – they still have a chance of winning. “Political forces comply with present defeats because they believe that the institutional framework that organizes the democratic competition will permit them to advance their interests in the future” (Przeworski, 1991: 19). In other words, the expected utility of endorsing competitive elections is greater than that under non-democratic alternatives.

Competitive elections further prevent risk-takers from getting into highest offices where their decisions would have major consequences, which produces the third democratic “stabilizer”. On one hand, a comparative study shows that “voters only modestly rewarded incumbent governments for increased economic growth, but severely penalized them for increased economic volatility” (Quinn and Wooley, 2001: 651). To avoid being ousted from a top office, one has to adopt very cautious policies generating less volatility and its by-product, uncertainty. On the other hand, absolute majorities are rare in full-fledged democracies (but not in several post-Soviet countries, see Rose et al., 2006: 44-45). So, instead of taking all, winners have to search for compromise and the decision-making tends to have a consensual character. Conversely, “if one political actor can set policies unilaterally, the variance of policies and outcomes will greatly be higher than if policies are chosen through consensus” (Mobarak, 2005: 351).

The fourth stabilizing effect of democracy is also due to a particular manner of managing risk. The rule of law involving a system of mutual checks between the branches of power (e.g., judges check the legality of the government’s decisions) fosters risk sharing. The limited rationality of any particular state official renders mistakes in his or her decisions unavoidable – he or she does not take into consideration all relevant information because of its scarcity and, furthermore, a limited computational capacity of the mind prevents him or her from processing the totality of collected information in an optional manner (Simon, 1978: 13). Thus, the more centralized the process of decision-making, the higher probability of making mistakes and higher their price (because decisions taken by a few have “major consequences”, see Mills, 1957: 20-22).

The same idea of aggregating risks in non-democratic systems instead of sharing them in democracies can be expressed in more technical terms. Let  $\underline{p}$  be the probability of making an individual mistake due to limited rationality or human fallibility. Then the probability of making a mistake in the process of collective deliberation,  $\underline{p}^*$ , is the product of the probabilities of making individual mistakes by all participants. The former necessarily exceeds the latter,  $\underline{p} > \underline{p}^*$ :  $\underline{p}^* = p_1 \times p_2 \times \dots \times p_n$  where  $\underline{n}$  is the number of participants in collective deliberation. If one monopolizes the process of decision-making, this increases risks to all those who depend on his or her decisions. In other words, non-democratic institutional arrangements generate moral risks. “Moral risk refers to the ways in which an insurance relationship fosters behaviour by any party in the relationship that immorally increases risks to others” (Ericson, Doyle and Barry, 2003: 11).

Democracy can reduce volatility of the market in another, fifth, manner. The market has no built-in checks limiting the drift into the excessive accumulation of wealth in the hands of a few. The excessive accumulation of wealth undermines the principles of free exchange and competition because it easily transforms into market power (Walzer, 1992: 114). An extremely unequal distribution of wealth may or may not coincide with a Pareto optimum that implies a kind of “negative unanimity” between participants in the exchanges (no one can be better off by undertaking unilateral actions while keeping others as well off as before). Not all of them may be happy with a Pareto optimal state, yet the market mechanism for aggregating preferences fails to produce a unanimous solution as to how to reach a more egalitarian state (Lesquins, 2007: 174). Those who are unhappy with the present state, if not provided with alternative means to correct it, tend to challenge the rules of the entire game. In this perspective, democratic majority rule sustained by competitive elections represents an alternative mechanism for aggregating preferences, complementing the market and making it more internally stable.

If the drift into the excessive accumulation of wealth is not restricted, the market can also transform into an external destabilizing force in regard to interactions in the other spheres of a complex society (politics, science, the mass media, etc.). Market imperialism fuelled by the desire to convert social goods in all functional subsystems into market goods, e.g., in the form of corrupting public officials, puts the principles of institutional complexity into jeopardy. “No social good X should be distributed to men and women who possess other good Y merely because they possess Y and without regard to the meaning of X” (Walzer, 1983: 20).

Michael Walzer argues that the state must become a supreme guarantor of the separation of autonomous spheres: it has means to limit market imperialism and, if organized in a democratic manner, its own tendencies toward invading the other spheres and substituting political rules of the game for those proper to a particular functional subsystem. One internal check preventing “political imperialism” consists in the “elective affinity” between, on one hand, institutional complexity and, on the other hand, the relative autonomy of various branches of power and federalism as a system of government. “The citizens are as free inside the state as they are in regard to the state” (Walzer, 1992: 119). In the former case they freely act within the sphere of politics, whereas in the latter – within the economic sphere, the sphere of public opinion and so forth.

The other internal check refers to the third attribute of democracy, civil society, and its role in making “good” laws corresponding to everyday practices. Historically, civil society resulted from efforts to step out of externally imposed roles (including by the state) and to create a sphere in which the medieval individual would be able to shape his or her interactions at will (Khlopin, 1994: 74-77). Civil society protecting the individual against invasions into the private life appears particularly vigilant with respect to the eventual extension of the scope of the state’s control.

