The Politics of Bad Governance in Contemporary Russia

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Introduction: Russia’s Greatest Rent Machine

On New Year’s Eve 2015, the residents of more than two dozen Russian regions received an unexpected and unpleasant holiday gift from the authorities. They were notified that the commuter trains (elektrichki) that link many cities and towns with regional capitals were being cut en masse; in some regions they were completely abolished. Although the frequency of commuter trains had already been reduced, together with a steady rise in rail ticket prices, the elimination of many trains at once caused major public discontent, especially in those areas where no other public transportation had been provided. Soon after, one of the leaders of the Russian opposition, Alexei Navalny, accused both the state authorities and the top managers of the company Russian Railways (RZhD) of “genocide of the Russian people,” while in some Siberian regions, attempted collective action by local residents contributed to threats of rail traffic blockages. The rise in social tensions became so striking and visible that in February 2015 Russian President Vladimir Putin, speaking before TV cameras, asked state officials and the RZhD leadership to fully restore commuter trains. Shortly afterward, the return of passenger traffic was announced in the media (although it was only a partial return), so the previous status quo was restored, at least for a while.

Although at first glance this episode illustrates an accident of mismanagement of public transportation, the fact is that the abolition of commuter trains was a logical outcome of the changes to Russian railroads that had been implemented during the previous decade. In 2003, in accordance with a decision by the Russian government, the long-existing state agency, the Ministry of Railways (MPS), was transformed into the state-owned company RZhD, which received the key assets of the railroad sector; later on it became a joint stock company. Subsequently, the Russian railroads underwent a series of structural reforms intended to liberalize the sector. Many reform projects, oriented to follow best international practices, proposed that RZhD should separate profitable cargo transportation from unprofitable passenger traffic, while state policies should
pave the way toward a competition between private companies in the market of cargo transportation. But in reality RZhD not only preserved but even strengthened its monopolist position as a provider of passenger transportation; it de-facto unilaterally dictated extraordinarily high tariffs and requested that the state cover the increasing losses of its subsidiary companies, which were in charge of operating commuter trains. These companies, in turn, leased trains and equipment from RZhD and paid it extraordinarily high fees for the use and service of trains (owned by RZhD), while their losses were fully compensated from the Russian state budget. In 2011, the responsibility for covering these losses was transferred from the federal government to the regional authorities, which do not have the funds to feed RZhD’s appetites (and in fact have to cover many other expenditures due to previous requests from the federal authorities)\(^3\) and lack the capacity to resist RZhD. Moreover, in January 2015, in accordance with a request by RZhD, the Russian federal government drastically increased fees for the use of rail infrastructure, thus aggravating the heavy financial burden on regional authorities to subsidize commuter trains.\(^7\) Putin’s subsequent call for action did not change the economic model of commuter trains; at best, responsibility to cover losses was to some extent transferred from regional budgets to federal coffers (with the annual amount estimated at twenty-two billion rubles at that time), but the taxpayers still had to pay any bills presented by RZhD.\(^5\)

Although experts rightly observe that the problem of subsidizing unprofitable, yet socially important, commuter trains is hardly unique to Russia and is relevant for railroad reforms elsewhere,\(^6\) so the case of RZhD was atypical not only due to the scope of these problems but also due to its solution. In essence, reforms resulted in the transformation of a state agency, MPS (a legacy of a centralized planned Soviet economy), into a gigantic monopoly, RZhD, which was formally owned by the state and operated on the market, but was in practice outside state control and operated for the benefit of its top managers. Vladimir Yakunin, appointed as CEO of this holding in 2005, was one of the key members of Putin’s “inner circle” as one of his dacha friends since the 1990s.\(^7\)

Yakunin became famous not only because of his conspicuous consumption of luxury material goods (his big estate near Moscow has been nicknamed *shubokhranilishche*, or “fur storage”) but also because of his spike in international status as a public intellectual. Being a doctor of political sciences who chaired the Department of Public Administration in the Faculty of Political Science at Moscow State University,\(^8\) Yakunin is also a patron of the Russian Society of Political Scientists and president of the World Public Forum “Dialogue of Civilizations” (DOC). DOC, in turn, has held numerous international events
with participation from global celebrities, and among other things, sponsored publication of a book, *Conversations with the World’s Foremost Thinkers*, produced by a highly reputable US university press and edited by leading international scholars—an interview with Yakunin was included there alongside Nobel Prize winners. Despite widespread criticism of Yakunin in the media and some attempts to cancel his job contract as CEO, long-term close connections with Putin made him nearly invincible and gave Yakunin carte blanche; RZhD became a fiefdom of this crony of Putin, while its business operations remained in the shadow of numerous offshore companies connected with Yakunin (some of them were linked with his son, who resides in London). However, the incident with the attempted cancellation of commuter trains did not go unnoticed. In essence, Yakunin’s appetites were considered too voracious, while his threats to cancel train services came across as blackmailing the Russian state by an oligarch, which was unacceptable for Russia’s leadership in political terms. In August 2015, Yakunin was forced to leave his post at RZhD; later he became a full-time chair of the DOC Research Institute with headquarters in Berlin (positioned as a global think tank), gained a German residence permit, and more or less disappeared from Russia’s public scene. The new CEO of RZhD, Oleg Belozerov, rearranged some of the corporate governance practices that had emerged under Yakunin’s rule, but by and large, according to analysts, the principles of bad governance in this state-owned company did not change much under new leadership.

In other words, after major reforms, a formally state-owned monopoly, the biggest employer in the country, was taken over by a private individual who turned RZhD into a tool for rent maximization and placed the burden of costs (arbitrarily set by himself) on taxpayers’ shoulders. To paraphrase the *Boney M* hit of the 1970s, this model of governing the railroads can be best described as “Russia’s Greatest Rent Machine.” Its social costs became much higher than those of the MPS model, which emerged in the 1930s under the leadership of Stalin’s close subordinate Lazar Kaganovich. MPS served as one of the pillars of the Soviet planned economy, had priority access to state resources including labor and investments, and had relatively high status in state distribution of welfare and other goods. Later, its role decreased because of technological changes and the decline of the Soviet economic model, and by the time of the Soviet collapse its impact on rent-seeking was relatively modest. While the crisis of the MPS model in the 1990s has been widely recognized, the consequences of the 2000s reforms may be considered a turn from bad to worse.

The case of RZhD is not the only example of bad governance in Russia’s public sector: quite the opposite, this example is a rather typical episode of
exploitation of a state-owned company for the private benefit of its top management. Over the last decades, investigative journalists and anticorruption activists have uncovered many examples of abuses of public resources by top managers of state-owned companies, as well as by top Russian state officials. Yet despite the great public attention, in most instances official reaction to these revelations has been conspicuously absent, and Yakunin remains one of the few visible persons in Russia who lost his post because of a scandal related to bad governance.

