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CONSUMER COOPERATIVES AND LIBERAL IDEA IN RUSSIA

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CONSUMER COOPERATIVES AND LIBERAL IDEA IN RUSSIA

A popular view in Russian studies argues that underdevelopment of Russian civil society is partly responsible for the failure of liberal idea in Russia. The fragmented society may see no alternative to massive government regulation, which is why support for a strong state is so high. If this logic is true, the differences in civiness across urban societies should show up in different levels of liberal parties' support. The paper estimates this effect. It was found that the transition from the most passive urban society to the most active in the sample increases the vote for liberal parties by a third. A unit increase in the number of consumer cooperatives per 1000 of citizens leads to a 3.5% drop in Communist Party results in 1995 and a 4% drop in United Russia votes in 2007. To demonstrate the causality we instrument the development of civil society by the number of years since the foundation of the first university in each city.

Keywords: social capital, political accountability, regulation, Russia

JEL Codes: Z10, R10, D70

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Our country has enormous
potential not only for criminals
but also for the state

Vladimir Putin
Russian premier

The idea of interdependence between the state and civil society in Russia has been reflected in numerous studies by political scientists, sociologists, lawyers and psychologists. Summarizing the results, Yassin (2007) identifies two widely-believed propositions. The first point is the definition of civil society as a society in which "all citizens are interested and actively participate in public affairs and ready to sacrifice their own interests for the public good". The second thesis argues that "there is no such a civil society in Russia, therefore, Russians are not ready for democracy, respect for human rights and freedoms, which is why they need a strong government, which replaces the institutions of civil society". To put it in other words, if the Russians were more active, they would have less need of a "strong hand". The work examines this hypothesis, wondering whether cities with a developed civil society are more liberal.

The problem of demand for a strong state in Russian is prominent because it may somehow explain the peculiar dynamics of the Russian institutions. At the beginning of the 80s, the country was ruled by a highly regulatory Soviet order. Perestroika and collapse of Soviet Union led to a liberal state of the mid 90s. Now Russia is moving back to effectively a one-party system, fake elections and widespread inefficiency and corruption. There are many factors that are responsible for such an institutional volatility. The weakness of civil society may be one of them. As Russians generally do not participate in democratic procedures and do not value the rule of law, they demand strong authority and a government that would substitute for institutions of civil society. That is why liberalization reforms of the 90s turned out to be just a transition from one strong order to another. This project studies empirically the role of weakness of civil society in the failure of liberalism in Russia.

We argue that demand for regulation can be a possible transmission channel between social capital and development. When people are not able to self-organize, they call upon the state to resolve the public good provision problem. Eventually, a country with a small stock of social capital will end up with a large public sector.

The importance of social factors in determining political and economic outcomes is emphasized by a growing body of evidence³. Cross-country and interregional studies have shown that if people trust each other and participate in political and associational activity, public administration is more efficient. Literature suggests that social capital is a slowly changing factor, which persists through the centuries. The lack of it can constrain political and, subsequently, economic development of a region or a country.

Nevertheless, the mechanism of social capital's influence on development remains unclear. One can imagine how social cohesion and mutual help in a small community help to improve local

³Guiso, Sapienza and Zingales(2010) offer a profound discussion of social capital measures and definitions. We use broad definition of social capital as people's ability to unit to solve common problems which is used hereafter in both theoretical and empirical parts.

quality of life. On the level of region or even a large city this mechanism seems to have a secondary role. Another possible mechanism is based on the observation that governance is good when people can unite and protest against authorities that abuse their rights. Here, social networks serve as a popular protest base for people's unrest (see Kuran (1991) for the description of dynamics of such processes). The possibility of such a scenario may hold officials accountable. However, this does not agree with people supporting their corrupt governments. This is the starting point of our reasoning. We argue that social capital factors influence the demand for regulation.

Djankov et al. (2002) introduce the concept of the "institutional possibility frontier" (IPF) to explain why some countries choose a more liberal regime, while others authoritarian. The optimal choice is based on the minimization of the total costs of public and private regulation (see figure 1). If the costs of private regulation ("the costs of disorder") is large compared with the costs of involving the state (the "costs of dictatorship"), it is beneficial for the society to be more regulated. While there are many factors that determine the shape and the slope of the IPF curve, the authors stress the importance of "civic capital" in determining the level of government intervention in public issues.

