



ICSID* Workshop

"Quality of Governance and the Legacy of Socialism"

October 25-26, 2019, University of Bremen

Location: Teerhof (University of Bremen Guest House)

Teerhof 59, Bus/Tram Stop Wilhelm-Kaisen Brücke

Local organizing team: Mareike zum Felde, Jutta Günther, Olga Masyutina, Michael Rochlitz
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*The International Center for the Study of Institutions and Development (ICSID) led by Andrei Yakovlev (HSE Moscow) and Timothy Frye (Columbia University) brings together Russian and foreign experts in economics and political science from the HSE University, Columbia University, the University of Wisconsin-Milwaukee, Harvard University, the George Washington University, and Trinity College Dublin. The Center focuses on the study of political elites, collective action, public goods, economic history and social capital in Russia and other transition economies.

Friday, October 25th

09:00 – 10:00 Welcome and Keynote Speech

Gulnaz Sharafutdinova (King's Russia Institute, King's College London)
On Legacies, Leadership and Limits to Change in Contemporary Russia

10:00 – 10:30 Coffee-break

10:30 – 12:30 Session 1: Corruption and Norms

Chair: Ora John Reuter

Israel Marques (HSE)

Political Connections and Non-traditional Investment: Evidence from Public-Private Partnerships in Vocational Education

Koen Schoors (Ghent University), Sümeyra Atmaca (Ghent University)

Political Cycles and Corruption in Public Procurement

Anna Abalkina (LMU Munich)

Corruption in Higher Education in Russia: Fake Dissertations and Pseudoscience

Ekaterina Borisova (HSE), Victor Bryzgalin (Lomonosov Moscow State University), Irina Levina (HSE)

Is Rule Following Good or Bad for Economic Growth?

Discussants: Jiwei Qian, Alexei Zakharov

12:30 – 14:00 Lunch (individually in the city center)

14:00 – 16:00 Session 2: Political Economy and Elections

Chair: Michael Rochlitz

Christoph König (University of Bristol)

Patronage and Election Fraud: Insights from Russia's Governors 2000–2012

David Szakonyi (George Washington University and HSE)

Candidate Filtering: The Strategic Use of Electoral Fraud in Russia

Ora John Reuter (University of Wisconsin-Milwaukee and HSE)

Civic Duty and Voting under Autocracy

Fabian Burkhardt (SWP Berlin)

Portfolio Allocation under Authoritarianism: Evidence from Russia

Discussants: Felix Herrmann, Denis Ivanov

16:00 – 16:30 Coffee-break

16:30 – 18:30 Session 3: Political Economy, Public Opinion and Governance

Chair: Andrei Yakovlev

Thomas Remington (Emory University, Harvard University and HSE)

Elite Rent-Sharing and Income Inequality in the United States, Russia and China

Denis Ivanov (HSE)

Public Reaction on Trade Sanctions in a Democratic Context: Evidence from Moldovan Wine Embargo

Noah Buckley (Trinity College Dublin and HSE)

Authoritarian-Proofing Measurement of Public Opinion: Russian Attitudes and Search Engine Data

Jiwei Qian (National University of Singapore)

Enforcing Competition Law in China: Institutions and Policy Changes

Discussants: Christoph König, Michael Rochlitz

19:00 Conference Dinner at “Pannekoekschip” (<https://admiral-nelson.de/>)

Saturday, October 26th

08:30 – 09:30 Keynote Speech

Marina Nistotskaya (University of Gothenburg)

Quality of Governance in Russian Regions

09:30 – 10:00 Coffee-break

10:00 – 12:00 Session 4: Firms

Chair: Alexander Libman

Felix Herrmann (Forschungsstelle Osteuropa, University of Bremen)

Trade among Brothers: Price Formation in the CMEA Computer Industry

Maria Kristalova (University of Jena), Michael Fritsch (University of Jena), Michael

Wyrwich (University of Groningen)

Persistence and Change of Regional Entrepreneurship Activities in Germany

Andrei Yakovlev (HSE), Nina Ershova (HSE), Olga Uvarova (HSE)

What Kind of Firms Get Government Support? The Analysis of Changes after 2014-2015 Crisis.

