

Review of *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy* by Anders Åslund[†]

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Anders Åslund provides a comprehensive description of the main political and economic events of Vladimir Putin's 20 years at the helm of the country. In politics, Åslund shows how Putin skillfully maneuvered to destroy democracy in Russia. I argue that the "cultural backlash" by older generations played perhaps an even more important role. I also show that the young generations hold rather liberal values, thus providing hope for the future. In economics, Åslund focuses on large state corporations, assets of Putin's cronies, and macroeconomic policies, with only general statements about the country's institutional weakness. I complement Åslund's analysis by a more detailed examination of the impact of institutions and briefly survey fiscal federalism and informal economic activities—issues without which the workings of the Russian economy are hard to understand. (JEL D72, H77, O52, P26, P35)

1. Introduction

Soviet-type socialism collapsed 30 years ago in Eastern Europe and two years later in the former USSR, initiating a formal transition to other economic and political systems. Since then, the transition countries have charted vastly different paths from

those leading to full democracies and market economies to dictatorships and statist economic systems. Russia—the largest among these countries—has experienced rather different economic and political systems during this period. The Russian path can be traced through the titles of books by one of the most astute observers of the country's politics and economics, Anders Åslund: *How Russia Became a Market Economy* (1995); *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed* (2007); and *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy* (2019). Russia did indeed become a market economy in the 1990s, while democracy failed in the 2000s. Åslund is also correct to

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characterize the current Russian system as a kleptocracy, although Åslund still views the Russian economy as a market one (e.g., pp. 229 and 235; all subsequent citations of page numbers alone refer to Åslund 2019), contrary to the title of his latest volume.¹

Åslund views the current economic and political system as organized around four “circles” that constitute Putin’s power base. The first circle is formed by Putin’s Soviet Committee for State Security (KGB) friends who now control the state security apparatus, including the KGB descendant, the Federal Security Service. The large state corporations and their managers, appointed by Putin and apparently loyal to him, comprise the second circle. The third circle consists of Putin’s old friends who became rich as owners of private firms receiving preferential, often no-bid, contracts from the government and government-owned corporations such as Gazprom, and who purchased assets of these state corporations at deep discounts. The fourth and final circle is hidden in the western offshores and is made up of anonymously owned companies with assets siphoned from Russia by Putin and his associates.

The description begins in chapter 1 with a brief overview of Russia’s tsarist and Soviet economic and political legacies, Mikhail Gorbachev’s perestroika of the late 1980s, Boris Yeltsin’s radical reforms of the 1990s, and a classification of the four periods of Putin’s reign. The first and “happiest” period coincides with Putin’s first term

as president (2000–2004) when significant efficiency-enhancing regulatory economic reforms were implemented while the political system remained largely democratic. The second presidential term was characterized by the transition to autocracy and a statist economic system. Putin’s four-year stint as a prime minister represents the third period. This “third informal term (2008–12) saw the rise of asset stripping and crony capitalism” (p. 30). The falsified parliamentary elections of December 2011, which provoked large public protests, and Putin’s presidential election in 2012 mark the beginning of the fourth period, when the economy stagnated, political repressions increased, and foreign policy became aggressive, including the annexation of Crimea in 2014 and the resulting Western economic sanctions and Russian counter-sanctions.

Chapter 2 provides a more detailed chronological description of Putin’s economic policies and his steady destruction of democratic institutions. The remaining chapters are devoted to different aspects of the Russian economic system under Putin. Chapter 3 discusses the financial crisis of 1998 and the conservative fiscal and monetary policies that have been largely responsible for the rather remarkable economic stability since 1998. This chapter also describes, in broad terms, a radical reform of the Russian tax system implemented in the early 2000s that contributed significantly to the stability of the government’s finances. Chapter 4 is devoted to the Russian version of state capitalism and showcases four of the largest state corporations operating in oil and natural gas, banking, and armaments sectors. The following two chapters examine the activities and wealth of Putin’s cronies from his “third circle” of power. Putin’s own wealth is also estimated. Chapter 7 traces Putin’s U-turn from economic integration with the West to isolation from it. The debates among Russian economists are surveyed in chapter 8.

¹There are several other recent books on Putin’s Russia, although most do not focus on the economy. The two that come closest to Åslund’s are Dawisha (2014), which Åslund cites repeatedly, and Miller (2018). Dawisha concentrates on the origins of Putin’s power. She starts in the late 1980s and traces the development of kleptocracy through 2000, although her last chapter provides a brief overview of developments through 2014. Miller’s book is devoted mostly to the description of the current economic system without emphasizing politics. Åslund’s book, on the other hand, covers the entire period of Putin’s leadership and examines both the economy and politics.

The final chapter offers an overview of the current state of the Russian economic and political system, its place among the other transition economies, and its prospects. This is the most analytical chapter, although given the breadth of its scope, it does not offer much in terms of detail or support for its arguments. Here Åslund also offers recommendations to the West on how to deal with Putin and his policies, and to future Russian reformers on how to build a democratic political system and an efficient market economy after Putin's regime is gone.

2. *Åslund's Main Arguments*

The main goals of Åslund's book are to describe "how the Russian economic system has developed under Putin's leadership, how it actually works, and how it may evolve in the future" (p. 3). In another place he adds that his aim is to establish how Putin's regime "is likely to act, and how the West can influence it" (p. 226). Have these aims been achieved?

As mentioned earlier, Åslund does present a rather detailed description of the development of the Russian political, and parts of economic, system under Putin, but the analysis of why it was possible for Putin to create an autocratic kleptocracy can be enhanced. The general impression from the book is that this happened mainly due to Putin's political skills. Åslund argues that although the "reversal to authoritarianism and statism can be seen as a natural postrevolutionary and postimperial development," this reversal was Putin's choice and was by no means inevitable (p. 8). Although I agree with the non-inevitability of the developments since 2000, I think a more careful analysis of the reasons for them and why they were possible would have been welcome.

The description of how the Russian economy works can also be improved. The focus of the book is on the large state corporations, assets owned by Putin's cronies,

and macroeconomic policies, while largely ignoring the microeconomic developments outside of the largest state and crony-owned firms. There is also no mention of fiscal federalism and the regional aspects of the Russian economy. I would argue that it is difficult to understand "how [the Russian economic system] actually works and how it may evolve in the future" (p.3) without the analysis of these issues.

Åslund has bleak forecasts for the Russian economy. "Unless energy prices skyrocket or Russia seizes large foreign assets, its economy cannot generate significant growth, while macroeconomic stability is likely to hold" (p. 232). Also, "no institutional preconditions appear to exist for Russia to break out of the middle-income trap short of regime collapse" (p. 236). I mostly agree with these statements, but I also think more evidence and analysis is needed to back them up than is presented in the book.

In the rest of this essay, I will try to fill some of the gaps in Åslund's analysis. In the next section, I examine the additional reasons why the slide toward authoritarianism has been largely accepted and perhaps even enabled by the Russian society. Section 4 adds to Åslund's description of how the Russian economy functions by looking outside of the large state corporations and crony-owned businesses and instead focusing on the role of institutions in the allocation of labor and capital, the shadow economy, and fiscal federalism issues. Section 5 concludes by discussing the reasons for the likely stagnation of the economy in the foreseeable future, elaborating on Åslund's pessimistic outlook.

3. *Why Did Russia Become Authoritarian?*

The Russian society seemed to push strongly for democratic reforms in the early 1990s. Why then did the Russians seemingly easily accept, and perhaps even welcome,

the slide to an authoritarian rule? One explanation is that the idea of democratic reform in Russia in the late 1980s–early 1990s was conflated with an improvement in the standard of living relative to the economic crisis of the Soviet system in 1987–91. When this improvement did not materialize—and for many people things got even worse—the idea of democracy was discredited. Other contributing factors included a steep rise in income inequality and crime rates after the collapse of the USSR. Åslund argues that Putin was able to create his “vertical of power” by a skillful and stealthy approach that was aided by the economic hardships and incomplete political reform of the 1990s.