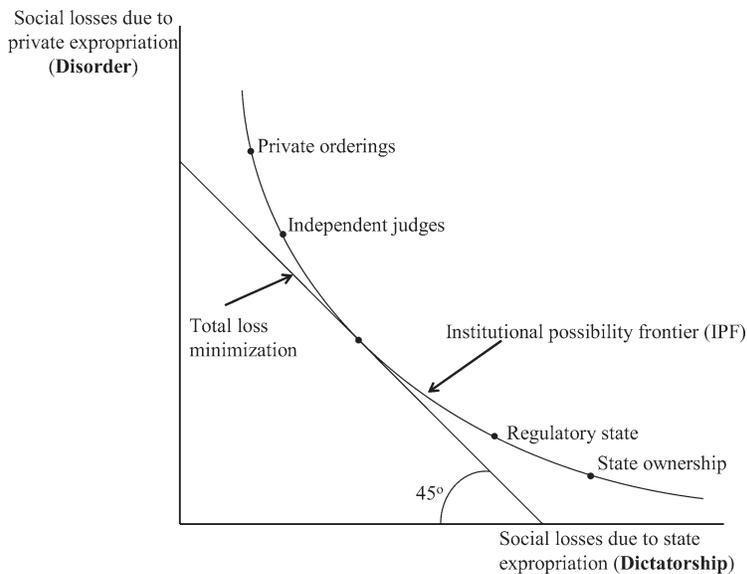


Figure 1: Institutional Possibilities (Fig.1 from Djankov et al. (2002))

Significant empirical evidence supports this approach. Pinotti (2008) uses a cross-country World Values Survey sample to show that if one takes culture into account, government regulation has no negative effect on corruption and the size of the shadow economy. On the individual level, more trusting people are less supportive to government regulation. Di Tella and MacCulloch (2009) suggest a mechanism for how high level of corruption may lead to high demand for regulation. If regulation is low but business is dishonest, people 'punish' liberals and vote for 'left' parties (i.e. favour high taxes and redistribution). As a result they observe on data that lagged level of

corruption index predicts support for left-wing parties in the next election.

Aghion et al. (2010) has advanced the discussion further, combining trust, government regulation and its quality in one model. The basic idea is to introduce a feedback mechanism between distrust and control. Lack of trust creates demand for regulation, which, in turn, reduces the accumulation of trust. If people expect a civil society, they expect a low level of regulation and corruption, and decide to raise children to be honest and vice versa. The result is the multiple equilibria observed in data. Regulation sets an allowed level of entrepreneurial activity. Barriers can be increased to protect the society from dishonest people who in the entrepreneurial position impose negative externalities. Equilibrium is characterized by the share of honest residents, the level of regulation and externalities and output of entrepreneurs who have been allowed to enter the market.

A somewhat challenging argument can be found in Boycko et al. (1993). Interestingly, unlike in Eastern Europe, workers in Russia not only failed to control managers during the privatization period in the 90s but also advocated strengthening of the managers' positions. This would later lead to total managerial control over enterprises. People can give control to businessmen in the absence of the state (in the model above, people favoured government regulation to protect themselves from dishonest business). (Aghion et al., 2011) present results that are very consonant with this logic. They argue that the state regulation of labor is a function of the cooperation level in the economy. When civil society is weak, people will prefer state control over management-labor relations.

Some background of views and perceptions of Russians may be found in Denisova et al. (2010). The authors find very similar effects with the above results. Most Russians prefer high level of government regulation (of prices) and a large amount of public services. At the same time, people recognize a high level of corruption and do not trust public institutions. Over 80% of respondents believe that the state, rather than the market, should set prices for various goods and services, and about a half say the government should monitor employment, roads and health. Demand for price regulation is positively correlated with distrust of business and courts. Perception of corruption is in turn positively correlated with distrust of business, lack of cooperation (between rich and poor, those in power and not) and distrust of institutions (courts, state parties). The authors conclude that Russia is a vivid example of "bad" equilibrium with a high demand for regulation, high corruption and low trust in government.

The described issues are of particular importance when one considers deregulation reforms. The recent residential housing reform in Russia is a case in point. The reform was designed to transfer control over common facilities and infrastructure of apartment buildings from the state to tenants organized in condominium-like homeowners' associations. From an economic point of view deregulation is an optimal step as tenants will monitor the quality of services more closely than bureaucrats. Borisova and Polishchuk (2011) show, that tenants' inability to cooperate in associations often led to the failure of the new institution. All powers have concentrated in the hands of private housing management companies that have substituted state and collect monopolistic rent. The authors conclude that civil society is underdeveloped, deregulation may not be an option and state control can be a "second-best" solution. The same conclusion were made for firm privatization in Russia.