Ann Hipp (University of Bremen), Udo Ludwig (University of Leipzig), Jutta Günther (University of Bremen)

Economic Structures and Innovation in East Germany: The Legacy of the GDR

Discussants: Ora John Reuter, David Szakonyi

12:00 – 13:00 Lunch (snacks will be served at the conference venue)

13:00 – 15:00 Session 5: Institutions

Chair: David Szakonyi

Ekaterina Borisova (HSE), Regina Smyth (Indiana University Bloomington), Alexei Zakharov (HSE)

Social Capital and Housing Renovations Program in Russia

Amanda Zadorian (HSE), Vera Smirnova (HSE), Daniela Zupan (Bauhaus-Universität Weimar)

Stolichnaya praktika: Housing Renovation and Center-Periphery Relationships with the Russian Regions

Alexander Libman (LMU Munich), Judith Heckenthaler (LMU Munich)

Patterns of Loyalism: Explaining the Excessive Compliance of Regional Officials in an Authoritarian State

Israel Marques (HSE), Alexei Zakharov (HSE)

Redistributive Policy and Redistribution Preferences: The Effects of Moscow Redevelopment Program

Discussants: Regina Smyth, Maria Kristalova

15:00 End of workshop program

Sunday, October 27th

09:00 - 18:00

ICSID Organizational Meeting and Trip to Bremerhaven

Workshop Abstracts

Friday, October 25th

10:30 – 12:30 Session 1: Corruption and Norms

Israel Marques (HSE)

Political Connections and Non-traditional Investment: Evidence from Public-Private Partnerships in Vocational Education

How do political connections shape the propensity of firms to make investments in weakly institutionalized settings? Traditionally, absent ways to hold the state accountable, firms should withhold investment for fear of predation. An emerging body of work on the political economy of investment has highlighted the competitive advantages that direct political connections with officials can bring to firms in institutionally weak environments with low accountability. These advantages, particularly privileged protection of property rights, can decrease uncertainty and promote investment even absent traditional accountability mechanisms. This paper applies these insights to a particularly risky form of investment for firms: public-private partnerships (PPP) with the state to develop skill. Skill development investments are riskier than average, since they require firms to reveal trade secrets about their production, engage in long-term interactions, and can be poached by free-riding rival firms. This paper argues that these risks can be overcome by a strong state partner (i.e. PPP), albeit this creates new risks in weakly institutionalized environments if the lower-level officials responsible for implementing agreements cannot be held accountable for agreements and can shirk. This paper argues that political connections provide the means for states to create credible commitment, as they give firms access to power that can enable them to monitor lower-level officials, call attention to misbehavior, and thus punish deviations from PPP agreements. It outlines the ways in which various types of political connections state ownership, direct officeholding, employing former officials, via formal consultative organs, and acquaintanceship can enable firms to hold lower-level officials accountable and engender credible commitment. These arguments are then tested using data from an original survey of 690 firms in 12 Russian regions.

Koen Schoors (Ghent University), Sümeyra Atmaca (Ghent University)

Political Cycles and Corruption in Public Procurement

The study evaluates whether governors leaving office increase waste of public money before departure. We use yearly data on public procurement by Russian procuring entities. The procurement data is complemented with data on elections and appointments of governors. The sample covers 2011-2017 in 80 regions. The results from the difference-in-differences estimation show that leaving governors compared to governors staying in office increase procurement expenditures by 11% before departure. The finding is only present for regional institutions. Furthermore, we group governors according to their reason of leave to rule out reverse causality and still find evidence of a political cycle in public procurement.