In a broader perspective, the transformation of RZhD into “Russia’s greatest rent machine” exemplified the failure of one of the sectoral reforms that formed a large-scale program of socioeconomic changes in Russia under Putin. But why did the good intentions of policy reforms aimed at accelerating economic growth and improving the quality of governance pave a road to the hell of crony capitalism and bad governance in post-Soviet Russia? I argue that the causes of these mutations of post-Soviet modernization are related to the emergence and maintenance of intentionally built political and economic institutions of bad governance. These institutions should not be perceived merely as inherited from the Soviet (or pre-Soviet) past; rather, they were purposefully developed after the Soviet collapse to serve the interests of ruling groups in Russia and other post-Soviet states and consolidate their political and economic dominance. Thus, policy reforms brought partial results at best, and very often contributed to a vicious circle of socially inefficient changes that served privileged private interests. I also argue that this vicious circle cannot be broken by attempting to “borrow” socially efficient institutions or “cultivate” them step-by-step within the given political constraints. Further embedding of post-Soviet bad governance may increase the risk of its reinforcement and self-reproduction regardless of possible political regime changes. I believe that the incentives for rejection of bad governance in Russia and some other countries may (though not necessarily should) be strengthened by a combination of domestic pressure and external influence, with certain restrictions of those countries’ sovereignty and possible compulsion from major international actors.

The structure of this chapter is as follows. First, after an overview of discussions on the sources and mechanisms of post-Soviet bad governance, I present my own approach to analysis of its effects on post-Soviet policy-making, and its political foundations and constraints. I then explore mechanisms of governance within the framework of post-Soviet political institutions (the “power vertical”) and focus on policy reforms that have brought few returns and/or have resulted in unexpected and undesired consequences (the models of “borrowing” and “cultivating” institutions). In the conclusion, I discuss some implications and
considerations regarding the possible role of international influence in breaking
the vicious circle of post-Soviet bad governance.

The Sources of Post-Soviet Bad Governance:
The Long Arm of the Past?

As stated in chapter 1, the following are the foundational principles of post-Soviet bad governance as a politico-economic order: (1) rent extraction is the main goal and substantive purpose of governing the state at all levels of authority; (2) the mechanism of governing the state gravitates toward a hierarchy (the “power vertical”) with only one major center of decision-making, which claims a monopoly on political power (the “single power pyramid”); (3) the autonomy of domestic political and economic actors vis-à-vis this center is conditional; it can be reduced and/or abolished at any given moment; (4) the formal institutions that define the framework of power and governance are arranged as by-products of the distribution of resources within the power vertical: they matter as rules of the game only to the degree to which they contribute to rent-seeking (or at least do not prevent it); and (5) the power apparatus within the power vertical is divided into several organized groups and/or informal cliques that compete with one another for access to rents.

These principles are the essence of an informal institutional core, or de facto constitution, of the politico-economic order of bad governance. The ruling groups build the shell of formal institutions (such as official constitutions, laws, and regulations) around this “core.” However, this shell is not just a camouflage aiming to hide the ugly face of bad governance; it also serves as a functional mechanism for authoritarian power-sharing and rent-sharing that aims to maintain a balance of power among the insiders of the regime’s “winning coalition.” Although authoritarianism in both its “electoral” and “classical” (“hegemonic”) formats to some extent is a mechanism of maintenance of bad governance in the political arena, it may be vulnerable because of the risks of intraelite conflicts and regime subversion. These risks emerge when the political monopolies of ruling groups are undermined and autonomy of political and economic actors becomes limited in certain ways, so regime changes or threats thereof are not so rare. But if the regime can avert these risks, then bad governance may become invincible (if one puts aside risks stemming from exogenous shocks).

Many explanations of bad governance in post-Soviet Russia are focused on the negative role of the repressive and ineffective autocratic state machinery, which
is deeply embedded in centuries of Russian history. It is no wonder that its most widespread explanations relate to the effects of various legacies of the past. While in the case of Third World countries (which are largely perceived as hotbeds of various forms of bad governance) the whole frame of reference revolves around colonial legacies, but in post-Soviet countries, scholars look for sources of bad governance in virtually all stages of Russian and Soviet history. They assign responsibility for its embeddedness to the inescapable legacy of pre-Petrine Russia with its lack of private property and arbitrary rule of autocratic leaders, or to the legacy of Communist regime, which in its late developmental stage demonstrated decay and “degeneration” into neo-traditionalism, or to an overlapping of socioeconomic backwardness with imposed Soviet dominance in certain Eastern European countries. Some scholars who use similar arguments in their analyses of post-Soviet politico-economic order refer to terms such as “patronal politics” or “sistema,” and also focus on their effects on politics and governance through the lenses of various legacies of the past. In any case, the “legacy” argument is structural in nature: explicitly or implicitly, bad governance is assumed to be like an inherited chronic disease of the sociopolitical organism that cannot be cured at least in the foreseeable future. By its very nature, this eternal and unavoidable “matrix,” or “track” (koleya), is put in place once and forever: it cannot be changed because of irreversible path dependency. The reasoning of this analysis, however, is vulnerable to criticism because of its lack of heuristic value and its frequent reliance on the principle of fitting theory and evidence into prearranged answers. The policy relevance of the approach looks even more dubious: if in any given country or region bad governance is the product of a “wrong” history that cannot be altered, one might say that this country is best eliminated (similarly to the fate of the Soviet Union) or conquered by other states that are more capable and efficient in terms of the quality of governance. Nevertheless, in the twentieth century some countries with even more problematic matrixes or tracks of history (ranging from Japan to Turkey) took the route of radical systemic changes necessary for altering their legacies and moving onto the right path; judging from this perspective, a similar path is not precluded for Russia, at least in theory.

In terms of answering empirical questions, one should consider that the rise of post-Soviet bad governance was a consequence of the purposeful actions of political and economic actors who aimed to maximize benefits for themselves during the process of redistribution of power and resources in the turbulent post-Soviet environment. For example, in the case of RZhD, the governance of the biggest state-owned company by Yakunin did not result from the legacies passed down
in this sector or in the Russian economy as a whole. Neither Kaganovich nor his MPS successors ever dreamed of a degree of freedom like Yakunin’s in arbitrarily governing their respective domains. Of course, political decay during the last decades of the Soviet Union greatly contributed to large-scale exploitation of public resources for the private purposes of top state managers, and instances of bad governance such as the infamous “Cotton Affair” in Uzbekistan in the 1980s were most probably just the tip of the iceberg.31 Overall, however, in the Soviet Union instances of uncontrolled rent-seeking were limited at that time and never considered a norm of elite behavior. Rather, RZhD was turned into its CEO’s fiefdom after the distribution of rent sources among the members of the post-Soviet “winning coalition”32 led by Putin and his close allies. The maximization of power in politics and the maximization of rents in the economy should be perceived as rational goals of the ruling groups who achieved them in several post-Soviet countries in the wake of political regime changes and market economic reforms. Some analyses of the dynamics of political and economic changes after the Soviet collapse have demonstrated that complex transformations make it easier to achieve these goals, where otherwise they could be more difficult.33 The new politico-economic order has served as an instrument of the ruling groups, and institutions have maintained its continuity and solidified the existing configurations of political and economic actors. Unlike the legacy argument, a focus on purposeful institution-building treats post-Soviet bad governance as an outcome of conscious “poisoning” of the social and political organism by certain actors belonging to the ruling groups. However, identifying possible cures for this kind of disease is far from straightforward.

