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# **Inefficient State or Passive Society? Analysis of the Demand For State Intervention in Russia**

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# Motivation

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In countries with large public sector bureaucracy is often corrupt

Paradoxically, people support high government control  
regardless of its quality

Is it because people themselves are not able to organize (do not  
have outside option)?

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# Idea

- ▶ Demand for regulation as a transmission channel between social capital and development
  - ▶ Lack of self-organization -> call for state intervention
  - ▶ State as a monopolist -> corruption



# Transmission mechanisms

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Standard:

- ▶ Horizontal channel – lower transaction costs in private sector and society
- ▶ Vertical channel – higher accountability and improved governance

Here:

Side influence - through demand for regulation

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# Literature

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- ▶ **Lack of social capital -> poor governance**
  - ▶ Putnam(1993): Making democracy work
- ▶ **Lack of honest people -> demand for regulation as an optimal response**
  - ▶ Pinotti(2008) - cross-country evidence: regulation does not predict corruption if one controls for trust
  - ▶ Di Tella and McCulloch (2009). Lagged corruption -> demand for regulation
- ▶ **All together - a model of Aghion et.al(2010)**
  - ▶ Two equilibria: one with honest people, high trust and low regulation
- ▶ **Russia - Denisova et.al.(2010): empirics on RLMS**



# Hypotheses

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## City-level analysis:

- ▶ “Pro-active” cities are more liberal
- ▶ “Pro-active” cities are more successful
  
- ▶ Individual support for government control depends on the initiative of people around
  - ▶ And less on the quality of bureaucracy



# Data

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- ▶ 6.5 thousand respondents from 66 Russian cities
- ▶ 37 big cities - regional capitals or second city in the region and 29 towns of Moscow region
- ▶ **Social capital:** Do you think people in your city are initiative? Are people in your city ready to unite to solve public common problems? (17/20%)
- ▶ **Demand for regulation:** Do you think there is need to decrease government control over economics and society? (29%)
- ▶ **Quality of bureaucracy:** Do you think that bureaucrats do much to increase welfare of the citizens? (43%)
- ▶ IndividControls - age, sex, welfare, education, satisfaction with life



# Electoral Statistics

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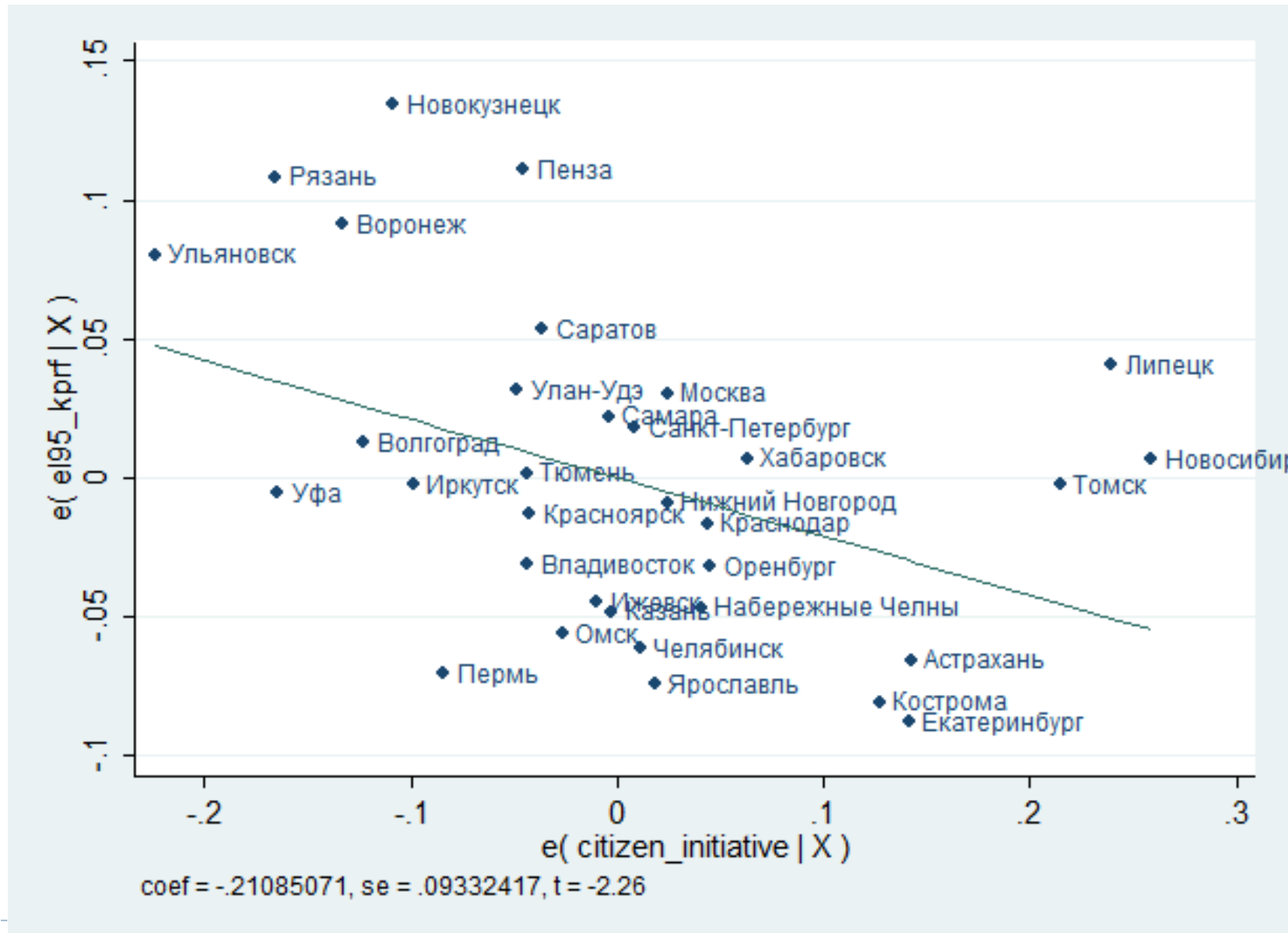
- ▶ Persistence of voting patterns between electoral cycles - 1995, 1999, 2007
- ▶ Clear distinction between "left" and "right" parties
- ▶ *Left*: Communist party in 1995; "United Russia" in 2007
- ▶ *Right*: Yabloko in 1995; Yabloko, SPS in 1999 and 2007

