

COMPANION TO THE POLITICAL ECONOMY OF  
RENT SEEKING

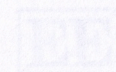
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Edward Elgar  
Publishers

Cheltenham, UK • Northampton, MA, USA

COMPANION TO THE POLITICAL ECONOMY OF  
RENT SEEKING

*Gordon Tullock 1922–2014*

*A dedicated scholar*

*An unsurpassed original thinker of twentieth-century political economy*

*A principal founder of the public choice school*

*The initiator of the study of rent seeking*

*And, for many of the contributors to this book, a missed friend*

# Companion to the Political Economy of Rent Seeking

*Edited by*

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*BB&T Professor of Economics, West Virginia University, USA*

**Arye L. Hillman**

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**EE** Edward Elgar  
PUBLISHING

Cheltenham, UK • Northampton, MA, USA



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Published by  
Edward Elgar Publishing Limited  
The Lyppatts  
15 Lansdown Road  
Cheltenham  
Glos GL50 2JA  
UK

Edward Elgar Publishing, Inc.  
William Pratt House  
9 Dewey Court  
Northampton  
Massachusetts 01060  
USA

A catalogue record for this book  
is available from the British Library

Library of Congress Control Number: 2014957082

This book is available electronically in the **Elgaronline**  
Economics subject collection  
DOI 10.4337/9781782544944



ISBN 978 1 78254 493 7 (cased)  
ISBN 978 1 78254 494 4 (eBook)

Typeset by Servis Filmsetting Ltd, Stockport, Cheshire  
Printed and bound in Great Britain by T.J. International Ltd, Padstow

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## Preface

Resources can be used unproductively to claim output or wealth that already exists or to seek policies that create privileged benefits. Such unproductive behavior is known as rent seeking. Much of rent seeking involves government or political decisions and is therefore in the domain of political economy but rent seeking also takes place in personal relations and within firms and bureaucracies.

The contributions in this volume are intended to be accessible to students, researchers, and policy practitioners, although the chapters in Part II require familiarity with techniques used in economic modeling. Because each chapter is preceded by a summary, we can be quite brief in describing the contents of the chapters.

Part I consists of two introductory chapters by the editors. Chapter 1 is an introduction to the concept of rent seeking and its roots in human behavior. Chapter 2 places rent seeking, in conjunction with rent creation and rent extraction, in the context of the political economy.

Part II is concerned with contest models. Chapter 3 by Ngo Van Long is an overview of rent-seeking contests. Chapter 4 by Gil Epstein and Shmuel Nitzan reviews models in which policies are contested and contests provide personal benefit for policymakers. Chapter 5 by Giuseppe Dari-Mattiacci, Eric Langlais, Bruno Lovat and Francesco Parisi describes consequences of asymmetries among rent seekers. In Chapter 6 by Sabine Flamand and Orestis Troumpounis, rent seeking is by interest groups or coalitions. Chapter 7 by Karl Wärneryd describes how organizational structure affects rent seeking. Chapter 8 by Yosef Mealem and Shmuel Nitzan describes the design of contests for rent extraction when the contest designer can choose between all-pay auctions and lottery contest-success functions. In Chapter 9 by J. Atsu Amegashie, there is sabotage in contests. Chapter 10 by Roman Sheremeta extends the theory of contests to behavioral dimensions. Together the chapters in Part II provide a comprehensive overview of theoretical models of contests involving rents.

Part III describes applications of the theory. Chapter 11 by William Shughart and Diana Thomas uses rent seeking to explain why government regulation of industry can result in 'capture' of the regulatory process. Chapter 12 by Arye Hillman considers why there have been dual expositions of the conduct of international trade policy with exclusion and inclusion of rents. Chapter 13 by Michael Brooks shows how rent seeking fundamentally changes the welfare conclusions of the theory of public finance. Chapter 14 by Robert Deacon and Ashwin Rode relates the resource curse to rent seeking. Chapter 15 by Rune Jansen Hagen describes the relation between rent seeking and development aid. Chapter 16 by Roland Vaubel explains why rent seeking is basic to understanding incentives, behavior and consequences of international organizations. Chapter 17 by Francesco Parisi and Barbara Luppi places rent seeking in the context of judicial institutions.

Part IV provides case studies of different societies. Chapter 18 by Dennis Mueller compares rents in the United States and Europe. Chapter 19 by Martin Paldam

describes rents in a modern welfare state, Denmark. Chapter 20 by Mark Levin and Georgy Satarov describes rent seeking in Russia. Chapter 21 by John Mukum Mbaku and Mwangi S. Kimenyi describes Africa. Chapter 22 by Chen Kang and Liu Qijun describes China. Chapter 23 by Sugata Marjit and Vivekananda Mukherjee describes India. Chapter 24 by Thomas Moutos and Lambros Pechlivanos places modern Greece in a rent-seeking perspective. Chapter 25 by George Tridimas takes us back in time to ancient Greece and Athens. The chapters in Part IV show that principles associated with rents and rent seeking explain behavior and outcomes across locations and through time.

Part V describes the relation between rent seeking and institutions. Chapter 26 by Randall Holcombe places the theory of rent seeking in a context of constitutional political economy and contrasts the 'politics-as-exchange' and rent-seeking approaches to political decisions. Chapter 27 by Roger Congleton describes how potential rent-seeking losses have informed the institutional designs of all durable organizations; were this not the case, rent dissipation would have eliminated the net benefits of organizations and society would have returned to various Hobbesian jungles in which all potential net gains are dissipated through conflict.

The contributions in this volume provide a 'companion' for research on rent seeking and related rent creation and extraction. Together the chapters show that the scope of rent-related incentives and behavior is broad and central to the study of economics, politics, culture, public administration and history.

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12 December 2014



## 20. Rent seeking through control of the state in Russia

Mark I. Levin and Georgy A. Satarov

### SUMMARY

In Russia, rent seeking has involved violence and control of the judiciary. State agencies that formally should protect the state have been used to extract rents through means that are in principle illegal. The end of effective political competition resulted in corruption and expansion of administratively extracted rents. The rent extraction extends throughout the layers of government bureaucracy and local and national levels of government. We provide examples in which rent extraction reaches the individual, through traffic police and a market for academic degrees.

