

## How (not) to measure Russian regional institutions<sup>☆</sup>

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### Abstract

The paper explores various measures of institutional quality in Russian regions, and compares those measures to each other. Such analysis leads to the conclusion that Russian regional institutions are essentially multidimensional, and therefore comparisons of Russian regions in terms of their overall institutional quality could be problematic. New institutional indices are derived from Russian enterprise surveys held under the BEEPS project of the European Bank of Reconstruction and Development. Such indices yield a typology of Russian regions in terms of efficacy of regional administrations' control over economy and bureaucracy in their regions. Dynamics of regional institutional indices is investigated against the backdrop of Russia-wide institutional trends.

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### 1. Introduction

Successes and failures in economic development are associated with institutions—“rules of the game” in the economy and society, which create more or less favorable environments for economic activity. Effective institutions support entrepreneurship, attract investments, and promote economic growth. In contrast, stagnation and poverty, even when resources are abundant, are usually associated with flaws in the institutional environment.

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Once it is realized how important institutions are for economic development, it is natural to make an attempt to measure institutional quality. Interest in such measures occurs for at least three reasons. First, entrepreneurs and investors who choose countries and regions for their operations need assessments of the investment climate in prospective jurisdictions. Second, these indicators are useful in assessments of the performance of government agencies by voters, higher authorities (in the case of regions), and by international organizations, which often condition assistance, loans, or membership in developed countries' groups on the quality of national institutions. Measurable improvement of institutions reflected by international ratings could be included in political platforms and campaign promises, as recently happened in Russia. Finally, analysts need these ratings to forecast the development of national and regional economies, to identify their competitive advantages and "bottlenecks" and to evaluate the effect of various factors (e.g., history, geography, public policy, social structure, norms, and values) on the quality of institutions.

Of course, the measurement of institutions and their contribution to economic outcomes must be preceded by a clear definition of the institutions. There are different points of view in the literature as to what can and cannot be considered institutions. The common definition of institutions by D. North as man-made "rules of the game" in the economy and society admits various interpretations. In particular, there are formal and informal institutions; in addition, institutions are contrasted with organizations, however subtle the differences between the two could be. Both statutory regulations and their implementation and enforcement practices can be considered institutions. Long-term institutions are contrasted with shorter-term policies emphasizing the role of institutions as constraints on choices made by governments and private sector agents. A hierarchy can be established among institutions; basic institutions (such as constitutional provisions) shape the framework of economic activity, including dispute resolution, property and contract rights, competition, etc.. Various parts of such a framework, in their turn, could also be considered institutions. Disagreements in the literature about the extent to which institutions affect economic and social outcomes are largely due to different interpretations of the very concept of institution.

As definitions of institutions differ, so do approaches to institutional measurement. Measures of institutions can be formal; in this case, they record presence or absence of certain regulatory authorities, legislation, officially prescribed procedures, and so forth. Another possibility is to use substantive indices reflecting the opinions, experiences and appraisals of institutions' users (for example, entrepreneurs, managers, and citizens) and external experts who are able to compare the quality of institutions in different jurisdictions (Voigt, 2013). Finally, institutions can be gauged by indirect indicators that are observable and measurable and expected to be correlated with the institutions of interest. Presently, there many dozens of institutional quality measures produced by rating agencies, think tanks, international organizations and research groups. Although these measures are susceptible to criticism (see Langbein and Knack, 2010; Thomas, 2010; Glaeser et al., 2004), they are widely used in academic literature, applied analyses, and for other purposes.

Various measures are available for Russian institutions, including, e.g., the protection of property rights, rule of law, business climate, and government

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