$$DemandForRegulation_i = \alpha + \beta SocialCapital_i + \gamma Control_i + \epsilon_i$$

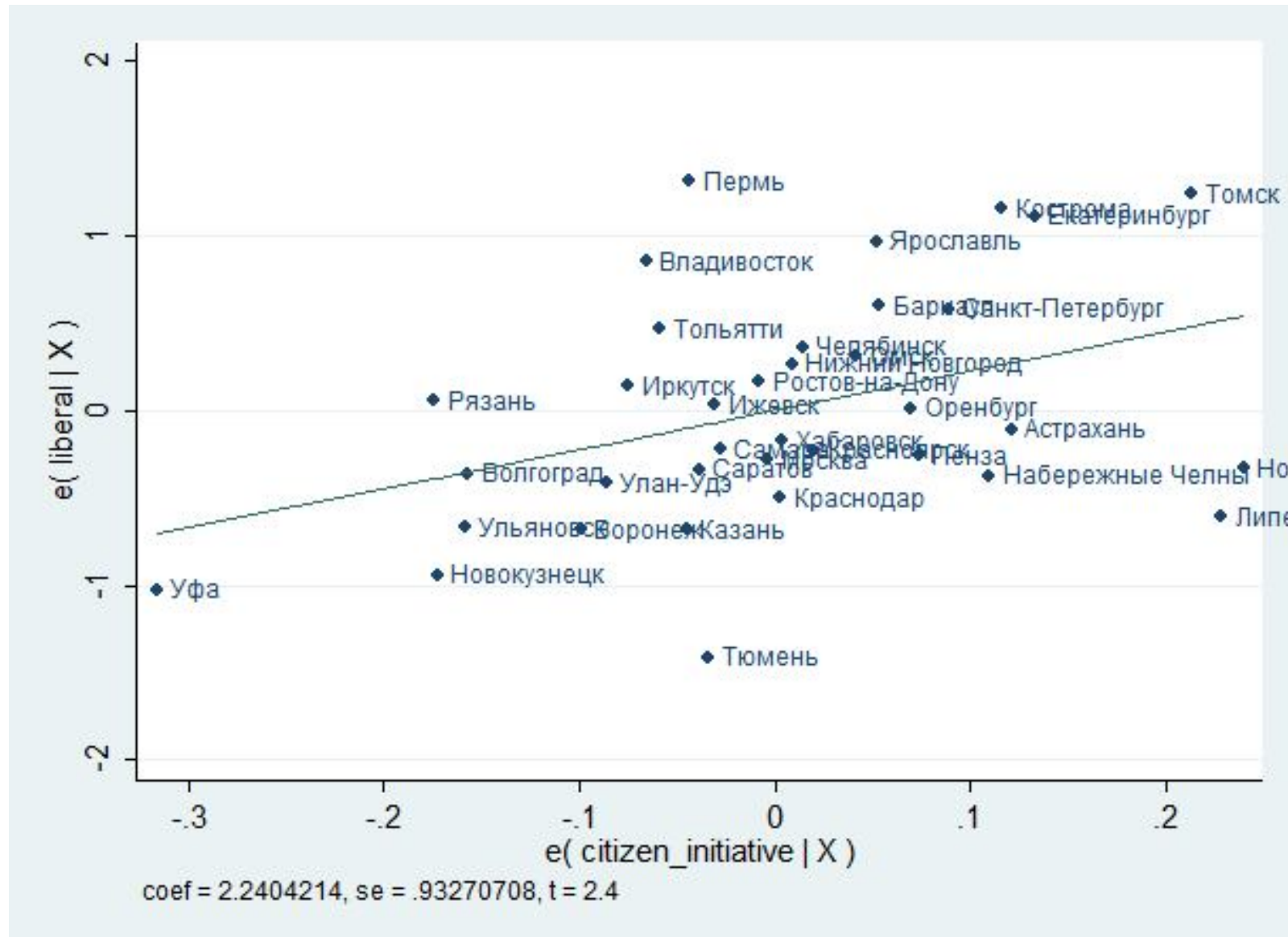




# Electoral Statistics: Voting for CPRF

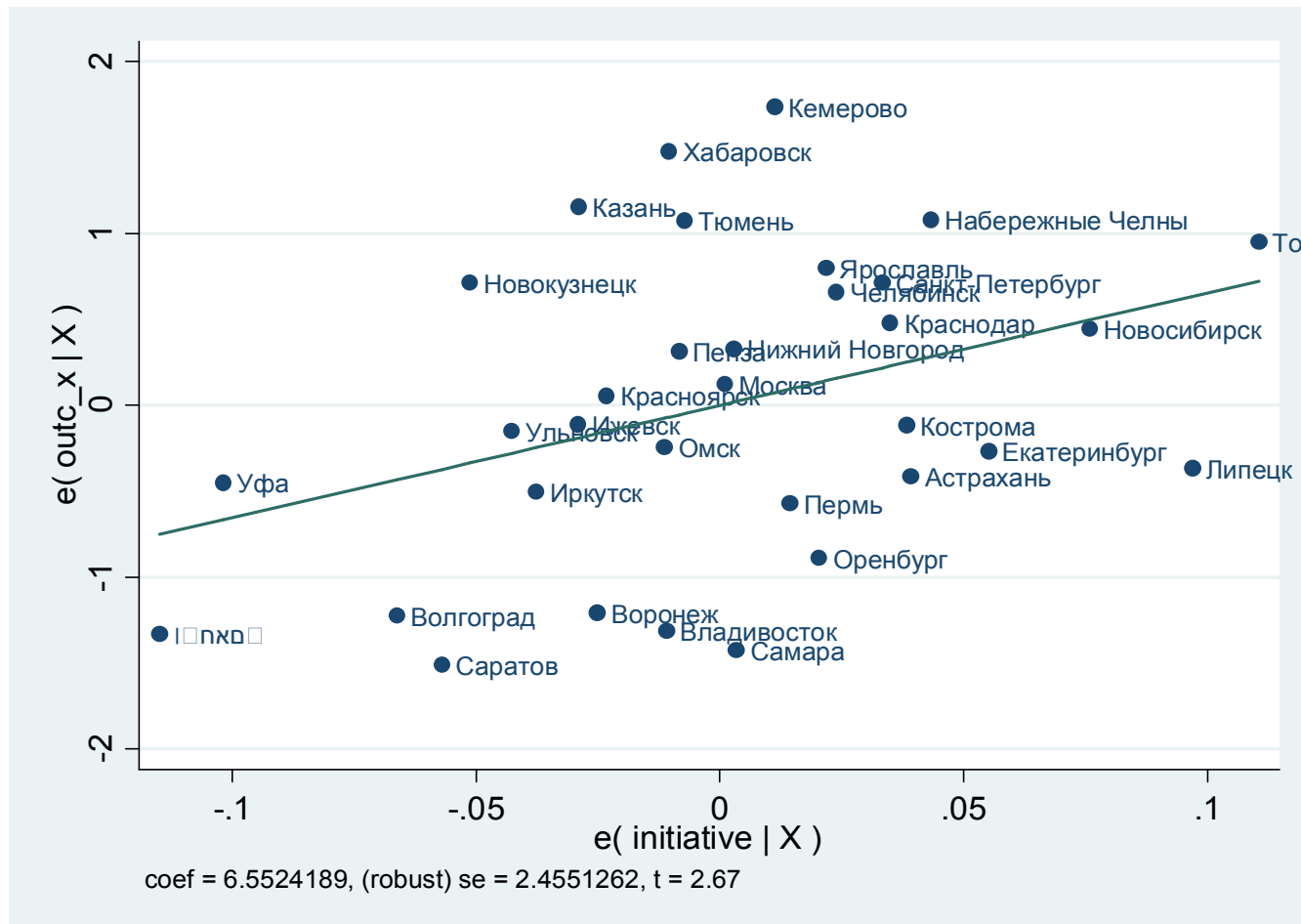


# Electoral Statistics: Combined Liberal Index



# Situation in the city

- ▶ Citizens' satisfaction with the situation in the city - Average estimate by survey polls from 2003 to 2010



# Problems

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- ▶ **Just correlations (obvious ones!)**
- ▶ **But with**
  - ▶ Political background being somewhat equal
  - ▶ Control on city-level income, educational level and age
- ▶ **Individual responses can reveal the mechanism**



# Individual Responses

$$Prob(Y_i = 1) = \Phi(\alpha + \beta_1 BureaucraticQuality_i + \beta_2 SocialCapital_i + \gamma_l Control_{li}) + \epsilon_i$$

**Table 1:** Support for the current regulatory level as a function of bureaucratic quality and social capital

VARIABLES	(1)	(2)	(3)	(4)
Bureaucratic Quality	0.020 (0.019)		0.041** (0.020)	0.000 (0.027)
Citizen Initiative		-0.091*** (0.023)	-0.099*** (0.024)	-0.160*** (0.037)
Bur.Quality x Citizen Initiative				0.049** (0.023)
Observations	5,580	5,317	5,182	5,182
Pseudo R-squared	0.0237	0.0248	0.0265	0.0272
LR chi2	158.2	158.6	165.1	169.7