Anna Abalkina (LMU Munich)

Corruption in Higher Education in Russia: Fake Dissertations and Pseudoscience

Over the past decades a lot of evidence has emerged on the corruption of higher education in Russia and the development of the shadow dissertation market (Osipian 2012). Dissertations became one of the status symbols and “must have” among politicians, top managers, etc. The institutional organization of the dissertations defenses, despite of numerous obligatory reviews, was tolerant to significant violations of academic ethics (plagiarism, falsifications of

data and results) which were revealed by Dissernet, a network of researchers and journalists who detect plagiarism in dissertations.

The analysis of the network of plagiarized dissertations in Russia, especially in humanitarian and social sciences which have a significant gap of accepted methodologies of the research in comparison with international science, gives the evidence of numerous dissertations mills in economic, psychological, historical, law, pedagogical sciences. Pseudosciences in Russia are also subject to plagiarism. The goal of the research is twofold. Firstly, we analyze the institutional organization of dissertation mills and corruption links which allow to benefit from academic rent. Secondly, we analyze the organization of pseudoscience. Acmeology, which is a new-born sub-area in psychological science, is noted also for numerous cases of data fabrication. Academic fraud in dissertations (for example, automatic rename of analyzed group of people in plagiarized text) according to the evidence of dissertation councils, was used as alibi to hide the abuse of academic ethics because the subject of analysis is new and different and text similarity is not plagiarism but common methodology of the research (www.dissernet.org). This specific logic suggests that fraudulent pseudoscientists would be more prone to falsifications. To verify this hypothesis, we use logit regression. We test if data or result fabrication which is binominal dependent variable is associated with sub-areas of psychological science. We check if data fabrications are gender specific. It is considered that men with higher probability are engaged in unethical behavior than women (Buckley et al. 1998). Though the sample already represents violation of academic ethics we test if men fabricate more than women in order to hide their unethical behavior. Then we analyze if there is statistical significance of fraud among Cand.Sc. and Doct.Sc. applicants.

Ekaterina Borisova (HSE), Victor Bryzgalin (Lomonosov Moscow State University),
Irina Levina (HSE)

Is Rule Following Good or Bad for Economic Growth?

Do norms of rule following (i.e. individual compliance with instructions and nurturing obedience in children) support higher economic growth? On the one hand, a common wisdom suggests that rule following should positively affect economic growth since it should create predictable environment with transparent and equal conditions and support stronger rule of law. On the other hand, obedience might hinder initiative that is important for entrepreneurial spirit and innovations. Moreover, in countries with poor institutional climate rule following might sustain extractive institutions that hamper economic development. We explore the relationship between rule following norms and economic growth using data from all available waves of the World Values Survey and find support for the second explanation. We demonstrate that rule following has a negative influence on growth. Moreover, we show that effect is conditional on the institutional quality: negative influence of rule following almost disappears in countries with very high quality of institutions (measured by the rule of law, government effectiveness and other WGI indicators). Adding trust does not alter the results. Effect is also robust for using alternative rule following measures and controls, different time periods and sets of countries. Our results contribute to the growing literature on the importance of rule following norms and add important details on the mechanisms that might be at play and lead to striking negative impact of rule following.

14:00 – 16:00 Session 2: Political Economy and Elections

Christoph König (University of Bristol)

Patronage and Election Fraud: Insights from Russia's Governors 2000–2012

Theory and empirics suggest that patronage fosters election fraud. But why does fraud vary within autocracies where patronage's incentives to manipulate should be uniformly high? In this paper, I explore whether information asymmetries can explain this phenomenon. I study the introduction of a patronage system which allowed Russia's president to discretionarily

appoint all 89 regional governors. After December 2004, all national elections were organized by governors facing removal but, crucially, only some were actually patronage-appointed with lower need to signal their qualities. I estimate the effect of the reform's introduction and its staggered implementation on a new and verified regional fraud indicator for 7 national elections from 2000–2012. Results show that patronage increased overall levels of rigging but less so with patronage-appointed, connected governors. Appointments had no effect on actual election results and regional economic performance, which makes reduced uncertainty about governors' loyalty the most plausible explanation.