Although I recognize that leaders do sometimes play a significant role in history and politician’s skills can make a difference, often the “politician’s skills” argument masks some underlying phenomena that are more fundamental. If so, it would be important to uncover these fundamental drivers behind such important political changes as a replacement of an essentially democratic system with a highly authoritarian regime. As noted, Åslund does mention economic hardship and incomplete reform of the 1990s, but these arguments do not explain, for example, why the same outcome did not take place in Ukraine, which had the same Soviet legacy, suffered an even greater economic shock in the 1990s, and also had incomplete political reform.²

Some may argue that Russia’s oil wealth might account for the difference from Ukraine. But Åslund rejects this as an important reason for the collapse of the Russian democracy, and I think he is correct

in doing so. Although there are many empirical studies on the relationship between oil abundance and democracy, the most carefully done research based on panel data techniques with country fixed effects provides no evidence of a general negative effect of oil on democracy. In fact, Haber and Menaldo (2011) and Brückner, Ciccone, and Tesei (2012) find a positive effect of oil on democratic development, although it does appear that an autocratic ruler in a country with a large oil endowment may have stronger incentives to suppress the media (Egorov, Guriev, and Sonin 2009).

So, while I largely agree with Åslund’s fundamental explanations for the demise of democracy in Russia, I think they are incomplete. A complementary approach is to view the political developments in Russia as part of the global trend toward authoritarianism and populism as evidenced, for example, by the rise of right-wing parties in Europe and the election of Donald Trump in the United States and Jair Bolsonaro in Brazil. Norris and Inglehart (2019; hereafter, N&I) propose the cultural backlash theory, arguing that at least with respect to Western Europe and the United States, the global trend can be explained by the “silent revolution in cultural values” that provoked a backlash of the older generations that see themselves at a “tipping point” of losing their traditional power and social environment.

I will argue that a similar mechanism may be at work in Russia. I will show that the more authoritarian-inclined older Russian generations have been at a somewhat similar tipping point and thus were also likely to react by rejecting the liberal values of the younger generations and promoting authoritarianism. I speculate that this reaction is particularly strong in Russia due to the “imperial syndrome” that appears to be present in the older Russian generations, but seems to be much less prominent or even nonexistent in the respective Ukrainian generations. It

²Dawisha (2014) contends that the success of authoritarianism in Russia was the result of a long-term plan of the Soviet and then Russian security services that were conceived at least in some respects shortly before the collapse of the USSR. This contention also does not explain why the same has not happened in Ukraine, which had essentially the same security services as Russia.

is also plausible that the Russian imperial syndrome was exacerbated by the perceived humiliation of the former superpower in the 1990s.³ Another view is that the Russian culture is antithetical to Western-style democracy or at least requires a long evolutionary period in order to accept Western ways.⁴ The age-old debate about the compatibility of the Russian culture with democracy and markets is beyond the scope of my review, although the data I present below and the bulk of other sociological surveys suggest that the Russian attitudes in these respects are not radically different from those of the Western respondents. This is especially true for the younger generations.

To support the “generational” argument, I will show that younger Russians hold significantly less authoritarian and more liberal values than the older ones, even controlling for age and other potentially relevant factors, including time (or “period”) fixed effects, and that the share of these liberally minded generations has recently gone from just under half of the adult population to become a majority. At the same time, the older generations of Russians hold relatively more authoritarian-oriented social values than

the respective Ukrainian generations. It is unclear, however, if this difference in generational worldviews existed prior to the collapse of the USSR or can be attributed to different reactions to the loss of superpower status in the 1990s, and thus the imperial syndrome.

According to N&I, each generation gets accustomed to the world into which they are born and as cultural values have been changing much quicker than they used to, the older generations experience a sharp dissonance between their contemporary conditions and the norms they have grown up with. Specifically, the “post-materialist” generations (baby boomers, born between 1946 and 1964; Gen Xers, 1965–1979, and millennials, 1980–1996) that grew up in the age of existential security tend to be more open-minded, socially tolerant, secular, and accepting of diverse lifestyles than the generation that acquired its worldview in the Great Depression or during World War II. These younger generations are also less likely to respect authority and to crave stability. Although the overall trends are similar in all European countries, the generational pattern of social values in Eastern European countries appears to lag one generation behind Western Europe, where the particularly large dissonance gap is experienced by the generation born before 1946 (the interwar generation). The threats to their traditional norms might “generate feelings of resentment, anger, and a sense of loss—especially for those with authoritarian predispositions that emphasize social conformity and intolerance of out-groups” (N&I, pp. 90–91).

N&I do not deny the impact of life-cycle factors, such as age-related changes in values, or “period” factors, such as changes in attitudes toward democracy engendered by economic crises, but they argue that the generational differences play a bigger role.⁵ They

³ See Kailitz and Umland (2019) and Luks (2008) on the role of the imperial syndrome in Russia and how it was exacerbated by the developments in the 1990s. Also, see Kappeler (2014) on the differences between the attitudes of the Russians and the Ukrainians toward imperial legacy. Åslund mentions Russia’s “strong authoritarian tradition and imperial legacy [which] can delay democratization but hardly block it forever” (p. 251) in the concluding chapter.

⁴ For example, McDaniel (1996) argues that democracy failed in Russia because the reforms of the 1990s represented a typical-for-Russia top-down forced attempt at modernization that was too radical in its negation of the past and incompatible with the “Russian idea” of “government based on truth” and “society founded on harmony.” Also, according to McDaniel, by simultaneously claiming dictatorial powers and renouncing its responsibility to protect the people, Yeltsin’s government “undermined public confidence in both its competence and its concern for the welfare of the [people]. ... it has undermined both capitalism and democracy, already extremely fragile models of economic and political behavior in Russia” (McDaniel 1996, p. 173).

⁵ N&I provide empirical support for this claim, although as I argue below, the strength of their empirical results is

support their argument in part by comparing the averages of Schwartz indices of authoritarian and liberal values for each generation and by regressing these indices on dummy variables for different generational cohorts and other variables that might be expected to affect someone's values.⁶ I will show that similar empirical results hold for Russia even after addressing some of the empirical issues in N&I approach.

Assuming that the generational values argument is relevant to post-Soviet countries, what should be the generational breakdown? Different authors answer this question differently. Sturzhko-Harned and Turkina (2017) argue that there can be significant attitudinal differences between the generations that grew up under Joseph Stalin, those who came of age during the relative stability of the Leonid Brezhnev period, and those whose worldview and values formed in the 1990s. They delineate the relevant generations for Russia, Ukraine, and Belarus by pre-1931, 1931–51, 1952–72, and from 1973 on. However, in his empirical study of Russian millennials, Radaev (2019) defines the following Russian generations: people born before 1939; 1939–46; 1947–67; 1968–81; 1982–2000. This generational breakdown is close to the one used by N&I. I choose to use N&I's generations for comparison purposes and because despite the relatively closed nature of the Soviet society, the cultural influence of the West on the Soviet generations was considerable.⁷ In any case, the results below are broadly

similar for either of the three generational breakdowns. I also think that it is instructive for my purposes to compare Russia and Ukraine—the two countries are similar in many respects, but vastly different in the degree of democracy.⁸

I first present the generational comparisons of the average liberal and authoritarian values for Russia and Ukraine. The overall descriptive statistics for the Schwartz indices are shown in table 1, while table 2 presents the Russia–Ukraine comparisons. Most importantly, the authoritarian values have been declining and liberal values have been increasing. In other words, more recent generations have been relatively less authoritarian and more liberal. In both Russia and Ukraine, the liberal–authoritarian difference first crosses into positive territory for the 1965–79 generation (Gen Xers), no longer implying the prevalence of the authoritarian social values. Another relevant finding is that the two older Russian generations exhibit more authoritarian and less liberal values than their Ukrainian counterparts, while this difference essentially disappears in the two younger generations.⁹ The within-generation comparisons between Russia and Ukraine are broadly similar when I use a propensity score matching procedure instead of simply relying on the means.¹⁰

Another way to compare social values between generations is to run regressions of the liberal–authoritarian value differences on generational dummy variables, controlling

⁸As Åslund notes on p. 234, Ukraine is an outlier among the East European and former Soviet countries in that it has a high level of corruption and at the same time a strongly democratic political system.