<sup>a</sup> Notes: Abbreviated results of a probit regression. Individual controls are not shown.

Standard errors are in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

# Conclusion

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Some indicative results on interdependence between social capital, demand for regulation and development

- ▶ More proactive cities are more liberal and more developed in terms of citizen's satisfaction
- ▶ Individuals decide on state control taking social capital factors into account regardless of quality of the bureaucracy



# What social capital?

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- ▶ Bridging social capital is based on universal morality and long radius of trust – it facilitates the creation of broad societal coalitions (Putnam groups)
- ▶ Bonding social capital is based in limited morality and short radius of trust – it facilitates the creation of narrow interest groups (Olson groups)
- ▶ Civic culture – sense of awareness, involvement and responsibility for public affairs



# Empirical Strategy: The Tale of 1800 Plus Cities (and Towns)

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2007 GeoRating survey conducted by the Public Opinion  
Foundation (ΦΟΜ)

Sample parameters:

- ▶ 34,000 respondents
- ▶ 68 Russian regions
- ▶ 1822 cities and towns

Links between social capital, governance and development are  
explored at the city level

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# Social cohesion, governance and economic conditions at a glance

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- ▶ What is more common **in our country today** – social accord and cohesion, or discord and alienation? **18% - social accord and cohesion**
  - ▶ What is more common **among people around you** – social accord and cohesion, or discord and alienation? **53% - social accord and cohesion**
  - ▶ How often are people around you prepared for collective action to jointly solve their problems? **77% - rarely or not prepared at all**
  - ▶ Do you think that people can be trusted, or you cannot be more careful in dealing with people? **20% - people can be trusted**
  - ▶ How strongly you feel responsibility for the situation in **your family**? **75% - full responsibility**
  - ▶ How strongly you feel responsibility for the situation in **your city**? **72% - little or no responsibility**
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- ▶ Do you think local authorities understand and cater to the interests of people like you?  
**79% - they ignore my interests**
  - ▶ Overall, are you satisfied or dissatisfied with the situation in your city (town, village)?  
**62% dissatisfied**