David Szakonyi (George Washington University and HSE)

Candidate Filtering: The Strategic Use of Electoral Fraud in Russia

Governments have many tools at their disposal to tip competitive electoral races in their favor. But we know little about when and why officials employ different strategies. This paper argues that electoral malpractice centered on manipulating institutions helps shield incumbent government from public anger and criminal prosecution. To demonstrate this, I focus the analysis on one controversial but widespread institutional tactic: the use of registration rules to reject certain candidacies. First, I show survey experimental evidence that voters respond more negatively to blatant forms of fraud, such as ballot-stuffing, than they do to institutional tactics, such as candidate filtering. Next I argue that because incumbents face lower costs from rejecting certain candidates, they are able to strategically deploy this type of fraud to win competitive races. Evidence in support comes from 22,288 mayoral races in Putin-era Russia, where only 50 ruling party candidates saw their registration blocked. Candidates filtering is more likely when incumbents sense electoral vulnerability or face credible challengers to their rule. Taken together this article suggests that the technology of electoral malpractice helps determine when and how incumbent regimes violate electoral integrity.

Ora John Reuter (University of Wisconsin-Milwaukee and HSE)

Civic Duty and Voting under Autocracy

This paper explores the role that civic duty plays in voting under electoral autocracy. Conventional wisdom holds that clientelism and coercion are the major drivers of turnout under autocracy, but these factors are not relevant for most voters in contemporary regimes. Using original survey data from Russia, I present evidence that most voters feel an ethical obligation—a civic duty—to vote. I then develop a theory that links the duty to vote under autocracy with respect for the state. Since opposition voters are more likely to feel alienated from the state, I argue that regime supporters are more likely to evince a duty to vote. Using a previously validated measure of the duty to vote, I find evidence in Russia consistent with these arguments. The theory and findings suggest that authoritarian incumbents have an inherent mobilizational advantage: their supporters feel a duty to vote, but regime opponents do not. This is a novel explanation for the sustained weakness of opposition parties under autocracy.

Fabian Burkhardt (SWP Berlin)

Portfolio Allocation under Authoritarianism: Evidence from Russia

Much of the recent work on bureaucracies in authoritarian regimes is actor-centric and focuses on officials as the unit of analysis. In this paper, we argue that a structure-centric approach to executives offers a useful addition to our understanding of non-democratic regimes. To investigate when and under which conditions rulers initiate or allow for structural change, we focus on departments of Russian ministries in the period between 2001 and 2014. At this stage, our analysis is limited to organizational change in six ministries. We employ panel regression analysis to test two sets of hypotheses derived from authoritarianism and public administration research respectively. As for the former, we find that structural change

is more likely in the direct aftermath of presidential elections and within executive structures for which the autocrat does not act as the direct political principal. As for the latter, we find that the parent organization's duration of a department matters just as it does in democratic regimes. In contrast to these, however, policy units are more stable as internal services dealing with administrative issues. Overall, we believe that a structure-centric approach offers valuable insights even for autocratic regimes that are usually classified as highly personalist.

16:30 – 18:30 Session 3: Political Economy, Public Opinion and Governance

Thomas Remington (Emory University, Harvard University and HSE)

Elite Rent-Sharing and Income Inequality in the United States, Russia and China

Russia and China share surprising similarities with the United States in levels and trends of economic inequality notwithstanding significant differences in institutional arrangements. All three societies are outliers among peer countries with respect to the high level of income and wealth differentiation, particularly the concentration of income and wealth at the top of the distribution. To explain these similarities, this paper proposes a model of rent-sharing between corporate and political elites. Politically-motivated suppression of economic competition generates rents for market-dominating firms, a portion of which their managers return to politicians in the form of election campaign contributions, ideological and political support, and informal payments for politicians' personal expenses. Through their control of policymaking, politicians protect corporations from enforcement of anti-monopoly law, block demands from organized labor, and keep taxes and social insurance obligations low. This rent-sharing elite exchange relationship exacerbates inequality, undermines political contestation and accountability, and enables managers of corporations to raise their own compensation while holding down the wages of lower- and middle-wage workers. The model applies both to economies with industry-dominating state-owned enterprises, such as China and Russia, as well as to the United States, where private companies exercise market power.