In the final account, the more separated autonomous subsystems, the less chances that risks generated within each of them add up and influence one another. In a complex society sources of risk remain independent. Consequently, the chance of a systemic crisis is equal to the product of their probabilities instead of being equal to the probability of a crisis in a particular sphere: that of an economic or political crisis (Oleinik, 2007a). The latter probability by definition exceeds the former:

Non - differentiated subsystems :  $p_{\text{systemic crisis}} = p_i$

Differentiated subsystems :  $p_{\text{systemic crisis}} = p_i \times p_j \times \dots \times p_n$

where  $i, j, \dots, n$  are the probabilities of a crisis in a particular subsystem.

#### **4. THE RUSSIAN CASE: POLITICAL INSTITUTIONS AS A DESTABILIZING FACTOR?**

Since 1999, the Russian economy has been growing fast, without a change in the sign of annual GDP growth rates (Table 1). Since 2000, the majority of Russians endorse the current political regime and their number seems to increase with the passage of time. "In the course of twelve months, political inertia creates a three-point increase [on a 201-point scale] in support and, as the years pass, the impact becomes increasingly large. By the beginning of 2005, it adds forty points to mean support for the current regime. Russians who were initially positive become more so, those neutral become positive, and the intensity of those negative toward the regime is reduced" (Rose et al., 2006: 178). As early as 2000, Russian economists started to consider seriously the thesis that the period of transition is over and the institutional system has reached a steady-state equilibrium (Nesterenko, 2000; Kapeliushnikov, 2001). In light of the previous analysis, nevertheless, one can hardly deem an institutional arrangement in politics as stable or unstable without assessing its scores on the three measurements of democracy. This part of the article is devoted to the question as to exactly how democratic Russian political institutions are, followed by the discussion of possible sources of their internal instability and weak resistance to external shocks.

The dynamics of all three measures of democracy show tendencies toward stabilization (Figure 1). However, the values of the two FH ratings and the USAID NGO Sustainability Index stabilize at the non-democratic end of the scale (according to Freedom House, partly free countries have the average value of their two ratings in the range from 3.0 to 5.0, non-free countries – in the range from 5.5 to 7.0). From 2004-2006, Russia had an average FH rating of 5.5 points. The values of the USAID NGO Sustainability lie close to 4 for the past eight years (1999-2006) which corresponds to a mid-point on the NGO sustainability scale, indicating the lack of clear-cut progress or regress. Finally, the rationality of governance as measured by the TI Corruption Perception index does not show significant variability either. For the entire period of observation (1996-2006) its values have oscillated between 3 and 2 (closer to 2) where 1 refers to an absolutely corrupt government.

Figure 1 about here

The institutional system has indeed reached an equilibrium, but certainly not a democratic one. Russia seems to move along a non-democratic path and the further evolution of its institutional system, as the theory of path-dependence predicts, will not probably go beyond the borders of this path. "Path dependence is a way to narrow conceptually the choice set and link decision making through time" (North, 1990: 98). What name is most appropriate for designating this path and what level of stability does it promise for travellers?

The label "non-democratic" appears too broad, it does not allow catching details and particular features of the Russian institutional arrangement. For instance, is it the same non-democratic path that the Soviet Union travelled through? A sustainable

agreement among scholars and policymakers still does not exist. Some of them admit that the existing political institutions meet at least one criteria of democracy, competitive elections. Richard Rose and his co-authors use in this regard the concept of plebiscitarian autocracy. "In a plebiscitarian autocracy, there are elections with mass participation and a degree of competition, but governors are not accountable to the rule of law" (2006: 34). The use of "autocracy" instead of "democracy" (after all, a realist democracy also refers to competitive elections without the rule of law) emphasizes a low degree of competition. Competition was completely absent in the Soviet past, which leads to its classification as despotic (neither competitive elections nor the rule of law) in the taxonomy elaborated by the cited authors.

In a similar vein, the concept of non-liberal democracy applied to the Russian case (Yanovski et al., 2007: 48-49) suggests a combination of relatively competitive elections and absent rule of law. However, the emphasis is shifted to a particular aspect of the latter, namely insecure property rights. A number of economists prefer this concept because it helps explain the dynamics of investments, both internal and foreign. Statistical tests on Russian data do not reject the hypothesis according to which the less secure property rights, the fewer incentives to make capital investments (Frye, 2004). Nevertheless, such focus appears more relevant for studies of association between democracy and economic growth than for inquiry into the stabilizing effects of democracy.

The concept of sovereign democracy provides the other analytical tool suitable for describing the Russian institutional arrangement in politics. It has recently become extremely popular among both Russian scholars and top officials. Its quintessence consists in highlighting the electoral process embedded in the nation-state and in relegating the two other attributes of democracy to the backstage. In a sovereign democracy "people vested in power, governmental bodies and their policies are elected, formed and guided exclusively by the Russian nation in all its diversity and integrity" (Surkov, 2006; see also Polyakov, 2007). To put it differently, sovereign democracy means that there are no external pressures on people vested in power, governmental bodies and their policies.