⁹I include only the ESS rounds where both Russia and Ukraine were surveyed (i.e., rounds 3–6) although including ESS rounds 2 with the data for Ukraine only and 8 (Russia only) does not change qualitative outcomes.

¹⁰I use age, marital status, education, the size of settlement, and self-perceived adequacy of household income in the propensity score matching procedure. I had to drop self-perceived income variable from the procedure for the youngest generation in order to satisfy the balancing property.

debatable. They also cite Welzel (2013) to support the importance of the birth cohort for post-materialist values and socially liberal policies.

⁶The indices of authoritarian and liberal values are based on Schwartz (1992). N&I use the data from the first seven rounds of the European Social Survey (ESS) conducted during 2002–14 period. I use the data from the same survey but only for rounds conducted in 2004–16 (rounds 2–8) in which either Russia or Ukraine, or both, participated.

⁷See, for example, Woodhead (2013).

TABLE 1
DESCRIPTIVE STATISTICS FOR THE SCHWARTZ INDICES OF LIBERAL AND AUTHORITARIAN VALUES

	Observations	Mean	Standard deviation	Minimum	Maximum
<i>Russia</i>					
Authoritarian values index	11,638	0	1	-4.459	1.708
Liberal values index	11,640	0	1	-3.319	2.170
Liberal minus authoritarian values	11,216	0.013	1.282	-5.027	6.213
<i>Ukraine</i>					
Authoritarian values index	8,757	0	1	-3.937	1.600
Liberal values index	8,642	0	1	-2.887	2.331
Liberal minus authoritarian values	8,090	0.020	1.230	-4.133	6.072

Notes: Social values are based on the respondent's answers on a 1–6 scale to what extent a person with stated characteristics is “like you” with 1 being “Very much like me” and 6 being “Not at all like me.” The responses are aggregated into an index using a factor analysis procedure. The signs of the indices are inverted in order to make larger values represent greater authoritarian or liberal values, respectively.

Authoritarian social values list the following five characteristics: (1) It is important to her/him to live in secure surroundings. She/he avoids anything that might endanger her/his safety; (2) She/he believes that people should do what they're told. She/he thinks people should follow rules at all times, even when no-one is watching; (3) It is important to her/him always to behave properly. She/he wants to avoid doing anything people would say is wrong; (4) It is important to her/him that the government ensures her/his safety against all threats. She/he wants the state to be strong so it can defend its citizens; (5) Tradition is important to her/him. She/he tries to follow the customs handed down by her/his religion or her/his family.

Liberal social values list the following five characteristics: (1) She/he likes surprises and is always looking for new things to do. She/he thinks it is important to do lots of different things in life; (2) She/he looks for adventures and likes to take risks. She/he wants to have an exciting life; (3) Thinking up new ideas and being creative is important to her/him. She/he likes to do things in her/his own original way; (4) It is important to her/him to make her/his own decisions about what she/he does. She/he likes to be free and not depend on others; (5) It is important to her/him to listen to people who are different from her/him. Even when she/he disagrees with them, she/he still wants to understand them.

Source: European Social Survey (2018) rounds 3, 4, 5, and 6.

Restrictions: The data are available without restrictions for not-for-profit purposes.

for various other factors, including age. Although the ESS rounds cover a range of years, and thus there is some overlap in terms of age between generations in different rounds, the members of the earlier generations always remain older on average than those of the later generations.¹¹ Also, the

gender balance changes somewhat between generations. In addition, generations differ along various other relevant demographic and economic characteristics such as education, marital status, and income, although we have to be careful in accounting for these

¹¹ For example, the minimum age of the Gen X generation in the ESS rounds I used in table 1 is 27 while the maximum age of the millennials is 33. At the same time, the average ages of the former and the latter generations are

approximately 37 and 23, respectively. Surprisingly, neither N&I nor Surzhko-Hamed and Turkina (2017) control for age of the respondents in their work. Radaev (2019) does control for age in most comparisons, but he does not study social attitudes related to political preferences.

TABLE 2
AVERAGE LIBERAL AND AUTHORITARIAN VALUES AND DIFFERENCES BETWEEN THEM BY GENERATION
(LARGER DIFFERENCE IMPLIES GREATER PREVALENCE OF LIBERAL VALUES OVER AUTHORITARIAN ONES)

Generation	Russia	Ukraine
<i>Authoritarian values index</i>		
Born before 1946 (Interwar)	0.321	0.243
Born 1946–64 (Baby Boomers)	0.131	0.051
Born 1965–79 (Gen Xers)	–0.095	–0.124
Born 1980–96 (Millennials)	–0.273	–0.267
<i>Liberal values index</i>		
Born before 1946 (Interwar)	–0.524	–0.356
Born 1946–64 (Baby Boomers)	–0.139	–0.055
Born 1965–79 (Gen Xers)	0.104	0.079
Born 1980–96 (Millennials)	0.384	0.416
<i>Difference between liberal and authoritarian values indices</i>		
Born before 1946 (Interwar)	–0.824	–0.557
Born 1946–64 (Baby Boomers)	–0.263	–0.093
Born 1965–79 (Gen Xers)	0.209	0.211
Born 1980–96 (Millennials)	0.657	0.681

See notes after table 1.

characteristics, as they might be endogenous with the values people hold.

Tables 3–5 present the regressions for Russia and Ukraine for authoritarian values, liberal values, and liberal–authoritarian difference, respectively. The first column for each country shows the results when only strongly exogenous regressors are included (log of age, gender dummy, and dummy variables for ESS rounds).¹² The second country column adds the size of the respondent's settlement. The remaining columns contain all the control variables.¹³ The results are

¹²The minimum age of respondents in the survey is 15, although fewer than 3 percent of the respondents are younger than 18. I subtract 14 from the age variable to make sure that the logarithm of age starts at 0. This way the control for age has most curvature in the early formative years when age differences are most important.

¹³Unlike N&I, I do not include occupations because there are relatively few respondents in the particular occupational categories and because the choice of occupation is particularly likely to be endogenous with the person's social values.

similar to table 4.4 of N&I. In most regressions, the signs of the generational cohorts' coefficients are consistent with the means comparisons in table 2 and are highly statistically significant. That is, the social values of the two younger generations are more liberal and less authoritarian than those of the two oldest generations. The only exceptions are the statistically insignificant coefficients of the younger generational cohorts in the liberal values regressions with a full set of controls. Note, however, that these regressions may not only suffer from endogeneity, but may also be misleading with respect to estimating attitudinal differences between generations. This is because these regressions control for various factors that differ significantly across generations. For example, education is strongly positively associated with the prevalence of liberal social attitudes: the standardized beta coefficients for education in the liberal values regressions are highly statistically significant

TABLE 3
 ORDINARY LEAST SQUARES (OLS) REGRESSIONS FOR AUTHORITARIAN SOCIAL VALUES OF DIFFERENT
 GENERATIONS
 DEPENDENT VARIABLE: AUTHORITARIAN VALUES INDEX (LARGER VALUES IMPLY MORE AUTHORITARIAN
 ATTITUDES)