That said, there is no reason to deny that “history matters”34 for an understanding of bad governance. Rather, the question is framed differently: How exactly did this “mattering” of the past become a constituent pattern in the practice of governing the state today and tomorrow? Regarding governance, the legacy of the past is loosely understood as a set of historically established obstacles to good governance that emerged before the Soviet collapse for various reasons and persisted for an indefinite period. But this perception of a legacy fails to explain why it has a different impact on various countries and policy areas and how exactly it affects post-Soviet institutions and practices. In search of alternatives to determinism, Stephen Kotkin and Mark Beissinger redefine “legacy” as “a durable causal relationship between past institutions and policies on subsequent practices or beliefs, long beyond the life of the regimes, institutions, and policies that gave birth to them.”35 They also outline several causal mechanisms for transferring institutions and practices from the past to the present and the future,
including; material or “parameter setting”; organizational and institutional or “fragmentation” and “translation”; and ideational or “cultural schemata.” Many legacies of parameter setting relate to the limitation of certain institutional and/or policy choices due to material constraints left over from the past; organizational and institutional fragmentation involves direct inheritance of some parts of previous institutions from the old regime, while translation means using old institutions for new purposes; and cultural schemata refers to perceptions generated by past regime practices that make a certain sort of conduct either normal or unacceptable. Parameter setting results from certain limits set by the physical and technological infrastructure inherited from the Soviet past that posed major barriers to structural reforms. By contrast, cultural schemata, modes of thinking and perceiving reality, were embedded in the past but outlived it and gave birth to the new post-Soviet normative ideal, which could be labeled a “good Soviet Union.” This has served as the basis for a “mental model” for post-Soviet elites and societies and affected organizational and institutional legacies to a great degree as a normative ideal.

One might argue that various legacies of the past affect the present and the future mostly because of how they are transferred. This is especially true for ideational legacies: “history matters” if certain actors can use it purposively for achieving their goals in various areas, including governing the state. The time horizon for the impact of these legacies cannot be indefinitely long. In post-Soviet Eurasia, it is relevant for the recent life experience of one or two generations who often interpreted the Soviet collapse and subsequent post-Soviet political and economic changes as a major trauma and framed their perceptions of the late-Soviet experience as a paradise lost. When it comes to the mechanisms for bringing these legacies into the current agenda, material, organizational, and institutional legacies impose high costs on improving the quality of governance and contribute to the preservation of the status quo. But the scale of these costs may decrease over time because of the emergence and spread of new institutions and practices not embedded in the past. Meanwhile, ideational legacies define understanding of the means and possible goals of the process of institution-building and serve as tools of ruling groups in this process.

In essence, the “legacy of the past” is largely a socially constructed phenomenon in post-Soviet Eurasia and beyond and should be regarded not as a structural constraint but as an agency-driven phenomenon. Regarding governing the state, cultural schemata work as instruments for maintaining bad governance in two mutually related ways. First, they establish a retrospective vector of public discussion where the Soviet past is considered the main (if not only) “point of
departure.” History is not only a subject for historians but penetrates all aspects of public life in the region. The imagined past experience has become a normative marker in projecting the future of post-Soviet Eurasia, including but not limited to state governance. This is why previous institutions and practices have become building blocks for institution-building and policy-making. Fragmentation and translation serve as means to achieve these goals. Second, referring to the past has become the key argument in legitimating political and policy choices, other mechanisms of governance, institutions, and policies not related to the past (irrespective of their adherence to best practices of good governance) are often not perceived as legitimate by society at large. In a sense, the instrumental use of such a legacy in Russia is not so different to the slogan “Make America Great Again,” so vigorously and successfully promoted by Donald Trump in his 2016 presidential election campaign. In other words, ideational legacies (in Russia, in the United States, or elsewhere) are phenomena intentionally produced by elites to serve their political goals of power maximization.

The “good Soviet Union,” an imagined politico-economic order that somehow resembles that of the Soviet past while lacking its inherent flaws, bears little resemblance to the late-Soviet experience. I believe that these elements of the Soviet legacy are selectively and deliberately chosen for the sake of power maximization of the post-Soviet ruling groups. They include the hierarchy of the power vertical, “cadre stability” on all levels of government (that is, low elite circulation), a closed recruitment pool of elites and their formal and informal privileged status, state control over major media, state repressions toward organized dissent, and so on. Meanwhile, other elements of the late-Soviet politico-economic order, such as relatively low inequality and certain state social guarantees, have been discarded without meaningful resistance. In addition, the “good Soviet Union” includes certain features that did not exist in the real Soviet Union but are very important for ruling groups: not only a full-fledged market economy and no shortages of goods and services, but also a lack of institutional constraints on rent-seeking and the creation of an external interface for legalization of incomes and status abroad. The assertion that the “good Soviet Union” is a deliberate construction by post-Soviet ruling groups and their entourages is no wild exaggeration. In the 2000s, they obtained that which they wanted but which was unavailable to their late-Soviet predecessors in terms of status, power, and material well-being, and their efforts to preserve this normative ideal have borne fruit in many ways.

The use of the Soviet legacy as a set of real and/or imagined building blocks for post-Soviet institution-building and practices of governing the state contributed
to the preservation of the status quo of bad governance through fragmentation or translation of this social construct into major choices and solutions. Examples include the transformation of government structure after the Soviet collapse regarding the state apparatus, and practices of control and accountability in law enforcement agencies, both of which extended the lives of outdated institutions and organizations, thus contributing to the ineffectiveness of government. This approach affects policy-making regarding the organization of state bureaucracy and its motivations. As a result, the “good Soviet Union” as a normative ideal has not produced incentives to overcome bad governance and improve government effectiveness, even should these be declared policy goals. Rather, the “good Soviet Union” as a foundation of the post-Soviet “mental model” has become a successful instrument for the legitimation of a politico-economic order of bad governance—at least within the mid-term perspective, until the current generation of post-Soviet rulers and citizens leaves the public scene.

To summarize, the role of the “legacy of the past,” which has preserved bad governance in post-Soviet Eurasia and beyond may be primarily considered in ideational terms: these normative ideals and role models affect policy choices and many organizational and institutional solutions. This legacy, which has allegedly doomed some countries to corruption and ineffectiveness, is largely a social construct that is created and maintained by ruling groups for the sake of power maximization. The countries of Eastern Europe and the Baltics have to some extent denied this normative ideal and thus increased their chances to overcome bad governance. However, those countries of post-Soviet Eurasia that see the sources of modern government in their imagined glorious or inglorious past could create a vicious circle of bad governance.

The Power Vertical as a Hierarchy of Bad Governance

The term “power vertical” is usually used to describe the hierarchical model of subnational politics and governance in Russia and other post-Soviet countries. It implies formal and informal subordination of levels of authority and a web of informal exchanges between them (for electoral authoritarian regimes, vote delivery is one of the major resources in these exchanges). But similar mechanisms are employed not only in territorial but also in sectoral governance (including the public sector). One might observe sectoral power verticals within the law enforcement apparatus, educational institutions, and some NGOs. Private business is also involved in numerous informal exchanges within the power vertical, but it enjoys a broader autonomy. These exchanges include not only distribution
of rents but also compliance (or noncompliance) with formal rules and norms and changes in formal institutions. The power vertical is widely perceived by many Russian citizens as the legitimate mechanism of governance because of the possibility of hierarchical top-down control over lower-level officialdom. These perceptions are reinforced by the post-Soviet experience of the 1990s with its protracted decline of state capacity and major distortions of law and order after the Soviet collapse; this experience also serves as an additional argument for using the power vertical as the main, if not the only, tool of governance. As long as the lower layers of the power vertical can distribute financial and material resources and perform functions of social patronage, this (imperfect) mechanism of governing territories, enterprises, and organizations persists.