At first sight, the claim that democracy should exclude any external pressures and interferences appears completely reasonable. However, as numerous historical studies demonstrate, the strengthening of the various components of democracy resulted from wars, brinkmanship<sup>5</sup> and external pressures. For instance, Germany's movement along the "long path" to democracy was to a significant extent propelled by external pressures, a sequence of wars, and defeats in these wars; starting with Prussia's defeat in 1806 in its clash with post-revolutionary France and finishing with World War II (Zweynert, 2008). Stephen Holmes sheds more light on how wars and brinkmanship stimulate democratic developments. The threat of war leaves political rulers with no choice but to mobilize the people and to secure their cooperation, both financially (their willingness to bear the increasing tax burden)<sup>6</sup> and militarily (their willingness to sacrifice their lives on the battlefield). "If the international context is sufficiently hostile, and power and privilege palpably depend on physical control of a piece of territory, the rich and the powerful have a strong motive to provide the citizens at large, including the poor, with some degree of political participation, legal certainty, and economic transfers" (2003: 31; see also Pipes, 1999: Ch. 3). In exchange for cooperation, political rulers make important concessions such as free elections and the rule of law.

The other significant attribute of the Russian institutional arrangement highlighted by the concept of sovereign democracy refers to the presumed unity between the people and the state based on their common interests. This aspect serves a reminder that the concept of state has a far more encompassing meaning in Russian than in Western languages, namely in English and French. From this point of view, the Russian term “state” lies close to the German homologue, especially at the time when Germany just started its long path to democracy. In words of Thorstein Veblen written in 1915, the state in German “is neither the territorial area, nor the population, nor the body of citizens or subjects, nor the aggregate wealth or traffic, nor the public administration, nor the government, nor the crown, nor the sovereign; yet in some sense it is all these matters, or rather all these organs of the state” (1939: 161). In such institutional construction there is no place for civil society as an entity independent from the state.

In his comments on the unity between the people and the state proper to sovereign democracy, a Russian political scientist writes that “power [people vested in power, – A.O.]... can be a bearer of sovereignty”, together with the people (Polyakov, 2007: 61).<sup>7</sup> He repeats Carl Schmitt’s argument that when there are two or several bearers of sovereignty, one of them has more sovereignty than the other(s). It is the sovereign’s right to change the order he or she instituted; the one who has final say is the supreme sovereign (Ibid, 62).

In this perspective the sovereign’s right in politics has “elective affinity” with the jus vindicandi, one of the attributes of possession in property rights over material objects. The jus vindicandi implies the ability to change at will the form of a possessed object or to recall it from anyone else. The logic of control over material objects strictly opposes that of control over human behaviour through persuasion and coercion that has “elective affinity” with democracy. “The old distinction between the possession of physical property and liberty of contract becomes the distinction between the behavior of those persons who are subject to command and obedience and the behavior of those persons who are subject only to persuasion or coercion” (Commons, 1939: 282).

The hypothesis that in the political realm of “sovereign democracy” the first half of the concept overshadows the second and suggests association with the sovereign’s rule is further confirmed by a linguistic analysis. Russian syntax allows uses of the noun to describe the quality of an object or person. “Qualities expressed by nouns can either be perceived independently of their bearer or fuse with the latter, which paves the way to the substitution of such nouns for persons [who bear this quality, – A.O.]” (Kim and Osetrova, 2004: 97). The Russian expression “sovereign democracy” appears a case in point because the noun “sovereign” here refers to a quality of democracy but relegates it to a secondary role. The direct translation into English may be confusing: to express a similar idea English speakers tend to avoid nouns describing qualities of democracy, namely its embeddedness in the nation. In the expression “effective democracies exercise effective sovereignty” (National Security Council, 2006: 9; see also Polyakov, 2007: 64) both democracy and sovereignty are nouns to which a quality expressed with the help of the adjective “effective” is attached.

To some degree, competitive elections see the post-Soviet political path diverge from the Soviet one. However, both linguistically and substantially this unique existing attribute of democracy plays secondary roles. In this regard the concept of plebiscitarian autocracy seems more appropriate: it suggests classifying the Russian case in generic terms of autocratic rule with elections as a particular characteristic.

The previous analysis casts doubt on the stability of this institutional arrangement. A number of its features may indeed contribute to generating uncertainty on its own and to lowering the capacity of political institutions to withstand external shocks.

First, in difference with constitutional monarchy (the rule of law without the two other attributes of democracy), plebiscitary autocracy does not have clear rules regulating the process of succession. Even if the autocrat may have a rational interest in making his or her actions predictable for the citizens, they still cannot take a long-term view because of uncertainty concerning succession. "Given autocracy, dynastic succession can be socially desirable" (Olson, 1993: 572). The problem of succession has no solution within the Russian institutional arrangement (the situation around the 2008 presidential elections is a case in point). In the past as in the present the transfer of power has always been accompanied by uncertainty in regard to the successor to the highest position and his policies, sometimes – by distemper, smuta (Pivovarov and Fursov, 1998). In these conditions making a long-term commitment does not seem a safe bet. As Nasreddin Hodja once put it, making a promise to teach his donkey to read in 20 years, in 20 years either he or the donkey or the shah will be dead.