Country	Russia			Ukraine		
	(1)	(2)	(3)	(4)	(5)	(6)
Gen 1946–64	–0.111 (0.002)	–0.111 (0.002)	–0.138 (0.001)	–0.158 (0.000)	–0.156 (0.000)	–0.199 (0.000)
Gen 1965–79	–0.339 (0.000)	–0.334 (0.000)	–0.371 (0.000)	–0.320 (0.000)	–0.317 (0.000)	–0.364 (0.000)
Gen 1980–96	–0.359 (0.000)	–0.353 (0.000)	–0.338 (0.000)	–0.432 (0.000)	–0.425 (0.000)	–0.459 (0.000)
Ln(age – 14)	0.090 (0.005)	0.092 (0.005)	0.052 (0.162)	0.028 (0.498)	0.027 (0.514)	0.005 (0.920)
Male	–0.163 (0.000)	–0.166 (0.000)	–0.180 (0.000)	–0.180 (0.000)	–0.186 (0.000)	–0.187 (0.000)
Married			0.208 (0.000)			0.094 (0.076)
Divorced			0.058 (0.247)			0.018 (0.789)
Widowed			0.126 (0.015)			0.045 (0.496)
Education			0.007 (0.122)			0.004 (0.335)
Income			0.033 (0.030)			0.037 (0.063)
Rural		0.001 (0.882)	0.001 (0.917)		0.046 (0.000)	0.041 (0.000)
Observations	11,611	11,579	11,302	8,754	8,734	8,410
R^2	0.064	0.064	0.071	0.044	0.047	0.052

Notes: Beta coefficients; robust p -values in parentheses; see notes to table 1 for the definitions of authoritarian and liberal social values. Gender and marital status dummy variables are self-explanatory. Education variable denotes the number of years of full-time education (variable *eduyrs* in ESS). Income variable represents the answer, on a 1–4 scale, to the question “Which of the descriptions comes closest to how you feel about your household’s income nowadays?” with lower values corresponding to better feeling about income. “Rural” stands for the type of area where the respondent lives from 1—a big city—to 5—a farm or home in a countryside (variable *domicil* in ESS).

The regressions are based on the European Social Survey (2018), rounds 2–6 for Ukraine and rounds 3, 4, 5, 6, and 8 for Russia.

All regressions include dummy variables for the survey round.

and are similar in value to those for the generational dummies. At the same time, each successive generation is significantly

more educated than the previous one. Therefore, controlling for education results in underestimating the degree to which an

TABLE 4
OLS REGRESSIONS FOR LIBERAL SOCIAL VALUES OF DIFFERENT GENERATIONS
DEPENDENT VARIABLE: LIBERAL VALUES INDEX (LARGER VALUES IMPLY MORE LIBERAL ATTITUDES)

Country	Russia			Ukraine		
	(1)	(2)	(3)	(4)	(5)	(6)
Gen 1946–64	0.329 (0.000)	0.330 (0.000)	0.078 (0.056)	0.219 (0.000)	0.213 (0.000)	0.039 (0.357)
Gen 1965–79	0.456 (0.000)	0.445 (0.000)	0.080 (0.133)	0.229 (0.000)	0.224 (0.000)	0.015 (0.797)
Gen 1980–96	0.593 (0.000)	0.567 (0.000)	0.040 (0.595)	0.435 (0.000)	0.426 (0.000)	0.147 (0.123)
Ln(age – 14)	–0.185 (0.000)	–0.189 (0.000)	–0.283 (0.000)	–0.126 (0.001)	–0.127 (0.001)	–0.158 (0.000)
Male	0.119 (0.000)	0.119 (0.000)	0.113 (0.000)	0.102 (0.000)	0.105 (0.000)	0.082 (0.004)
Married			–0.086 (0.014)			–0.066 (0.174)
Divorced			–0.062 (0.169)			0.064 (0.312)
Widowed			–0.173 (0.000)			–0.123 (0.048)
Education			0.066 (0.000)			0.046 (0.000)
Income			–0.102 (0.000)			–0.111 (0.000)
Rural		–0.070 (0.000)	–0.031 (0.001)		–0.031 (0.003)	–0.007 (0.524)
Observations	11,611	11,578	11,297	8,638	8,616	8,297
R ²	0.124	0.131	0.177	0.073	0.075	0.103

Notes: Beta coefficients; robust p -values in parentheses; see notes to table 1 for the definitions of authoritarian and liberal social values. Gender and marital status dummy variables are self-explanatory. Education variable denotes the number of years of full-time education (variable *eduyrs* in ESS). Income variable represents the answer on a 1–4 scale to the question “Which of the descriptions comes closest to how you feel about your household’s income nowadays?” with lower values corresponding to better feeling about income. “Rural” stands for the type of area where the respondent lives from 1—a big city to 5—farm or home in a countryside (variable *domicil* in ESS).

The regressions are based on the European Social Survey (2018), rounds 2–6 for Ukraine and rounds 3, 4, 5, 6, and 8 for Russia.

All regressions include dummy variables for the survey round.

average representative of each successive generation has relatively more liberal values than the average person from the earlier generation.

The control variables generally have expected signs, which are similar to the signs in N&I regressions, and are all statistically significant. Note that lower values of

TABLE 5
OLS REGRESSIONS FOR SOCIAL VALUES OF DIFFERENT GENERATIONS
DEPENDENT VARIABLE: DIFFERENCE BETWEEN LIBERAL AND AUTHORITARIAN VALUES (LARGER DIFFERENCE
IMPLIES GREATER PREVALENCE OF LIBERAL VALUES OVER AUTHORITARIAN ONES)

Country	Russia			Ukraine		
	(1)	(2)	(3)	(4)	(5)	(6)
Gen 1946–64	0.424 (0.000)	0.428 (0.000)	0.213 (0.000)	0.360 (0.000)	0.353 (0.000)	0.224 (0.000)
Gen 1965–79	0.783 (0.000)	0.768 (0.000)	0.459 (0.000)	0.530 (0.000)	0.525 (0.000)	0.370 (0.000)
Gen 1980–96	0.938 (0.000)	0.909 (0.000)	0.393 (0.000)	0.851 (0.000)	0.838 (0.000)	0.598 (0.000)
Ln(age - 14)	-0.274 (0.000)	-0.279 (0.000)	-0.325 (0.000)	-0.138 (0.003)	-0.138 (0.003)	-0.135 (0.011)
Male	0.275 (0.000)	0.279 (0.000)	0.285 (0.000)	0.275 (0.000)	0.284 (0.000)	0.257 (0.000)
Married			-0.296 (0.000)			-0.182 (0.003)
Divorced			-0.119 (0.036)			0.075 (0.326)
Widowed			-0.293 (0.000)			-0.194 (0.013)
Education			0.057 (0.000)			0.040 (0.000)
Income			-0.133 (0.000)			-0.158 (0.000)
Rural		-0.066 (0.000)	-0.028 (0.019)		-0.071 (0.000)	-0.041 (0.002)
Observations	11,190	11,159	10,895	8,087	8,067	7,790
R^2	0.188	0.192	0.223	0.130	0.134	0.159

Notes: Beta coefficients; robust p -values in parentheses; see notes to table 1 for the definitions of authoritarian and liberal social values. Gender and marital status dummy variables are self-explanatory. Education variable denotes the number of years of full-time education (variable *edyurs* in ESS). Income variable represents the answer on a 1–4 scale to the question “Which of the descriptions comes closest to how you feel about your household’s income nowadays?” with lower values corresponding to better feeling about income. “Rural” stands for the type of area where the respondent lives from 1—a big city to 5—farm or home in a countryside (variable *domicil* in ESS).

The regressions are based on the European Social Survey (2018), rounds 2–6 for Ukraine and rounds 3, 4, 5, 6, and 8 for Russia.

All regressions include dummy variables for the survey round.

the income variable reflect better feeling of the respondent about his or her income, and

thus higher income is associated with more authoritarian values. At the same time, more

education corresponds to a preference for liberal values.