### 20.1 INTRODUCTION

This chapter describes the complex interplay between rents and rent seeking in post-communist Russia. This interplay involves the political agenda, violence, administrative lawlessness and corruption. The chapter is specifically dedicated to the Russian aspects of rent seeking.<sup>1</sup>

Rent seeking in Russia is deeply rooted in history, whichever historical period we choose to consider: the era of monarchy, the Soviet epoch from 1917 to 1991, Russia in the 'transition' period after the collapse of the Soviet Union or Russia's post-transition political system. Rent seeking during each of these periods has its characteristic features that reflect the institutional structure of the state: the monarchic regime in tsarist Russia; the authoritarian regime and dictatorship in the Soviet years; decentralized government in the period of 'transition'; and weak democracy with increasing authoritarian elements in post-transition Russia. Without significant departure from the pre-revolution years (before 1917), the Soviet era provided vast opportunities for various kinds of rent seeking. Rent-seeking behavior was promoted by the hierarchical system, the planned economy, governmental ownership of all assets and, at the same time, soft budgetary limitations, falsification of plan fulfillment, a considerable shadow economy, 'telephone justice' and cronyism (*blat*).<sup>2</sup>

A form of rent seeking in the planned economy was legal and structured through an

official system of privileges that included access to financial and non-financial benefits that depended on a person's position in the administrative system and in the hierarchy of the state's only political party. The hierarchy within the Communist Party defined the complete system of distribution of power in the Soviet Union, including control of the management of the national economy, the legal system and its implementation, and to a large extent citizens' private lives.<sup>3</sup>

Within this formal system of privileges there was a second informal form of rent seeking. This included a system of *blat* and mutual services, illegal shadow rent seeking and corruption – all features typical of the Soviet regime from its first day to the last. Causes and forms of these kinds of rent seeking have been described in such works as *Russia's Economy of Favours: Blat, Networking and Informal Exchange* by Ledeneva (1998) and *Institutional Corruption* by Timofeyev (2000), in which *blat* (informal contacts and personal networks used to obtain favors) and corruption are emphasized as necessary elements of the Soviet economic system, because they acted as substitutes for the missing-market features of the economy.

Despite the non-market nature of economy in the Soviet Union, *blat*, corruption and privileges had prices. Soviet economist, Nobel Prize laureate Kantorovich, proposed a special term to describe shadow prices: 'objectively determined valuations.' These valuations allowed a kind of 'general economic equilibrium' in the presence of non-equilibrium prices, quotas, deficits and impossible-to-fulfill plans. Description of equilibrium in such economic systems can be found in Benassy (1986) and Makarov et al. (1995). Hillman and Katz (1987 [2008]) described a hierarchical rent-seeking system that could correspond to the system that was present; positions of power in the hierarchy created administrative markets (Kordonsky 2006, 2008) that allowed competition for rents, with the prizes in the rent-seeking contests being advantageous positions in the administrative, political or state industrial hierarchy.

After the Soviet economic and political system collapsed and the communist state fell apart, Russia began a transition that generated more types of rents. Along with the administrative and politically extracted rents that had existed in the Soviet period, the transition period introduced new significant rents, arising from private ownership of factory assets and natural resources, as well as from control over the designation of such ownership (Gelb et al. 1998). Rents were obtained by seeking and receiving permits and quotas for international trade. The process of privatization and the contests for politically extracted rents frequently overlapped, which shaped a rent-based political and economic system (Levin and Satarov 2000; Gaddy and Ickes 2002). The development of new social, economic and political institutions paralleled the growth of corruption in a process described by Appelbaum and Katz (1987 [2008]) as 'seeking rents by setting rents.' The results of the empirical studies in this field can be found in Satarov (2013). Since 1991, natural-resource rents from oil and gas have played a major role in private wealth in Russia (Gaddy and Ickes 2005; Zastovtsev 2014).

<sup>1</sup> For a general description of rent seeking, see the introductory chapters of this book and Buchanan (1980 [2008]), Tullock (1989), Zastovtsev (2008, 2014), Congleton et al. (2008) and Hillman (2009, 2013).

<sup>2</sup> On the sources of rents and rent seeking in the different periods and regimes, see Kornai (1980a, 1980b [2008]), Hillman and Schnytzer (1986 [2008]), Hillman (1994, 2002), Anderson and

Boettke (1997), Qian and Roland (1998), Hellman et al. (2003), Barsukova (2011) and Levin and Satarov (2000, 2013).

<sup>3</sup> Features of this official system of privileges have been described by Milovan (1957) and Voslensky (1984). Hillman (2009, chapter 2) suggests that, because decisions about benefits were personal rather than made through markets, the scope for rent seeking was maximal.

We identify the following types of rents:

1. Natural-resource rent that derives from mineral wealth or other natural resources, such as water, and that can also arise from a beneficial climate (resorts) or geographical position (for instance, being able to control transportation routes).
2. Monopoly rent that derives from disallowing competition in markets.
3. Politically extracted rents that are assigned by establishing convenient rules of the game, such that some people are permitted to violate existing rules, and allow distributing informal rights through the norm of 'for my friends, anything, for my enemies, the law.'
4. Administratively extracted rents that arise from rent creation through corruption.

Rents are present in Russia through contesting of rents, political or administrative rent extraction, rent creation and rent expansion, and rent granting. Expansion means the broadening of opportunities for rent seeking that already exist. Rent granting is a term frequently used in discussions of the Muscovite model (Kotilaine 2004; Rosefielde 2005; Hedlund 2006; Magomedov and Nikerov 2010), which is the economic model typical of Russia from the fifteenth century. The Muscovite model is based on patrimonial relationships and includes distribution of rents from top to bottom within the ruling coalition or class; privileged rents are granted in exchange for services (primarily military service). It has been proposed that twenty-first-century Russia has returned to this patriarchal model (Rosefielde 2005; Hedlund 2006).

We also distinguish the following categories of rent seeking. 'Situational' rent seeking involves occasional use of an opportunity to extract rent; situational rent seeking is opportunistic and occurs when a person evaluates a rent-seeking opportunity as the most profitable among other opportunities in a given situation. 'Deliberate' rent seeking occurs when the person engages in rent seeking as a priori the most profitable activity, making rent seeking the person's life strategy. 'Systematic' rent seeking occurs when deliberate rent seeking is typical of behavior of many people, who coordinate their efforts in order to build special relationships or institutions aimed at creating and obtaining rents, with the behavior considered natural and acceptable within the dominating system of the society's informal institutions.

Against the background of these classifications, we proceed as follows. Section 20.2 describes transition to political monopoly and consequences for politically assigned rents in Russia. Section 20.3 describes administrative rent extraction. Section 20.4 gives an example of rents and rent seeking in a private market, the market for doctoral dissertations. Section 20.5 is concerned with monopoly rents. Section 20.6 is concerned with natural-resource rents. Section 20.7 describes the process of rent diversification. We set out our conclusions in the final section.

## 20.2 POLITICALLY ASSIGNED RENTS IN RUSSIA

### 20.2.1 The Transition

In the 1990s transition period from the communist system, politically assigned rents in Russia were diversified and limited. The rents were divided into a number of relatively small regional rents. On the federal level, parliamentary parties (to a varying degree) would convert their political capital into various kinds of rents but there were insufficient rents to ensure a stable increase in the rents available. Presidential power was limited and used unsystematically, because of strong regional elites and the absence of a large presidential majority in parliament. From a broad perspective, it can be said that in the 1990s there was no major monopoly for politically assigned rents in Russia and extraction of politically assigned rent represented primarily situational or opportunistic behavior.

### 20.2.2 Political Competition

The contest for politically assigned rents arrived with the new epoch, when, before the parliamentary elections of 1999, two influential political groups – of close political and administrative origin, but relying on different groups of the elite – were each shaping their own political parties to compete in the forthcoming election. The first to arrive was the electoral bloc Fatherland – All Russia (*Otechestvo – Vsyä Rossiya*), led by former Prime Minister Evgeny Primakov and Moscow Mayor Yury Luzhkov, the most influential of all the regional leaders. This bloc, like its leaders, was in opposition to President Yeltsin. A little later, the second political bloc emerged, Unity (*Yedinstvo*), established by the presidential administration. In the election, the bloc was represented by popular politicians: Sergey Shoigu (then Russia's Civil Defense and Emergencies Minister), Alexander Karelin (multiple Olympic champion and world champion in Greco-Roman wrestling) and Alexander Gurov (police general lieutenant, fighter against organized crime).

