

## Democratization and the Problem of Governance

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March 29, 2002

Havighurst Symposium in Economics  
“Russia Ten Years Later: Taking Stock”  
Miami University  
April 7-8, 2002

### 1. Governance and Democratization

In recent years, scholars and policy makers have come to regard the issue of governance as a critical link between the choice of policies and institutions and their actual impact on society. A growing body of evidence suggests that the effectiveness of policy measures in achieving their purposes depends on the effectiveness of governing institutions.<sup>1</sup> The quality of governance—understood to mean the effectiveness of public institutions in producing collective goods—determines how well public policies are converted into desired outcomes such as economic growth and greater equality of distribution. The problem is no longer seen as one of trading off efficiency for equity. The real problem is how to improve governance so that good policy can contribute to both.

It would be normatively satisfying if democratization always led to better governance in transitional polities. Unfortunately, this is not necessarily the case. Democratic transitions in times of severe economic crisis often stimulate a surge of demands for distributive policies that benefit particular groups at the expense of public goods, demands that weak new democratic governments are frequently unable to resist.<sup>2</sup> Their governing institutions are susceptible to capture by powerful organized interests, whether through direct control over policy making structures, indirect influence, or outright corruption.<sup>3</sup> Political scientists argue that a strong party system, in which a

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<sup>1</sup> The clearest evidence of this is the increasing emphasis upon governance and institutions in the World Bank’s annual World Development Reports. Beginning with the 1997 volume—*The State in a Changing World*—and continuing through the 2002 report, *Building Institutions for Markets*, the Bank has emphasized that unless institutions, defined as the “rules, enforcement mechanisms, and organizations supporting market transactions,” make economic markets work effectively, market-oriented reform policies will not promote growth or mitigate inequality.

World Bank, *World Development Report 1997: The State in a Changing World* (New York: Oxford University Press, 1997); World Bank, *World Development Report 2002: Building Institutions for Markets* (New York: Oxford University Press, 2002).

<sup>2</sup> Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton, N.J.: Princeton University Press, 1995).

<sup>3</sup> Joel S. Hellman, Geraint Jones and Daniel Kaufmann, *‘Seize the State, Seize the Day’*:

relatively small number of competitive parties aggregate public interests across a broad range of particularistic interests and convert electoral programs into welfare-enhancing public policy, can overcome these dangers.<sup>4</sup> In many new democracies, however, party systems are weak and fragmented, and therefore ineffective at aggregating public demands. Both executive and legislative policy making arenas fall prey to strong pressures from powerful particularistic interests.

In this paper I examine the effect of democratization, defined here as the emergence of a system of separated powers out a fused, centralized system, on the quality of governance, taking Russia as a case study. I proceed from the proposition that good governance contributes strongly both to higher levels of efficiency and equity in society. This proposition is based on a large body of recent scholarship demonstrating that both higher levels of economic growth *and* greater equality of distribution are associated with sound and effective political institutions, whereas economic reform in the absence of such institutions results in poor performance both in growth and distribution. Following Dani Rodrik I define good governance as effective performance by five types of institutions: secure property rights; government regulation of markets; fiscal and monetary policy instruments to promote macro-economic stability; social assistance programs that guarantee adequate living standards to vulnerable groups of the population; and structures that can manage if not resolve conflicts among social groups.<sup>5</sup> Some of these institutions administer and enforce policy, but others make policy: they set tax rates, redistribute resources, allocate rights. In this paper I am concerned particularly with policy making institutions, since they are susceptible to capture during democratic transitions. What effect does the democratization of policy making institutions have on the overall level of efficiency and equity in society? Democratization can be defined as a change from a system where policy making authority moves from unaccountable executives to legislators and executives who are held accountable to the citizens through elections.<sup>6</sup> This definition applies whether government is presidential, parliamentary, or a hybrid of the two. The problem is this. If democratization means that policy makers

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*State Capture, Corruption, and Influence in Transition* (Washington, DC: World Bank Institute, 2000).

<sup>4</sup> Cf Matthew S. Shugart and John M. Carey, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (Cambridge: Cambridge University Press, 1992); Stephan Haggard and Mathew D. McCubbins, Eds. *Presidents, Parliaments, and Policy*. (Cambridge, Cambridge University Press, 2001); Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Inter-Party Cooperation* (Cambridge: Cambridge University Press, 1999).

<sup>5</sup> Dani Rodrik, "Institutions for High-Quality Growth: What They Are and How To Acquire Them," *Studies in Comparative International Development* 35:3 (Fall 2000); idem, "Development Strategies for the Next Century," Annual World Bank Conference on Development Economics 2000, April 2001.

<sup>6</sup> Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven, CT: Yale University Press, 1971); Adam Przeworski, Susan C. Stokes and Bernard Manin, Eds. *Democracy, Accountability, and Representation*. (Cambridge, Cambridge University Press, 1999).

are made responsive to competing social interests, it is reasonable to suppose that policy makers are *more* susceptible to the influence of powerful particularistic interests under democracy than they are under authoritarian rule. Democratization could very well worsen governance as a result, by enabling the wealthy and powerful to win disproportional influence in state institutions, pursuing private benefit at public expense.

This problem is not the same as the familiar argument that government responsiveness and effectiveness cannot be maximized at the same time, that increasing one comes at the expense of the other. Good governance implies *both* effectiveness and responsiveness—the government must have the capacity to enforce property rights, regulate markets, collect taxes, redistribute resources and resolve conflicts, but must also do so in a way responsive to the voters’ preferences. But since to be effective, government must sometimes impose losses on some groups for the sake of redistributing resources or providing collective goods, it must be responsive more to some than to others.<sup>7</sup> Even if public policy cannot simultaneously improve social efficiency and social equality, can it increase one without reducing the other? In fact, the empirical evidence from large-scale cross-national studies shows that democratization is associated with *both* higher growth *and* more equitable distribution, implying better governance.<sup>8</sup> Even among democracies, as Arend Lijphart has shown, “consensus” democracies whose institutions disperse power and maximize inclusiveness in policy making show no worse economic performance, and considerably better performance on other dimensions, than “majoritarian” democracies.<sup>9</sup> Similarly, the cross-national studies of the post-communist world consistently demonstrate that greater levels of openness, accountability, and inclusiveness of government are associated both with higher growth and greater equality of distribution and with lower levels of “capture” of government by powerful private interests.<sup>10</sup> The contradiction between the conventional wisdom and the empirical findings may be due to the difference between a static and dynamic perspective. If we imagine responsiveness and effectiveness to define two axes of a political production frontier curve, such as economists use to model the impossibility of maximizing the production of guns and butter simultaneously, then we may imagine that democratization can push the production frontier outward, increasing the country’s institutional capacity to produce *both* effective and responsive governance, even if zero-order trade-off effects

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<sup>7</sup> R. Kent Weaver and Bert A. Rockman, Eds. *Do Institutions Matter? Government Capabilities in the United States and Abroad*. (Washington, DC, Brookings Institution, 1993).

<sup>8</sup> John F. Helliwell “Empirical Linkages between Democracy and Economic Growth.” *British Journal of Political Science* 24(1994): 225-248; Rodrik, “Institutions for High-Quality Growth.”

<sup>9</sup> Arend Lijphart, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (New Haven, CT: Yale University Press, 1999).