To reiterate, the results presented in tables 2–5 suggest that the Russian Gen Xers and millennials hold much more liberal and antiauthoritarian social values than the older generations. At the same time, the share of these two younger Russian generations in the population 15+ years of age went from approximately 46.8 percent in 2006 to about 59.5 percent in 2016.¹⁴ That is, the older, more authoritarian-minded generations went from being a clear majority to being a minority in the country, although this minority still holds more political and economic power. If N&I theory applies to Russia, then the recent demographic shift would have provoked a cultural backlash turning the country away from democracy it achieved, however partially, in the 1990s. This reversal would have been particularly noticeable at the ballot box because it appears that the Russian youth do not view voting decisions as important.¹⁵

Even if the cultural backlash is not to blame, the results above suggest that the shift to autocracy in the early 2000s probably reflected the values of the older, pre-1965 generations, which constituted a significant majority of the adults. However, since then things have changed and there has been a growing chasm in social values between the leadership of the country, which largely belongs to the two older generations, and the current much younger majority group. The ongoing demographic shift suggests that the authoritarian system might have difficulty surviving in Russia for much longer, although significant political changes would

presumably require a more conventional approach to politics by the millennials and Gen Xers.

4. *How the Russian Economy Functions*

As mentioned earlier, Åslund's description of the current state of the Russian economy focuses on the large state corporations and conservative macroeconomic policies, although he does briefly talk about some other topics.¹⁶ This limited focus would be justified if not for the statement that one of the main goals of the book was to explain the functioning of the Russian economy. While large state corporations and macroeconomic policies clearly play a major role, there are other aspects that need to be highlighted in order to understand the economy's current state and potential developments. Åslund does, of course, mention institutional problems such as weak property rights protections and the general "deinstitutionalization" but he does not elaborate sufficiently on the specific problems posed by poor institutions. In the remainder of this section, I first discuss briefly the market environment in which large corporations operate and the role of small- and medium-sized firms, and then focus on specific consequences of weak institutions. In the last subsection, I address federalism issues that are prominent in Russia, given its diversity and size.

¹⁶For example, Åslund discusses the transformation of corruption in Russia from being mostly decentralized in the sense of Shleifer and Vishny (1993) to mostly centralized. This is a correct observation, but it does not mean that "[c]orruption has become concentrated among the very few people at the top of the Russian society" (p. 220). There is plenty of corruption at the bottom too, as evidenced by INDEM Foundation surveys mentioned by Åslund as well as other sources (see Levin and Satarov 2013). Instead, centralized corruption means that corrupt officials collude in setting bribes rather than acting independently of each other. This type of corruption is less inefficient than a decentralized one, particularly when inputs provided by the corrupt officials are complementary.

¹⁴Calculated based on Rosstat (2019).

¹⁵See Radaev (2019) who argues that the millennials in Russia have different concepts of politics from the older generations and that their voting behavior does not necessarily reflect their social attitudes in a straightforward manner. Radaev writes, "Currently the very understanding of political sphere and its limits is changing, getting less and less connected to voting behavior" (p. 32, my translation).

Although several of the most important sectors of the Russian economy are dominated by state-owned or state-controlled corporations with significant market power, even these corporations operate, to a large extent, in a market environment in the sense that they hire labor and buy intermediate inputs mostly at market prices.¹⁷ Of course, these corporations are also getting some capital at below market rates and may pay monopoly prices for some of their inputs because these inputs are supplied by other large state corporations. This is one of the main ways rents are distributed in the Russian economy (Gaddy and Ickes 2013). Moreover, state-controlled corporations are often used by the government for political purposes and to provide rents to favored private businesses rather than aiming at economic efficiency. Nonetheless, the price distortions facing large state- and privately owned businesses are much smaller than those that existed in the Soviet economy.

Also, and perhaps even more important, as Miller (2018) argues and as was shown by Brown, Earle, and Gehlbach (2013), the Russian privately owned firms in sectors not controlled by state enterprises had become reasonably efficient and productive by the mid-2000s, although still far behind the best international standards.¹⁸ While these firms face some legal or extralegal pressure and even predation from government officials, including the police and security services, this does not seem to affect their operating efficiency very much, although this pressure does significantly weaken the incentives for investment and this is a serious impediment

for economic development. Nonetheless, however limited, the market nature of the economy provides for its greater resilience relative to the Soviet system even if the current economy still suffers from both the physical and behavioral legacies of the latter (Ericson 2013).

Another important consideration is that the understanding of the functioning and pressing problems of the Russian economy requires a more detailed analysis of the consequences of poor institutions and the role of fiscal federalism than is provided by Åslund.

4.1. *The Role of Weak Institutions*

Åslund writes that “[e]conomic growth is determined by capital (investment), technology, human capital, and institutions” (p. 235). I will argue that poor institutional quality has played a primary role in preventing the other factors listed in this quote to contribute adequately to economic growth. As noted earlier, Åslund does discuss Russia’s “deinstitutionalization” and the more obvious problems created by the insecurity of property rights, such as the destructive consequences of state or state-aided predation of businesses large and small, including the illegal or predatory raiding of firms (*reiderstvo*) examined by Gans-Morse (2017) among others. However, he does not describe some of the important but less obvious consequences of poor institutions for the functioning of the economy and more specifically for the allocation of human and physical capital.

With respect to human capital, Åslund stresses the unfavorable demographics and the fact that Russia’s expenditure on education are “miserly” (p. 236). Indeed, Russia spends only about half of the OECD average in purchasing parity power (PPP) USD terms per full-time student (Organisation for Economic Co-operation and Development 2018), although in terms of the educational expenditure as a share of GDP Russia is in line with many OECD countries such

¹⁷ Åslund does say that Russia has a market economy, albeit with restricted competition and weak institutions, but he does not elaborate on this statement.

¹⁸ Brown, Earle, and Gehlbach (2013) examine only manufacturing firms. They show that the improvements in multifactor firm-level productivity due to privatization to domestic owners in Russia were similar to those in Eastern Europe but with about a ten-year lag.

as France and the United Kingdom, and exceeds some of the countries with similar income levels such as Brazil.¹⁹ At the same time, the Russian level of measured educational human capital is considerably higher than that of the other mid-level income economies and is similar to or higher than some of the OECD countries. For example, in the United Nations educational index rankings, Russia occupies thirty-second place out of 189 countries, behind only some of the OECD members and a couple other former Soviet republics as well as Hong Kong and Palau. It was ranked even higher in inequality-adjusted educational index. Also, Russian students perform quite well in the Program for International Student Assessment, particularly in mathematics (twentieth place in the world in 2015) and in reading (twenty-fourth place).²⁰ Meanwhile, in terms of GDP per capita, Russia is in the fiftieth–sixtieth range in PPP terms and lower than sixtieth in nominal terms.

Despite a relatively well-educated population, labor productivity and economic growth in Russia in the last ten years have been low, the share of sophisticated manufacturing sectors, which could presumably benefit from high human capital, has not been expanding, and the economy has remained heavily dependent on hydrocarbons. As Åslund rightly notes, the main reason for these outcomes is the poor quality of institutions such as property rights protection. He does not, however, provide a more or less detailed explanation for this causal relationship. Instead, he refers to the empirical paper by Acemoglu and Johnson (2005) about the importance of property rights

protection relative to contract enforcement for economic growth and to Acemoglu and Robinson's (2005) notions of inclusive versus extractive institutions.

I think it is useful to elaborate a bit more on how poor institutional quality prevents economic growth and economic diversification in Russia despite relatively high educational human capital. As Baumol (1990); North (1990); and Murphy, Shleifer, and Vishny (1991) argued, the social usefulness of human capital depends very much on the incentives faced by those who possess it. According to Baumol (1990), societies differ mostly not by the number of entrepreneurs but by relative payoffs of productive activities such as innovation, versus redistributive ones such as various types of rent seeking. As North puts it, both a successful pirate and a successful chemical manufacturer require a great deal of knowledge in their respective fields, and the institutional framework determines what types of knowledge and skills provide greater payoffs to individuals. Pritchett (2001) continues with North's analogy, writing that “[i]n some countries institutional environment was sufficiently bad that the bulk of newly acquired skills were devoted to privately remunerative but socially wasteful, or even counter-productive, activities—in some countries the expansion of schooling meant the country just had better educated pirates” (Pritchett 2001, p. 387). Murphy, Shleifer, and Vishny (1991) develop a formal model and provide some empirical evidence that countries where more talented people tend to go into occupations better suited for redistribution grow slower on average than countries where talented individuals tend to pursue wealth-creating activities. Murphy, Shleifer, and Vishny (1991) use the legal occupation as a largely redistributive activity and engineering as a wealth-creating one.