The election campaign was aggressive. The election itself seemed honest. The Communist Party received the most votes but lost its majority in the Duma, the lower chamber of parliament. Unity beat Fatherland. More importantly, however, the newly created political force at the Kremlin involved Yeltsin's 'heir': Vladimir Putin. He was quickly gaining popularity and in March 2000 won the first round of the presidential election. This was sufficient to prompt members of parliament to start joining the ranks of the new authorities' party, which soon was the largest faction of the lower chamber. Shortly afterwards, the presidential administration orchestrated a union of the two previously antagonistic political forces; in the Duma, they were joined by a large group of deputies who had won elections at the single-mandate electoral district. The result of these processes was a new party called United Russia (*Yedinaya Rossiya*) that held the majority of seats in the lower chamber. The new regime started the battle for political control, for political monopoly and for extraction of politically assigned rents.

### 20.2.3 Political Monopoly

In the process of seeking political monopoly by shaping the pro-Putin Duma majority, United Russia seized all the high-ranking posts in the lower chamber. Then the upper

chamber of parliament – the Federation Council – was subjected to a reform. Before the reform, the Federation Council accepted all regional governors and chairs of regional legislative bodies who had won the elections in their regions. The pro-Putin majority in the lower chamber lobbied for a new scheme: now the president would suggest his own regional representatives to the Federation Council and the legislative bodies could approve his suggestions. The Federation Council, too, supported the new scheme, although it was political suicide for its members of the time. The reason behind that was simple: most of the voters in the upper chamber were engaged in corrupt activities, which the presidential administration used against them in order to gain the majority of votes. There was nothing unexpected about this: at the time, many of the posts in the presidential administration were occupied by former special-services officers. Back then, many of the seats in the Federation Council were secured by bribes.

In early September 2004, a group of terrorists seized a secondary school in Beslan, a town in southern Russia. An attempt to free the hostages resulted in major casualties: 334 people dead, including 186 children, and more than 800 injured. In the wake of the national shock, Putin introduced another change that cancelled direct elections of governors. Now the president would present his candidates and the regional legislative bodies could support them.

During these years, Russian regions saw the emergence of symbiosis between regional departments of the pro-governmental party United Russia, regional civil authorities and regional law-enforcement agencies (police, Federal Security Bureau, the Prosecutor's Office and so on). This resulted in monopolistic control over all of the political processes in the regions, and, first of all, the elections. As part of 'counter-terrorist measures', elections to the lower chamber were also subjected to reforms. Ultimately, the reforms presented the Russian electoral system with insurmountable barriers to entry into the political market, and nearly full absence of accountability to the electorate.

In 2001 the authorities launched an attack on two independent public television channels: ORT, controlled by Boris Berezovsky, and NTV, controlled by Vladimir Gusinsky (both of them Russian 'oligarchs'). Ultimately, the authorities established control over federal television broadcasting and could continue to tighten their grip over the regional mass media. At the same time, they were expanding control over large businesses. This process culminated in the arrest of Mikhail Khodorkovsky and Platon Lebedev and the destruction of their oil firm, YUKOS, Russia's most successful company.

In the Soviet Union, the KGB (*Komitet gosudarstvennoy bezopasnosti*) – the all-powerful agency that secured the security of the regime – served as an external controller over the rest of governmental and non-governmental institutions. After Putin's arrival, officers of the Federal Security Bureau (FSB) (the KGB's successor in post-Soviet Russia) started infiltrating the civil bureaucracy, politics, business, mass media and public organizations. This was a new form of total control.

The transition to a harsh political monopoly was brought on by two factors. One was external, a wave of 'color' revolutions in a number of post-Soviet states: in Georgia in 2003, Ukraine in 2004 and Kyrgyzstan in 2005. The Russian ruling elite took these events as a direct threat. It was also clear who the threat came from: the society. As a result, the authorities promptly launched three lines of activity.

In politics three parties that played the part of 'opposition' were allowed to run in elections and received a small share of seats in the federal and regional parliaments. The

authorities fully controlled all three of these parties, which was obvious whenever necessity required support for bills that were important for the Kremlin. The other parties were liquidated, and it was virtually impossible to register new ones, unless under the Kremlin's direct control. The same was true for politicians: it was extremely difficult to enter the political arena, be it through elections or through time using the federal mass media. These measures, coupled with growing scope of falsifications during elections, helped the pro-governmental party secure a constitutional majority (over two thirds of votes) in the lower chamber of federal parliament in the 2007 elections; in the upper chamber the problem of securing a majority had already been solved by other means.

The second line of activity was social. First, attacks on public organizations were launched in the mid-2000s. The authorities attempted to compromise the reputation of human rights activists, who were accused of espionage. The Kremlin started putting together public organizations led by 'loyal people' and therefore controllable. These organizations provided 'representatives of society' who, when needed, could be used to initiate dialogue between the authorities and the society.

The decisive attack was launched after an outbreak of public protests in the winter of 2011–12. In the presidential election in the spring of 2012, Putin used a controversial clause in the Russian Constitution to return to the presidential seat after a four-year break, during which he had been prime minister. One day ahead of the inauguration celebration, on 6 May 2012, public activists held a peaceful rally to protest against falsified elections. During that rally, the authorities organized a provocation, broke up the sanctioned protest and arrested hundreds of protesters. The anti-rights activities continued with mock trials that saw dozens of innocent people unlawfully convicted and sent to prison.

In the autumn of 2012, a new law introduced the notion of 'foreign agent', referring to public organizations that received funds from abroad. This law had the effect of allowing many reputable public organizations to be successfully closed. The activities of the surviving organizations became subject to close governmental control. The parliament approved of a number of new laws that introduced harsh limitations in various spheres: from adoption of orphans to the Internet. The pressure on public organizations continued.

In 2013–14 the authoritarian rent-oriented economic model of the previous ten years plunged into crisis. The country was in recession. Even before that, United Russia and Putin had begun to lose popularity. These factors were threatening the regime of political monopoly. The solution was found in the form of channeling the aggression toward an external enemy represented by Ukraine; in fanning up mass quasi-patriotic hysteria or xenophobia.

The third line of the authorities' activity aimed at controlling society was propaganda. Initially, control over the influential media was used only to stop critical voices against the new political regime and to rationalize its actions; but then the Kremlin started using informational channels to popularize quasi-ideological clichés that would support symbolic legitimacy of the regime in order to make up for lack of actual legitimacy. Probably the main cliché, which was introduced before all others, is the notion of 'vertical power.' This term had several functions: to deny constitutional principles of separation of authorities and federalism; to evoke comforting nostalgic associations with Soviet times; and to support new informal institutions of power. However, the new clichés failed to be adopted.



### 20.2.4 Monopolization of Access to Rents

Dmitry Medvedev's presidential term saw the domination of United Russia in parliament, achieved through a qualified majority. This circumstance was used to amend the Russian Constitution: the members of the lower chamber of parliament were now to be elected for five years instead of four, and the presidential term was increased from four to six years. The anti-constitutional symbolic notion of 'vertical power' was reflected in the formally legal construction of the United Russia party. The party represented the monopoly of bureaucratic power; it was actually more of Vladimir Putin's traditional clientele than a party. In essence, United Russia was an informal institution controlling access to political and administrative rents, as well as distribution of opportunities to enjoy the benefits from these rents.