The paper argues that the rent-sharing model arose out of the policies of liberalization and deregulation undertaken by all three countries in the last four decades (the United States and China starting in the late 1970s and Russia from the late 1980s). Liberalization reduced taxes and social insurance contributions and lifted controls on prices and wages with the aim of stimulating competition and productivity growth. Consistent with the "early winners" theory of Joel Hellman, however, those corporations that gained an initial advantage allied with political leaders to block further liberalization. In support of the argument, the paper takes advantage of the natural experiment following German reunification, when the liberalization of the GDR's economy occurred within the established institutional framework of the FRG's stringent competition law, social partnership between capital and labor, and socially-oriented market economy. As a result, in contrast to much of the postcommunist world, in both the old and new Länder of Germany income inequality remained moderate and market competition high. Neither state-owned nor private corporations gained market-dominating positions. Consequently, a system of rent-based elite exchange did not arise. The German case illustrates the point that the forces of technological change and globalization cannot adequately account for the distinctive features of income inequality in the US, Russia and China; political-economy factors must be taken into account as well.

Denis Ivanov (HSE)

Public Reaction on Trade Sanctions in a Democratic Context: Evidence from Moldovan Wine Embargo

Economic, and in particular trade sanctions are frequently used to punish non-compliant behavior in international politics. However, not enough is known on how these sanctions affect public opinion and popular preferences. Do people blame their government for the suffering inflicted by sanctions, or they rally 'round the flag in defiance of foreign attempts to

influence actions of their governments? Recent studies have come to mixed conclusions (Frye 2018, Grossman et al. 2018). In addition, worsening economic opportunities at home are likely to cause labor migration abroad, thus exposing migrants to foreign institutions, which might affect their positions on domestic political issues. Research of this problem is additionally challenged by the fact that sanctions are typically imposed on autocracies, which might manipulate public opinion.

In this paper, I study a case of Russian-imposed trade sanctions on a democratic post-Soviet country. In March 2006, Russia banned import of wines from Moldova, which has been widely perceived as an attempt to punish the Moldovan government for its increasingly pro-European course. Russia was the single largest consumer of Moldovan wines, amounting to 75 percent of export in 2005. Combining data from 2004 and 2014 population censuses, and 1998-2010 elections results across 897 communes, and the pre-2006 spatial distribution of vineyards across Moldova, I show that, after the embargo, the prevalence of vineyards in a district is associated with the increase in share of residents choosing Romanian rather than Moldovan ethnic and linguistic identity, which is a sign of pro-Western political and cultural orientation, and with the decrease in the vote share of the Party of Communists, the major pro-Russian political force in Moldova at the moment. The effect likely operated through the increased migration to the Western democracies. Therefore, the theories of “rally ‘round the flag” and the diffusion of democracy through international migration seem to explain the reaction of Moldovans to the Russian embargo.