Second, the lack of the third attribute of democracy, civil society independent of the state, complicates decision-makers' task of rationally predicting the outcomes of their own decisions. This lacuna in the institutional arrangement weakens feedback loops in relationships between the governor and the governed. Under Soviet rule, the feedback loops took the form of complaints and letters to various official bodies (Kirdina, 2001: 117). In post-Soviet times this form has lost importance without being supplemented by feedback loops in other forms: pressure on the government exercised by civil society (this would necessitate the third attribute of democracy) or legal suits against the government (they are efficient only under the rule of law).

Outcomes of the government's decision on the optimization of the system of social welfare by converting a number of in-kind privileges into monetary payments appeared unexpected for most state officials involved in the process of its elaboration and implementation. What initially looked as an attempt to rationalize the system of social welfare had transformed into an important destabilizing factor. In 2004, these policies led to large-scale mass protests across the country and forced the government to substantially revisit the initial design of welfare state reform. Comments on these events made by state officials highlight the role of weak or nonexistent feedback loops in generating uncertainty:<sup>8</sup>

"There was a clear plan of activities, it was implemented. There existed a good enough mechanism of control: who is responsible for what. In short, it depends on what is understood by rational organization... Whether eventual outcomes were taken into consideration or not, whether all relevant information was taken into consideration or not – it's quite a different story" (male, 41-50 y.o., head of the administrative unit in a regional administration, St. Petersburg).

"Well, to be honest, we also suffered in that situation. Everything was communicated in the top-down manner, we were expected only to implement the decision taken at the top: how much resources are needed, how to spend them, etc. And then it appears that nothing goes as expected. It turned to be a double evil – it provoked the mass protests but also made us do a meaningless job. It wasn't a complete disaster, but a lot of resources and time



were wasted” (male, 51-60 y.o., vice-minister in a regional administration, St. Petersburg).

Third, from the point of view of the governed, the existing institutional arrangement generates uncertainty too: they cannot correctly predict decisions and policies having major consequences on their lives, unless they have privileged contacts with members of the power elite. Under full-fledged democracy, the rule of law and the correspondence between the law and everyday practices make the ruler’s behaviour predictable. Conversely, “under dictatorship the outcomes may be unpredictable: they can be predicted only by knowing the will of the dictator or the balance of forces among the conflicting factions... Anyone who knows what the power apparatus wants also knows what will happen” (Przeworski, 1991: 47). For anyone without such privileged contacts, changes in laws and governmental regulations seem completely unpredictable; they look like force majeure, or unforeseen events completely beyond their control. Russian businesspeople confirm this assumption by almost routinely including in contracts the clause according to which changes in governmental regulations shall be considered force majeure, along with earthquakes, floods and other natural disasters. Even more surprisingly, state officials themselves tend to agree that such practices make sense in the Russian institutional environment:

“In Russia to consider actions of the government as force majeure is a must. How many laws have been enacted retroactively? I mean if a law is enacted today but applies to all transactions made six months ago... What to do in such situations?” (male, 41-50 y.o., head of the administrative unit in a federal agency, Moscow).

“All this is due to distrust in the government. I believe it’s insulting for the government, if its actions are considered force majeure... Yet it makes sense. In this manner we protect ourselves against the default like the unlawful one in 1998, against the decision about converting the in-kind privileges into monetary payments that was taken without necessary preparations and paid twice from the federal budget. In other words, the state is indeed force majeure” (male, 41-50 y.o., head of the committee in a regional administration, Kemerovo).

“Behind all recent success stories and disastrous outcomes there is some hidden agenda carried out by the state, yet we don’t know anything about it” (male, 31-40 y.o., associate head of the regional control unit of a federal ministry, St. Petersburg).

“It makes sense. One can try to foresee actions of a particular government in a particular moment in time, but without clearly formulated strategic objectives only short-term forecasts could be valid” (male, 31-40 y.o., former adviser of a vice-prime minister, Moscow).

In the final account little seems to have changed in this regard since pre-revolutionary times. Russian peasants considered governmental actions hostile and completely unpredictable. “The role that the law played in peasant life can be compared with that of natural disasters: its meaning appears obscure, its force is all mighty and it terrorizes the entire life of the ordinary man [muzhik]” (Akhiezer, 1997: 268).

## 5. CONCLUSION.

A unidimensional perception of democracy often reduces the validity of statistical analyses of its association with socio-economic development. In this article, democracy is operationalized with the help of three attributes: (i) free and competitive elections; (ii) the rule of law and (iii) the legitimate character of the law in terms of its correspondence to everyday practices. Very preliminary statistical tests do not refute the hypothesis that full-fledged democracy has a negative impact on the volatility of economic growth: the more democracy, the less volatile economic development. Further progress in testing this very important theoretical and practical hypothesis requires developing a “democracy index” incorporating all three attributes, and a database whose scope would be comparable with that of Freedom in the World by Freedom House.