Access to politically assigned rents simplified access to administrative rent through membership in the United Russia party, in the manner resembling the informal order of organization in the USSR, where the Communist Party used to play the same role. Political monopoly and suppression of civil-society institutions (public organizations, free entrepreneurship and independent media) were preconditions for pocketing the natural-resource rent that emerged in the 2000s; this subject is discussed further in the chapter. The same preconditions allowed the shaping of monopoly rents in various economic spheres. The ruling coalition, established in the early 2000s, relied on politically assigned rents to support transitional rents by blocking full-scale institutional modernization, especially in the area of rule of law. The new social order was supported by law-enforcement institutions that protected the incumbent political regime.

It can be said that, since the mid-2000s, the symbiosis of political power and bureaucracy was the basis for the transition to systematic rent seeking. Thereafter, the authorities expanded, strengthened and preserved the rent-extracting regime of government.

## 20.3 ADMINISTRATIVE RENT EXTRACTION

In the 1990s, administrative rent extraction in Russia was significant, both in terms of the potential offered by a gigantic, inefficiently run empire and in terms of actual large-scale rent extraction typical of post-communist transition periods. Still, administrative rent extraction was hampered by a number of factors. First, the bureaucracy had been demoralized and torn by the collapse of the Soviet Union and the process of transition. The most enterprising and talented officials had left bureaucratic posts for politics and (or) business, since the same qualities could be used both in organizing corrupt networks and in serving the society. Second, there were limitations similar to those that prevented the development of political monopoly in the 1990s as described above: strong standing of the regions, political competition and influential, independent mass media that thrived on covering corruption scandals on any level. Third, in the 1990s, bureaucracy in Russia stuck to the traditional internal division of officials into two major groups: civil and power structures. Ever since the Soviet Union developed professional secret services, only candidates suggested by the Communist Party were promoted to top positions in the KGB. This policy allowed the Party to maintain political control over the almighty agency. On the other hand, the KGB could control the activities of the civil bureaucracy,

including the Communist Party bureaucracy (except for the top-level officials). This principle was sometimes violated, including after the collapse of the Soviet Union, but the border between power and civil bureaucracies persisted. As a result, throughout the 1990s, the prevailing behavior was situational opportunistic rent seeking, but with slow replacement by intentional rent seeking. By the end of the decade, Russia was displaying typical features of systematic rent seeking. This behavior was manifested in the development of the first corruption networks (Rimsky 2007).

When in the 2000s Russia started to develop a new political regime, the limitations on administrative rent extraction gradually faded away. Partly this happened because the border between the civil and power bureaucracies was eroding, destroying the traditional internal mechanism of mutual limitation and control. Another reason was that the establishment of political monopoly, as described above, turned into an uncontrollable monopoly of the ruling bureaucracy, which was controlling the political sphere. This caused a rapid increase of administratively available rents, which was associated with a corresponding increase in corruption. Between 2001 and 2005, business corruption, according to the INDEM Fund, increased by several times over (Levin and Satarov 2013; Satarov 2013). During these years, an average (robust) bribe amount increased by seven times, while the conservative estimate of the corruption market (annual income of state officials from bribes received in the market of business corruption) increased by almost five times.<sup>4</sup>

From the early days of the new regime, its features involved major corruption-related scandals. A telling common feature of two examples presented below is that both scandals involved the successor to the KGB, the FSB.

In September 2000, the Customs Committee of Russia opened an investigation into the smuggling of Italian furniture, sold through the largest furniture stores. The probe was conducted by the Investigative Committee of the Russian Internal Affairs Ministry. The Prosecutor General's Office and the FSB hushed up the case after the investigation revealed that top officials of both these agencies had been protecting the corrupt business through a vast corruption network. As the case was closed, there were casualties: some people were fired, others were charged with fake crimes and some were killed. Whenever the authorities began another short anti-corruption campaign, the investigation would restart. In the end, several people directly involved in the scam received short sentences. Officials from the secret services and law-enforcement agencies, earlier charged as accomplices, were acquitted.<sup>5</sup>

It subsequently became clear that furniture smuggling was only a small source of corruption-related rents supported and protected by the FSB. The corruption was investigated by reporter Yuri Shekochikhin, one of Russia's best-known journalists, who was also a member of the lower chamber of parliament and a consultant for the United Nations on organized crime. Shekochikhin died of a mysterious illness, quickly

<sup>4</sup> See Satarov (2013, p. 322). The comparison is in relative units, with adjustment for deflators and other time effects; the average bribe amount was measured in purchasing power in the housing market, and the corruption market volume was measured relative to gross domestic product (GDP).

<sup>5</sup> For additional reading, see <http://www.rb.ru/inform/30597.html> and [http://ru.wikipedia.org/wiki/Дело\\_«Трех\\_китов»](http://ru.wikipedia.org/wiki/Дело_«Трех_китов») (accessed 10 July 2014).

and unexpectedly, in July 2003, just as he was finishing his whistle-blowing articles on the FSB-related corruption.<sup>6</sup> The symptoms of his fatal illness were similar to those described in the case of Alexander Litvinenko, a former FSB official previously allegedly poisoned by Polonium-210 in London.

Another major corruption-related scandal began in early May 2005, when someone leaked to the press that the FSB was controlling the smuggling of consumer goods through the port of Nakhodka in Far Eastern Russia, all the way to Moscow, to a military base supervised by the FSB.<sup>7</sup> The scheme was so grand that the scandal could not be hushed up. Many high-ranking officials of the FSB and the Customs Service lost their jobs, and even the Prosecutor General was fired.

Approximately in the mid-2000s, different law-enforcement agencies started battling one another for the right to extract administrative rents. From time to time, some governmental agencies would gain monopolistic control over certain areas; for instance, in some regions the Ministry of Internal Affairs controlled circulation of illegal drugs, while the Prosecutor's Office supervised the illegal gambling industry. However, the agencies would frequently clash over this or that right, for instance, over the right to sell confiscated goods through shadow distribution schemes. Administrative leverage, especially the leverage of law enforcement, was used as a weapon in the battle for corruption markets. One of the major tools used in this battle was the corruption scandal: one agency would initiate an investigation of another's corrupt activities. However, these investigations never ended in actual prison sentences for high-ranking officials.

In a parallel process, the corrupt extraction of administrative rents was also growing at lower levels of interaction between business and the authorities. Studies conducted by the INDEM Fund in the 2000s revealed that smaller business was suffering from new problems stemming from the extraction of administrative rent.<sup>8</sup> In-depth interviews with entrepreneurs in various parts of Russia revealed the popularity of the 'share-based' shadow administrative practice. For instance, if a businessman wanted to build a store, he had to go to the relevant department of the city council and consult the city map showing potential locations for building a store. All of these locations would happen to be in sparsely populated neighborhoods with poor infrastructure, far from popular routes. If the entrepreneur expressed indignation, he would be shown a different map, with very promising locations for his store. However, he would be informed that the map was 'zoned' into areas controlled by different high-ranking city government officials. After choosing a spot, the businessman would find out that in order to build his store there, he needed to 'negotiate' with a certain official, for instance, the deputy

city prosecutor. 'Negotiating' in this context meant offering the deputy prosecutor (or someone in the deputy prosecutor's family) a share in the new business. In exchange for that, the official controlling the zone would help him solve major problems, such as obtaining the multiple permits required in order to legitimately start construction. Moreover, the official in charge could allow the businessman to start construction even before formal permits had been obtained. If instead the businessman opted to take the official route, without a patron, he could easily spend a year or two obtaining permits.