Noah Buckley (Trinity College Dublin and HSE)

Authoritarian-Proofing Measurement of Public Opinion: Russian Attitudes and Search Engine Data

It is important to understand public opinion and attitudes in authoritarian regimes just as it is in democratic ones. Autocracies’ opacity and their unresponsiveness to electoral mechanisms mean that public opinion in such regimes can be particularly difficult to measure and quickly shifting. In this paper I introduce a proof of concept that combines traditional public opinion surveys, search engine data, and machine learning to alleviate the challenges to assessing attitudes in autocracies. This move is motivated by a need for estimates of public opinion that are a) more fine-grained in time and geography than are currently available, b) not subject to blackout if typical sources are shut down, and c) resistant to meddling by the regime. I combine surveys from Levada and other sources with search engine data from Yandex to produce estimates of Russian public opinion that are superior in these regards to those available previously. This represents an advance for scholars studying authoritarian regimes as well as a potential improvement in data availability for hard-to-study contexts subject to data manipulation.

Jiwei Qian (National University of Singapore)

Enforcing Competition Law in China: Institutions and Policy Changes

China’s transition from a high-growth model to a “new normal” economy is expected to be driven by innovation instead of investment. In this context, competition policy is an indispensable part of a regulatory framework to address market imperfections, ensure effective and fair market competition, and more importantly, provides incentives in encouraging innovation. Anti-Monopoly Law, the core of competition policy, has been introduced since 2008. Based on economic size, China is now one of the major jurisdictions for competition law in the world. However, the effectiveness of competition law enforcement has been questioned. In early 2018, there was a significant organizational reshuffle of government agencies to address the ineffectiveness in enforcing competition policy. Nevertheless, fundamental institutional problems, such as the influence of the industrial policy, local protection, and administrative monopoly, etc still persist. This study reviews the

policy changes in competition policy and discusses the institutional implications of competition policy enforcement.

Saturday, October 26th

10:00 – 12:00 Session 4: Firms

Felix Herrmann (Forschungsstelle Osteuropa, University of Bremen)

Trade among Brothers: Price Formation in the CMEA Computer Industry

The socialist states cooperating economically with each other were competitors in trade within and outside the Council for Mutual Economic Assistance (CMEA or Comecon). Their main goal was the economically profitable sale of goods from national production. An essential tool to reach this goal constituted the ratio of domestic to foreign prices. In particular, the consideration of world market prices for price setting at the national level was handled differently in the CMEA member states. The agreed price setting principles applied in the CMEA trade integrated world market prices in a very specific way and added a further layer of complexity to the existing diversity of different national price formation mechanisms. The paper is based on research on transnational cooperation in the field of computer technology within CMEA from the 1960s to the 1980s with a focus on the USSR and GDR. It will show how the method of price formation based on average world market prices of analog types favored some Eastern European countries at the expense of the USSR.

The Soviet Union proved incapable of actually asserting its claim for economic leadership within the framework of the CMEA. As a result it paid the double bill for the development of new industries in its socialist brother states: On the one hand through the subsidized export of raw materials such as oil, and on the other through the import of overpriced high-tech products.

Maria Kristalova (University of Jena), Michael Fritsch (University of Jena), Michael Wyrwich (University of Groningen)

Persistence and Change of Regional Entrepreneurship Activities in Germany

We study inter-regional persistence and change of entrepreneurship activities in Germany in the 1925-2015 period. We employ a unique data set on self-employment and start-up rates at a regional level throughout the last century and beyond. The results are ambiguous and underpin a stability hypothesis on the one hand, and a change hypothesis on the other hand. We observe a strong path dependency of regional levels of new business formation in some regions, whereas there is pronounced rank mobility of others. We also exploit the division of Germany into two different states after World War II and the re-unification more than 40 years later as a natural experiment and investigate the impact of the different political regimes on persistence and change in the levels of regional entrepreneurship. Using a regional League Table (LT) and a difference-in-difference (DiD) approach, we are also able to quantify the long-run role of the socialist legacy in today's divergence of the regional economic performance.

Our results show that current systematic differences in the performance between East and West Germany didn't exist prior to World War II. However, the socialism treatment effect is not as long-lasting as the public debate often suggests. Instead, we find that the share of manufacturing employment as well as the physical proximity to centers of R&D activities in the beginning of the last century are more effective in the long run and socialism may just have fallen on the fruitful ground. Recent R&D activities are also of high importance for both new business formation and self-employment. The results help to a better understanding of why some regions nowadays fall so strongly behind others and underpin the importance of studying the pre-separation history of Germany when considering the research on the re-unification.