<sup>10</sup> Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc* (Cambridge: Cambridge University Press, 2002); Joel S. Hellman “Winners Take All: The Politics of Partial Reform in Postcommunist Transitions.” *World Politics* 50:1(1998): 203-34; Hellman, Jones and Kaufmann, ‘*Seize the State, Seize the Day*.’”

between them remain.<sup>11</sup> Still, the studies that take individual countries as the units of observation may suffer from endogeneity problems: despite the use of controls for a variety of country-specific conditions, it may still be that national context still explains the co-variance of democratization and good economic performance. We need to drop down to the country level in order to analyze the relationship between democratization and governance as a dynamic problem. For this reason an examination of the case of post-communist Russia may prove instructive. What follows does not pretend to be a systematic exploration of the evidence. Rather, it offers a few illustrations of general tendencies in the relationship between legislative-executive relations in the last decade and their implications for governance.

There is general agreement that overall, the post-Soviet Russian state has performed rather poorly by any standard of governance. To be sure, it inherited a system which was both ineffective and unresponsive. The bureaucratic pathologies of the Soviet state have been well described elsewhere<sup>12</sup> and the transition from communism weakened many of the relatively ineffective institutional arrangements for control and accountability that did exist.<sup>13</sup> A dominant theme of the literature on the ancien regime is that overcentralization of the Soviet state produced weakness of political control over the bureaucracy. We would expect that improved governance in the post-Soviet period would therefore require not only improved means of political control (decision-making, monitoring, intervention) at the top, but also a substantial downsizing in the scale of the administrative leviathan to be controlled. There is no question that this means that bureaucratic instruments for controlling private behavior have to be replaced in part by the self-coordination of private agents through the marketplace as well as by judicial and other institutions capable of encouraging socially desirable private transactions through enforcement of contracts and property rights. But reducing the scale of government control of society is not the same as expanding democratic control of the state. What is the effect of democratization on the responsiveness and effectiveness of government given the formidable policy tasks that postcommunist Russia inherited? On this point, the literature is uniformly pessimistic, although for different reasons. One perspective holds that democratization in Russia stopped partway and ended in the capture of a weakened state by powerful, often corrupt, interests who used their power to lock in private rents, to the detriment of both efficiency and responsiveness.<sup>14</sup> Another view

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<sup>11</sup> Cf. Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven, CT: Yale University Press, 2001), pp. 6-11.

<sup>12</sup> Cf. Valerie Bunce, *Subversive Institutions: The Design and the Destruction of Socialism and the State* (Cambridge: Cambridge University Press, 1999); Philip G. Roeder, *Red Sunset: The Failure of Soviet Politics* (Princeton: Princeton University Press, 1993).

<sup>13</sup> Mary McAuley, *Russia's Politics of Uncertainty* (Cambridge: Cambridge University Press, 1997); Georgii Satarov et al., *Epokha Yel'tsina: ocherki politicheskoi istorii* (Moscow: Vagrius, 2001); Steven L. Solnick, *Stealing the State: Control and Collapse of Soviet Institutions* (Cambridge, MA: Harvard University Press, 1998).

<sup>14</sup> Chrystia Freeland, *Sale of the Century: Russia's Wild Ride from Communism to Capitalism* (New York: Crown Business, 2000); Michael McFaul, *Russia's Unfinished*

goes further and holds that there was no meaningful democratization in the first place; democratic institutions such as elections were a façade behind which Yeltsin-era elites simply transferred huge amounts of state wealth to themselves.<sup>15</sup> Either way, the record of severe economic decline and sharp increases in poverty, inequality, morbidity, mortality, and crime, and other indicators of economic and social distress in the 1990s, makes it hard to deny that the quality of governance deteriorated in the 1990s over the levels of the late Soviet era. Even among postcommunist countries, Russia ranks high in the extent to which the state was captured by powerful interests and in the concentration of wealth and power in the 1990s.<sup>16</sup>

On the face of it, then, it seems positively perverse to argue that the democratic institutional changes which occurred in Russia in the early 1990s could have had any beneficial effect on the quality of governance. The argument that democratization worsened governance seems considerably more plausible. A closer look at the evidence, however, reveals a more mixed picture.

Let us start with the theoretical assumptions. What should we expect the effect of the establishment of a system of separation of powers to be on the Russian state's capacity to provide effective and responsive governance? Theoretically, a beneficial effect should come about through two paths. First, depending on the capacity of the legislature to overcome its own collective action problems, separation of powers can improve the quality of public policy. To the extent that the legislature itself, or strong parties acting through the legislature, can aggregate public demands effectively, the likelihood decreases that policy making in the executive or legislative branches will be captured by special interests seeking to turn public policy to private benefit. This would require, of course, that the legislature itself be able to offer generalized policy measures rather than particularistic benefits for specific clienteles. Otherwise legislation is the product of broad distributive coalitions that let each legislator concentrate electorally advantageous benefits at the expense of larger public deficits. If aggregative institutions are weak, individual politicians have little incentive to appeal to larger collective interests and to realize collective benefits from good governance. When the aggregation of social interests through parties or other electoral institutions works effectively, however, a democratically elected legislature can curb tendencies for administrators to use their discretion for wasteful, corrupt or abusive purposes. Separation of executive, legislative

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*Revolution: Political Change from Gorbachev to Putin* (Ithaca, NY: Cornell University Press, 2001); Peter Rutland, Ed. *Business and State in Contemporary Russia*. (Boulder, CO, Westview, 2001).

<sup>15</sup> Jerry F. Hough, *The Logic of Economic Reform in Russia* (Washington, DC: Brookings Institution Press, 2001); Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post-Communist Russia* (New York: W. W. Norton, 2001); Peter Reddaway and Dmitri Glinski, *Tragedy of Russia's Reforms: Market Bolshevism against Democracy* (Washington, DC: U. S. Institute of Peace, 2001).

<sup>16</sup> Hellman, Jones and Kaufmann, "Seize the State, Seize the Day"; Timothy Frye, "Presidents, Parliaments, and Democracy: Insights from the Post-Communist World," in Andrew Reynolds, ed., *The Architecture of Democracy* (New York: Oxford University Press, 2002).

and judicial powers was argued to be desirable precisely for this reason by James Madison in the *Federalist Papers*.<sup>17</sup>

Second, separation of powers could affect the strategies of third parties—actors in society who are not themselves policy makers or implementers—by increasing their confidence that policy will be stable and policy making transparent.<sup>18</sup> Their faith in the stability of rules and procedures makes them more willing to invest their effort in productive activity. The open and deliberative nature of legislative decision making creates expectations that policy will not be casually or quickly changed.

To understand how the legislature in a separation of powers system can influence the executive, the substantial body of literature on separation of powers in the United States is of some use. Scholars identify three broad ways in which the legislature may control the bureaucracy: oversight, statutory control, and the budget.<sup>19</sup> For these to work, of course, some conditions must exist: there needs to be a certain degree of cooperation between the branches in policy making (each side must be willing to bargain compromise in order to get some policy benefits), the legislature must have some capacity to monitor the executive, and the executive needs to be willing to comply with legislative enactments. Certainly these conditions have not always applied in Russia. Yet even in Russia's system of separate but unequal branches, there has been a considerable amount of interbranch cooperation in law-making, even in periods of intense interbranch conflict. Since 1993, both sides have regularly preferred to compromise than to press a confrontation to the limit.<sup>20</sup> There has been a zone of shared agreement on policy goals between parliament and executive even when the two branches are at odds on many issues. For example, the communists and the reformers were able to agree on legislation governing the federal judiciary and federal elections in the mid-1990s. And even though the constitution removed any direct reference to a right of legislative oversight—“*kontrol*”—over the executive, forms of legislative oversight have existed in such institutions as parliamentary hearings, interpellations, investigations, and government hour. The much closer relationship between parliament and executive under Putin has meant that a far greater proportion of the executive's legislative agenda has been passed by parliament and signed by the president. Yet even so, the legislature still wins policy concessions in bargaining with the government. Thus there are elements of cooperation between the branches even at points when policy distance between them is high, and

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<sup>17</sup> As Madison put it, the possibility that the legislature will aggrandize its powers at the expense of popular liberty means that the power of both branches need to be checked by the independence of the executive and judicial branches. Each branch must have, as Madison put it, “a constitutional control over the others.” (Federalist No. 48)

<sup>18</sup> World Bank 1997.