This typical example from daily business life in Russia represents just one case (and rather innocent) of how government officials illegally participate in commercial activities. As we see, illegality does not prevent officials of all levels and areas of government from taking part in business activities. There are two factors that account for such free and ubiquitous breach of the law. First, the system of government turns politicians into a class of bureaucracy; political competition is non-existent; politics per se, in its full meaning, is non-existent. This means that politically assigned rents have become administrative rents. The second factor follows from the first: the disregard of the rule of law is related to the key interests of the ruling coalition. A monopolistic, politically uncontrollable bureaucracy has no interest in starting a fight against itself and its own illegal enrichment through commercial activities.

Administrative extraction of rent is clearly manifested in everyday corruption. An example is corruption in the traffic police. The data collected by the INDEM Fund allow comparison of corruption among traffic police in 2001, 2005 and 2010.<sup>9</sup> The data are presented in Table 20.1.

We can see in Table 20.1 that between 2001 and 2005 the traffic police experienced a decrease in annual income from bribes by approximately 57 percent (in constant prices). This is a humiliating decrease, especially considering that during the same period the

Table 20.1 *Traffic police corruption in Russia in 2001, 2005 and 2010*

Features of the corruption market	2001	2005	2010
Corruption risk (probability of encountering corruption while interacting with the traffic police) (%)	59.3	59.6	52.4
Inclination to bribe (probability of giving a bribe when encountering corruption) (%)	86.0	68.9	69.3
Average bribe amount, rubles	896	920	2445
Average bribe amount, rubles (adjusted to the prices of 2001 taking into account inflation)	896	559	912
Volume of corruption market (lower estimate of the annual income from bribes received by traffic police), million rubles	11 051	7835	24 436
Volume of corruption market (lower estimate of the annual income from bribes received by traffic police), million rubles (adjusted to the prices of 2001 taking into account inflation)	11 051	4761	9115

<sup>9</sup> Satarov (2013).

<sup>6</sup> A memorial article written ten years after Yury Shekochikhin's death opens as follows, 'Yury Shekochikhin died ten years ago. We know it was murder, but there's no proving it now, because for years the Prosecutor's Office has been doing everything to cover the evidence of the crime.' *Novaya Gazeta*, No. 71, 3 July 2013, <http://www.novayagazeta.ru/inquests/58870.html> (accessed 10 July 2014).

<sup>7</sup> '68 thousand boxer briefs for the FSB director and the Prime Minister. Special services have been helping smuggle Chinese goods for the Russian government.' *Novaya Gazeta*, No. 36, 23 May 2005, <http://2005.novayagazeta.ru/nomer/2005/36n/n36n-s00.shtml>.

<sup>8</sup> See, for instance, 'Business and corruptions: communication problems', <http://www.anti-corr.ru/cipe/CIPEgid.pdf>.

total market of corruption at the household level expanded. We can easily find the cause for the decrease: Russian drivers became 20 percent less inclined to give bribes. They had two reasons. One was institutional: during the period in question, Russia developed magistrate courts and many drivers chose to settle their arguments with the traffic police in court. The other reason was social and psychological: most often, the people who refused to give bribes had a well-formed anti-corruption attitude. We can further see that between 2005 and 2010, the traffic police's annual income from corruption increased by 48 percent (in constant prices, adjusted for inflation). During the same period, the total volume of everyday corruption (in constant prices) declined. The leap of the traffic police's income from corruption was due to several rounds of amending the traffic rules and the Administrative Violations Code. The amendments included harsher requirements for drivers, higher fines for traffic violations, and hard and fast administrative penalties. For instance, the new regulations introduced the 'zero percent' rule: the level of alcohol in the driver's blood was not to exceed zero. If a blood test revealed a level of alcohol above zero, the driver was severely penalized for driving under the influence. This and other regulations became a reliable source of corruption-related income.

The traffic police example shows that administrative rent extraction may decrease if citizens can resist. Second, this example illustrates our earlier observation on how politically assigned rent in modern Russia is transformed to administratively extracted rent. When the officials of the traffic police were lobbying for the corrupt income sources, they received full support from the legislative organ that is supposed to defend the voters' interests. This is another indication of the presence of systematic rent seeking in Russia.

## 20.4 RENTS IN A PRIVATE MARKET: DOCTORAL DISSERTATIONS

An interesting and unusual market for corruption-related services is the private market for doctoral dissertations (Kalimullin 2006; Osipian 2009, 2012). In Russia, in order to obtain an academic degree, one has to go through a multiple stage procedure that takes several years to complete and involves the following steps: prepare the dissertation; have it publicly discussed in a small group of experts; defend it in the so-called PhD or Doctorate Degree Awarding Council,<sup>10</sup> which exists in every university or research center; then finally, have it approved by the Higher Attestation Committee at the Ministry for Education and Research.<sup>11</sup>

Defending a dissertation and obtaining an academic degree is more of a socializing factor than anything else. In other words, having a dissertation plays a secondary role in academia, but those who have a PhD or a doctoral degree can build better careers and obtain symbolic power and thus are better socialized. Traditionally, in the Soviet Union, degree-holders would receive additional respect; a dissertation would improve their

image not only among students, teachers and fellow researchers but also among government and Party officials. Having an academic degree presents advantages in the labor market not only in the areas of education and research, as prescribed by relevant regulations, but also in the administrative area, outside of higher education. Therefore, among those who opt to buy a dissertation are politicians, governmental officials (bureaucrats), general officers (for instance, officials of the Interior Ministry), businessmen and top managers, and members of academia aspiring to a scientific career. Having an academic degree is associated with rents and having a dissertation has become a fashionable accessory among businessmen and officials in modern Russia. A degree is a symbol of success that can be converted not only into prestige but also into financial benefits when degree-holders receive the most wanted positions, and when they participate in a corruption market. Dissertations have been bought and sold before, both in Soviet Russia and in Russia before the revolution. However, in the early 1990s, dissertations literally became a commodity sold in a market, even if a somewhat unusual and closed market.

Russia has a vast market that creates and sells dissertation texts to interested applicants. As a rule, dissertations are custom-made to suit the needs of specific customers. Frequently, the customer buys not only the research paper itself but also its favorable reception at all bureaucratic stages described above: the review by university experts, the approval by degree-awarding council, and the final approval by the Higher Attestation Committee. While in the Soviet Union writing dissertations was a shadow area of individual services, in today's Russia it has been taken on by well-organized firms, although individual services are also available on the market.

Depending on the discipline and geographical location (provincial town or big city), the cost of a degree varies from USD \$500 to \$10,000. Naturally, the price depends on the degree and the package (the research paper and its full support throughout the process cost more than the paper alone). There are rent-earning opportunities in the position of the 'research supervisor', who in principle is supposed to guide the student throughout the research process. The roles of opponents and reviewers also offer rents. Formally, reviewers receive a small remuneration for their services from the government, but frequently they also receive a payment or bribe from the applicant.