# Factor analysis of attitudes and values reveals social capital

Attributes	Open SC	Closed SC	Civic culture
Willingness to help	0.7	0.2	-0.1
Propensity to form groups	0.7	-0.3	0
Willingness to jointly solve problems	0.6	-0.3	0.2
Agreement and cohesion in the community	0.5	-0.4	0.1
Respondent's willingness to join groups	0.5	0.3	-0.1
Plenty in common with others	0.4	0.3	-0.3
Volunteer to help others	0.3	0.3	-0.1
Feel responsible for the family	0.2	0.4	0.2
Feel responsible for the community	0.2	0.4	0.5
Feel responsible for the town (city)	0.3	0.2	0.5
Trust people like myself	0.3	0.4	-0.4
Trust people in general	0.3	-0.1	0



# Social capital has an economic payoff ...

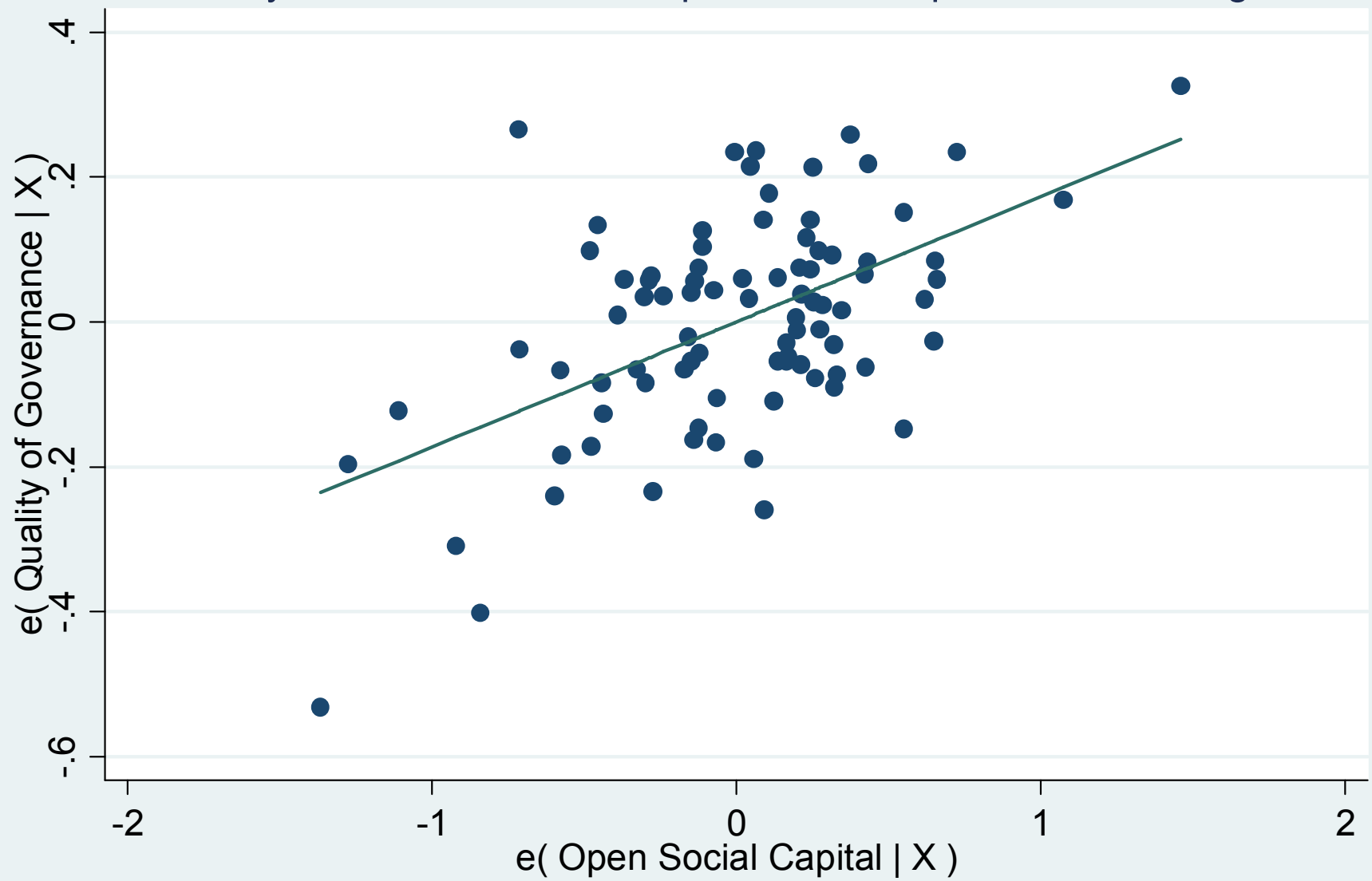
VARIABLES	(1)	(2)	(3)	(4)
<i>Open SC</i>	0.122*** (0.010)	0.114*** (0.012)	0.122*** (0.010)	0.114*** (0.014)
<i>Closed SC</i>	-0.091*** (0.003)	-0.088*** (0.002)	-0.091*** (0.003)	-0.088*** (0.015)
<i>Civic culture</i>	0.019** (0.006)	0.025** (0.009)	0.021*** (0.005)	0.025* (0.014)
<i>Population</i>	0.0013*** (0.0002)	0.0010** (0.0003)		
<i>Age</i>		-0.003 (0.005)		-0.003 (0.003)
<i>Education</i>		0.002 (0.009)		0.003 (0.012)
<i>Wellbeing</i>		0.115*** (0.016)		0.116*** (0.029)
<i>City size dummy</i>	NO	NO	YES	YES
<i>Regional effects</i>	YES	YES	YES	YES
<i>Observations</i>	1822	1822	1822	1822
<i>R-squared</i>	0.267	0.282	0.266	0.280