The current institutional arrangement in Russia has only one element of democracy, relatively competitive elections. This configuration questions its long-term stability understood as the capacity (a) to withstand external shocks and (b) to generate less uncertainty on its own. Taking into consideration the heavy dependence of the Russian state’s policies on oil and gas rents, the former deserves separate consideration (in the present article principal attention was paid to the latter).

In the past, the Soviet institutional arrangement proved unsustainable in the face of a significant drop in oil prices in the early 1980s (Gaidar, 2006: Ch. 5). The current upward trend in the price of oil and gas may or may not last for long. Mass surveys show that the level of popular support for the current political regime to a significant degree depends on subjective evaluations of how well the Russian economy performs. “How Russians subjectively evaluate the national economic system is the critical influence on regime support, after controlling for all other social, economic, and political conditions” (Rose et al., 2006: 161; emphasis added). Any significant downward changes in the dynamics of energy markets will provide the opportunity to test in natural conditions the assumption that a non-democratic institutional arrangement is less stable than full-fledged democracy. “Two countries will react differently to similar shocks, depending on how stable they are” (Bremmer, 2005: 56). The question about the stability of a non-democratic institutional arrangement sheds new light not only on the Russian case. China, in spite of all economic, political and cultural differences with Russia, faces similar problems. Democracy or the lack thereof seems to have no impact on two-digit annual GDP growth rates in this country (in conformity with results of a number of statistical studies). Yet the weakness of democratic institutions, if the key hypothesis considered here holds, undermines the stability of such rapid growth.

Ukraine represents the other relevant case. A small yet consistent progress in the dynamics of all measurements of democracy since the “Orange Revolution” in November 2004 (Figure 2) has not so far affected annual GDP growth rates in this country (Table 1). The Ukrainian lesson demonstrates (a) the feasibility of democratizing without sacrificing economic growth in the short-term, and (b) that democratization makes economic growth more stable in the long-term. The Ukrainian case also refutes the thesis that changes in the institutional path become impossible after a country has been “locked into” it. Until 2004, the Russian and Ukrainian institutional paths were highly identical (see more arguments on the divergent institutional paths of Russia and Ukraine in Oleinik, 2007b). That said, the above indicated positive trends started relatively recently and, hence, the question as to whether Ukraine has reached a democratic equilibrium remains open.

Figure 2 about here

Studies of democracy at the micro-level, within the firm, the university and other organizations, represent the direction of further research. If stable socio-economic development at the macro-level necessitates democracy, does the same assumption hold in regard to interactions at the micro-level? Robert Dahl indicates that “In [the firm, the trade union, the university] democratization has not gone nearly as far as in the state” (1990: 2).

This new perspective adds a new dimension to the proposed analysis of the Russian case. A non-democratic institutional arrangement arguably dominates both at the macro- and micro-levels of the social organization in this country. If so, this casts doubts on perspectives of democratization from below and renders the entire institutional arrangement internally coherent, yet unstable.

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**Table 1 Annual GDP Growth Rates, % to the previous year, 1990-2005, selected post-socialist countries**

Year	Russia	Ukraine	Kazakhstan	Estonia	Slovenia
1990	-3	-6.34524	n.a.	-7.06355	n.a.
1991	-5.04694	-8.41064	-11	-7.99984	-8.90011
1992	-14.5311	-9.699	-5.3	-21.1687	-5.4637
1993	-8.66854	-14.2261	-9.2	-5.74036	2.843418
1994	-12.5698	-22.934	-12.6	-1.64242	5.327487
1995	-4.14353	-12.2	-8.2	4.526681	3.642555
1996	-3.6	-10	0.5	4.400307	3.731416
1997	1.4	-3	1.7	11.09811	4.84243
1998	-5.3	-1.9	-1.9	4.44217	3.873105
1999	6.4	-0.2	2.7	0.306729	5.420069
2000	10	5.9	9.8	7.854019	4.100626
2001	5.091984	9.2	13.5	6.464115	2.65682
2002	4.74367	5.2	9.8	7.241981	3.453753
2003	7.347857	9.4	9.3	6.688568	2.650075
2004	7.143767	12.1	9.6	7.809593	4.425937
2005	6.4	2.600001	9.7	9.779572	4.028015
2006	6.7	7.1	10.6	11.4	5.7
Mean	-0.09603	-2.20088	1.8125	2.258648	2.645744
Standard deviation	7.578973	9.845678	8.871819	8.59149	3.997329

Sources: "World Development Indicators – 2007" CD-ROM by the World Bank (for 1990-2005), Federal Statistics Service of the Russian Federation ([www.gks.ru](http://www.gks.ru)), State Statistics Committee of Ukraine ([www.ukrstat.gov.ua](http://www.ukrstat.gov.ua)), the Agency of Statistics of the Republic of Kazakhstan ([www.stat.kz](http://www.stat.kz)), Statistics Estonia ([www.stat.ee](http://www.stat.ee)), Statistical Office of the Republic of Slovenia ([www.stat.si](http://www.stat.si)), and the author's calculations