Thus, state and public control may be substitutes. A more important argument is that the state's powers and responsibilities may be determined by the society. The elections may be the mechanism by which the preferences of society are aggregated. As a result, the demand for regulation changes real economic and political outcomes.

In Russian empirical literature, much attention is devoted to regional disparities in electoral behaviour and civil society (mainly determined by historical factors). However, both factors have not been studied together. We can use them to test the relationship between civil society and public demand for state regulation. Despite the overall low level of civic engagement in the Russian Federation, there are relatively more "active" and more "passive" cities. Electoral statistics shows that the results of liberal parties in the Duma elections are very different. Linking the two factors, one can test the hypothesis that a more developed society is more liberal.

1 Dataset

The empirical base of research consists of three blocks. The first is city-level data on Duma elections from 1995 to 2007. It is used to construct an each city's index of liberality. The second block is statistics of nonprofits which proxy civil engagement and cohesion. The third piece of data comes from a specifically conducted public opinion poll where respondents evaluated citizens' involvement in public issues, their belief about civic engagement of the co-citizens and bureaucratic governance in the city.

This survey covers 37 major Russian cities and 29 towns in the Moscow region, which together present the core sample of the study⁴. We compare our results from major cities and towns of Moscow region and conjecture about the external validity of the results. Additionally, the sub-sample of Moscow towns is much more homogeneous in terms of political and economical background, so the results are less likely driven by latent factors.

1.1 Electoral statistics

The basic hypothesis is that demand for government intervention across Russian cities may be estimated using electoral statistics. People reveal their preferences and vote for more or less liberal regime. Following this logic we can rely on several indicators. The first indicator is voting for the Communist Party (CPRF), because it can be interpreted as people's desire to return to the Soviet model, where the welfare state is the main supplier of goods and services. For example, Acemoglu et al. (2011) used the vote for the Communist Party in 1999 elections as an indicator of political development of Russian cities⁵ However, support for the Communists could be a signal of dissatisfaction with the outcome of reforms in the city (particularly, privatization and price liberalization) and could be determined by external factors (industry structure in the city). The

⁴300 respondents were interviewed in capitals (Moscow, St. Petersburg), 100 respondents represent larger cities each, and 50 represent every town of the Moscow region. Full list of cities may be found at the end of the paper

⁵The article tests the hypothesis that 'middle class' can be a driver of the long-run development. The natural experiment is Holocaust of WWII, that liquidated Russian Jews and, as a result, seriously reduced the size of middle class in cities. They demonstrated that cities that suffered more from Holocaust are less developed now.

Table 1: Correlation of electoral results between parties and selected cycles

	Yabloko'95	Yabloko'07	SPS'99	SPS'07	CPRF'95	CPRF'07	UR'99
Yabloko'95	1						
Yabloko'07	0.64	1					
SPS'99	0.22	0.36	1				
SPS'07	0.48	0.79	0.56	1			
CPRF'95	-0.37	-0.32	-0.45	-0.45	1		
CPRF'07	0.05	0.27	0	0.12	0.01	1	
UR'99	-0.56	-0.42	-0.05	-0.35	0.18	-0.19	1
UR'07	-0.15	-0.52	-0.25	-0.47	0.36	-0.65	0

^a Sample consists of large cities and towns of Moscow region altogether. Separated analysis shows similar results

elections' results could also depend on the affiliation of local governors who had administrative and financial resources to influence electoral outcomes (especially in 90s).

To solve this problem, we “smooth” the effects of a particular campaign and construct an aggregate indicator using the results for several election cycles. So, our second measure of liberalism is the average share of votes obtained by the liberal parties in the parliamentary elections for 4 cycles from 1995 to 2007. There are two major liberal parties in Russia - “Yabloko” and “Union of Right Forces” (SPS). Two assumptions help to easily distinguish liberal parties in Russia:

- In the underdeveloped Russian political landscape parties cannot make credible commitments about their programs. That is why political leaders, not parties, determine the level of electoral support.
- At some stage, leaders of “Yabloko” and “SPS” participated in liberal reforms in Russia, so they are considered as liberals by the electorate.

On average between 1995 and 2007 liberal parties together got 4.5% of the vote. Among large cities, liberal parties received the most support(7%) in Tomsk, Yekaterinburg, St. Petersburg, and the least in Naberezhnye Chelny (2%). Among towns in the Moscow region, liberal parties enjoyed the most support in Zhukovsky (6.5%) and Troitsk (7.3%) and received the lowest support they got in Yegor'yevsk (2%).