Andrei Yakovlev (HSE), **Nina Ershova (HSE)**, Olga Uvarova (HSE)

What Kind of Firms Get Government Support? The Analysis of Changes after 2014-2015 Crisis

The paper analyses the shifts in government priorities in terms of support of big and medium manufacturing enterprises amid 2008-2009 and 2014-2015 crises. Based on the data of 2009, 2014 and 2018 surveys of Russian manufacturing firms using probit regressions we identify factors that affect the receipt of financial and organizational state support at different levels of government. The analysis shows that in 2012-2013 the share of manufacturing firms that received government support shrank significantly if compared to 2007-2008; moreover, the support concentrated on enterprises that had access to lobbying resource (such as state participation in the ownership or business associations membership). In 2016-2017 the scale of state support coverage recovered. However, the support at all levels of the government was provided to the firms that carried out investment and provided assistance to regional or local authorities in social development of the region, while the factor of state participation in the ownership became insignificant.

Ann Hipp (University of Bremen), Udo Ludwig (University of Leipzig), Jutta Günther (University of Bremen)

Economic Structures and Innovation in East Germany: The Legacy of the GDR

30 years after the fall of the Berlin wall, East Germany is still marked by a considerable productivity gap compared to West Germany (Ludwig, 2015). After many policy measures that aimed at removing this gap, their lasting failures are unmissable and cause a continued policy debate and increasing dissatisfaction in the population. Recent research explains the persistent productivity gap by high differentials in wages (Hirsch and Mueller, 2018), the distribution of firm size in East Germany and its subsequent migration of high-skilled workers (Burda and Severgnini, 2018) or ongoing investment deficits (Boltho et al., 2018). Former studies have further underlined the role of modernization blockades in the GDR that hampered East Germany's productivity growth (Bähr and Petzina, 1996; Krause, 1998; Baar and Petzina, 1999). But here the focus mostly laid on decision processes and particular regions and sectors by using partial productivity analyses. These methodological approaches are however hardly comparable to the measurements in the GDR and cannot be easily transferred to a macroeconomic level. Despite of the GDR's main economic objective to foster growth by means of technological progress, previous studies neglect the role of East Germany's former modernization blockades to explain its persistent productivity gap to West Germany. Theories on innovation policy and systems relate modernization blockades to system-related, institutional deficits that impede R&D and technological progress in an economy to enhance its growth (Freeman, 1989; Denyer and Neely, 2004; Van Ark et al., 2008; Pfothenauer et al., 2019). We argue that these system-related, institutional deficits cause an underinvestment in R&D and market-oriented innovation which explains a productivity gap that lasts for decades after the macroeconomic transition. Our paper provides novel insights on the concept of modernization blockades and its influence on macroeconomic growth. We employ a new time series of the GDP's key economic determinants and apply a novel methodological approach that allows us to compare Germany's total factor productivity in its formerly distinct regions (Ludwig, 2017). This paper shows that modernization blockades largely explain macroeconomic productivity gaps that remain persistent for decades. These system-related deficits reflect a fundamental lack in the economic stimulus system and in the provision of a scientific infrastructure (i.e., the establishment of production and research centers) that supports the generation and the transfer of application-oriented knowledge in the economy to ensure its long-term productivity and growth. By shedding light on the role of technological progress, we contribute to the ongoing debate about why East Germany's economic growth still lacks behind West Germany's benchmark.