**Table 2 Correlations between three measurements of democracy, 2000**

Correlations

		Freedom House, Political rights (1 to 7 scale), 2000	Freedom House, Civil liberties (1 to 7 scale), 2000	USAID NGO Sustainability index (1 to 7 scale), 2000
Freedom House, Political rights (1 to 7 scale), 2000	Pearson Correlation	1	.914**	.793**
	Sig. (2-tailed)		.000	.000
	N	173	173	25
Freedom House, Civil liberties (1 to 7 scale), 2000	Pearson Correlation	.914**	1	.826**
	Sig. (2-tailed)	.000		.000
	N	173	173	25
USAID NGO Sustainability index (1 to 7 scale), 2000	Pearson Correlation	.793**	.826**	1
	Sig. (2-tailed)	.000	.000	
	N	25	25	25

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Sources: Freedom House ([www.freedomhouse.org](http://www.freedomhouse.org)), United States Agency for International Development ([www.usaid.gov](http://www.usaid.gov)), and the author's calculations



**Table 3 Correlates of volatility of socio-economic development: bivariate correlations**

		Freedom House, Civil Liberties, average score for 1995-2005	Freedom House, Political Rights, average score for 1995-2005	USAID NGO Sustainability index (1 to 7 scale), 2000	Freedom House, Political rights (1 to 7 scale), 2000	Freedom House, Civil liberties (1 to 7 scale), 2000	Volatility of the HDI index in 1995, 2000 and 2004	Volatility of GDP annual growth rates, 1995-2005
Freedom House, Civil Liberties, average score for 1995-2005	Pearson Correlation Sig. (2-tailed) N	1 .000 174	.998** .000 174	.796** .000 25	.956** .000 173	.918** .000 173	.275** .001 135	.306** .000 174
Freedom House, Political Rights, average score for 1995-2005	Pearson Correlation Sig. (2-tailed) N	.998** .000 174	1 .000 174	.799** .000 25	.957** .000 173	.915** .000 173	.273** .001 135	.303** .000 174
USAID NGO Sustainability index (1 to 7 scale), 2000	Pearson Correlation Sig. (2-tailed) N	.796** .000 25	.799** .000 25	1 .000 25	.793** .000 25	.826** .000 25	-.474* .047 18	.520** .008 25
Freedom House, Political rights (1 to 7 scale), 2000	Pearson Correlation Sig. (2-tailed) N	.956** .000 173	.957** .000 173	.793** .000 25	1 .000 173	.914** .000 173	.241** .005 134	.327** .000 173
Freedom House, Civil liberties (1 to 7 scale), 2000	Pearson Correlation Sig. (2-tailed) N	.918** .000 173	.915** .000 173	.826** .000 25	.914** .000 173	1 .000 173	.286** .001 134	.351** .000 173
Volatility of the HDI index in 1995, 2000 and 2004	Pearson Correlation Sig. (2-tailed) N	.275** .001 135	.273** .001 135	-.474* .047 18	.241** .005 134	.286** .001 134	1 136	.281** .001 136
Volatility of GDP annual growth rates, 1995-2005	Pearson Correlation Sig. (2-tailed) N	.306** .000 174	.303** .000 174	.520** .008 25	.327** .000 173	.351** .000 173	.281** .001 136	1 176

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

**Table 4 Correlates of volatility of socio-economic development: possible control variables**

		Volatility of GDP per capita annual growth rates, 1995-2005	Energy depletion, average 1995-2005	Government effectiveness, 2000	TI Corruption Perception Index, 2000	GDP per capita, 2000, purchasing power parity
Volatility of GDP per capita annual growth rates, 1995-2005	Pearson Correlation Sig. (2-tailed) N	1 .000 176	.296** .000 173	-.357** .000 173	-.459** .000 87	-.201** .008 172
Energy depletion, average 1995-2005	Pearson Correlation Sig. (2-tailed) N	.296** .000 173	1 .000 173	-.269** .000 170	-.419** .000 87	-.060 .435 170
Government effectiveness, 2000	Pearson Correlation Sig. (2-tailed) N	-.357** .000 173	-.269** .000 170	1 .000 173	.920** .000 87	.798** .000 170
TI Corruption Perception Index, 2000	Pearson Correlation Sig. (2-tailed) N	-.459** .000 87	-.419** .000 87	.920** .000 87	1 .000 87	.856** .000 87
GDP per capita, 2000, purchasing power parity	Pearson Correlation Sig. (2-tailed) N	-.201** .008 172	-.060 .435 170	.798** .000 170	.856** .000 87	1 .000 172

\*\* Correlation is significant at the 0.01 level (2-tailed).