<sup>19</sup> John D. Huber, Charles R. Shipan and Madelaine Pfahler “Legislatures and Statutory Control of Bureaucracy.” *American Journal of Political Science* 45:2(2001): 330-345.

<sup>20</sup> Thomas F. Remington “The Evolution of Executive-Legislative Relations in Russia since 1993.” *Slavic Review* 59:3(2000): 499-520; idem, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven, CT: Yale University Press, 2001); Paul Chaisty, “Legislative Politics in Russia,” in Archie Brown, ed., *Contemporary Russian Politics: A Reader* (New York: Oxford University Press, 2001), pp. 103-120; McFaul, *Russia's Unfinished Revolution*.

elements of conflict even when distance is low. Despite the constitutional asymmetry in the powers of the legislative and executive branches, Russia's Federal Assembly has found ways of using all three forms of legislative power to exercise influence over the executive. There may be some reason to think that they have had some modestly positive effect on the quality of governance since the early 1990s.

## 2. Oversight

Oversight is a close equivalent to the Russian concept of *kontrol'*. The history of *kontrol'* institutions in the Russian state is long and revealing, because, since *kontrol'* was always understood as an instrument of political control over the bureaucracy, the Soviet state set up a number of different types of structures for monitoring the compliance of the state bureaucracy according to policy and legal criteria.<sup>21</sup> These were bureaucratic instruments, however; the history of legislative oversight is far shorter. Institutionally, however, legislative *kontrol'* over the bureaucracy is analogous to congressional oversight of the executive in the American context, where it was defined by a US Senate committee as "a wide range of congressional efforts to review and control policy implementation."<sup>22</sup>

At a minimum, the effectiveness of legislative oversight in producing good governance depends on the government's willingness and ability to provide a sufficient flow of information to legislators to let them monitor the behavior of executive branch officials. It also requires that the legislators, and ultimately the public, be able to act collectively to forestall or redress abuses of executive power. Graphically, we can depict the relationship of the effectiveness of oversight of the executive by the legislature and the policy distance between them as an inverse U-curve: where there is a high level of polarization or mistrust between legislative and executive branches, the executive will refuse to supply information about its activity. Likewise if the executive and legislative branches are united in their political and policy goals, legislators will not demand any information that would jeopardize its access to power. It is in the intermediate range between conflict and cooperation, where parliament has some capacity to monitor the executive and enough distance to make it politically advantageous to the legislative branch to exercise it, where we should expect legislative oversight to be most effective. In Russia, the relationship between executive and legislative branches has moved from one extreme on this continuum (when parliament and president competed for absolute power in the early 1990s) toward the opposite end. Effective oversight would disappear entirely if president succeeds (as he appears to be doing) in so taming both chambers of

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<sup>21</sup> For early Bolshevik efforts to reconcile "workers' control" with "state control," see Thomas F. Remington, "The Rationalization of State Kontrol," in William Rosenberg, Ronald Suny, and Diane Koenker, eds., *Party and Society in the Russian Civil War: Explorations in Social History* (Indiana University Press, 1989); idem, "Institution Building in Bolshevik Russia: The Case of State Kontrol," *Slavic Review*, v. 41, no. 1 (Spring 1982), pp. 91-103.

<sup>22</sup> As cited in Mathew D. McCubbins and Thomas Schwartz, "Congressional Oversight Overlooked: Police Patrols versus Fire Alarms," *American Journal of Political Science* 28:1 (February 1984), p. 170.

parliament that they lose all interest in exercising critical scrutiny of the executive branch.

Although Russia's parliament lacks a *formal* power of *kontrol'* under the 1993 constitution, in fact oversight is exercised through several means. One mechanism is the Audit Chamber, which has a staff of around 500 people who conduct audits of state organizations. Parliament names its chair and charges it with specific assignments. The Audit Chamber has investigated an extremely wide range of government organizations and state enterprises and worked assiduously to expand its powers. Under Chairman Sergei Stepashin, it has created a network of regional branch offices which it has been trying to build into a centralized hierarchy.<sup>23</sup> In the 1995-2000 period, it conducted some 3000 investigations.<sup>24</sup> Much of the time, its reports have had little apparent effect on the bureaucracy, although often its findings are reported in the Russian press. Its 1997 investigation of the trust auctions (the "loans for shares" scheme) of 1995 found serious legal irregularities but the Procuracy refused to act. It has regularly clashed with the government and with the Finance Ministry in particular over its right to conduct audits. It regularly complains that the government ignores its findings. It does not have the power to bring legal charges and its reports have only advisory force. But its power to expose abuses and corruption contributes to parliament's ability to generate political pressure on high-ranking government officials. By itself the Audit Chamber has little power to improve governance, but when the political climate favors action on its recommendations, it becomes another instrument at the disposal of parliament for checking the executive branch.

Parliament also has the power to hold legislative hearings and to invite ministers to appear and answer questions before the Duma during "government hour." Hearings do not need to be specifically associated with pieces of legislation; most Duma hearings in fact are not related to individual bills. Each year, Duma committees hold close to 100 hearings (see Table 1). These give committee chairs and members the opportunity to publicize problems, advertise their policy positions, attract press attention to their legislative agenda, and put pressure on the executive branch to act on particular issues. Committees also conduct seminars and roundtable discussions for similar purposes. Government hour is another opportunity to focus the spotlight on particular government officials and to publicize parliament's watchdog role.

Members of parliament also have the right to submit interpellations (*zaprosov*) to the government (any deputy may propose one, but the motion to submit one requires majority support), to contact government officials directly, and to question government officials in the course of question hour. Often these powers are used for particularistic purposes—indeed, like other legislative powers, often they are used for corrupt purposes. In other cases the Duma uses interpellations as a way of demonstrating that it is playing its proper role as the guardian of the public interest, as when the Duma unanimously passed a motion calling for an interpellation to Procurator-General Ustinov demanding that he check into press reports of corruption in the Interior Ministry.<sup>25</sup> The net effect of these powers is a considerable increase in the flow of information from the executive to

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<sup>23</sup> Polit.ru, May 16, 2001.

<sup>24</sup> Polit.ru., September 15, 2000.

<sup>25</sup> Polit.ru, October 18, 2001.



the legislative branch and greater pressure on the executive branch to fight corruption and inefficiency.

Parliament also has an implied, although again not formal, power to conduct investigations. It does this by forming special-purpose commissions to conduct wide-ranging inquiries, including (in the present convocation, a commission devoted to fighting corruption). An example is the Duma's investigation of the activity of former Atomic Energy Minister Evgenii Adamov. The Duma's anti-corruption commission reported at the beginning of March 2001 that Adamov had skimmed off huge sums from contracts with the ministry and created numerous commercial firms with them. At the end of the same month, Putin dismissed Adamov.<sup>26</sup> Pressure from the commission was also undoubtedly a factor leading to the fall of the powerful minister for railroads, Nikolai Aksenenko, at the beginning of 2002. In both cases, dismissal was the outcome of a lengthy subterranean bureaucratic war, in which pressure from the Duma was only one of many contributing reasons for the eventual outcome. The difference between these episodes and similar bureaucratic wars in the Soviet era is that now legislators, with an eye to the public and electoral consequences of taking sides, are adding their institutional resources to the fight.

