

PROPERTY RIGHTS IN POST-SOVIET RUSSIA

The effectiveness of property rights – and the rule of law more broadly – is often depicted as depending primarily on rulers’ “supply” of legal institutions. Yet the crucial importance of private sector “demand” for law is frequently overlooked. This book develops a novel framework that unpacks the demand for law in Russia, building on an original enterprise survey as well as extensive interviews with lawyers, firms, and private security agencies. By tracing the evolution of firms’ reliance on violence, corruption, and law over the two decades following the Soviet Union’s collapse, the book clarifies why firms in various contexts may turn to law for property rights protection, even if legal institutions remain ineffective or corrupt. The author’s detailed demand-side analysis of property rights draws attention to the extensive role that law plays in the Russian business world, contrary to frequent depictions of Russia as lawless.

JORDAN GANS-MORSE is an assistant professor of political science at Northwestern University. His articles have appeared in *American Journal of Political Science*, *American Political Science Review*, *Comparative Political Studies*, *Post-Soviet Affairs*, *Problems of Post-Communism*, and *Studies in International Comparative Development*. His research has been funded by the National Science Foundation, the Social Science Research Council, and the American Bar Foundation. He holds a PhD in political science from the University of California, Berkeley.

Cambridge University Press
978-1-107-15396-7 — Property Rights in Post-Soviet Russia
Jordan Gans-Morse
Frontmatter
[More Information](#)

PROPERTY RIGHTS IN POST-SOVIET RUSSIA

Violence, Corruption, and the Demand for Law

JORDAN GANS-MORSE
Northwestern University, Illinois



Cambridge University Press
978-1-107-15396-7 — Property Rights in Post-Soviet Russia
Jordan Gans-Morse
Frontmatter
[More Information](#)

CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom
One Liberty Plaza, 20th Floor, New York, NY 10006, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
4843/24, 2nd Floor, Ansari Road, Daryaganj, Delhi – 110002, India
79 Anson Road, #06–04/06, Singapore 079906

Cambridge University Press is part of the University of Cambridge.
It furthers the University's mission by disseminating knowledge in the pursuit of
education, learning, and research at the highest international levels of excellence.

www.cambridge.org
Information on this title: www.cambridge.org/9781107153967

© Jordan Gans-Morse 2017

This publication is in copyright. Subject to statutory exception
and to the provisions of relevant collective licensing agreements,
no reproduction of any part may take place without the written
permission of Cambridge University Press.

First published 2017

A catalogue record for this publication is available from the British Library.

ISBN 978-1-107-15396-7 Hardback

Cambridge University Press has no responsibility for the persistence or accuracy of
URLs for external or third-party Internet Web sites referred to in this publication
and does not guarantee that any content on such Web sites is, or will remain,
accurate or appropriate.

CONTENTS

<i>List of Tables</i>	<i>page viii</i>
<i>List of Figures</i>	<i>ix</i>
<i>Acknowledgments</i>	<i>x</i>
1 Violence, Corruption, and Demand for Law	1
1.1 The Puzzle	3
1.2 The Argument	4
1.3 Contributions	5
1.4 The Case: Post-Soviet Russia	8
1.5 Data and Methodology	13
1.6 Outline of the Book	14
2 Institutional Supply and Demand	16
2.1 The Dependent Variable: Property Security Strategies	17
2.2 The Theory	23
2.3 Institutional Supply and Demand in Russia	33
2.4 Other Explanatory Factors	35
2.5 Scope of Analysis	40
2.6 Conclusion	42
3 The Evolution of Firm Strategies	43
3.1 The Decline of Private Coercion	44
3.2 The Replacement of Private Coercion with Corrupt Coercion	54
3.3 The Rise of Legal Coercion	58
3.4 Conclusion	69
Appendix: Understanding Russian Caseload Data	69
4 The Role of State Legal Capacity	71
4.1 The 1990s: Building the Foundations of State Legal Capacity	73
4.2 The 2000s: The Ambiguous Evolution of State Legal Capacity	78