Alexeev, Natkhov, and Polishchuk (2019) present a model of the effect of institutional quality on occupational choice and test the

¹⁹See table C1.4 in the online version of the Organisation for Economic Co-operation and Development (2018; available at <https://stats.oecd.org/>). These educational expenditures include both government and observable private expenditures.

²⁰Organisation for Economic Co-operation and Development (2016).

implications of the model using the data from the Russian regions. The authors show that in the regions with better market institutions, more talented students are more likely to enroll in science, technology, engineering, and mathematics disciplines, while poor institutions result in greater talents pursuing law and public administration education. The arguments and empirical results above suggest that in a weak institutional environment, the social returns to education can be negative even if the private returns are highly positive, as appears to be the case in Russia (see Belskaya, Peter, and Posso 2014). The impact of institutions on the allocation of human capital can serve at least as a partial explanation for why the Russian economy stagnates despite the country's high educational capital endowment.

Another piece of the Russian economic stagnation puzzle has to do with the allocation of physical capital. As was demonstrated by Nunn (2007), countries with better institutions, particularly contract enforcement, have a relative comparative advantage in exporting products of manufacturing sectors whose production relies more on inputs that cannot be purchased on organized exchanges.²¹ The intuition here is that strong contract enforcement disproportionately benefits firms that use custom-made inputs requiring involved negotiations with suppliers, rather than inputs that can be purchased on organized exchanges or in other thick markets. Therefore, better contract enforcement gives such firms comparative advantage. Importantly, more institutionally dependent manufacturing sectors also tend to produce more sophisticated products. Using panel data on the Russian regional institutional quality and output of manufacturing sectors, Alexeev and Chernyavskiy

²¹ Levchenko (2007) showed a similarly beneficial effect of institutional quality for sectors that use a greater variety of inputs.

(2019) show that both output and growth rates of more institutionally dependent sectors are significantly higher in the regions with better institutional quality. In other words, contract enforcement as well as overall institutional quality are important for allocation of capital between manufacturing sectors. Given low institutional quality in the country, these results explain the lack of significant improvement in the complexity and diversification of the Russian exports recently quantified by Lyubimov (2019).

Poor institutional quality can also explain the stubbornly large shadow economy—another issue that was not paid enough attention by Åslund. Medina and Schneider (2018) estimate the Russian shadow economy at about one-third of GDP in 2015. This is an improvement from over 40 percent in the early 2000s, but it is still significantly larger than in any European country outside of the former USSR. Although estimating the size of the shadow economy is notoriously difficult, and some of the Medina and Schneider's estimates appear to contradict common perceptions and some related data,²² it is clear that a large part of economic activity in Russia takes place outside of the purview of the authorities, at least in their official capacity. This is not a new phenomenon, of course. In part, this is a legacy of the Soviet system. But the fact that it is estimated to be considerably larger than it

²² For example, I find it difficult to believe that the share of the shadow economy in India (estimated at 17.89 percent of GDP by Medina and Schneider 2018) is essentially the same as that of Belgium (17.8 percent), smaller than the respective shares in Spain (22.01 percent) and South Korea (19.83 percent), and only slightly larger than its share in Norway (15.07 percent). And, of course, it is also surprising that the estimate for India is much smaller than that for Russia. Meanwhile, a recent International Labour Organization report estimates the share of informal employment in total employment in India at 88 percent compared to 36 percent in Russia. These shares are not, of course, the same as the shares of the shadow economy in GDP, but they nonetheless suggest that the shadow economy in India is likely to be much larger than it is in Russia.

was in Soviet Russia²³ where shortages were pervasive, implies that the disadvantages of operating a business legally in today's Russia often exceed the advantages of doing so.

The existence of a large shadow economy imposes both benefits and costs on the rest of the economy. On one hand, the possibility of going into the shadow provides a check on the ability of the government to impose excessive regulations and taxes, although when firms evade regulations, they do so with respect to both excessive and socially efficient regulations. On the other hand, operating in the shadow deprives the government of tax revenue needed for public goods provision. Shadow economies are also typically inefficient, in part because businesses operating illegally cannot take full advantage of some of the important official public goods such as government property rights protections and contract enforcement. In addition, illegal businesses might have difficulties accessing external financing, advertising, and providing warranties. La Porta and Shleifer (2014) show that firms in the informal economies around the world are typically inefficient, small, and have little interaction with the formal economy. In Russia, however, some relatively large firms have both formal and informal operations where the informal aspect consists mainly of hiding a portion of their sales and payroll in order to evade taxation (see Johnson, Kaufmann, and Shleifer 1997 and Braguinsky, Mityakov, and Liscovich 2014). Therefore, the effect of the shadow economy on the overall Russian economy is hard to evaluate.

One set of factors that can push firms into the shadow is excessive regulation and taxation. Åslund rightly notes that one of the

most beneficial economic reforms early in Putin's first term was the simplification of the tax system, including the introduction of a flat income tax, and improving tax administration (e.g., pp. 78–80). In addition, there were several deregulatory reforms. Although Russia nowadays performs quite well in the World Bank's Doing Business rankings, there are indications that the results of these reforms have been ambiguous. According to the World Bank's Business Environment and Enterprise Performance surveys (BEEPS), deregulation and tax reform in the early 2000s did initially reduce the bureaucratic pressure on business in Russia, but in a few years the pressure returned, and by 2009 it appeared to be greater than in 1999, although the 2011–19 surveys show some improvement. For example, taking 2002 as a base year and controlling for various firm characteristics, the percentage of senior managers' time spent dealing with government regulations was about 5 points greater in 1999, 11 points greater in 2009, and ten points greater in 2012, albeit by 2019 it was statistically indistinguishable with 2002.²⁴ Also, figure 1 shows how the means of the perceived severity of different obstacles to business changed relative to 2002.²⁵ As the figure demonstrates, tax administration and

²⁴The data from the BEEPS should be interpreted with caution. For example, with respect to senior managers' time, almost half of the responses were 0 in 2005 and 2019 while in all other years 0 answers to this question constituted 15–30 percent of the responses. It is hard to believe that firms' circumstances really changed so much just in 2005 and 2019.

²⁵These results are obtained controlling for firm size, shares of foreign and state ownership, and type of activity. The relevant questions in the 2009–19 survey asked the respondents to rate the extent to which various factors affected current operations of a business. The answers could range from 0 to 4 corresponding to No Obstacle, Minor Obstacle, Moderate Obstacle, Major Obstacle, and Severe Obstacle. Similar questions in the 1999–2005 surveys used the scale from 1 (No Obstacle) through 4 (Major Obstacle). I rescaled the 1999–2005 responses to 0 through 3 and merged the Severe Obstacle response in 2009–19 surveys with Major Obstacle.

²³Alexeev and Pyle (2003) estimated the so-called "second economy" in Russia in 1989 at 18 percent of GDP, although the concepts of the second economy in the Soviet-type system and the shadow economy are somewhat different.