The use of the power vertical as a pillar of politico-economic order in Russia leads to a major increase in agency costs and to the aggravation of principal-agent problems within the hierarchy of governance. For instance, while in China these problems in the system of territorial governance are partially resolved via competition among subnational agents and their mutual policing (provincial Communist bosses can be promoted to the national leadership if and when they demonstrate excellent economic performance), but post-Soviet countries employ other solutions. Eugene Huskey labels them “the politics of redundancy.” In other words, parallel hierarchies in charge of control and monitoring emerge at various layers of the power vertical; presidential administrations exert political control over federal and regional governments, presidential representatives in federal districts do the same vis-à-vis governors and city mayors, and so forth. Numerous state agencies in charge of regulation and monitoring in various sectors of the economy, with their own territorial branches, are also used as tools of control. Very often, such a multiplicity of agencies (including those in the law enforcement apparatus) contributes to interagency rivalry: this, in turn, also aggravates principal-agent problems within the power vertical. At first sight, strict adherence to top-down hierarchical relations against the interests of the power vertical’s lower echelons should require the full-fledged threat of punishment of subordinated actors by the top leadership for virtually all instances of wrongdoing, misbehavior, and poor performance. But in fact, although the systematic use of state repressions against lower-level officials of the power vertical is rather widespread, it is often driven not by political demands from the Kremlin but rather by private interests of various actors from competing agencies and layers of the state hierarchy. The hierarchy of the power vertical is far from an army-like chain of command, and it operates according to a different logic.

The popular argument that the power vertical serves merely as a tool of subordination and control is rather incomplete and incorrect. The power vertical
should be considered as a provider of informal selective incentives. The status of its insiders rewards them with extra benefits as they receive certain exclusive gains unavailable to those actors not included in the power vertical. The major condition for lower-level beneficiaries is that their opportunistic behavior should not prevent the political leadership from achieving its strategic policy goals. In the most general sense, these goals include the preservation of a stable politico-economic order in which the ruling groups run unchallenged and maintain the relative well-being of the population-at-large. Thanks to economic stability, the principal at the top of the power vertical pyramid can reward his agents through access to rents. Thus, corruption is not merely a side effect of bad governance but rather an indispensable part of the mechanism of bad governance within the framework of the power vertical.

In its quest to maintain the loyalty of local actors, the political leadership is forced to use both carrots and sticks. The multiple tools of control include not only the appointment, dismissal, and replacement of officials, but also exclusion from access to rents and “contracted” criminal investigations against officials and businessmen, or threats thereof with the use of kompromat.52 These instruments not only maintain loyalty to the power vertical but are also used as an additional mechanism of control. Almost every actor can easily be accused of criminal acts, and the threat of criminal prosecution is an even more efficient tool for maintaining control than its actual use. Consequently, actors are genuinely interested in the successful implementation of policies that serve both the goals of political leadership and their own self-interests. One should note that punishments take place under two kinds of circumstances: either because actors’ rent-seeking activities contradict the policy goals of the political leadership or (more rarely) because their poor performance and/or voracious rent-seeking appetites undermine the legitimacy and stability of the politico-economic order (as the case of Yakunin tells us).

Thus, the power vertical is a relatively cheap (in terms of agency costs) and successful (in terms of incentives) solution to the principal-agent problem: the principal informally offers conditional rent access to loyal and capable agents. This mechanism maintains state capacity in governing multiple political and socioeconomic arenas. The state serves both the collective interests of the power vertical’s insiders as a group and the private interests of all its agents, ranging from presidents and prime ministers to local school directors who are allowed to steal public money designated for renovation of the school building if during elections they will deliver votes at the polling station located at their school.53 As for outsiders to the power vertical, the opportunity to access rents is a major incentive not only for political loyalty but also for personal career choices: for
example, many graduates of Russian universities admit that the goal of their pursuit of higher education was a chance to get jobs in the state apparatus or in major state-owned companies such as Gazprom.\textsuperscript{34}

Within the post-Soviet context this mechanism of governance demonstrates some specific features. They include, inter alia, the specific divisions among and between the layers and corridors of the state machinery and competition between various agencies and informal cliques for rent access and for positions in the informal hierarchy of decision-making. For example, Russian law enforcement agencies experience stiff competition between the Office of the Prosecutor General and the Investigative Committee, even though the latter agency is formally subordinated to the former.\textsuperscript{35} Russian big business demonstrates a rivalry between Gazprom and Rosneft, which emerged almost by chance,\textsuperscript{36} and so forth. But these contradictions are mostly structural, because both state agencies and state-owned companies are affected by sectoral power verticals that link lower-level actors to their patrons at higher levels of authority or even in the top leadership. This mechanism plays a powerful role in the informal system of governance because it cannot be bypassed in the process of appointments or dismissals in the lower echelons of the power vertical, and it is important for the survival of all actors in their behind-the-scenes struggles against powerful competitors.

In the media discourse, these phenomena are often regarded as the “new Politburo” or the “struggle between the Kremlin’s towers,”\textsuperscript{37} but such labels are rather superficial. Parallels between the power vertical under the post-Soviet politico-economic order of bad governance and the Soviet hierarchical model of governance do not touch upon the basic differences in goal-setting, institutions, and incentives. In the Soviet Union, the Communist Party exerted control over the state apparatus, was able to impose sanctions on violators of formal and informal rules of the game, and in a sense, imposed limits on the spread of bad governance. In the post-Soviet environment, the personalist nature of the political regime and the interests of powerful members of winning coalitions establish other constraints: all personnel decisions must include the maintenance of the balance between sectoral power verticals and cliques, and the use of “divide and conquer” tactics for prevention of open intraelite conflicts. The emergence of informal alliances and rivalries between actors who compete for rent access is an unavoidable side effect of the informal distribution of resources among agents. This competition drastically increases agency costs and worsens rather than improves the quality of governance. Although the fruits of economic growth may satisfy the appetites and interests of the most powerful rent-seekers and diminish their rivalries, these contradictions cannot be eliminated.
If the power vertical did not receive demands for policy reforms from the top leadership, and only reproduced the status quo, then even given a minimal inflow of resource rent and very sluggish (if not zero) economic growth, this model of governance could reproduce itself similarly to that of some Third World countries. However, the imperative of “narrow” modernization (outlined in more detail in chapter 3) drives the political leadership to launch numerous policy reforms, which are to be implemented by agents of the power vertical at various layers of authority. These reforms imply not only structural changes (such as the establishment of new agencies) but also changes of goals and criteria for policy evaluation. Bureaucrats and officials must demonstrate “efficiency,” which is broadly understood as the achievement of certain formal indicators, ranging from mandatory conducting of auctions and tenders in the state procurement system to a certain quantity of scholars’ publications in journals listed in the Web of Science and Scopus databases. Policy reforms often destabilize the power vertical, but their effects on the quality of governance are not so obvious. Sometimes the state of affairs even degrades vis-à-vis the previous status quo, as in the case of the replacement of old Kaganoviches with new Yakunins. Why do the policy reforms sometimes have such dismal results?