vi	CONTENTS
4.3	State Legal Capacity’s Dark Side: Rise of a Predatory State 85
4.4	State Legal Capacity from the Firm’s Perspective 91
4.5	Conclusion 95
5	Demand-Side Barriers to the Use of Legal Strategies 97
5.1	Tax Compliance and Operations in the Informal Economy 99
5.2	Firms’ Expectations and Collective Action Problems 110
5.3	Conclusion 124
6	The Effectiveness of Illegal Strategies 126
6.1	Time Horizons and the Consolidation of Ownership 128
6.2	Financial Sector Development 136
6.3	Integration into the International Economy 142
6.4	Conclusion 149
7	Variation in Strategies across Firms 150
7.1	Effectiveness of Illegal Strategies 152
7.2	Demand-Side Barriers 166
7.3	Firm Size 172
7.4	Conclusion 177
8	Firms, States, and the Rule of Law in Comparative Perspective 179
8.1	The Argument in Brief 180
8.2	Strategies, Institutional Effectiveness, and the Rule of Law 183
8.3	Prospects for the Rule of Law in Russia 188
8.4	Rethinking the Role of the State 195
8.5	Pathways to the Rule of Law in Comparative Perspective 196
	Appendices 207
A	Original Interview Data 209
B	Original Survey Data 215
C	Other Surveys Cited or Analyzed 217
D	Formalizing the Argument 218
E	Descriptive Statistics for Key Variables 226
F	Correlations and Cluster Analysis 229

Cambridge University Press
978-1-107-15396-7 — Property Rights in Post-Soviet Russia
Jordan Gans-Morse
Frontmatter
[More Information](#)

CONTENTS vii

G Selected Regression Tables	231
<i>References</i>	275
<i>Index</i>	293

A further Online Appendix can be accessed at <http://cambridge.org/9781107153967>.

TABLES

3.1 Businesspeople Murdered in the Central Federal District of RF, 1997–2005	49
3.2 Number of Cases Related to Private Arbitration Heard by Commercial Courts, 2002–2009	64
3.3 Preferred Property Security Strategies (full sample)	65
3.4 Preferred Property Security Strategies (regional cities)	67
4.1 Annual Federal Budget for MVD and Judiciary, 1998–2010	81
4.2 Number of Economic Crimes Reported, 2000–2012	89
6.1 Ownership Structure of Russian Industrial Firms	130
6.2 Percent of Russian Industrial Firms with Large Shareholder	131
6.3 Bank Transactions, Deposits, and Loans, 1999–2008	137
6.4 Reliance on Foreign Finance	144
7.1 Types of Markets and the Effectiveness of Formal Legal Institutions	155

FIGURES

2.1 Property Security Strategies	19
2.2 Overview of Analytical Framework	23
3.1 Annual Cases Initiated by Firms in Commercial Courts, 1992–2013	60
4.1 Firms’ Assessment of Courts	92
5.1 Tax Revenues and Arrears to Consolidated Budget of RF, 1992–2008	101
5.2 Reporting Sales Revenue for Tax Purposes	103
5.3 Tax Compliance and Propensity to Use Strategies	108
5.4 Collective Action and Propensity to Use Strategies	115
5.5 Graphical Depiction of Tipping Point Game	122
6.1 Ownership Consolidation and Propensity to Use Strategies	134
6.2 Cash Transactions and Propensity to Use Strategies	141
7.1 Types of Markets and Propensity to Use Strategies	157
7.2 Market Size and Propensity to Use Strategies (firms with 250 or more employees)	161
7.3 Informal Networks and Propensity to Use Strategies	163
7.4 Wealthy Clientele and Propensity to Use Strategies (firms with fewer than 250 employees)	165
7.5 Demand-Side Barriers and Propensity to Use Strategies	169
8.1 States, Firms, and the Rule of Law	189

ACKNOWLEDGMENTS

This book would not have been possible without the support and guidance of many individuals and organizations. At Northwestern University, I have been fortunate enough to find myself surrounded by extraordinary colleagues in the Department of Political Science. Karen Alter, Bill Hurst, Jim Mahoney, Steve Nelson, Wendy Pearlman, Jason Seawright, Jeffrey Winters, Will Reno, Rachel Riedl, and Andrew Roberts offered comments on parts or all of the manuscript, advice about the publishing process, and, perhaps most important, support and encouragement. Meanwhile, the outstanding research assistance of Dong Zhang helped bring the manuscript to completion.