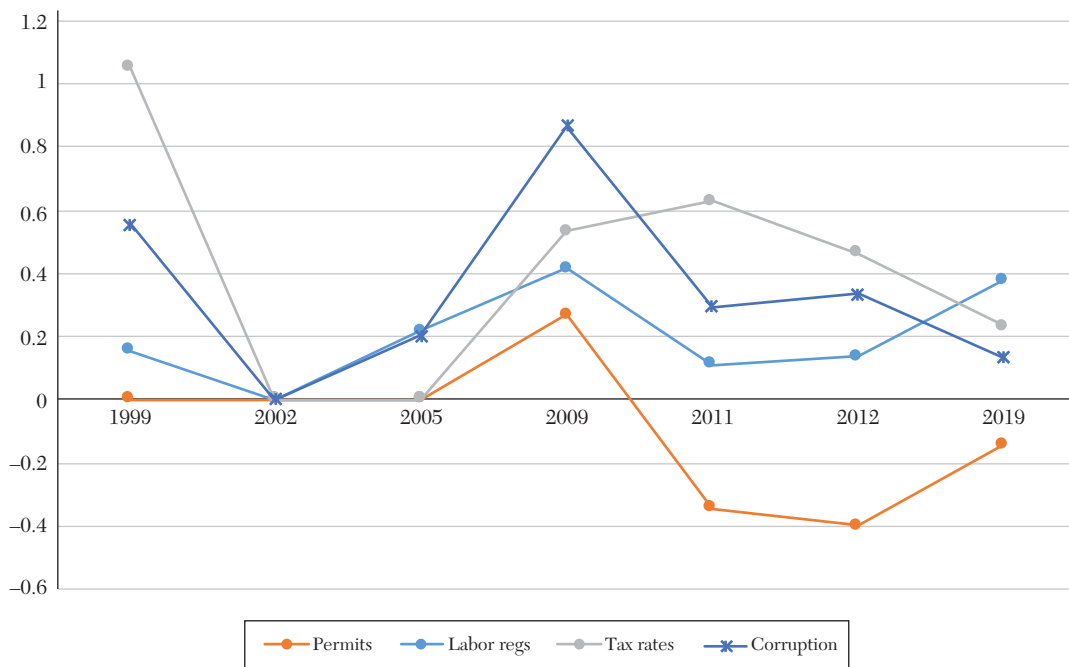


Figure 1. Severity of Different Obstacles to Business (2002=0)

Notes: Survey answers are on somewhat different scales in earlier versus later rounds. The answers have been rescaled to a 0–3 scale, with larger values representing greater severity of an obstacle (see footnote 25). The figure is based on the estimates of the coefficients of the dummy variables for years in the regressions of severity of obstacles on firm size, activity sector, foreign ownership share, state ownership share, and dummy variables for years.

Sources: Calculated based on Enterprise Analysis Unit—World Bank Group (2019) and European Bank for Reconstruction and Development (1999).

business licensing presented less important obstacles on average in 2012 than in 2002 but tax rates, labor regulations, and corruption became greater obstacles. All the differences from 2002 are highly statistically significant except for some of the means for 2005 and the mean severity of business permits as an obstacle in 2019. In fact, labor regulations, tax rates, and corruption present more severe obstacles to the firms in 2019 than they did in 2002. Interestingly, Medina and Schneider's (2018) estimates of the shadow economy in Russia do not show any

significant jumps up or down despite clear improvements in the regulatory framework in the early 2000s. According to these estimates, the shadow economy has been shrinking gradually from the mid-1990s. It is also important to mention that these surveys do not even ask about the problems created by predatory raiding.

4.2. Fiscal Federalism

As noted earlier, Åslund does not discuss fiscal federalism issues which are, in my view, quite important. At the same time, one of

the most consequential transformations that began relatively early in Putin's reign was the centralization of political and economic power in the country—the so-called “vertical of power.” The introduction of the tax code and the budget code in the early 2000s sharply reduced the ability of regional governors to negotiate fiscal relations with the federal center. The governors also lost their seats on the Federation Council in 2000, and in 2004 Putin eliminated direct elections of regional governors, replacing them with presidential appointments. The share of subnational expenditures in total budgetary spending declined from close to 50 percent in the early 2000s (which was close to the US level) to about 35 percent in 2018.²⁶

Despite significant increases in economic and political centralization, a country as large as Russia can hardly be effectively managed from a single center. Also, Russia formally remains a federation with the regions enjoying significant autonomy under the constitution. More important, regional authorities in Russia play a large role in the provision of some important public goods such as education, healthcare, and public transportation. At the same time, regional institutional quality and the quality of provision of social services remain highly diverse despite centralization efforts of the federal government. The 2016 coefficient of variation of regional investment risk—the most popular index of regional institutional quality in Russia—is approximately 0.33 (Expert RA 2019).²⁷ For

comparison, the coefficient of variation of the index of economic freedom of the United States, which is based on a similar set of factors, is less than 0.14 (Fraser Institute 2019).

The diversity of institutional quality is probably one of the reasons for a highly uneven regional economic development and provision of public services, although causality most likely goes in both directions. The Gini coefficient of per capita gross regional product (GRP) was 0.38 in 2016 compared to 0.14 in the United States, although part of this difference can be explained by the smaller average population size of the Russian regions compared to the American states.²⁸ The per capita GRP inequality causes a similar level of inequality in regional “own” budget revenues with the corresponding Gini coefficient of 0.37. The Russian federal government provides various transfers to regions, including substantial equalization transfers, which help reduce the Gini coefficient for per capita budgetary expenditures to slightly above 0.29. Nonetheless, these numbers are still much higher than the respective Gini coefficients for the US states, which are approximately 0.13 for both per capita budget revenues and expenditures.²⁹

²⁶The data for early 2000s are from the Institute for the Economy in Transition (2006, table 4, p. 53). The 2018 data are from the Ministry of Finance of the Russian Federation (2020a, b).

²⁷See Baranov et al. (2015) for a survey of the regional institutional quality indices in Russia. Despite its name, the investment risk index is based on “qualitative and quantitative characteristics which reflect non-commercial risks of the business environment in the region as well as overall business situation there” (https://raex-a.ru/update_files/3_13_method_region.pdf, accessed on August 30, 2019).

²⁸The Gini coefficient for per capita GRP for Russia is calculated based on table 10.2 in *Regiony Rossii* (2019). The US coefficient is calculated based on GDP data from the Bureau of Economic Analysis (2020) and population data from the US Census Bureau (2020). Here and below the indicators of interregional inequality for Russia are calculated excluding two sparsely populated small regions (Chukotka and Nenetski districts, each with fewer than 50,000 people). The inclusion of these districts would increase these inequality indicators. The interregional inequality of per capita final household consumption (table 10.6 in *Regiony Rosii* 2019), including state-provided healthcare, education, and other services, is considerably lower with the respective Gini coefficient of only 0.16, although the Rosstat methodology of calculating final household consumption is unclear.

²⁹For more detailed recent discussions of Russian fiscal federalism see Yushkov, Savulkin, and Oding (2017) and Alexeev and Blöchliger (2019). The Russian Gini coefficients for budgetary data are calculated by the author

The interregional inequality of budgetary expenditures in Russia has particularly important consequences in primary and secondary education, where close to 100 percent of all government spending comes out of regional budgets, and housing and utility services, where this share has been almost 90 percent. Regional budgets also account for large shares of government spending in health care, investment, and subsidies to agriculture and transportation (Alexeev and Chernyavskiy 2018).

As Alexeev and Chernyavskiy (2018) demonstrate, the 2014–15 economic crisis hurt the Russian regional budgets both via the drop in own revenues of the regions and by a decline of the transfers from the federal budget. Moreover, unlike in the 2009 crisis, the poorer regions that suffered the most during the latest crisis did not see an increase in the transfers commensurate with the decline in their own revenues. In response, the regions slashed their expenditures, resulting in an almost 7 percent decline in real terms between 2014 and 2015. Since then, however, regional budgetary revenues and spending have been rising in real terms, although even in 2018 the real regional expenditures were still about 3 percent below the 2012 level.³⁰ The per capita regional budgetary spending fell even more, since the Russian population rose by almost three percent between 2012 and 2018. It is also important to note that the consequences of interregional inequality in Russia are exacerbated by the relatively low interregional mobility of the population, although this mobility improved

substantially during the 2000s (see Guriev and Vakulenko 2015).

