

# Property Rights and Property Wrongs

How Power, Institutions, and Norms  
Shape Economic Conflict in Russia

Timothy Frye



“Security of property rights is a key economic institution of capitalism and the most important determinant of growth-enhancing investment. So why don’t all countries protect private property rights? The answer is politics. For more than 20 years, Timothy Frye has studied the political legitimacy of property rights in Russia, the country that has carried out a unique century-long experiment in property rights protection. For three-quarters of a century, Russia destroyed private ownership and then tried to recreate it – with mixed results at best. Studying formal and informal institutions, Frye explains the failures and successes of Russian capitalism. This book is a must-read for all future reformers, and especially for privatizers.”

*Sergei Guriev, Chief Economist, European Bank for Reconstruction and Development*

“Timothy Frye comes up with a brilliant analysis of the institution of private property rights in the making – as it takes roots in Russia after seventy years of communism and in the condition of electoral authoritarianism. This book is a clear example of the twenty-first century social science with its emphasis on empirical data and advanced research design. Yet it has a lot of important insights not only for scholars of economic institutions, but also for policy-makers and business people.”

*Vadim Volkov, European University at St. Petersburg*

**Timothy Frye** is the Marshall D. Shulman Professor of Post-Soviet Foreign Policy at Columbia University and the former Director of the Harriman Institute.

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TIMOTHY FRYE

*Columbia University, New York*



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## *Property Rights and Property Wrongs*

Secure property rights are central to economic development and stable government, yet difficult to create. Relying on surveys in Russia from 2000–2012, Timothy Frye examines how political power, institutions, and norms shape property rights for firms. Through a series of innovative survey experiments, *Property Rights and Property Wrongs* explores how political power, personal connections, elections, concerns for reputation, legal facts, and social norms influence property rights disputes from hostile corporate takeovers to debt collection to renationalization. This work looks beyond high-profile cases of economic conflict and departs from the common view that property rights in Russia are uniformly weak by probing Russia’s “legal dualism.” The result is a nuanced view of the political economy of Russia that contributes to central debates in economic development, comparative politics, and legal studies.

TIMOTHY FRYE is the Marshall D. Shulman Professor of Post-Soviet Foreign Policy at Columbia University and the former Director of the Harriman Institute. Professor Frye received a BA in Russian language and literature from Middlebury College in 1986, an MIA from Columbia’s School of International and Public Affairs in 1992, and a PhD from Columbia in 1997. He is the author of *Brokers and Bureaucrats: Building Markets in Russia*, which won the 2001 Hewett Prize from the American Association for the Advancement of Slavic Studies, and *Building States and Markets after Communism: The Perils of Polarized Democracy*. He has worked as a consultant for the World Bank, the European Bank for Reconstruction and Development, and the US Agency for International Development. He is also Director of the International Center for the Study of Institutions and Development at the Higher School of Economics in Moscow.



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## *Acknowledgments*

When I told my brother Eric that I was writing a book on the security of property rights in Russia, he said: “It sounds like a short book.” And it would be if I only focused on instances of secure property rights. But studying the insecurity of property rights is in many ways more interesting. Why has it been so difficult to build property rights in Russia over the last 25 years? Why are property rights secure for some right-holders, but not for others? Why does the security of property rights vary so dramatically across types of rights in Russia? How do power, institutions, and norms shape property rights? To try to answer these questions, I cast a wide net. Among other topics, I explore how political connections determine the likelihood of a violent corporate takeover, how gossip shapes property rights in trade, how autocratic elections influence perceptions of property rights, and whether right-holders can make an illegal privatization more legitimate in the eyes of the public by providing public goods. While it was great fun to research each of these individual questions, the hope is that taken together these chapters yield broader lessons for economic development, comparative politics, and the study of Russia.

The main sources of evidence for the book are five surveys conducted in Russia between November 2000 and December 2011. I am especially grateful to the Levada Center and to Alexei Grazhdankin in particular who oversaw five of these surveys cited in the manuscript. I have worked with Alexei on about 20 surveys over the years and his insights, professionalism, and deep knowledge have immeasurably improved my work.