# It strongly affects government performance ...

<b>Total sample</b>			
<i>VARIABLES</i>	1	2	3
<i>Open SC</i>	0.128*** (0.002)	0.124*** (0.004)	0.123*** (0.004)
<i>Closed SC</i>	-0.098*** (0.004)	-0.095*** (0.005)	-0.095*** (0.005)
<i>Civic culture</i>	0.057** (0.018)	0.060** (0.02)	0.059** (0.02)
<i>Population</i>		-0.0001 (0.0001)	
<i>Age</i>		-0.003* (0.001)	-0.003* (0.001)
<i>Education</i>		-0.007*** -0.001	-0.004*** -0.001
<i>Wellbeing</i>		0.064*** (0)	0.065*** (0)
<i>City size dummy</i>	NO	NO	YES
<i>Regional effects</i>	YES	YES	YES
Observations	1822	1822	1822
R-squared	0.289	0.296	0.297

<b>Large cities</b>				
<i>VARIABLES</i>	4	5	6	7
<i>Open SC</i>	0.205*** (0.016)	0.204*** (0.012)	0.183*** (0.017)	0.165*** (0.028)
<i>Closed SC</i>	-0.136*** (0.027)	-0.136*** (0.027)	-0.118*** (0.022)	-0.131*** (0.022)
<i>Civic culture</i>	0.101*** (0.008)	0.101*** (0.006)	0.116*** (0.009)	0.122*** (0.003)
<i>Population</i>		-0.002 (0.012)	-0.015 (0.011)	-0.022* (0.009)
<i>Age</i>			0 (0.006)	-0.006 (0.009)
<i>Education</i>			0.002 (0.026)	0.025** (0.006)
<i>Wellbeing</i>			0.167*** (0.011)	0.162*** (0.008)
Observations	86	86	86	65
R-squared	0.521	0.521	0.561	0.505