There is a voluminous literature that demonstrates the beneficial effects of fiscal decentralization for educational outcomes, healthcare, economic growth, corruption, and overall institutional quality.³¹ However, the relatively centralized nature of Russian federalism, the lack of accountability to the local constituencies, and the apparently low factor mobility limit, if not completely eliminate, any benefits that a well-designed fiscal decentralization could have generated in a country as large and as diverse as Russia.

5. *Prospects for Economic Growth and Diversification*

As should be clear from the preceding discussion and as pointed out by Åslund, particularly in the concluding chapter, many of the problems of the Russian economy that make strong economic growth unlikely stem from poor institutional quality. Until institutions improve, talented individuals will continue to have incentives to apply their talents to rent-seeking instead of wealth creation, shadow economy will continue to prosper, the advantages of federalism will not be realized, and significant diversification away from hydrocarbons will be difficult to achieve. The prospects for institutional improvement, however, are dim. There was hope among the reformers of the 1990s that those who became rich during the period of poor protection of property rights would then begin pushing for the strong protection of property they managed to accumulate. This did not happen. As Polishchuk and Savvateev (2004)

based on regional budget execution data for 2016 in Roskazna (2017) and regional population data from table 2.2 in Regiony Rossii (2019). The US budgetary indicators are calculated by the author based on the US Census Bureau (2016).

³⁰Real regional own revenues exceeded the 2012 level already in 2016 but the federal transfers did not keep pace with inflation.

³¹ Martinez-Vasques, Lago-Peñas, and Sacchi (2016) provide a concise survey. Of course, not all empirical results on the impact of fiscal decentralization are consistent with each other, but the clear majority of the papers show substantial benefits.

and Sonin (2003) demonstrated, the rich in highly unequal societies do not necessarily demand stronger property rights protection by the government. This is because the rich can protect their property by private means while the absence of public protection facilitates predation of the poorer citizens. As Åslund points out, another reason for the low demand for protection of property by the rich is that they can avail themselves of the protections in developed countries, including the United States and the United Kingdom, by transferring much of their wealth there (Hoff and Stiglitz 2004 also make this point forcefully). This way they can continue to prey on others in Russia while their assets enjoy the safety of the rule of law abroad. The result is a bad but stable equilibrium where high inequality, low upward mobility, and widespread rent seeking prevent sustained economic growth.

The word “sustained” is important here because as Russia demonstrated in 1999–2008, it can grow rapidly if the starting point is sufficiently low, oil prices go up and up, and the domestic currency is undervalued. Åslund explains this growth spurt by arguing that oligarchic societies “might deliver economic growth at an early stage of development with large economies of scale and limited technological demands” (p. 235) while the rule of law is more important at a higher developmental stage. Åslund cites Acemoglu (2003)³² to support this argument. The dynamic aspect of Acemoglu’s theory, however, is more subtle and in a sense more relevant to the developments in Russia over the past 30 years. According to that theory, the original oligarchs in an economy are likely to be relatively good at managing their assets simply because they have gone through the selection process of obtaining and preserving

their ownership of these assets in a tough and competitive environment. This makes it possible for the economy to grow despite the barriers that the oligarchy creates for the upward mobility of the best and the brightest. However, the heirs of the original oligarchs are not particularly likely to be good managers and this creates problems for economic growth over time. In addition, the oligarchy may create barriers to investing in new sectors and technologies that would compete for labor and capital with the sectors dominated by the oligarchs.

The post-Soviet Russian developments present a variation on this theme. Guriev and Rachinsky (2005) found that the Russian oligarchs of the 1990s and the early 2000s were indeed more efficient managers than the other types of domestic firm owners. Some of these oligarchs, however, lost their businesses or were forced to leave the country. Although some of the original oligarchs are still running their businesses in Russia (e.g., Vladimir Potanin, Mikhail Fridman, Oleg Deripaska), their role in the economy has been greatly diminished. The new oligarchs are Putin’s cronies, the most important of which are vividly described by Åslund in chapters 4–6. These cronies were not selected based on their managerial acumen, but became rich due to the accident of their early relationship with and continued loyalty to Putin. As a result, the advantages of the original oligarchy theorized by Acemoglu dissipated in Russia much quicker than if the process were driven by familial inheritance. For example, the Russian oil industry most likely would have been in a better shape if Mikhail Khodorkovsky continued to manage Yukos assets, rather than Igor Sechin. Of course, the children and other relatives of Putin’s cronies are also becoming owners and managers of large enterprises, illustrating the current lack of meritocratic selection process and compounding the problem.

³²A revised version of this paper was published as Acemoglu (2008).

In principle, economic growth could come from small- and middle-sized enterprises that are not as dependent on the central government's institutions as they are on the business environment in their regions. In this respect, federalism can offer advantages because, if structured appropriately, it can foster interregional competition that would result in a race to the top in terms of institutional quality. However, for federalism to play this role, the regional authorities need to have substantial autonomy, be accountable to the local constituencies, and population and capital need to be mobile, among other factors (Weingast 2009, Alexeev and Weber 2013). In today's Russia, labor mobility is low and the regional governors are beholden to Putin rather than to a broad base of local constituents. This encourages or at least does not discourage predation by the regional authorities on local businesses and reduces, if not eliminates, the potential for federalism to promote economic growth. In addition, businesses are preyed upon by federal agencies that are supposed to enforce the law but often use their powers to expropriate business owners. Thus, almost 200,000 criminal cases against entrepreneurs were opened in 2014. Unlike with other types of criminal cases in Russia, only about 15 percent resulted in convictions, but 83 percent of entrepreneurs facing criminal charges lost all or part of their business.³³ Needless to say, this situation does not encourage investment.

In some East Asian economies, exports provided an engine of economic growth. However, this growth channel does not seem to be open to Russia either except, of course, in the case of commodity exports. As mentioned earlier, exports of sophisticated

manufacturing require strong contracting institutions that are absent in today's Russia.

Finally, Russia faces a highly unfavorable demographic situation. According to the midline forecast by Rosstat, the Russian population is going to decline from almost 147 million in 2019 to 144 million by 2036. Moreover, the share of working-age population was predicted in 2018 to decline from 55.4 percent to 54.3 percent during the same period, with the share of the elderly increasing from 25.9 percent to 30.1 percent and the share of children decreasing from 18.7 percent to 15.6 percent.³⁴ These developments certainly are going to impede both overall and per capita economic growth for years to come.

Despite all of the problems outlined in Åslund's book as well as in this essay, there is room for some optimism. As I showed in section 3, the two most recent generations, especially the millennials, have predominantly liberal and antiauthoritarian social attitudes, and these generations together with Generation Z are going to become an overwhelming majority in the next few years. Moreover, Radaev (2019) demonstrates that the Russian millennials have largely

³³2015 Presidential Address to the Federal Assembly; available at <http://en.kremlin.ru/events/president/news/50864>. The situation did not seem to improve in 2016 (see, for example, https://lenta.ru/news/2016/09/16/siloviki_protiv_bisnesa/).

³⁴The forecasts are available at <https://gks.ru/folder/12781>. The figures in the text use the forecast made in 2018 which is no longer available on the Rosstat website. This forecast was changed in some interesting ways in 2020. The current population forecast for 1936 is 143 million people (table *Изменение численности населения по вариантам прогноза* dated March 26, 2020). The share of children (people under 16 years of age) is currently predicted to decline to 14.2 percent of the total. However, the share of the working age population and the share of the elderly is now projected to become 61.7 percent and 24.1 percent, respectively. The dramatic changes in these shares relative to the 2018 forecast are due to the change in the definition of the working age and elderly categories. While in 2018 working age was defined as 16–60 for men and 16–55 for women, by 2036 these ranges are scheduled to widen to 16–64 for men and 16–59 for women. This was apparently done to conform to the new retirement ages following the recent reform (the age distribution forecast is in table *Численность населения по отдельным возрастным группам* dated March 26, 2020).

overcome the Soviet legacy and are more similar to their American counterparts than to the “Soviet person.” Perhaps this generational shift will drive the demand for liberal institutional and political reforms that would break the hold on power of the current kleptocracy.

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