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Chapter 6 borrows the theoretical discussion from “Original Sin, Good Works and Privatization in Russia” published in *World Politics*, 58:4, July 2006, but is significantly reworked with data from a different source and an analysis of the perceptions of citizens rather than firm managers. Chapter 3 borrows the research design and some data from “Elections and Property Rights: A Natural Experiment in Russia,” *Comparative Political Studies*, (2016), but makes new theoretical arguments and uses different empirical tests.

This book is dedicated to Sergei and Katia and Andrei and Larisa.

## *Note on the text*

I use the modified Library of Congress system of transliteration from English into Russian. I bow to convention for words and names that have a standard English usage, such as Yeltsin or Magnitsky. I also follow the transliteration used by Russian authors when citing their own works.

# 1 Introduction

We know how to do a lot of things, but deep down we don't really know what we are doing.

A long-time rule-of-law practitioner (Carothers 2006: 15)

The importance of secure property rights for economic development and stable government is readily acknowledged. In the now orthodox account of economic development, secure property rights can account for *The Rise of The Western World* and *Why Nations Fail*, to quote two influential works (North and Thomas 1973; Acemoglu and Robinson 2012). But if secure property rights are so beneficial, then why are they so rare? Throughout history most owners and citizens have faced great obstacles to exercising the rights to their property. The costs of guarding property, bribing state officials, identifying honest trading partners, measuring the quality of goods, and enforcing contracts prevent businesses and citizens from making investments and trades that would benefit them and society as well. Most citizens and countries miss out on the substantial gains that can accrue from the investment and trade that flow from secure property rights.

Scholars and policy advisors have pointed to a number of sources for insecure property rights. Some argue that influential politicians and their supporters who benefit from weak property rights are the problem. Others blame incapable formal institutions, such as courts and the police that fail to protect the property of right-holders in ways both big and small. Others focus on weak informal institutions, such as social trust and concerns for reputation that make it hard for businesses to rely on social sanctions to protect property. Still others cite social norms, including religions, ideologies, or cultures that promote attitudes and values inimical to secure property rights as the major culprit.<sup>1</sup>

<sup>1</sup> Demonstrating empirically the impact of property rights on economic outcomes is a challenge due to measurement issues, endogeneity, unobserved



Each of these broad approaches to property rights has a long social science pedigree. Moreover, each of these approaches is familiar to observers of Russia. Rapacious elites? Check. Weak courts, low social trust, and anti-market norms? Check, check, and check. But within each of these broad approaches many puzzles remain. Of all the dimensions of political power, which are most important for protecting property? If political power both shapes and is shaped by property rights, then how can we know whether the former influences the latter or vice versa? Can social norms about property change? If so, under what conditions? When using courts to protect property is it better to have a strong legal case or friends in high places? Why is privatization so unpopular? Are informal and formal institutions that protect property substitutes or complements? I explore these and others puzzles by mining a range of evidence from Russia, including a survey of the mass public, four surveys of businesspeople, statistical data on court use and economic crimes, as well as background interviews with policymakers, academics, and businesspeople between 2000 and 2012.<sup>2</sup>

Postcommunist Russia offers an excellent opportunity to study these issues. The sheer scale of property rights change over the last quarter-century invites investigation. The 1990s saw perhaps the greatest transfer of property in world history as state assets moved to private hands via privatization, theft, and in many cases a mix of both. The 2000s saw the state claw back large sections of the economy through legal subterfuge and coercion. Attempts to seize and protect property in Russia over the last 25 years have been accompanied by efforts to build institutions and change norms on a massive scale – efforts that have produced very mixed results.

Beyond the scope of change in property rights, however, it is the very unevenness of Russian institutions and norms that make an exploration of this particular case so valuable. Developed economies are marked by supportive social norms, strong public institutions, and robust private institutions, which make it difficult to identify precisely why rights are respected. We see a businessperson who abides by a contract, but are they responding to high levels of social trust, strong

heterogeneity, and a host of other problems. See among others Besley and Ghatak (2009), Fenske (2011), DFID (2014) and Frye (2015).

<sup>2</sup> See Data Appendix for survey details. There is also a rich case study literature on property rights in Russia (cf. Barnes 2006; Hendley 1998; Spence 2006; Alina-Pisano 2008; Ledeneva 2013: Ch. 4).