At the next level of the process is the degree-awarding council. Its activities are public but, nevertheless, members of some councils receive bribes from the applicant who pays in order to receive the necessary approvals. The final stage of the dissertation being approved at the Higher Attestation Committee is the peak of the corrupt chain. Both officials and the members of the committee (we do not say necessarily all of them) participate in well-paid corrupt activities.

Experience shows that the risk of a penalty is rather low for those who participate in such corrupt activities. Numerous attempts both at the governmental and legislative levels to reform the system of awarding academic degrees have been unsuccessful. However, the authorities did arrest a top official of the Higher Attestation Committee and broke up several degree-awarding councils.

A phenomenon in Russia is the 'Dissergate' movement: a public initiative that uses specialized computer software to reveal plagiarism in dissertations. Dissergate caused several resonant scandals by revealing the illegitimacy of PhD and doctoral degrees of state Duma deputies and top executive officials. Interestingly, the law-enforcement and overseeing organizations did not confront the holders of fake degrees. Judging by the

<sup>10</sup> With the rarest of exceptions, one needs to be awarded the PhD degree before proceeding to apply for the higher doctoral degree.

<sup>11</sup> This stage is a relic of Soviet times and stems from governmental control over research and development.



public reaction, we could expect that the flow of plagiaristic dissertations will decrease, but at the same time, the cost of purchasing a dissertation will increase, as will the 'customers' quality requirements. This reflects the dark side of the public hunt for fake dissertations. In reality, plagiarism in the officials' dissertations is just the top of the iceberg: the problem of fake degrees is much deeper. Hundreds of firms offer diplomas and dissertations on demand, and for a price they will write a flawless paper that no software will identify as fake. Dissergate, started by a team of enthusiasts, has accelerated the progress of markets offering fake diplomas and dissertations: quality requirements are now higher, as is the price of dissertations.

## 20.5 MONOPOLY RENTS

We now return to the Muscovite model that we mentioned at the beginning of the chapter. This model is linked to the era of Ivan the Terrible, the Great Prince and Tsar of All Russia (1533–1584).<sup>12</sup> During the rule of the first Russian tsar, Muscovy started its expansion east and southeast: it conquered and acquired the territories of Kazan and Astrakhan, Bashkiria and Western Siberia. The development of the Muscovite model, which included the system of government based on rent granting, had begun even earlier, under the colonial influence of the Chingisids.<sup>13</sup> During the rule of Ivan the Terrible, the Muscovite model strengthened due to Russia's territorial growth, which made land (the territory with its natural resources) the main source of income, while the developing absolute centralized authority gave rise to the rent-granting system. The constant expansion of territory allowed centralized authorities to use land (together with the serfs assigned to that land) as the basic source of income from rent, which could be distributed in exchange for service.

The extreme centralization of power was also manifested in the economic sphere. The politics of Peter I created influential state monopolies, and included vast dirigisme outside these monopolies. Because the Russian government strongly influenced the economy, and because Russia was falling behind Europe and the USA in developing a competitive market, the monopolies were preserved in Russia up to the beginning of the Bolshevik era. In the early twentieth century, many industries in Russia were controlled by enormous trusts, syndicates and corporations that held 70 to 100 percent of various markets: iron, copper, mirrors, railway carriages, steam engines, agricultural devices and machines, cloth, linen, tobacco and so on. In the early twentieth century, the USA began implementing anti-monopoly or antitrust laws. Perhaps ten or twenty years later, this trend could have reached Russia too, but, in 1917, the Bolsheviks seized power in the country and state monopoly became the foundation of the central planned economy. As a result, Russia was left out of the global anti-monopoly trend that was typical of the market economy of the twentieth century. Thus, when in 1991, at the beginning of market reforms, Russia ratified its first anti-monopoly law, 'On competi-

<sup>12</sup> This period approximately corresponds to the British era of Elizabeth I (1558–1603), whose hand Ivan the Terrible asked for.

<sup>13</sup> See, for instance, Vernadsky (2011).

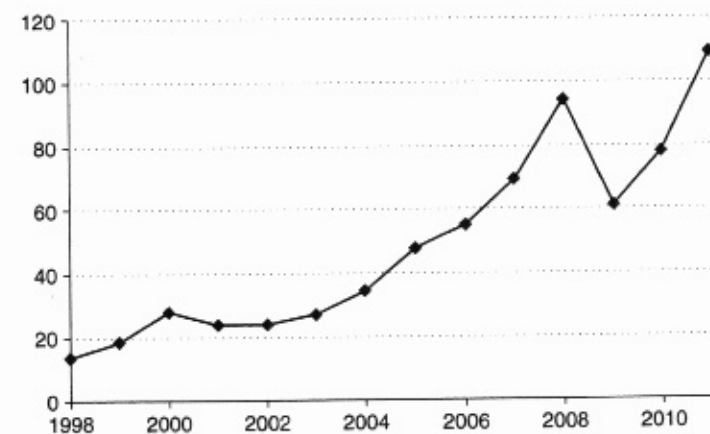
tion and limitation of monopolies in commodity markets', it was a mere legal formality. The monopoly of the Soviet authorities had been so all-encompassing that nobody noticed it, and the negative impacts of monopolies in the new market economy had not had time to develop and convince the public that anti-monopoly efforts were, in fact, necessary and good.

Up to 2003, the anti-monopoly legislation was beneficial for certain fast-growing markets, such as the market for mobile communication, but only because such markets had enough space for multiple players. In the markets for primary commodities, the anti-monopoly legislation made little difference, because prices for carbohydrates were low and diminished incentives to fight for a monopoly. This situation began to change due to several factors. Two have been described above: they were the abrupt expansion of political and administrative rents. The third factor was the increasing price of oil.

## 20.6 NATURAL-RESOURCE RENTS

World oil prices between 1986 and 2005 are shown in Figure 20.1. Oil prices hit a low point in 1998, and in August of that year Russia defaulted on its debt. Subsequently prices began to increase, and by 2004 this increase had become a major influence on the Russian economy and the politics of the Russian authorities (Gaidar 2006).

Consider the following chain of events, which are not a coincidence: the arrest of Mikhail Khodorkovsky, owner of Russia's most efficient oil company, YUKOS, in October 2003; the sentencing of Khodorkovsky and his business partner Lebedev to nine years in prison on 31 May 2005; the bankruptcy of YUKOS on 28 March 2006; the repurchase of YUKOS' assets by the Russian president's friends. The arrest, investigation and



Source: International Financial Statistics (2004) and IMF, quoted in Gaidar (2006).

Figure 20.1 The dynamics of the world oil prices in 1986–2005 (in USD per barrel) deflated by the prices of 2000

sentencing of YUKOS' top managers in the manner that they were carried out became possible due to the merger of political and administrative rent described above. The fate of the company, and the way its assets wound up in the 'reliable hands' of the 'right people', was also facilitated by that merger, as well as by fast-growing oil prices, which made control over natural-resource rents especially desirable.<sup>14</sup> Khodorkovsky's arrest was closely connected with the defense of the newly established symbiosis of political and administrative rents. Oil was not initially a decisive factor. However, during the investigation and the court procedures, the price of oil increased substantially. As a result, the looting of YUKOS' oil assets in 2006 was a direct act of appropriating the sources of oil rent.