### 3. Law-Making

The role of statutory law-making in promoting effective governance depends on how well laws deter the arbitrary use of bureaucratic power and whether they promote the public good as opposed to particular private interests. The very fact that policy is made by law rather than by executive action is, however, often a step in the direction of improved governance, if only because of the greater stability and transparency of law making. This point is particularly important in the Russian context because historically, very few enactments were made by law, either in the pre-revolutionary or Soviet eras. Edicts (*ukazy*), decrees (*postanovleniia*) and sub-legal administrative rule-making (through regulations, rules, and instructions) have far outweighed statutes (*zakony*) for most of Russian history. The Presidium of the Supreme Soviet issued edicts in the Soviet period and continued to do so extensively into 1993. The Soviet system also relied heavily on *postanovleniia*, adopted by the CPSU by itself or jointly with the government and/ or the trade unions. Strikingly few laws were passed (only about 15 per year in the 1960s).

Law-making is a critical feature of democratic governance because it requires that the parliament use a variety of devices to deliberate openly on policy and to find majority agreement among its members in passing laws. In Russia, the parliament under the 1993 constitution has devised a number of institutional means to deliberate and decide policy in a range of policy areas. These include factions, committees, working groups, and agreement commissions. In turn, these institutional features of the Federal Assembly have enabled it to engage extensively in deliberation on legislation with the executive branch, both in the years when the policy distance between executive and legislative branches was high, and still more in the last two years.

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<sup>26</sup> *Segodnia*, March 3, 2001.

Compared with its two predecessors, the Federal Assembly of the 1993 constitution has greatly restricted the use of decree making, both by the legislature and by the executive. In the USSR and RSFSR Supreme Soviets of 1989-1991 and 1990-1993, decree making by the Presidium was a heavily used practice. In the period when Yeltsin and Khasbulatov were chairs of the RSFSR Supreme Soviet, and thus chaired the Presidium, they had wide latitude to issue orders and decrees on their own authority or that of the Presidium. Many of these acts were grants of special privileges, such as authorizations to create “free economic zones” in particular regions or licenses to particular organizations to import desirable goods such as liquor and cigarettes on a duty-free basis, or tax exemptions for particular regions or firms. These parliamentary-executive decrees and orders far outnumbered laws. For example, from May to November 1992, the Supreme Soviet produced over one thousand official acts, but only 53 of these were laws. Over 600 were orders and decrees of the Presidium and its chairman.<sup>27</sup>

Moreover, both legislatures, faced with profound social and economic circumstances, acceded to presidential requests and delegated sweeping decree power to them. Of course, the president may also usurp decree powers, as Yeltsin did when he refused to relinquish the emergency decree powers he had been granted. President Yeltsin’s use of decree power reached a peak before and after the crisis of September 1993. For example, in the month following his famous decree of September 21, 1993, dissolving parliament and calling new elections, he issued some 200 decrees.<sup>28</sup> In 1992-1993 and still later, in 1994-1995, President Yeltsin used his decree power to set policy in some of the most critical areas of economic reform. Another peak came in 1996, when the use of decree-making spiked in connection with the presidential reelection campaign, and a large proportion of the decrees were acts of distributive largesse. The unpredictability of policy making by decree was very dramatically illustrated when Yeltsin issued a decree in August 1996 rescinding at one stroke some 50 of the distributive decrees he had enacted during the election campaign.<sup>29</sup> In contrast, the use of decrees to make policy has diminished sharply both in quantitative and qualitative terms. As Table 2 shows, the number of presidential decrees has declined since the late 1990s, under both Yeltsin and Putin. And an examination of the decrees suggests that almost none of them in the last three years has concerned a significant policy decision. Law making, meantime, has settled into a much more regular rhythm. As Table 3 shows, the Duma now passes between 200 and 250 laws per year (three quarters of them were signed by the president in the 1994-1995 and 1996-1999 periods; nearly 93% were signed in the two years of Putin’s presidency).

Undoubtedly many significant reforms that were enacted by decree in the early 1990s could not have approved as legislation. But there are a number of problems for

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<sup>27</sup> Remington, *The Russian Parliament*, p. 130.

<sup>28</sup> Vladimir Rimskii, “Biurokraticheskie mekhanizmy preobrazovaniia v Rossii v period prezidentstva Boris El’tsina,” in *Effektivnost’ osushchestvleniia gosudarstvennogo upravleniia v Rossii (period prezidentstva El’tsina): rabochie materialy* (Moscow: Institut prava i publichnoi politiki, 2002), p. 62.

<sup>29</sup> Thomas F. Remington, Steven S. Smith and Moshe Haspel “Decrees, Laws, and Inter-Branch Relations in the Russian Federation.” *Post-Soviet Affairs* 14:4(1998): 287-322.

governance with the use of decrees to make policy. For one, decree making lends itself to procedural irregularities as particular interests capture the ear of the president for special concessions and pet projects. Accounts of the decree-making process under Yeltsin agree that however firmly chiefs of staff attempted to enforce an orderly system of consultation and sign-offs (*soglasovaniia*) among affected executive offices, sometimes decrees that were thrust before Yeltsin got signed regardless of whether they had been cleared with all the relevant departments. In other cases, draft decrees got quietly side-tracked by officials who wanted to bury them. When the oligarchs wanted the loans-for-shares plan to be approved, they were able to get the relevant decree signed quickly. A well-connected entrepreneur from the Caucasus persuaded Yeltsin to issue a decree setting up an “off-share zone” in Ingushetia, which soon became a vast conduit for the diversion of state resources into private hands.<sup>30</sup> President Yeltsin’s impulsiveness, coupled with political expediency and the inherent secrecy of executive rule-making, meant that policy making by ukaz easily served particularistic interests—whether Yeltsin’s, oligarchs’, ministerial, or other. By my count, nearly 30% of Yeltsin’s 458 decrees in 1996 were distributive in content. In contrast, last year Putin issued fewer than 150 decrees, and only around 10% could be classified as distributive.

Laws (statutes or, in Russian, *zakony*) differ widely, of course, in the degree to which they limit the range of arbitrary discretion allowed to executive departments for administrative rule-making. Vague, toothless laws encourage state officials to issue sub-legal acts freely. Many legislative acts in Russia have been either strongly distributive in character, or have been so vague that the bureaucracy has been able to eviscerate, reinterpret or ignore them freely using sub-legal administrative acts (agency-issued rules and instructions). Some laws have invited brazen, widespread law breaking because they have set impossibly high standards for behavior, which could only be upheld if they were backed by a strong public consensus reinforced by effective, honest law enforcement. Russia’s high rates of tax evasion and other forms of law violations indicate that in many cases, neither is present. In still other areas, law making has been blocked entirely due to deadlock between the branches. Still, it is likely that regular legislative procedures, where the rules of decision are known in advance to all participants, stands a better chance of allowing efficient aggregation of interests than does rule-making by executive action when particular bureaucratic agencies and officials can make rules for their own purposes. It is clear that, by comparison with the chaotic policy making of the early 1990s, policy making procedures have become far more routinized. This is true of the exercise of corrupt influence as well, of course, to the point that Duma insiders speak of “price-lists” for services rendered--\$1500-3000 for a meeting with a deputy; \$2000-4000 for a phone call by a deputy to a particular government official; \$2000-5000 for an interpellation to a government agency; all the way up to sponsorship of a major bill, which can cost between \$100,000 and 200,000.<sup>31</sup>

The problem that policy makers have faced since the early 1990s, when both legislative and executive leaders granted huge rent-extracting opportunities to various political actors in return for political support, is that it is far harder to take back the special privileges they have granted to individual regions, branches, and organizations in

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<sup>30</sup> Freeland, *Sale of the Century*, pp. 99-110.