Sources: "World Development Indicators – 2007" CD-ROM by the World Bank; Governance Research Indicator Country Snapshot (GRICS) by the World Bank (<http://info.worldbank.org/governance/wgi2007/>); Transparency International ([www.transparency.org](http://www.transparency.org)), and the author's calculations

**Table 5 Relationship between stability and democracy when controlled for the quality of governance and the dependence on international markets**

Original relationship between volatility of annual growth rates and:	Control variable					
	TI Corruption Perception Index, 2000	WB Government Effectiveness Index, 2000	WB Energy Depletion Index, average for 1995-2005	Export of goods and services, % of GDP, average for 1995-2005	GDP per capita, purchasing power parity, 2000	WB Gini Index, 2004
FH Political Rights rating, 2000	Original relationship: .327**					
	.190*	.151*	.255**	.339**	.273**	.310**
FH Civil Liberties rating, 2000	Original relationship: .351**					
	.211*	.155*	.275**	.363**	.319**	.340**
USAID NGO Sustainability Index, 2000	Original relationship: .520**					
	.552*	.150	.436*	.518*	.557*	.438*

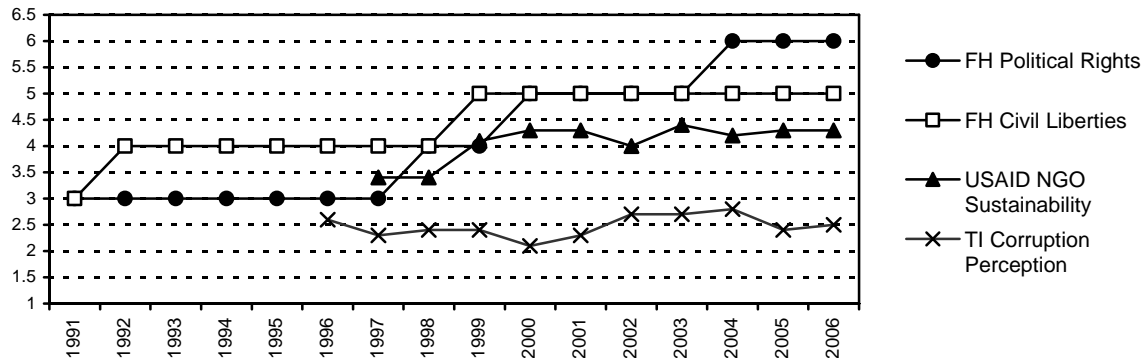
Note: One-tailed tests are used in all cases as at this stage of the analysis not only associations but also possible causal relationships are investigated.

**Table 6 Standardized regression coefficients (beta) for assessing the joint impact of democracy and governance on stability**

	Model					
	1	2	3	4	5	6
FH Political Rights	.325** (4.467)	.163* (1.997)				
FH Civil Liberties			.349** (4.837)	.176* (2.029)		
USAID NGO Sustainability					.697** (3.885)	.495* (2.565)
WB Government effectiveness (1 - 4) / TI Corruption Perception Index (5 and 6)		-.310** (-3.765)		-.290** (-3.337)		-.385 <sup>†</sup> (-1.995)
N of observations	170	170	170	170	17	17
R-squared	.106	.175	.122	.176	.485	.593
Adjusted R <sup>2</sup>	.100	.165	.116	.166	.453	.539

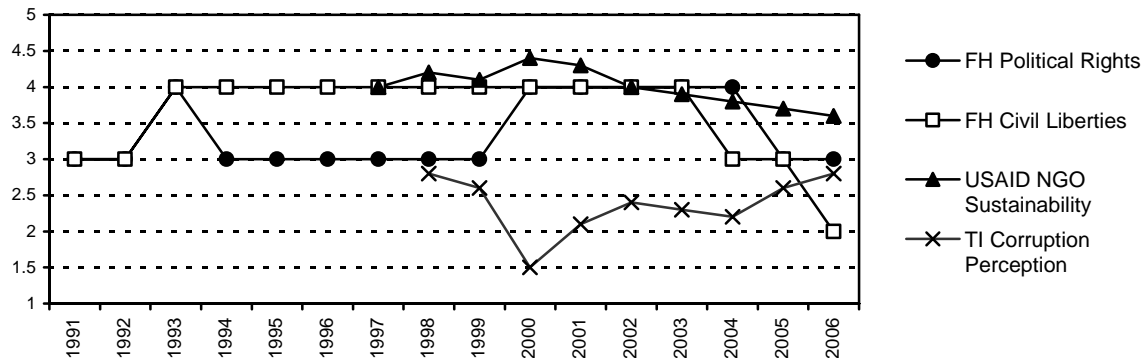
Note: t-Statistics in parentheses. <sup>†</sup> significant at .06

**Figure 1 Dynamics of the indicators of democracy and the quality of governance, the Russian Federation, 1991-2006**



Sources: Freedom House ([www.freedomhouse.org](http://www.freedomhouse.org)), United States Agency for International Development ([www.usaid.gov](http://www.usaid.gov)) and Transparency International ([www.transparency.org](http://www.transparency.org))

**Figure 2 Dynamics of the indicators of democracy and the quality of governance, Ukraine, 1991-2006**



Sources: Freedom House ([www.freedomhouse.org](http://www.freedomhouse.org)), United States Agency for International Development ([www.usaid.gov](http://www.usaid.gov)) and Transparency International ([www.transparency.org](http://www.transparency.org))