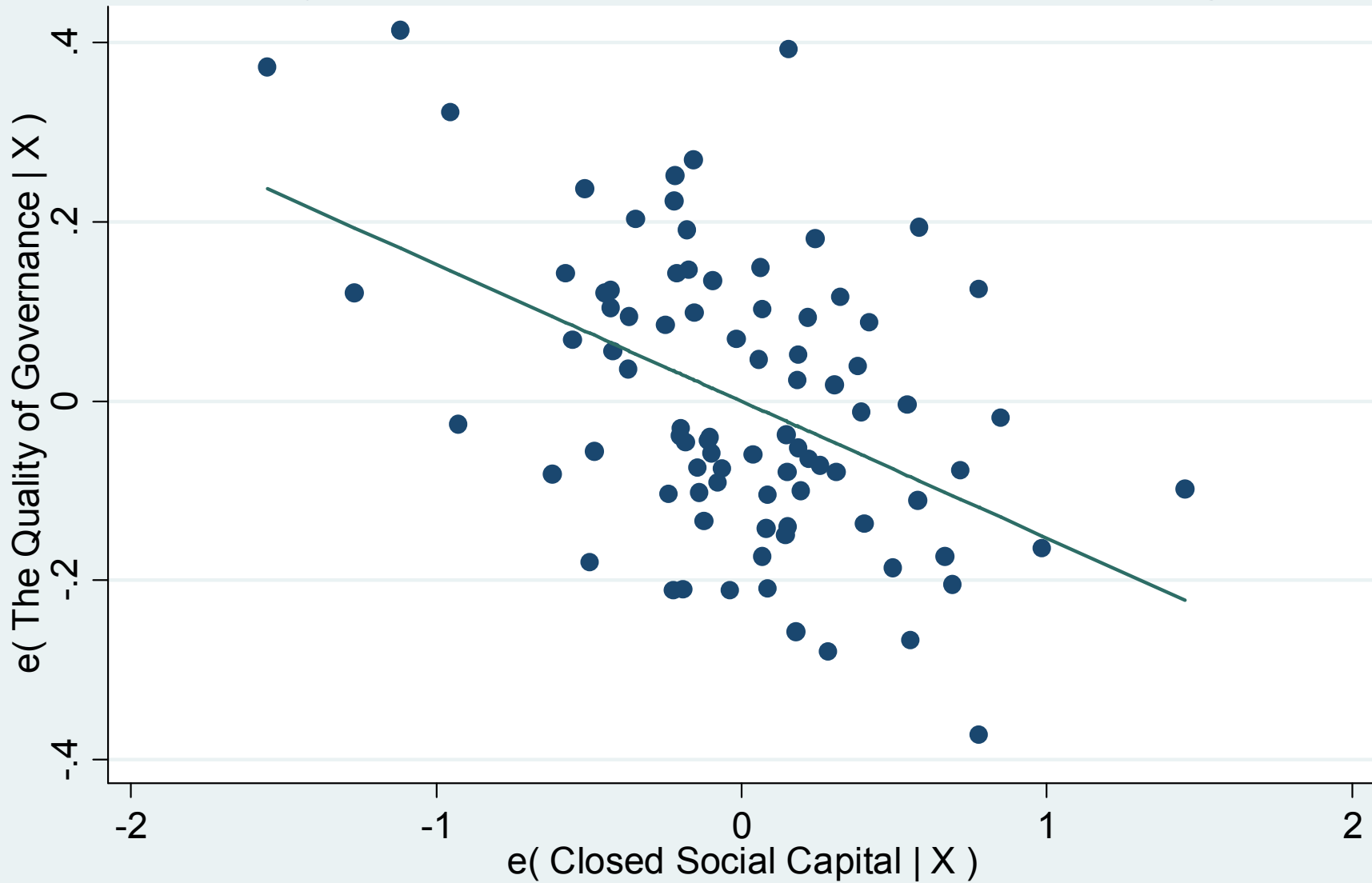
# The Quality of Governance and Open Social Capital Stock in Large Cities



coef = .172, (robust) se = .015, t = 11.31



# The Quality of Governance and Closed Social Capital for Large Cities



coef = -.15241266, (robust) se = .02387625, t = -6.38

# ... and works mainly through the vertical channel: full sample ...

VARIABLES	(1)	(2)	(3)	(4)
<i>Quality of governance</i>	0.450*** (0.022)	0.352*** (0.014)	0.338*** (0.015)	0.338*** (0.016)
<i>Open SC</i>		0.078*** (0.008)	0.072*** (0.009)	0.072*** (0.009)
<i>Closed SC</i>		-0.060*** (0.006)	-0.056*** (0.002)	-0.056*** (0.003)
<i>Civic culture</i>		-0.007 (0.005)	0.005 (0.004)	0.005 (0.002)
<i>Population</i>			0.0011*** (0.0003)	
<i>Age</i>			-0.002 (0.005)	-0.001 (0.005)
<i>Education</i>			0.005 (0.010)	0.004 (0.008)
<i>Wellbeing</i>			0.094*** (0.014)	0.093*** (0.014)
<i>City size dummy</i>	NO	NO	NO	YES
<i>Regional effects</i>	NO	YES	YES	YES
Observations	1822	1822	1822	1822
R-squared	0.137	0.319	0.336	0.335