<sup>31</sup> Gleb Grigor, “Voiny interesov v Gosdume,” *Vedomosti*, March 11, 2002.

return for their support in tactical political struggles than it was to give them away. In the last two years, though, both branches have made a serious effort to reduce the distributive content of policy. Recent tax legislation limits the freedom of regions to make arbitrary use of tax policy and eliminates a number of exemptions. The lower rates, the elimination of exemptions from the profits and minerals taxes, and the simplification of the tax system have substantially increased tax collections. Reportedly Mikhail Zadornov, deputy chairman of the Duma budget committee, estimated that in 1998 the nominal tax take was 55% of GDP but that only around 35% was realized. Now the nominal tax burden has been cut 6-7% and is less than 50% of GDP while collections have risen to 40%. As a result, the gap between the nominal and actual tax yield has dropped from 20% to less than 10%.<sup>32</sup>

Likewise the government found it extremely difficult to narrow the scope of federal agencies' ability to impose licensing fees and requirements on businesses until recently. However, the recent law on licensing, which the Duma passed in the summer of 2001, sharply reduces the autonomy of government agencies to impose licensing requirements on businesses. This law cuts the number of such activities from several hundred (or even, according to one deputy's estimate, 2000) to around 100. More important is the fact that the law prohibits government ministries from using sub-legal acts to set new licensing requirements on labor and services.<sup>33</sup>

The shift away from distributive legislation under Putin indicates that policy making institutions have become better at aggregating interests, but these are not legislative institutions—they are networks of policy makers within the government and presidential administration, together with more intensive consultation with large umbrella organizations outside government, such as the Russian Union of Industrialists and Entrepreneurs. Putin seems to have constructed centers for policy development that can resist the powerful tugs of bureaucratic, oligarchic, and regional interests. Absent from the aggregation process are political parties. The presidential administration's control over both chambers of parliament ensures the passage of legislation that has been developed in such sites as Gref's Center for Strategic Planning and other think tanks, the Ministry for Economic Development and Trade, Dmitrii Kozak's special commissions, and other bodies answering to Putin's staff. The nature of control differs sharply between the two chambers: in the Duma, a coalition of factions oriented around Unity can command a reliable majority on most issues, while in the newly formed Federation Council, a universal coalition of appointed senators provides near-unanimous majorities on nearly every vote. In neither chamber is there a majority party or coalition with wide electoral support that can convert a mandate from the voters into a policy program. Still, it is notable that the president and government are devoting all of their policy making effort to developing and passing major legislation rather as opposed to decrees.

#### **4. Budget control**

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<sup>32</sup> A. Nikol'skii, "Pensionnaia i nalogovaia reformy: novye zakony vstupauiut v deistvie," Polit.ru, January 30, 2002.

<sup>33</sup> On this bill, see Polit.ru of March 2 and July 3 and 6, 2001; also see the interview with Igor Lisinenko in *Parlamentskaia gazeta*, July 3, 2001.

Finally, in separation of powers systems, a particularly important area of legislative control over the executive is the power of the purse. There is some evidence that parliamentary influence over the budget has grown steadily over the 1990s. For example, the scale and level of details of the state budget law has increased every year as the volume of information about state revenues and expenditures that the government has shared with the Duma has risen. If sheer length of the budget law is any indication at all of increased legislative capacity to monitor the state budget, then surely it is worth noting that the 2002 budget law was 50 times longer than the 1992 budget. (See Table 4). The budget law is now regularly signed each year before the budget year begins, rather than partway through it. The law also includes a far greater level of detail for individual line items.

As a result of the Budget Code, signed into law in 1998 (after objections by the Federation Council were dealt with), parliament significantly restricted the discretion of executive agencies at all levels of the state to use budget resources arbitrarily. It introduced a treasury system for the first time, requiring that all budget revenues be held in the state treasury. It closely regulated the use of incomes and revenues by state organizations and restricted the right of administrative authorities to deviate from spending the amounts specified by the budget law, and provided substantial penalties for violations. Moreover, it ended the right of regional and local governments to form their own off-budget funds and required them to cut back on spending in proportion to shortfalls in revenue.<sup>34</sup> The budget code was tightened further in 2000, when the Duma adopted amendments proposed by the government that eliminated regions' right to borrow money in foreign capital markets and ended the practice of mutual write-offs of budget obligations.

Even more significant is the fact that parliament has also expanded its control over *extra*-budgetary funds, after the period in the early 1990s when both executive and legislative acts created non-budget funds freely. When Khasbulatov and his supporters in the Russian Congress of People's Deputies were fighting for supremacy with Yeltsin, Khasbulatov frequently signed decrees creating special-purpose off-budget funds under government agencies, specifying that only he could control the use of funds from them.<sup>35</sup> The practice continued into the mid-1990s under the new constitution. Typically, by law or executive action, an administrative body would be created and given the right to form its own extra-budgetary account to receive and spend revenues. These revenues, in turn, would exempt from taxation. In some cases they would include the right to conduct import and export operations without paying customs duties.<sup>36</sup> For instance, the press minister tried to persuade parliament to create a "fund for support of the press" -- which he would control--as part of the law on state support for the media (the provision was dropped from the final version of the law). An LDPR deputy introduced a bill "on the preservation and development of Slavic traditions," which would create a tax-exempt fund. Another deputy proposed a bill creating special purpose off-budget fund for development of the Far North, another for treatment of solid wastes. Industries formed their own extra-budgetary funds authorized by the government and funded through

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<sup>34</sup> Segodnia, April 15, 1998.

<sup>35</sup> Satarov et al. *Epokha El'tsina*.

<sup>36</sup> *Izvestiia*, June 6, 1995.

contributions from individual enterprises (treated as part of production costs). In 1994, Gazprom's off-budget fund took in about 10 trillion rubles in revenues, or close to \$3 billion. Railroads Minister Aksenenko was accused of creating six off-budget funds, including the "fund for supporting educational institutions of the ministry," "the fund for health care," the "financial reserve fund," and the "fund for investment programs of the ministry." These may have been legal, but they created an enormous temptation for corrupt diversion of resources for other purposes.<sup>37</sup>

The use of off-budget funds by local and regional governments, ministries and other state organizations, and enterprises proliferated. The volume of resources flowing through them was staggering. By the mid-1990s the money in off-budget funds totaled close to two thirds of the state budget.<sup>38</sup> But off-budget funds were not subject to budget control, often were free from tax, and (until the introduction of the treasury system in 1998) often were managed in commercial banks. At a time when the economic system was shifting from one based on the administrative control of physical resources to one in which money became a financial resource, off-budget funds enabled public entities to act as if they were private interests outside of any public accountability and to provide elected officials with politically useful slush funds. Granting the right to form off-budget funds became yet another of the ways in which the executive and legislative branches competed for support during the early 1990s. Both parliamentarians and executive branch officials benefited from control of large slush funds outside any budgetary control. They deadlocked over policy measures designed to bring off-budget funds under budgetary control. A bill requiring that extra-budget funds be subject to budget oversight and regular audits, and maintained in the state treasury, died following heated debate in the Duma in summer 1995. Many deputies wanted to bring the pension fund and other social funds under the Duma's budgetary control but the Pension Fund itself and deputies sympathetic to it argued that doing so would only increase the likelihood that pension resources would be diverted to other uses.<sup>39</sup> Meantime, the Audit Chamber and the government's own auditors constantly discovered massive abuses in the use of off-budget funds, including the Highway Fund, the pension fund, and other social funds, often by regional authorities.