The Challenge of Policy Reforms

The symbiosis of the informal core and the formal shell of bad governance, which outwardly seems to share features with advanced states and markets, ranging from formally independent courts to the commercial operations of state-owned companies such as RZhD, maintains a stable yet inefficient equilibrium. This fact explains a contradiction that has been described by scholars of African politics: in theory, under conditions of bad governance, the state of affairs in a given country should inevitably worsen, but in fact disequilibrium is relatively rare. Formal institutions are not the only reason for this. The stable increase of rent in Russia in the 2000s has also helped to maintain the status quo despite short-term economic troubles. Unlike the states and regimes in sub-Saharan Africa which that are widely perceived as “dictatorships of stagnation,” Russia until the 2010s displayed an opposite trend—the drive for economic growth in the 2000s served as the main source of maintenance of this politico-economic order. It was only after 2014 that the priorities of Russia’s leadership changed, and economic growth was sacrificed for the sake of “stability” (the preservation of political status quo). Nevertheless, Russia’s ruling groups were (and to some extent still are) interested in growth and development not only to increase the
amount of rents and to satisfy the appetites of numerous rent-seekers but also because of the need for both domestic legitimation of the political regime and the legitimation of foreign policy in international arenas. In addition, visible and internationally recognized achievements of successful development, such as global mega-events (like the Olympic Games, the G8/G20 summits, or the inclusion of Russian universities in the top 100 of world ratings) serve as a source of conspicuous consumption and of status rent both for Russia’s ruling groups and for society at large.

Thus, post-Soviet bad governance implicitly assumes the aspiration of ruling groups to successfully implement policy reforms. They aim to achieve a high degree of socioeconomic development and to accomplish at least some policy reforms oriented toward attaining these goals. This agenda is shared not only by the ruling groups of post-Soviet Russia but also by significant parts of the citizens. However, under the conditions of bad governance this agenda faces numerous obstacles. First, policy reforms must be implemented by the state bureaucracy with all its problems and vices (analyzed in chapter 4). Second, policy reforms that may infringe on the interests of influential rent-seekers will be curtailed, especially if their implementation is not endorsed by a powerful coalition of supporters. The failure of police reform in Russia under the presidency of Dmitry Medvedev may serve as a prime example in this respect. Third, in these circumstances policy reforms often lead to unintended and undesired consequences. These consequences depend not only on specific policies in certain areas but also to a great degree on the hierarchical mechanism of governance within the framework of the power vertical and its institutional constraints on policy reforms.

The role of the power vertical in bad governance is important for an understanding of the pattern followed by socioeconomic policy reforms. The top political leadership is the sole mastermind of reform programs and plans: although alternative policy programs are proposed by independent experts from time to time, they usually remain ignored by political leaders. As demonstrated in chapters 5 and 6, these programs are developed both by ideationally driven experts contracted by the power vertical and by career-driven policy entrepreneurs from among the mid-range officials, and sometimes even by invited foreign consultants. Reform programs are implemented by various layers and hallways of the power vertical, while the political leadership retains a monopoly on policy evaluation, which is not an arbitrary personalist choice by political leaders: it takes into account the interests of the members of the winning coalition as well as public opinion. But under the conditions of authoritarianism, political
leadership enjoys more room for maneuver than in most democracies. These conditions favor an “insulation” of reforms and reformers from the pernicious influence of interest groups, yet they also impose almost unavoidable constraints on policy reforms in virtually all areas. The main constraint is related to the fact that the informal institutional core is untouchable by any reform: at best, reforms can affect only formal institutional shells. No wonder that many reform proposals are already planned to be partial, incomplete, and compromise measures even at the preparatory stage (not to mention further decision-making and implementation). Initially good intentions are emasculated and perverted by rent-seekers who are interested in privatization of gains from policy reforms and in socialization of their losses. These problems are acknowledged by reformers themselves, who often already expect these negative outcomes at the beginning of policy planning.

But the main problem of post-Soviet bad governance for policy reforms is related to its informal institutional core, which not only inhibits changes to the formal institutional shell but also exerts a distorting influence on the directions and effects of policy changes. In essence, any policy reforms cause major distributive consequences. In political terms, policy adoption and implementation imply a process of building coalitions of potential beneficiaries of the reforms and the accommodation of their interests with those of the potential losers. These negotiations often damage the quality of policy-making because of the influence of “distributional coalitions,” which may block any positive changes.

In the wake of democratization, these tendencies often contributed to populist policies (as in Latin America in the 1980s), and these risks were among the main concerns of Russian reformers in the 1990s. However, the politico-economic order of bad governance is also compatible with distributional coalitions, and their influence has increased over time: the major beneficiaries of the politico-economic order of bad governance are small privileged groups of rent-seekers. Thus, the power vertical became a mechanism of rent-sharing among members of winning coalitions who transferred the costs of policy reforms to other actors and/or to society at large. They do not face the constraints imposed by formal institutions; rather the informal institutional core is deliberately tuned for distributive effects of this kind. Thus, the privatization of gains and socialization of losses have become inevitable effects of policy reforms under bad governance. The rapid economic growth of the 2000s in Russia to some extent diminished these effects, but later these contradictions of policy reforms became explicit. The sharp increase in military expenditure and simultaneous cutting of expenditures on public health and education was a logical extension of this approach.
to policy reforms. Furthermore, these effects may increase until the potential
decline in the inflow of rents causes major conflicts between rent-seekers.

The reform of RZhD clearly illustrates these tendencies. Yakunin, being CEO
of the holding and one of the key members of the winning coalition, maximized
benefits for RZhD and for himself. The company became a monopolist holding,
managed by Yakunin on behalf of the Russian state in the manner of a fiefdom,
without any external control over its operations. The benefits of the reforms
for the company were apparent: RZhD no longer had to subsidize unprofitable
commuter trains, was able to unilaterally set tariffs, received outstandingly high
fees for the use of its assets by its own subsidiaries, and prevented competition on
the market. Costs were transferred not only to passengers (individual consumers
of monopolist services) but also to all taxpayers. As long as regional budgets were
able to satisfy RZhD’s appetites, this situation was considered unacceptable only
by opposition activists like Navalny and did not attract major public attention,
and further transferring of costs from regional to federal budgets may have di-
minished the salience of this problem but did not change its causes.