**End notes**

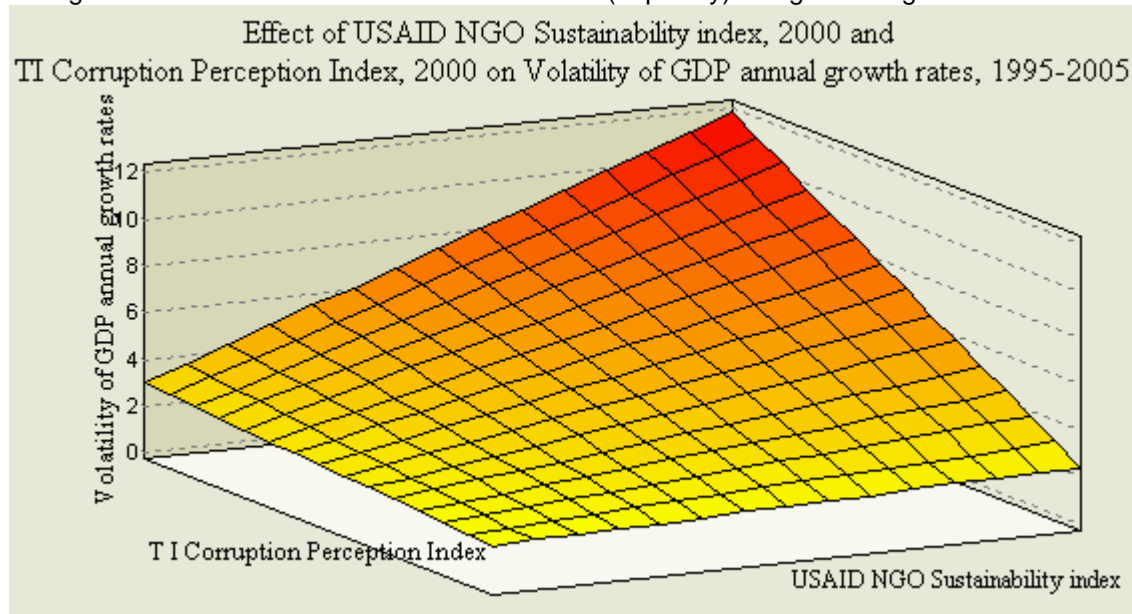
<sup>1</sup> The question as to whether it should be an index or a scale (Babbie and Benaquisto, 2002: 136-138) lies beyond the scope of the present article. The former format implies that the attributes have equal importance whereas the latter – that they can be ordered (e.g., competitive elections are a basic form of democracy, the rule of law is a more demanding one and, finally, laws embedded in everyday practices “top” the entire construction).

<sup>2</sup> Coherent attempts to theorize institutional complexity can be found in Walzer, 1983; Boltanski and Thévenot, 1991; Turner, 2000.

<sup>3</sup> Discussing recent publications on stabilizing versus destabilizing impacts of political regimes on international relations, James Ray observes that “the control variables are often introduced for no good reason other than it is not possible to publish papers that rely entirely on bivariate analyses in good journals” (2005: 277).

<sup>4</sup> A more detailed analysis of this regression - performed with the help of the statistical application *Italassi* 1.1 developed by *Provalis Research* (Montréal) - shows that strong civil society (values of the USAID NGO Sustainability Index lie close to 1) makes the quality of government in post-socialist countries relatively less important, whereas association between the quality of the government and volatility of GDP annual growth rates appears especially strong when civil society is weak and non-sustainable (values of the USAID NGO Sustainability Index lie close to 7; see the three-dimensional

chart generated by [Italassi](#) below). To put it differently, the only hope for stability in the absence of strong civil institutions rests with the actions of the (hopefully) “enlightened” government.



<sup>5</sup> “Brinkmanship is the deliberate creation of a recognizable risk of war, a risk that one does not completely control” (Schelling, 1960: 200).

<sup>6</sup> If political rulers have an alternative source of revenues, e.g., resource rents, this decreases their dependence on citizens’ willingness to pay taxes (Ulfelder, 2007: 997). The Russian government secures a significant part – varying from 25 up to 40% of GDP – of its financial resources through appropriating oil and gas rents (Gaddy and Ickes, 2005). Since the early 1970s the Soviet government was equally dependent on oil and gas rents.

<sup>7</sup> The Constitution of the Russian Federation (Art. 3<sup>1</sup>) states that “the bearer of sovereignty and the only source of power in the Russian Federation shall be its multinational people” remaining, according to Polyakov, silent as to whether the people are the only bearer of sovereignty, in spite of the fact that the official English translation is “the bearer”, not “a bearer”. Russian does not make the distinction between definite and indefinite articles; further sociological and politological implications of Russian syntax will be discussed below.

<sup>8</sup> The interviews were conducted in 2005-2007 in the framework of the research project “Particularities of Power in the post-Soviet Context: Theoretical Considerations and Empirical Studies of Bureaucracy” supported by Social Sciences and Humanities Research Council of Canada (file No. 820-2005-0004) and carried out by a team of researchers composed of Prof. S. Glinkina, Dr. N. Aparina, Dr. C. Clément and the author, who coordinated the project.