The use of the off-budget fund mechanism to receive and expend social assistance dates to the early 1990s, when the government authorized the formation of four extra-budget funds to replace the old system of financing social assistance, the Pension Fund, the mandatory medical insurance fund, the disability insurance fund, and the unemployment insurance fund. Together, their budget represents close to half the amount of the total state budget (revenues were about 410 billion rubles in 2000, or around \$14.5 billion US). These were kept outside the state budget—placed, one might say, in a "lock-box"—in order that contributions to them and payments from them be used solely for the purposes of the funds and not absorbed into the general budget. Effectively, the trade unions still control payments out of the two social funds (unemployment and disability). An even more significant problem is that disbursements from the Pension Fund (the largest of the four) are often outside the control of the federal pension authorities and are

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<sup>37</sup> Polit.ru, October 24, 2001.

<sup>38</sup> *Izvestia*, June 6, 1995.

<sup>39</sup> *Segodnia*, June 8, 1995.

diverted by regional governments to other needs. Another problem is that employers have routinely failed to pay the 28% employer contribution of the wage fund into the pension fund, preferring instead to pay cash wages to employees under the table without paying the tax. As a result, the funds have fallen far short of their revenue and spending targets. The medical insurance fund, for instance, only finances about 30% of the expenses of health care in the country.<sup>40</sup>

Over time, parliament has imposed closer budget controls over these funds. A 1999 law established a general framework for social insurance funds, separating them from budgetary social assistance programs. But despite the fact that the budget code calls for a law that would regulate these funds comprehensively, there still is no general law on the formation and management of the extra-budget funds, and authority over their use continues to be fragmented across several federal departments (the Pension Fund, the Labor Ministry, and the post office) and between the federal and regional levels. The law on the single social tax passed in 2000 unified contributions into the four funds (pensions, medical, and the two social funds) and lowered the aggregate rate. This did represent a significant step toward placing all the social funds under budgetary control. The next step was to increase the Pension Fund's control over pension spending by restricting governors' ability to treat pension funds as part of general budget resources (Putin issued a decree to this effect in September 2000, which the Constitutional Court upheld). In the future, the Pension Fund's control over pension contributions will be reduced through the shift to a contributions system consisting both of the state's pension system and private funds.

With time, therefore, parliament has increased its control both over the state budget and over extra-budgetary flows of resources. This has come about as a result of greater expertise in the parliament coupled with the political interest on the part of parliament in directing critical scrutiny toward executive branch activity. Parliament has also increased its capacity to form majorities: it no longer allows an ambitious chairman or Presidium to issue decrees giving away liberal benefits to favored clients nor does it delegate decree power to the president. The factional system regularly produces majorities for legislation, the distributive content of which seems to be declining. But parliament's ability to produce coherent legislation is not the a result of a broad party majority or coalition converting a victory in the general election into a policy mandate. For many reasons, including the fact that Russia's president rather than a parliamentary majority appoints the government, the system discourages the formation of cohesive parties capable of forming and sustaining a government. Rather, parliament's capacity to deliver majorities for governance-enhancing legislation is a product of an efficient system of policy development in the executive branch and the high level of support that the president commands in both chambers of parliament. The success of aggregative institutions in overcoming the tendency of both executive and legislative branch officials

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<sup>40</sup> N. M. Mukhetdinova, "Sotsial'noe strakhovanie Rossii v 90-e gody," *Informatsionno-analiticheskoe upravlenie apparata Soveta Federatsii: Analiticheskii Vestnik* no. 11 (123), "Rol' sotsial'nykh vnebiudzhethnykh fondov v reformirovanii Rossii (Strakhovyi vzos ili edinyi sotsial'nyi nalog?)" (Moscow: Sovet Federatsii Federal'nogo Sobraniia Rossiiskoi Federatsii, 2000), pp. 11-15.

to use public policy for distributive purposes owes far more to the strategy and skill of the president than to the operation of the separation of powers.

Still, for the time being, economic and political confidence indicators show a rising trend. Figure 1 plots four indicators of market performance: the ruble to dollar exchange rate; two stock market indexes; and the 30-day interbank interest rate, from the beginning of January 1998 to the beginning of January 2002. The interval thus shows the impact of the August 1998 crash and the recovery in market confidence since then. All four are indexed so that the value as of January 1, 1998, is set to 100. (Figure 1 about here).

As the graph shows, interest rates have stabilized at a level less than half that of their January 1998 value; the RTS price index is close to its starting value and the RUR index is four times higher; and the government has kept the ruble to a very slow and stable rate of appreciation against the dollar. Three dips in confidence under Putin can be seen (stock market indexes falling, interest rates rising), most recently in connection with the September 11 terrorist attacks, but each has been followed by a resumption of the general trend. Likewise, confidence both in Putin and in the government remain strikingly high. Figures 2 and 3 show the monthly ratings reported by VTsIOM in Putin and the government for approval and disapproval, from May 2000 through January 2002. To the extent that policy making institutions promote effective governance through their impact on public confidence, therefore, we would have to conclude that the current arrangements appear to be relatively successful.

## 5. Conclusions

Studies of governance often emphasize the contradictory qualities expected of institutions. Democratic institutions must be responsive but also decisive. Policy makers must be able to respond to public demands and urgent policy needs, but they must also be able to maintain commitments to policy in the face of resistance. Firm governance may require imposing losses on some groups in favor of benefits for the larger public good.<sup>41</sup> But we have seen evidence that these contradictions may be more apparent than real. Where institutions are effective, they increase a state's capacity to deliver *both* higher efficiency *and* higher equality. Democratization can improve institutional capacity but does not always do so; it can allow a broader range of interests to be taken into consideration in making policy and prevent special interests from capturing state power for private benefit, but does not necessarily do so. A weakened state undergoing democracy during a time of economic crisis is particularly vulnerable to capture and corruption by powerful interests that seek concentrated particularistic benefits at the public's expense. In the absence of strong, effective aggregating institutions, such as parties, opening the system through competitive elections and separation of powers may simply compound the problem of fragmented authority. For instance, separation of powers in the period when Gorbachev and Yeltsin were fighting for power, and again when Yeltsin and Khasbulatov were warring, motivated each to use the available levers of power to issue generous rights to favored clients. Gorbachev, as USSR president,

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<sup>41</sup> Weaver and Rockman, *Do Institutions Matter?*; Haggard and McCubbins, *Presidents, Parliaments, and Policy*.



sought to outbid Yeltsin for support by appealing to the demands of Russia's ethnic regions for greater autonomy, and Yeltsin, as chair of the RSFSR Supreme Soviet, countered by appealing to the rest of Russia's regions with grants of more autonomy. Yeltsin, as president, issued decrees liberally distributing rights and privileges to entire categories of the population, and Khasbulatov, as chair of the RSFSR Supreme Soviet, issued decrees creating a variety of special funds, free economic zones, and tax exemptions. These struggles for power gravely weakened Russia's capacity to deliver effective governance. The new system of 1993 therefore faced enormous obstacles.

Considering the magnitude of the governance crisis in the early 1990s, the increase in policy-making effectiveness in the relations between legislative and executive branches is substantial. By contrast with the early 1990s, policymaking has become much more transparent, stable and predictable. Nearly all significant policy now is made by legislation rather than decree. Legislation passed in the late 1990s and under Putin has significantly increased budget control and reduced the level of loopholes, concessions, and grants of unaccountable power in fiscal policy. Public confidence in central institutions has risen.

These changes have not come, however, through the development of a system of programmatic parties replacing patronage-based machine politics. Rather, it is the result of the rationalization of policy making in well coordinated networks of officials and experts based in the presidential administration, government, and policy research centers, combined with strong-arm tactics for ensuring loyal majorities in both chambers of parliament. A system of competitive, policy-oriented parties linking voters, parliamentary majorities, and control of government still remains to be established.