The other problem of policy reforms under bad governance is related to the
fact that the hierarchical power vertical is the only instrument for their imple-
mentation and an imperfect one. Reformers and their patrons among the top
political leaders assume nearly by default that without strict and tight top-down
control, the lower layers of the power vertical have no incentives even for their
routine performance (let alone policy changes). In other words, they expect that
schoolteachers will not teach students and police officers on the ground will not
combat street-level crime. Given the lack of other mechanisms of accountability
(fair elections, free media, civil society NGOs, influence of public opinion, and
so forth), these concerns are quite reasonable. The good intentions of efficient
governance are opposed by the weak incentives for policy changes in other po-
litical and institutional contexts, and post-Soviet Russia is by no means excep-
tional in this respect. Yet the politico-economic order of bad governance is the
least likely environment for successful implementation of major policy reforms.
Since the list of beneficiaries of these changes is limited to a narrow group of
rent-seekers, reformers must force other actors to conduct reforms that may not
bring them any benefits. At the same time, policy programs and plans of reform
are based on the logic of “high modernism”: the criteria for successful imple-
mentation of changes by the lower layers of the power vertical are reduced to a
limited number of formal quantifiable indicators (widely used across the globe
within the framework of the “new public management” approach). The formal-
zation of these requirements to some extent aims to reduce excessively high
agency costs within the framework of the power vertical. However, this approach contributes to the spiral of overregulation: virtually every new policy change results in a drastic increase of the scope and density of regulations of almost all routines at the lower layers. Hence, the amount of paperwork and related costs skyrockets—police officers, schoolteachers, medical doctors, and all personnel on the ground in many organizations (both state and private) are mired in producing numerous reports to state inspection agencies instead of conducting their primary job functions. As a result, the goals of policy changes are replaced by the attainment of required numbers in reports at any cost: these reports become the main if not the only criterion of evaluation of policy performance.

The system of reporting in the law enforcement agencies, which focuses on the percentage of criminal statistics vis-à-vis respective previous periods, only aggravates numerous pathologies, and replaces the task of combating crime. Similarly, numerous inspection agencies discover those violations of laws and state regulations that require the least effort to detect and prove. The introduction of the Unified State Exam (EGE), the mechanism of assessment of high school graduates in Russia (analyzed in detail in chapter 4), serves as a particularly notorious example of this approach. Soon after its introduction in 2009, the presidential administration included the proportion of school graduates who fail to pass the EGE into the list of criteria for assessment of the performance of the regional chief executives appointed by the Kremlin. This innovation encouraged regional and local officials (ranging from heads of education departments to school teachers) to minimize the number of failures on exams every year, causing numerous prominent scandals (such as the over-performance of school graduates in republics of the North Caucasus). At last, in 2014, the list of criteria changed again, and regional chief executives could no longer be punished for the failures of teenagers in the EGE. But due to these changes, the percentage of failures could greatly increase, resulting in schools’ performances worsening. As such, the requirements for passing the EGE were eased to such a degree that achieving minimally acceptable grades was not difficult for even the least capable pupils.

Another case of policy reforms is the attempt to improve the business environment in Russia in accordance with Putin's May 2012 decree. The key indicator chosen for implementing these changes was Russia reaching 20th place in the annual global report *Doing Business*, produced by the World Bank. This report is based on evaluating the conditions of small and medium businesses via analysis of regulatory frameworks and surveys of entrepreneurs. Although most analysts were skeptical about the chances of such progress (in 2012 Russia was in 120th place), in the 2018 annual report Russia reached 31st place out of 189,
outperforming countries like France and Japan. This achievement, however, was possible because the World Bank experts (including Russia’s representatives) changed the methodology of their report and included more indicators of subnational regulations: the changing set of criteria alone elevated Russia’s rank by thirty places in comparison with the 2014 annual report.\(^{75}\) As state officials received a top-down signal to reach certain numbers at any cost, achieving better numbers turned into a goal in itself. In a way, such an approach to the quantitative indicators of governance (for improving a country’s positions in global rankings or for whatever other purposes) was not much different from the use of the state-sponsored doping program for the sake of Russia’s victory in the Sochi Olympics in 2014.\(^{76}\) In the end, in August 2020 the World Bank announced that it would stop publication of *Doing Business* reports because of the serious flaws and falsifications in the collection and use of the data.\(^{77}\) Regardless of Russia’s positions in rankings by World Bank reports, the problems for doing business as such were more serious: the impressive progress in quantitative indicators was achieved at a moment of stagnation in the Russian economy, record-high capital flight, and so forth.\(^{78}\) Needless to say, these approaches to policy reforms in various areas brought only partial and incomplete results at best, or even became limited to short campaigns that included the construction of Potemkin villages and contributed to the waste of resources.

Having said that, one should admit that Russia in the 2000s enabled at least partial implementation of policy reforms (analyzed in more detail in chapter 4), and in some policy areas socioeconomic reforms were far from a total failure.\(^{79}\) But reforming the formal institutional shell without changes in the informal institutional core of post-Soviet bad governance brought major positive effects only under certain circumstances. If and when policy adoption and implementation did not require the involvement of many layers and hallways of the power vertical, and reformers were insulated from numerous rent-seekers because of the priorities and sincere support of the top political leadership, then major advancements could be achieved. But when policy reformers employ alternative strategies for institutional changes, policy reforms in various areas often result in unexpected and undesired consequences.

**“Borrowing” and “Cultivating” Institutions: Useless Recipes?**

Most of the experts involved in the preparation and development of plans and programs of policy changes in Russia clearly understand the pernicious effects of the informal institutional core of bad governance on policy reforms. However,
being hired by the authorities, they refrain from openly criticizing major obstacles to implementing the latter’s policy-making. Similarly, to many experts from international organizations who work in Third World countries, they use an Aesopian language full of euphemisms such as “poor quality of institutions” or “unfavorable institutional environment,” referring to numerous “legacies” and “institutional traps.” Since discussing major revisions of the foundational principles of bad governance (and hence the rejection of the entire politico-economic order) is a kind of taboo, the experts seek ways not to undermine these obstacles but to bypass or circumvent them. The key idea is not to demolish existing informal institutions but rather establish new and parallel formal institutions that are based on other principles than the institutional core of bad governance. It is expected that the new formal institutions will be more efficient, and for this reason they may become embedded over time. According to these ideas, parallel institution-building can gradually supplant the informal institutional core and pave the way for a further strengthening of “inclusive” economic institutions and in the distant future, toward a slow step-by-step adoption of inclusive political institutions. This approach perfectly fits the logic of narrow modernization and leaves reformers wide room for maneuver in institution-building.

In reality, two complementary strategies for institution-building, namely “borrowing” and “cultivating” institutions, have been proposed as possible solutions by a group of leading Russian experts from the Higher School of Economics. “Borrowing” implies transplanting those institutions that have proved their efficiency in various political and institutional contexts (not necessarily Western ones) and could be adopted in Russia for economic growth and development without a major risk to immediately undermining the informal institutional core. “Cultivating,” by contrast, assumes that new norms, rules, and mechanisms of governance in certain policy areas can be initially established as experimental innovations under deliberately designed favorable conditions and may later be applied to other policy areas. In theory, both strategies look reasonable and are often suggested by international experts in developing countries. But the practice of bad governance puts them into question because of their essential flaws.

Borrowing institutions, which includes transferring advanced models and practices of governance, is faced with a process dubbed “bastardization.” Initially, this term was used to indicate the declining quality of goods produced in Russia using foreign technologies: domestic managers have few incentives to maintain quality control and often intentionally violate technological standards against the background of imperfect quality of corporate governance. Similarly, one might observe bastardization of transferred institutions by those actors
who conduct their adoption and implementation in post-Soviet countries. To some extent, this process is inevitable, because the transfer of certain institutions would impose excessively high costs on mid-developed states (including post-Soviet countries). For example, the EGE in Russia is simultaneously used as a final test for school graduates and an entrance exam for universities, while in the United States and several other countries these two forms of tests are conducted separately. The adoption of a cheaper solution caused several problems in implementing the EGE. But more often the cause of bastardization reflects the “interests of those with the bargaining power to devise new rules.” The adaptation of borrowed institutions to Russia’s conditions is accompanied by their intentional and deliberate distortion by powerful actors interested in the preservation and strengthening of the informal institutional core of bad governance.