# ... and larger cities

VARIABLES	(1)	(2)	(3)	(4)
<i>Quality of governance</i>	0.813*** (0.059)	0.813*** (0.058)	0.855*** (0.176)	0.972*** (0.075)
<i>Open SC</i>	-0.038 (0.034)	-0.036 (0.045)	-0.027 (0.041)	-0.054 (0.052)
<i>Closed SC</i>	0.058** (0.021)	0.059* (0.026)	0.048* (0.017)	0.040 (0.024)
<i>Civic culture</i>	-0.096 (0.082)	-0.096 (0.084)	-0.116 (0.089)	-0.207*** (0.020)
<i>Population</i>		0.003 (0.036)	0.027 (0.036)	0.024 (0.071)
<i>Age</i>			-0.041*** (0.008)	-0.030 (0.014)
<i>Education</i>			-0.123* (0.046)	-0.159** (0.041)
<i>Wellbeing</i>			-0.079 (0.192)	-0.244** (0.065)
Observations	86	86	86	65
R-squared	0.197	0.197	0.267	0.292



# Interplay between different types of social capital

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- ▶ The adverse impact of the closed social capital grows stronger as the stock of the *open* social capital increases in a low-to-medium range.
- ▶ Closed social capital helps when the society is nearly defenseless against government abuse, but becomes increasingly a drag on local development when civic awareness and capacity for collective action grow stronger.



# Impact of closed social capital in relation to stocks of open social capital

VARIABLES	the first third of the distribution	the second third of the distribution	the last third of the distribution	the first third of the distribution	the second third of the distribution	the last third of the distribution
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Open SC</i>	0.118*** (0.032)	0.010 (0.072)	0.0987*** (0.032)	0.122*** (0.032)	0.013 (0.072)	0.0993*** (0.032)
<i>Closed SC</i>	-0.021 (0.019)	-0.0553*** (0.018)	-0.133*** (0.017)	-0.022 (0.019)	-0.0512*** (0.018)	-0.134*** (0.017)
<i>Education</i>	0.0281 (0.034)	0.00626 (0.033)	0.0116 (0.034)	0.0181 (0.035)	0.00666 (0.034)	0.016 (0.035)
<i>Wellbeing</i>	0.160*** (0.038)	0.129*** (0.036)	0.0929** (0.038)	0.156*** (0.039)	0.128*** (0.036)	0.0937** (0.038)
<i>Age</i>	-0.0001 (0.004)	0.0013 (0.004)	-0.0001 (0.004)	0.0011 (0.005)	-0.0002 (0.005)	-0.0006 (0.004)
<i>Population</i>	0.001 (0.001)	0.0009** (0.000)	0.001 (0.001)	0.000 (0.002)	0.001 (0.001)	0.001 (0.002)
<i>City size dummy</i>	NO	NO	NO	YES	YES	YES
<i>Observations</i>	610	614	608	610	614	608
<i>R-squared</i>	0.077	0.059	0.136	0.084	0.074	0.140

# Dynamic perspective

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- ▶ A sanguine development view holds that that economic growth and accumulation of human capital foster civic culture and pro-social values (Glaeser, Ponzetto, Shleifer, 2007), which in their turn improve institutions and governance in the economy and society (Glaeser et al., 2004). Closed social capital could disrupt this dynamic virtuous circle by perpetuating ineffective and unaccountable governance and debasing modern institutions.
- ▶ Corruption, lawlessness and government predation erode trust in institutions and among individuals, and suppress investments in open social capital and cultural transmission of pro-social norms and civic virtues (Tabellini, 2008), while entrenching anti-modern social practices of adjustment to bad institutions.
- ▶ The outcome of such “race” between different kinds of social capital is uncertain, and multiple equilibria are possible.



# Conclusions

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- ▶ In today's Russia modern and anti-modern types of social capital co-exist in proportions that vary from one city and region to the other and likely evolve over time.
- ▶ The agenda of Russian modernization, apart from its technological and institutional aspects, has an important social dimension, and that the *evolution* of the social capital mix could have far-reaching implications for the nation's economic and political development.