Table 1: State Duma Parliamentary Hearings

Convocation	Term	No. hearings	No. outside Moscow	No. closed	No. committees sponsoring	No. participants	% concerning specific legislation
II	spring + fall 1996	87	4	9	-	-	-
II.	spring 1997	60	-	2	24	-	-
II.	fall 1997	40	-	-	-	-	-
II.	spring 1998	51	3	0	21	9K	26%
II.	fall 1998	37	-	-	21	6K	24%
II.	spring 1999	55	4	-	23	10K	25.5%
II.	fall 1999	25	16	20	27	-	-
III.	spring 2000	38	-	4	24	7.5K	-
III.	fall 2000	57			23	10K	8%

Source: State Duma Informatsionno-analiticheskie biulleteni, on-line at <http://www.duma.ru/infgd/infgd.htm> (May 4, 2001); Federal'noe Sobranie – parlament Rossiiskoi Federatsii. Gosudarstvennaia Duma. Analiticheskoe upravlenie. *Gosudarstvennaia Duma tret'ego sozyva v osenniuiu sessiu 2000 goda. Informatsionno-analiticheskii biulleten' No. 9.* (Moscow 2000), p. 58.

Table 2: Published Normative Presidential Edicts, 1994-2001

1994	201
1995	240
1996	458
1997	190
1998	210
1999	143
2000	202
2001	146

Table 3: Legislative production of Russian parliaments, 1937 to present

Time period	No. of terms ( <i>sessii</i> )	No. statutes passed	Mean no. of laws per term (approx.)
Stalin era			
Nov. 1937-Feb. 1946	12	64	13
Feb. 1946-Mar. 1950	5	30	6
Mar. 1950-Mar. 1954	5	26	5
Post-Stalin era			
Mar. 1954-Mar. 1958	9	51	6
Mar. 1958-Mar. 1962	7	72	10
Mar. 1962-Jun. 1966	7	51	7
Gorbachev era USSR Supreme Soviet			
Jun. 1989-Nov. 1990	4	62	15.5
Jan. 1991-Jul. 1991	1	50	50
RSFSR Supreme Soviet			
Jun. 1990-Jul. 1991	3	69	23
Apr. 1992-Nov. 1992	2	53	26
Jan. 1993-Jul. 1993	1	98	100
State Duma: <sup>42</sup>			
1 <sup>st</sup> convocation			
Jan. 1994-Dec. 1995	4	464	116
2 <sup>nd</sup> convocation			
Jan. 1996-Dec. 1999	8	1036	129
3 <sup>rd</sup> convocation (2 years)			
Jan. 2000-Dec. 2001	4	380	95

Source: Table 7.18 in Thomas F. Remington, *The Russian Parliament* (pp. 229-230); 2000-2001 figures from AKDI (Agency for Economic-Legal and Business Information of “*Ekonomika i zhizn*”) from website <http://www.akdi.ru/gd/new/92.HTM>, as of January 4, 2002.

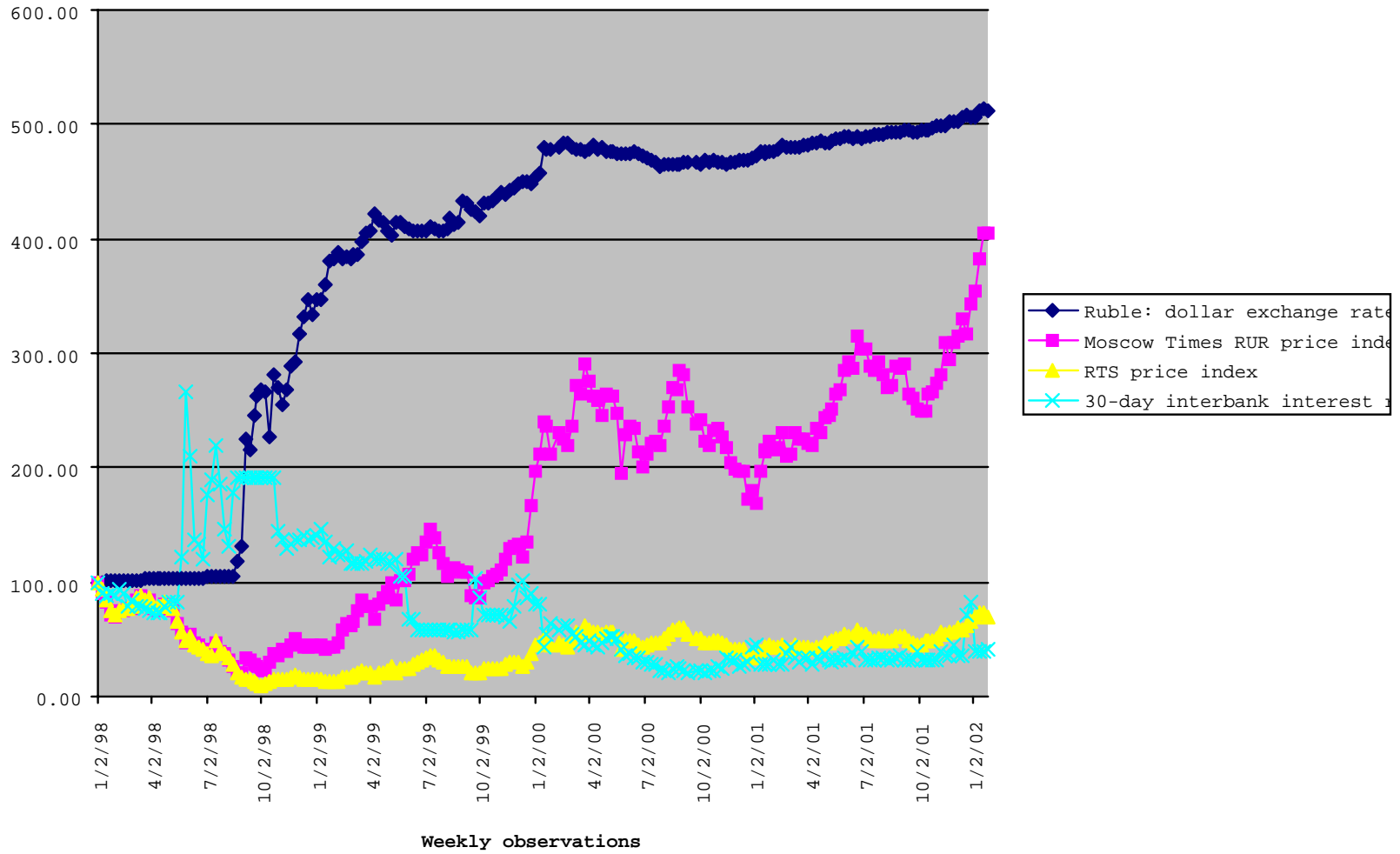
<sup>42</sup> Figures refer to federal and constitutional laws, including treaty ratifications, passed by State Duma in third reading.

Table 4: Federal Budget Laws

Budget year	Date signed	No. of articles	No. of pages
1992	17-Jul-92	18	8
1993	14-May-93	27	19
1994	1-Jul-94	39	28
1995	31-Mar-95	62	67
1996	31-Dec-95	71	33
1997	26-Feb-97	99	119
1998	26-Mar-98	120	115
1999	22-Feb-99	141	59
2000	31-Dec-99	163	243
2001	27-Dec-00	139	340
2002	30-Dec-01	147	423

NB: Number of pages refers to pages in official publication of law in Sobranie zakonodatel'stva Rossiiskoi Federatsii. Budgets for 1992 and 1993 are from Vedomosti S"ezda Narodnykh deputatov RSFSR i Verkhovnogo Soveta RSFSR.