A typical example of bastardization of borrowed institutions is the experience of implementing the “open government” initiative in Russia under President Dmitry Medvedev. The idea of a more open and transparent government with active participation of ordinary citizens in policy discussions and the extensive use of modern information technologies was vigorously advocated by Medvedev’s team as a part of his political rhetoric of “virtual liberalization.” The Russian state designated special funding for these purposes, and a minister responsible for open government affairs was appointed to the cabinet. However, the mechanism was adopted from the Western practice of e-government, which implies the use of the Internet both for provision of state services and for feedback between citizens and the state (including civic legislative initiatives and the like). In the Western political context, e-government works as a complementary mechanism to democratic governance, an addition to free elections, independent media, rule of law, and so forth. In Russia, however, open government was designed as a substitutive mechanism of governance, and intended to work instead for these political institutions, which had been eliminated and/or weakened in the 2000s. From the viewpoint of governance in the West, e-government served as an additional tool that helped to increase the efficiency of the post-Weberian state apparatus. But in Russia, open government was considered a substitute for the administrative reform that had failed in the 2000s. This failure occurred not least because of the work of Medvedev himself, who had been responsible for overseeing it while he was serving in the presidential administration. It is no wonder that the early promises of open government remained largely unfulfilled; its role was limited to technological issues of the websites of state and municipal agencies and some opportunities for ordinary citizens to submit their letters of complaint via the Web. Open government has
not empowered Russian citizens. They remain powerless petitioners, vis-à-vis state officials, who may or may not respond to these complaints at their own discretion. The final episode of bastardization of open government occurred in February 2015, when the Anti-Corruption Foundation (led by Alexei Navalny) proposed a legislative initiative on ratification of Article 20 of the United Nations Convention against Corruption (UNCAC), which implied, inter alia, criminalization of illicit enrichment of state officials (Russian authorities had previously refused to ratify this part of the UNCAC). Navalny and his team gathered one hundred thousand signatures from Russian citizens via the Web, which was a mandatory condition for further inclusion of this citizen legislative initiative into the parliamentary agenda. But since this proposal was against the interests of Russia’s ruling group, the open government board (appointed by state officials) declined the legislative initiative using flimsy excuses. The ideas of openness, transparency, and civic activism became irrelevant in this case.

The other approach that aims to constrain the informal institutional core is purposeful cultivation of new norms, rules, and mechanisms of governance and their gradual extension to new areas and policy fields in order to develop new formal institutions. This approach includes not only promotion and advancement of spontaneously emerging good practices but also experimental establishment and embedding of new norms, rules, and mechanisms of governance by reformers who, in turn, are explicitly or implicitly backed by the political leadership. Since large-scale institutional changes are often countered both by the power vertical and by public opinion, the cultivation of institutions sometimes serves to prepare more fertile ground for certain policy innovations. In fact, the experimental nature of policy changes allows their details to be tested, thus averting the risks of full-scale institutional failures. From this viewpoint, cultivating new institutions is an appropriate technological solution that also makes it possible to overcome resistance to major policy reforms. But in most cases, failures to cultivate new institutions are caused by political rather than technological factors. Most large-scale institutional innovations are rather costly, face resistance from various rent-seekers and bureaucratic inertia, and also need public legitimation. The patronage of the top political leadership is necessary but often insufficient to accomplish these goals. This is why cultivating institutions is often accompanied by using special organizational devices, known in the Latin American context as “pockets of efficiency” (analyzed in chapter 6). Their essence is that the political leadership prioritizes a limited number of pet projects, which are implemented not within the framework of the power vertical hierarchy, but via deliberately created organizations and groups that enjoy exceptional official status.
and may operate beyond standard routines. Thanks to their relative autonomy and effective patronage, these organizations and groups may escape bureaucratic control, bear lower agency costs in comparison with their standard equivalents, and have more room for maneuver thanks to promises of breakthroughs. Sometimes these promises are fulfilled, but this whole venture is rather risky. In the context of Russian military history, the “Toy Army” of Peter the Great may be considered the closest equivalent to pockets of efficiency in the late seventeenth century: it served as a launching pad for a regular military establishment. The Soviet atomic bomb and space programs to a great degree relied upon special design bureaus (also known as sharashki), which may be regarded as the Stalinist version of pockets of efficiency.

Pockets of efficiency are short-lived because of the fortunes of the political leadership and its changing priorities and problems with continuity (outlined in a more detailed way in chapter 6). Even if pockets of efficiency perform well and accomplish their initial tasks, they rarely survive the subsequent routinization and the loss of exclusive status. At the same time, their good practices are often poorly diffused and may be rejected by other state agencies unless they are imposed top-down by the political leadership. Finally, the pockets are efficient precisely because of their relatively small size: when they begin to expand their scope and become “too big to fail,” they may face degradation because their modes of governance often copy the institutional core they aimed to combat. Often, the informal institutional core of bad governance is able to rebuild pockets of efficiency, rather than vice versa, and the potential incubators of new institutions may contribute to rent-seeking and serve the goals of the power vertical similarly to their predecessors.

To summarize, one might argue that the parallel coexistence of the informal institutional core and new norms, rules, and mechanisms of governance may be instrumental in policy reforms in certain areas but cannot resolve their fundamental contradictions. The politico-economic order of bad governance imposes high barriers to implementing the agenda of policy reforms. Neither the borrowing nor cultivation of institutions as such can increase the chances of their success. Rather, these plans may be sacrificed for the sake of the regime’s survival, and at a certain point may be launched again, thus contributing to a vicious circle of elusive chances for successful socioeconomic advancements. The experience of the politico-economic order of bad governance in the Third World demonstrates that such a circle’s pernicious influence cannot be easily constrained by new norms, rules, and mechanisms of governance; it can reproduce itself under various conditions.
International Influence: The Limits of Imperialism?

The influence of international factors on domestic changes in post-Soviet Eurasia is often discussed in terms of Western-led democracy promotion, specifically regarding regime cycles and color revolutions (or lack thereof), while in Russia this influence after the Soviet collapse has always been modest, to put it mildly. But to what extent does international influence affect the quality of governance rather than regime dynamics in Russia and beyond? The answer to this question is far from obvious, and not only because post-Soviet rulers perceive foreign influence in any domestic arena as a threat to their dominance and tend to resist it in various ways.

Following Steven Levitsky and Lucan Way, one can distinguish between international linkages and leverages: the former mechanisms connect a country with an increasingly globalized world in terms of communications, technologies, and knowledge, while the latter mechanisms emerge from attempts by international actors to affect domestic developments. As they rightly argue, the combination of relatively high linkages and low leverages (typical for Russia and some countries of post-Soviet Eurasia) provides only weak incentives for democratization. The same is true for governance, especially given the fact that international actors in the region and beyond pursue diverse goals and take different kinds of actions, while their potential for positive influence on the governments of other countries is rather limited.