The YUKOS case was a turning point, signifying that the Russian authorities had turned to active extraction of political and administrative rents. First, the reassignment of ownership of YUKOS signaled to officials of all levels of authority that it was safe for members of the ruling coalition to seize other people's property. Second, the federal authorities in Russia began actively expanding their control over oil rents. This was manifested in particular in how the tax revenue from natural resources was distributed between regional and federal authorities. Let us consider this topic more closely.

According to the Russian Constitution, the use of natural resources, as well as the assignment of natural-resource rents, should be managed jointly by federal and regional authorities. To exercise such joint management, the federal government and the executive local authorities should enter into agreements on 'delimitation of matters of authority.' Such agreements were primarily signed with regions possessing vast natural resources; they prescribed approved proportions of distribution of income from natural-resource rents. The federal government would invariably receive the larger share. When in the early 2000s oil prices began to increase, federal authorities decided to use delimitation agreements in order to tighten control over natural resources, at the expense of the regions' interests. The share of the federal authorities' income from rents grew and in 2005 this share was nearing 100 percent. These trends can be seen in Table 20.2.

The increasing oil price (see Figure 20.1) was changing the structure of GDP and the budget in a similar manner. The next illustration presents the dynamics of the share of

Table 20.2 *The dynamics of share of income from rent (percent) in the oil industry received by the federal budget between 2000 and 2004*

Year	2000	2001	2002	2003	2004
Income share (%)	86	82	89	90	94

Source: Calculations were made by Gurvich (2010), who kindly permitted their use for this chapter.

<sup>14</sup> YUKOS' main asset, Yuganskneftegaz company, ended up in the hands of Baikalfinansgroup, a company that suddenly emerged from nowhere and vanished again once it resold the prey to the state-owned Rosneft company.

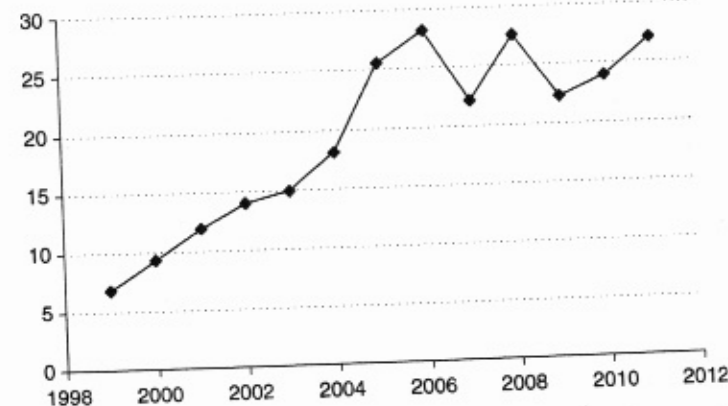


Figure 20.2 *The dynamics of share of income from rent in the budget (percent)*

income from natural-resource rents in the government budget until 2011. Between 1999 and 2011, this share increased by four times; afterwards, it continued growing.

The growth of income from natural-resource rents per se is less important for rent seeking and rent extraction than its distribution. In 1999 and 2000 Russia did not have any dollar billionaires<sup>15</sup> (in 1997 it had four, but after the default and crisis of 1998 they vanished from the list). In 2008 Russia had a hundred billionaires. The crisis that followed slashed this number to a third, but the number recovered fast, and, by 2014, the poorest Russian billionaire was ranked 111th on the Forbes list of the world's richest people.<sup>16</sup>

For comparison, let us look at Figure 20.4, which shows how GDP changed during the same period.<sup>17</sup> We can see the same dip in the crisis year of 2009 as in Figure 20.2. However, if the number of billionaires went on to recover and even increase, the growth of the economy not only failed to reach the pre-crisis level but kept falling lower and lower.

The statistics on Russian billionaires in Figure 20.3 are supplemented by curious facts in Russian Forbes,<sup>18</sup> which quotes Global Wealth Reports for 2012–13, developed by researchers at Credit Suisse. The report names Russia as having the largest concentration of wealth of billionaires in the world, except for several minuscule states in the Caribbean. On average, there is one dollar billionaire in the world per USD \$170 billion

<sup>15</sup> The data comes from the Russian edition of *Forbes Magazine*, Mikhail Kozyrev's article dated 12 March 2010, see <http://www.forbes.ru/ekonomika/lyudi/46228-russkie-v-spiske-forbes-ot-eltsina-do-medvedeva/slide/1> (accessed 10 July 2014).

<sup>16</sup> <http://www.forbes.ru/rating/200-bogateishikh-biznesmenov-rossii-2014/2014> (accessed 10 July 2014).

<sup>17</sup> <http://www.ereport.ru/stat.php?razdel=country&count=russia&table=ggecia> (accessed 10 July 2014).

<sup>18</sup> 'Russia takes the world lead in income inequality', 10 October 2013, <http://www.forbes.ru/news/246002-rossiya-lidiru-v-mire-po-urovnyu-imushchestvennogo-neravenstva>.

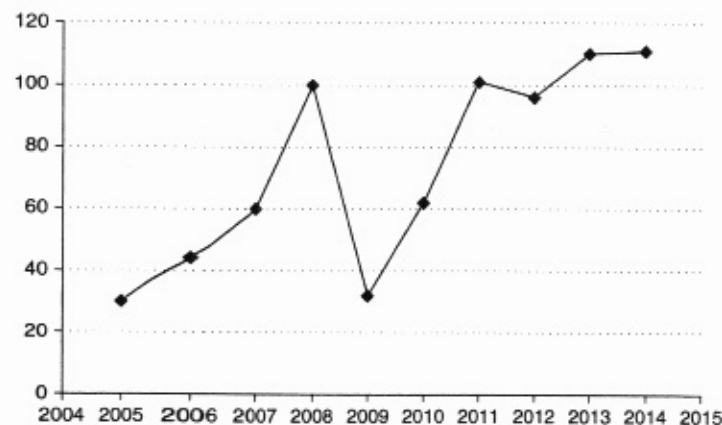


Figure 20.3 The number of US dollar billionaires in Russia as reported by Forbes Magazine between 2004 and 2015

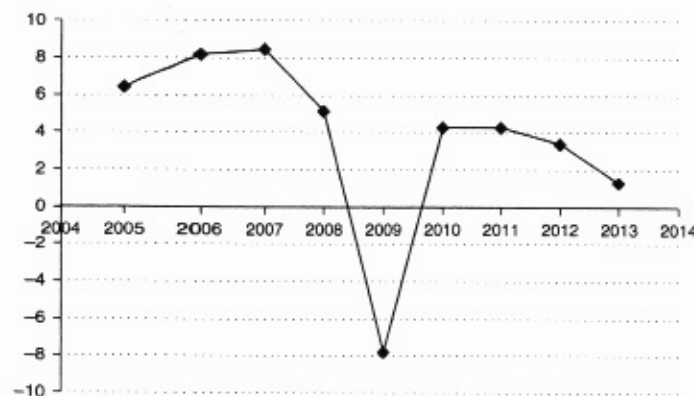


Figure 20.4 Change in GDP in Russia between 2005 and 2013

of global wealth. In Russia there is one billionaire per only USD \$11 billion. While in the global economy the total wealth of all billionaires amounts to some 1–2 percent of the global wealth, in Russia 110 billionaires jointly own 35 percent of the country's wealth.