Russian Weekly Economic Indicators, Jan 1998-Jan 2002

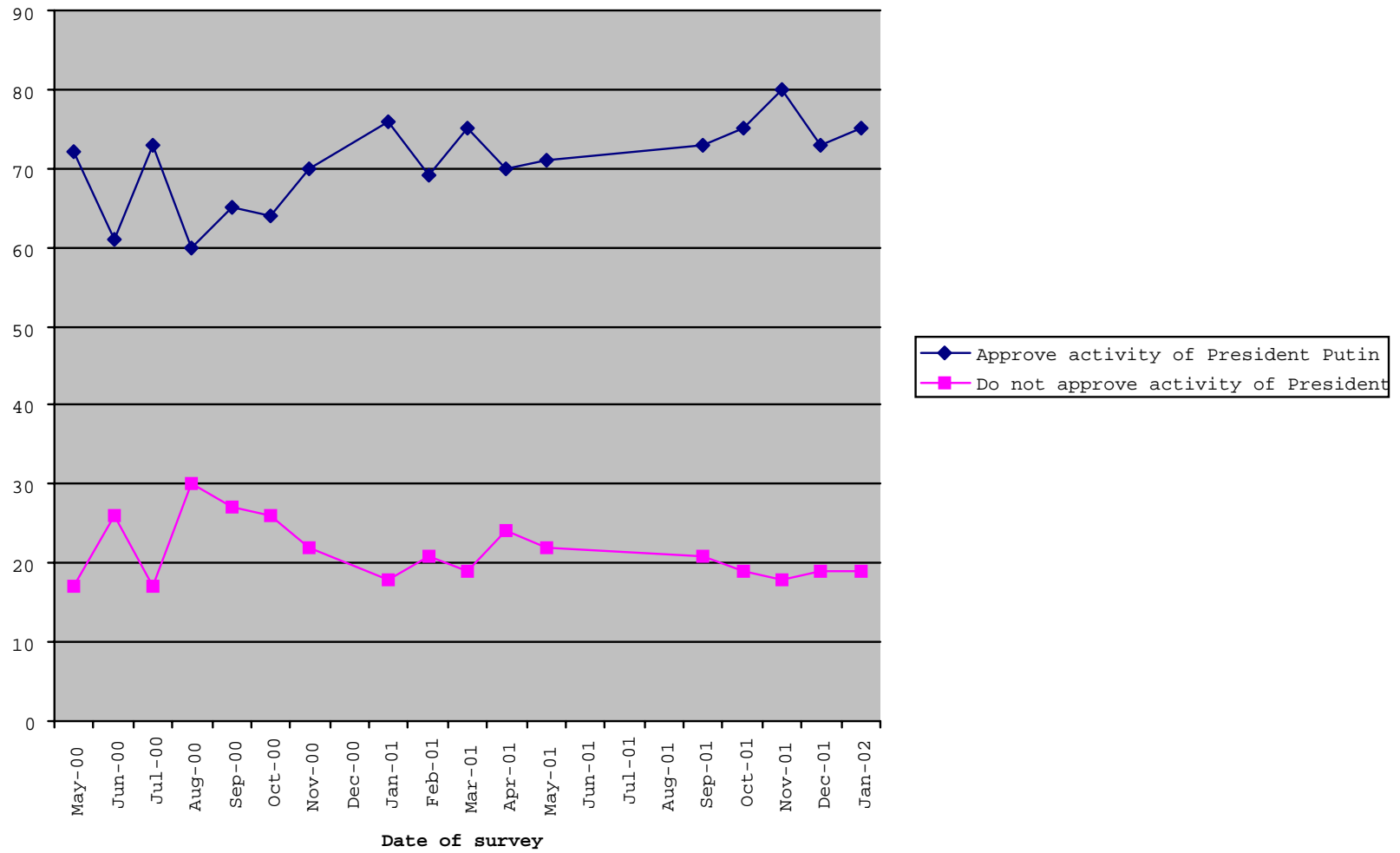




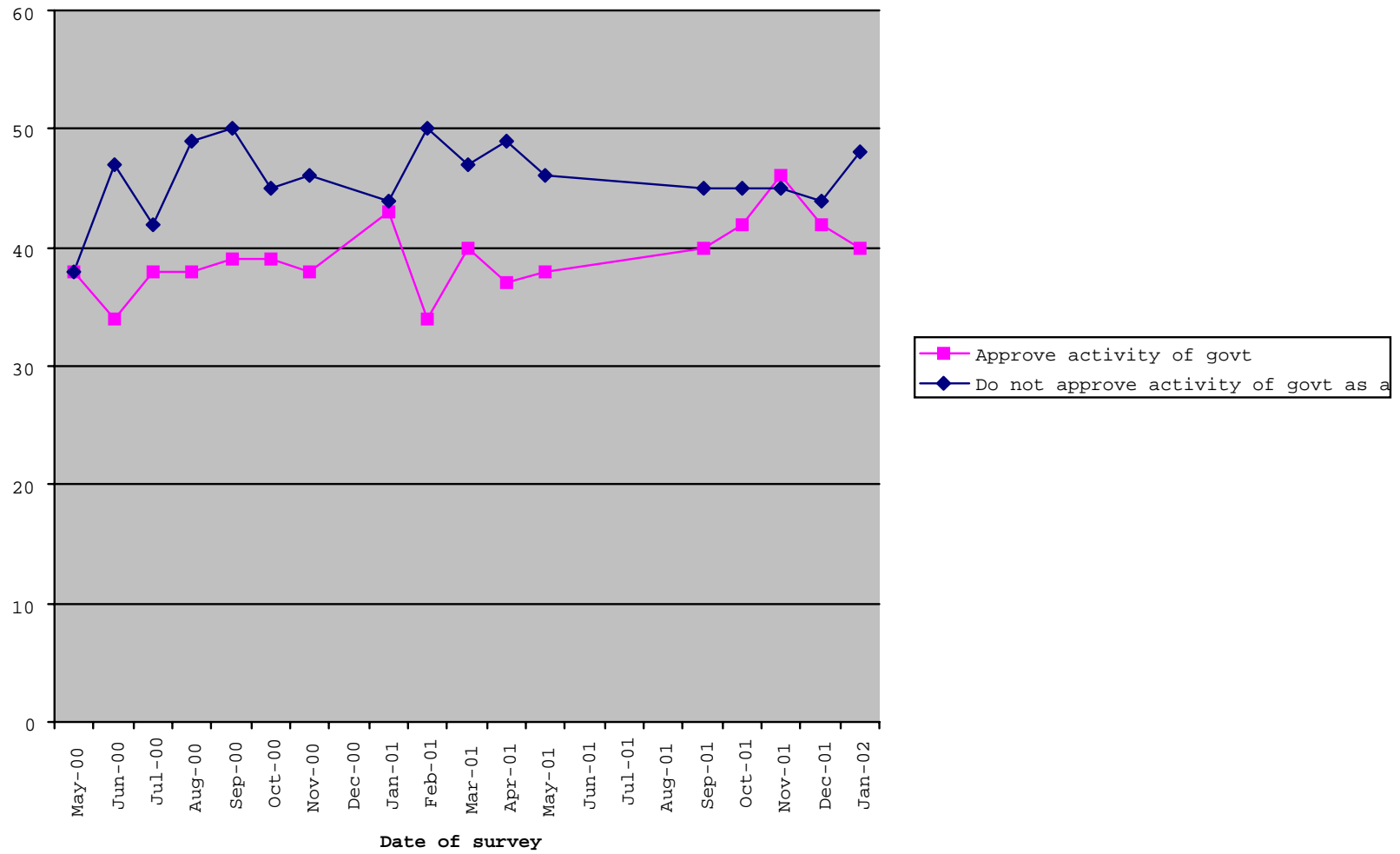




Putin Approval Ratings



Government Approval Ratings



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