Beyond Northwestern, my good friend and collaborator, Simeon Nichter, provided feedback on countless drafts and helped me brainstorm new paths on the many occasions when I thought I had hit a dead end. Throughout the project, I also received invaluable advice from Tim Frye, Scott Gehlbach, Kathryn Hendley, Stan Markus, Bob Orttung, and Bob Nelson at various critical stages.

I am also grateful to the Northwestern Equality Development & Globalization Studies program and Department of Political Science for funding a book workshop from which this manuscript benefited greatly. At this workshop, Tim Frye, Scott Gehlbach, Anna Grzymala-Busse, and Pauline Jones, along with my Northwestern colleagues Bill Hurst, Jim Mahoney, Jason Seawright, and Jeffrey Winters, graciously offered their time and insights.

This book began as a dissertation in the Department of Political Science at the University of California, Berkeley. I owe a great deal of gratitude to my dissertation committee, Steve Fish, Steve Vogel, Brad DeLong, and, particularly, to my committee chair, John Zysman. Although not officially members of the committee, I also am grateful to Bob Kagan for introducing me to the world of Law and Society scholarship; to Henry Brady for his advice regarding the survey component of my research; to David

ACKNOWLEDGMENTS

xi

Collier for his ongoing support and advice; and to Ned Walker for numerous stimulating intellectual conversations over the years. At Berkeley, I was also part of an exceptional community of graduate students, many of whom directly or indirectly aided me during the formative stages of the project, including (but by no means limited to) Neil Abrams, Sener Akturk, Taylor Boas, Jen Brass, Miguel De Figueiredo, Sam Handlin, Jonathan Hassid, Danny Hidalgo, Diana Kapiszewski, Andrej Krickovic, Ben Lessing, Sebastian Mazzuca, Simeon Nichter, Jody LaPorte, Danielle Lussier, Rachel Stern, Bart Watson, Susanne Wengle, and Kuba Wrzesniewski.

At Cambridge University Press, I'm indebted to my acquisitions editor John Berger, content manager Lisa Sinclair, and the production department led by Velmurugan Inbasigamani. Their professionalism and advice have been greatly appreciated throughout the many stages of bringing a manuscript to print. Thanks are also owed to Evgeniia Mikriukova, one of Northwestern's many talented graduate students, for her help in designing the cover image for this book.

In Russia, I incurred many debts of gratitude while conducting fieldwork. Andrei Yakovlev and his colleagues at the Institute for Industrial and Market Studies and the International Center for Studies of Institutions and Development, both at the Higher School of Economics in Moscow, provided both helpful insights into the Russian business world and an office out of which to work during several research trips. Peter Skoblikov of the Interior Ministry's Academy of Management patiently introduced me to the details of the Russian legal system. Elena Bashkirova and her colleagues at Bashkirova and Partners conducted the survey component of the project. Maria Ievskaya, Roman Khudaleev, and Dina Balalaeva provided excellent research assistance. I am especially indebted to two good friends with intimate knowledge of the Russian business world, Slava Petrov and Andrei Karapetian, for their insights and support. Most of all I would like to thank the many interview and survey respondents to whom I promised anonymity for taking the time to share their views.

I would also like to acknowledge the generous support of faculty research grants from the Northwestern Equality Development & Globalization Studies program and the Kellogg School of Management Dispute Resolution Research Center; a Eurasia Dissertation Support Fellowship from the Social Science Research Council; a Law and Social Science Doctoral Fellowship from the American Bar Foundation; a Humane Studies

Fellowship from the Institute for Humane Studies; a Fulbright-Hays Doctoral Dissertation Abroad Fellowship; a Jacob K. Javits Fellowship from the US Department of Education; and a Doctoral Dissertation Improvement Grant and a Graduate Research Fellowship from the National Science Foundation. I additionally acknowledge that parts of Chapter 3 draw on materials first used in my article “Threats to Property Rights in Russia: From Private Coercion to State Aggression,” published in *Post-Soviet Affairs* volume 28, number 3, 2012, pages 263–295.

My deepest appreciation is reserved, of course, for the encouragement, love, and patience of my family and loved ones, Karen, Larry, Ethan, Bob, who graciously copyedited the entire manuscript, and my daughter Julia and wife Katya, who in addition to love and support kept my theories grounded in the realities of life in Russia.