We do not observe the process underlying this concentration of wealth. The theory of rent seeking suggests that contests have taken place. Competition in the contests was however limited by political monopoly and outcomes were determined by asymmetric political power.

## 20.7 RENT DIVERSIFICATION

By 2007, the authorities had divided and gained control over the oil and gas market. Two corporations were sources of rents: Rosneft and Gazprom.<sup>19</sup> At the same time, the ruling coalition was seeking new rent sources. In 2007, the authorities established several state corporations that in principle assisted the development of various industries, but in fact were mechanisms for gaining control over independent firms and for receiving state funding. Legally, state corporations are considered non-governmental organizations (NGOs). Because of that, state supervisory agencies have only limited control over them. The NGOs manage enormous funds, which makes them a tool for extraction and distribution of rents. In particular, losses are income transfers or in themselves rents. Consider the following examples.

In July 2007, the government established the state-owned corporation Russian Nanotechnologies. The organization's aim was to implement governmental policy in nanotechnology, to assist the development of innovative projects in the industry and invest state funds into the most promising projects. In order to reach these goals, the corporation received 130 billion rubles of budgetary funds for its charter capital. In 2011 the corporation reorganized and became the open joint-stock company RUSNANO, revealed to be a monopoly in the nanotechnology sector. In 2013 RUSNANO reported more than a billion dollars in losses.

In November 2007, the government established Rostec Corporation in order to further the development, manufacture and export of high-tech industrial products. At the government's order, Rostec incorporated hundreds of defense and civil industry firms. In early 2009, it became known that the corporation's enterprises owed more than 625 billion rubles in debts and that one third of the enterprises were displaying signs of bankruptcy. Resolving these problems was expensive for the state budget. After seven years of operations, Rostec had not managed to shift the commodity-oriented focus of the Russian economy, and has not influenced the export structure.

All of this allows for a clear conclusion: the symbiosis between political and administrative rent extraction underlies extraction and distribution of other kinds of rent. It increases the wealth of the ruling coalition members, who control access to all kinds of rents. Since the early 2000s, Russia's political and institutional model has been changing, bringing it back to the Muscovite model.

## 20.8 CONCLUSION

In their book on *Violence and Social Orders*, North et al. (2009) present a list of 'natural states', in which Putin's Russia stands right next to the Tudors' England. We can point out one more connection between these two states: the Tudor period in England coincided with the Russian period of Vasily III and his son, Ivan the Terrible, which was the epoch that shaped the Muscovite model. There is yet another coincidence: the political

<sup>19</sup> Both had significant debts. In 2013, Gazprom's debts in short-term and long-term credits surpassed one trillion rubles, while Rosneft's debt was nearing two trillion rubles.



dimension of the Muscovite model is based on centralized distribution of rent among the members of the ruling coalition. The natural state as understood by North and colleagues is a social order of limited access that extracts rent and then distributes the rents among the members of the ruling coalition. We have demonstrated that the political regime of Putin's Russia does just that: it appropriates rents and distributes the rents among the members of the ruling coalition. However, these coincidences only concern Putin's Russia and Ivan the Terrible's Russia, while Tudor England has nothing to do with either of them. A major source of rent in England of that time was Spanish gold, which the British corsairs seized in the Atlantic. However, in order to take part in the distribution of this rent, Elizabeth I had to become a shareholder in Francis Drake's pirate expeditions.

Russia's example does not prove that natural-resource rents necessarily lead to degradation of democracy. In Russia's case, the consequences have been especially grim, because a main aim of the ruling coalition has been to preserve a political-monopoly status quo. In order to reach this aim, the authorities had to destroy constitutional institutions of the state and violate civil and political rights and freedom. In particular, the merger of political and administrative rents allowed the authorities to diminish and make virtually extinct independent media, freedom of the press, political competition, free entrepreneurship, federalism, independent local government, division of powers and independent courts. When the critical moment of rent temptation arose in 2003–05, several factors combined to make Russia take the path of institutional degradation bordering on collapse of the institutions of democracy. These factors were: historical tradition, including the 70 years under Soviet rule; weakness of the civil society; and corruptible and corrupted elites.

Below the political control of rents is a culture of corruption and rent seeking that affects ordinary citizens. We have used as illustrations land required by entrepreneurs and bribes to the traffic police. Most worryingly, a meritocracy is inconsistent with the corruption and rent seeking exhibited in the market for academic degrees. 'Experts' are not experts at all and cynicism reaches its highest level, with successful rent seeking having replaced competence in recognition of achievement.

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## 21. Rents and development failure in Africa

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### SUMMARY

This chapter describes rents and rent seeking in Africa. No description of Africa can be complete without reference to the centrality and pervasiveness of rent seeking and rent extraction. Although there are differences among the many countries, as a general principle, politicians and civil servants have used rent-creating and rent-extracting opportunities to their personal advantage whenever possible. In apartheid South Africa, rent seeking took the form of legislation. In particular under authoritarian regimes but also where there have been elements of democracy, rent seeking has involved rent extraction through corruption. The successful rent-seeking and rent-extracting military and ethnic or tribal groups have marginalized other groups, often resulting in violence. Rent seeking has created incentives for skilled people to forgo their professions to seek rent-extracting positions in government. Business has been in the hands of adept rent seekers rather than necessarily competent businessmen and women.

### 21.1 INTRODUCTION

Political culture (Hillman and Swank 2000), institutions (Congleton 1980 [2008]) and also whether the rule of law prevails to protect the weak from the strong (Hillman 2004) determine the scope of rent seeking. In Africa, which is the focus of this chapter, the political culture allows use of government for personal benefit. Institutions have facilitated rather than constrained rent seeking and rent creation. Laws and institutions have not protected the weak from the strong who control government and, more particularly, the military. Because of rents, talented skilled people have not made effective use of their comparative advantage and their educational qualifications, but have sought positions in government that allow rent seeking and rent extraction.<sup>1</sup>

In Africa, rent seeking is intertwined with corruption or the use of public office for

<sup>1</sup> A rent is a privileged benefit. Resources used in seeking rents are used in a socially unproductive way, although there are private benefits for successful rent seekers. Rent seeking was noted as a source of social loss by Gordon Tullock (1967 [2008]). Anne Krueger (1974 [2008]) introduced the term in the course of estimating losses from rent seeking in India and Turkey. Rent seeking often involves corruption and bribes. A bribe is a transfer of income without necessary efficiency loss but rent seeking occurs when bribes are contested with the objective of obtaining the political or bureaucratic position at which the bribes are received (Buchanan 1980a; Hillman and Katz 1987 [2008]). Socially unproductive rent seeking is distinguished from socially productive profit seeking (Buchanan 1980a; Kimenyi and Tollison 1999). For surveys of the literature on rent seeking, see Congleton et al. (2008a), Hillman (2013) and Long (2013). Early surveys include Tollison (1982) and Nitzan (1994). The original influential collection of papers was Buchanan et al. (1980). Papers