In the most general sense, international leverages may help overcome bad governance only if and when they work complementarily to domestic efforts on this front rather than being a substitute for them. If ruling groups are unwilling to combat bad governance domestically, then any aid or assistance from the World Bank, the International Monetary Fund (IMF), the European Union (EU), and so forth, will have little impact. Moreover, the governments of the recipient countries often manipulate their donors, thus aggravating principal-agent problems, while the donors have limited opportunities to improve the situation. Without the domestic will to improve the quality of governance, international influence can result in partial changes in certain policy areas at best or even legitimize the preservation of the status quo of bad governance. In this respect, assessments of Russia’s cooperation with the IMF in the 1990s are to be treated rather critically, to say the least. The typical practices of postponement of policy decisions, partial and selective implementation of policy recommendations, Potemkin-style showcase advancement of best practices at the expense of donors, and unfulfilled (and often unrealistic) promises result from a lack of genuine interest on the part
of the recipient governments in combating bad governance and from a lack of enforcement mechanisms on the donor side. From this perspective, Russia in the 1990s looks no better than its African counterparts. Moreover, the efforts of international donors in the region have often been counterproductive, and if linkages are curtailed when countries become internationally isolated, or even isolate themselves (like Russia after 2014), the odds of improvements in quality of governance are severely diminished. Conversely, these developments fuel the domestic legitimation of bad governance under the slogan of “protection of national interests,” while international legitimation loses any relevance at all; internationally isolated or self-isolated rulers realize that they have nothing to lose outside their respective countries.

International linkages may be regarded as a double-edged sword in terms of bad governance because of the rise of the offshore economy, the outsourcing of many important functions (such as legal resolution of commercial disputes) to foreign jurisdictions, and plenty of exit options for post-Soviet elites who aim to legalize their status and wealth in the West, thus hedging domestic risks. However, one should not underestimate or completely deny the positive effects of international linkages on the quality of governance. Both the practical needs of adjustment to international standards and the international diffusion of policy ideas and best practices may contribute to driving countries toward good governance in certain sectors and policy areas despite the intentions of their rulers. Juliet Johnson argued in her perceptive analysis of the rise of post-Communist central banks that the engagement of the emerging community of top banking officials in international networks played an important role in building the institutional independence of central banks and the prudency of their policies. Similar effects of internationally driven steps forward can be found in other areas, ranging from major improvements in national statistics systems to tax reforms, and attempts to advance Russia’s universities to the top of global rankings (described in chapter 6). These signs of progress are similar to the pockets of efficiency that have been promoted internationally where domestic actors have not prevented their formation (or sometimes have even supported them).

In terms of overcoming bad governance, the only winning combination involves both the domestic political will to implement structural reforms and institutional and policy changes and strong international linkages and leverages. These two conditions are complementary rather than substitutive, as international pressure alone (without domestic drivers) may have only temporary and shallow effects. The EU’s employment of conditionality with respect to East European countries and commitment by East Europeans vis-à-vis their West
European partners may serve as the main positive, if short-lived, example of that kind. The large-scale revision of domestic legislation and law enforcement practices in Eastern Europe was important not only from the viewpoint of regulatory quality in certain policy areas and of the effectiveness of governments. In essence, these conditions implied international constraints on domestic sovereignty and a certain (though limited) possibility of enforcement of EU rules and regulations regarding East European governments. Leverages became reasonably effective mechanisms for constraining bad governance: if following the rules of the game imposed by Brussels did not greatly improve the quality of governance in Romania or Bulgaria, these rules at least created barriers to its major deterioration. Without EU accession, these and some other countries would probably be governed no better than their counterparts in post-Soviet Eurasia.\textsuperscript{103}

However, in the case of East European countries, EU-led external constraints on state sovereignty become possible due to a voluntary choice by their elites and citizens. In Russia this issue is far from the agenda, to say the least. The problem here relates not only to the resistance of post-Soviet ruling groups and/or the attitudes of Russian citizens but also to the incredibly high costs for those nations that would impose constraints on the sovereignty of other states. Even for the EU, attempts to enforce the integration of Eastern European states have been quite costly, and this process is far from complete. Moreover, as soon as EU leverages weakened over time after the accession of East European countries, at least some of these countries—first and foremost, Hungary and to some degree, Poland—experienced major setbacks and reemergence of some institutions and practices of bad governance in the 2010s.\textsuperscript{104} For Russia and its neighbors in post-Soviet Eurasia, the possible costs of external imposition and enforcement of new rules and norms aimed at overcoming bad governance would be prohibitively high. This is why the absence of an external intervention in the post-Soviet politico-economic order, which would contribute to preserving the status quo, is the more likely scenario: both fears and hopes of Western-imposed constraints on sovereignty in the region appear to be unjustified. Thus, direct international influence on the quality of governance in Russia is most likely to remain insignificant, with some exceptions.

Meanwhile, insulating bad governance in Russia from outside influence under the guise of state sovereignty serves as a tool for preventing any improvements. State sovereignty serves as a shield for ruling groups; it helps to protect them from any weakening political and economic power and from undesirable institutional changes. The idea of defending sovereignty at any cost (including banning foreign NGOs and limiting the import of Western foods and cultural
products) is not paranoia but a rational strategy of the political leadership, who claim sovereignty of their country while preserving and enlarging their personal wealth. In theory, external constraints on state sovereignty imposed by advanced countries may (but not necessarily will) create barriers for the informal institutional core, and in the longer term lead to a revision of the politico-economic order of bad governance. One cannot exclude the possibility that further aggravation of Russia’s confrontation with the West, which was launched after the 2014 regime change in Ukraine and annexation of Crimea, may turn into a major challenge of this kind. From this viewpoint, Russia’s possible defeat in a major conflict with the West may pave the way to external constraints on its sovereignty and provide certain incentives for a gradual replacement of existing political and economic institutions of bad governance by more inclusive rules and norms. One cannot even imagine the potentially outstandingly high costs for such a complex transformation in Russia. Yet the costs of preserving the vicious circle of post-Soviet bad governance may be even higher for Russia and for the outside world.

To summarize, the emergence and consolidation of bad governance in Russia and beyond has been driven by the weakness of constraints on conscious and consistent construction of a politico-economic order where rent extraction is the major goal and substantive purpose of governing the state. It has also been affected by the combination of the following negative factors: (1) ideational reliance upon a “good Soviet Union” as a normative ideal for the ruling group and society at large; (2) decline of open elite competition and reproduction of the ruling groups; and (3) weak Western influence on Russia and a lack of mechanisms for international enforcement. At the same time, some advancements that were achieved in certain sectors and policy arenas in Russia because of a winning combination of domestic and international efforts had meaningful if limited influence on government effectiveness. However, the question of why constraints on bad governance emerge in some countries, sectors, and policy areas but not in others is worth further exploration. While an answer that places particular emphasis on the process of institution-building and institutional performance sounds plausible, variations in governance can be also explained in terms of the differences in access to rents in various sectors and policy areas and barriers to such access. One might also expect that bad governance in post-Soviet Russia is a long-term feature of its future development. The next chapters will be devoted to an in-depth analysis of its mechanisms.