13:00 – 15:00 Session 5: Institutions

Ekaterina Borisova (HSE), Regina Smyth (Indiana University Bloomington), Alexei Zakharov (HSE)

Social Capital and Housing Renovations Program in Russia

Many theoretical and empirical works show positive impact of social capital on development and well-being, others establish destructive influence of historical events on the current levels of social capital. Fewer papers pay attention to the creation of social capital in spite of the pronounced importance of this question. Several examples include studies of the role of horizontal vs. vertical teaching practices (Algan et al., 2013), welfare-state institutions (Kumlin, Rothstein, 2005), government subsidies (Valdivieso, Villena-Roldan, 2014) and of housing and urban policies (Lang, Hornburg, 1998). Some papers also emphasize importance of the good rule of law, property rights protection and low corruption for the higher levels of social capital (Berggren, Jordahl, 2006; Freitag, Bühlmann, 2009; Robbins, 2012).

This paper employs renovation housing policy in Moscow to show its effect on the social capital of homeowners. We use original survey of 2000 Muscovites provided in 2018 and exploit the fact that buildings were originally selected by the city without popular input, making inclusion plausibly exogenous from the standpoint of individuals. We therefore take advantage of the initial assignment of buildings to compare those that were included to residents of similar nearby buildings that were never eligible in order to gain leverage over the question of how inclusion shaped social capital, i.e. trust, norms, and networking with neighbors. We do find significant positive effects of the program on many social capital variables. Thus we not only contribute to the literature on social capital formation but also show that even authoritarian policy making that was not intended to increase social capital may actually do this.

Amanda Zadorian (HSE), Vera Smirnova (HSE), Daniela Zupan (Bauhaus-Universität Weimar)

Stolichnaya praktika: Housing Renovation and Center-Periphery Relationships with the Russian Regions

The Moscow Housing Renovation program has garnered significant attention among political scientists and urbanists seeking to understand its impact on regime stability and quality of life for residents of the capital. Despite early resistance, the program proved sufficiently popular in Moscow that the GosDuma passed a law calling for the expansion of the program to other Russian cities with over a million inhabitants. This proposed “export” of Housing Renovation provides an opportunity to consider contemporary relationships between the federal center and the Russian regions. First, the paper places Housing Renovation in the historical context of Soviet and early post-Soviet urban planning practice. Does it represent a return to Soviet stolichnaya praktika, in which Moscow serves as the country's single innovation center and testing-ground? Second, the paper examines how regional and local elites have begun to respond to the proposed program. In what cities is the proposed export of Moscow-style housing renovation met with acceptance or resistance? How has the discourse of stolichnaya praktika informed these responses?

Alexander Libman (LMU Munich), Judith Heckenthaler (LMU Munich)

Patterns of Loyalism: Explaining the Excessive Compliance of Regional Officials in an Authoritarian State

A common feature of authoritarian regimes is that in many cases there is a range of allowed level of political activism and compliance bureaucrats and the population face. While some may prefer show exceptional loyalty to the regime, others merely fulfill the minimal requirements. Exceptional loyalty, however, is costly, for example, because it attracts attention of the critics of the regime and (for bureaucrats) may result in public disapproval. In

some cases, regime itself prefers to distance from the most loyal supporters. How can we explain the willingness of officials to show exceptional loyalty to the regime? We investigate the responses of the Russian regional governors to the highly unpopular pension reform of 2018 and conclude that exceptional loyalism is used as a costly signal either by governors, who fear their career to be at risk from the federal government, or by those, who try to attract attention of the center to the remote and less populated regions.

Israel Marques (HSE), **Alexei Zakharov (HSE)**

Redistributive Policy and Redistribution Preferences: The Effects of Moscow Redevelopment Program

We use a custom survey of 1400 Moscow residents to study the effects of redistributive government programs on preferences for redistribution. We find that residents of the buildings targeted by a redevelopment program were more likely to agree with the statements that the government should reduce income differences between rich and poor, provide for the unemployed, and provide housing for everyone who needs it. The primary transmission mechanism is increased trust in government, caused by a credible promise of a redistributive social policy, and, in turn, leading individuals to support such policies in the future.