As Table 1 indicates, the results of “Yabloko” and SPS positively correlate with each other and across different cycles and negatively correlate with indicators of the Communist Party and “United Russia”. Remarkably, there is no negative link between voting for the Communist Party and voting for liberal parties in 2007. Apparently, part of the liberal electorate voted for the Communist Party as the only opposition party that had a chance to challenge “United Russia” monopoly. The vote for the Communist Party in 1995 is positively associated with voting for “United Russia” in 2007. This result can be interpreted as a transition of the conservative electorate from the Communist Party to United Russia.

A more rigorous approach is to use principal component analysis to aggregate the four parties'

results across electoral cycles in one unified index. As may be seen from Table 2, the first component fits our story perfectly and can be interpreted as city’s level of demand for regulation. Voting for “Yabloko” and SPS enters the component with positive loading, while “United Russia” and Communist party enter with negative loading. We normalize this component so that standard deviation is equal to 1 and call this component “liberal index of the city”. It is our third index of city-level demand for regulation. Because of aggregation procedure it has the most available data in it, so it is less noisy than other measures.

Table 2: Principal component analysis results

	Comp. 1	Comp. 2	Unexplained
Yabloko’95	0.29	-0.13	0.45
Yabloko’99	0.3	-0.13	0.44
Yabloko’03	0.34	-0.05	0.31
Yabloko’07	0.34	0.07	0.29
SPS’99	0.25	0.06	0.63
SPS’03	0.34	-0.01	0.33
SPS’07	0.35	0.03	0.26
CPRF’95	-0.27	0	0.58
CPRF’99	-0.25	0.34	0.31
CPRF’03	-0.1	0.5	0.28
CPRF’07	0.06	0.47	0.38
UR’99	-0.21	0.13	0.7
UR’03	-0.25	-0.38	0.25
UR’07	-0.2	-0.45	0.23

^a Sample consists of large cities and towns of Moscow region altogether. Separated analysis shows similar results

The important result for our story is that the variation in voting across cities is persistent and may be treated like variation in support for regulation. This support is higher in larger cities and cities with more educated and rich people. Controlling for these and other factors, we want to check whether social capital and civic engagement may influence liberality of the citizens.

1.2 Civil society indicators

We employ both objective and subjective measures of people’s ability to cooperate and engagement in social issues (which we call social capital). The subjective measure comes from a specially conducted poll, which asks respondents: *“How often do people in your city take the initiative, organize themselves to solve problems?”* with multiple choice options: “very rarely, never” / “rarely” / “often” / “very often”. We confirm the wide-spread view that Russian society is very passive. The proportion of people who have chosen the first option equals 43%, approximately the same number of respondents chose the second option and only 13% observe civic engagement

”quite often”. As an indicator of social activism, we use the proportion of people who at least rarely observe signs of civic engagement in their city. Among the Moscow region cities the lowest civic engagement score is in Lytkarino, Yegorievsk (35%), while the highest is in Zhukovsky (78%). Among large cities the lowest engagement score is in Ufa (38%) and Ulyanovsk (45%), while the highest is in Yekaterinburg, Novosibirsk and Tomsk (70%). One may see that in terms of engagement scores and liberal scores the leaders and the outsiders of the sample are very much the same both for the subsample of large cities and towns of the Moscow region.

The correlation of civic engagement with each city’s demographic and economic statistics is shown in Table 3 Civic engagement is higher in cities, where people are more educated and welfare is higher (columns (1)-(3)).

Table 3: The regression of civic engagement indicator on objective measures and on number of cooperatives per capita

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Civic engagement, whole sample					Large cities	Mosc. reg ^b
Cooperatives #				0.099**	0.105**	0.096*	0.140**
				(0.043)	(0.045)	(0.054)	(0.066)
Log Popul	0.016	0.006	0.012	0.016	0.019	0.004	0.032
	(0.012)	(0.011)	(0.012)	(0.011)	(0.012)	(0.020)	(0.034)
Log Wage	0.014	0.016	0.014	0.0167*	0.016	0.060	0.211***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.072)	(0.075)
Log Dist ^c	-0.411	1.32	-0.742	-0.937	-2.53	-1.01	3.29
	(6.35)	(5.63)	(6.40)	(5.49)	(5.99)	(1.26)	(1.75)
Education		0.282***		0.188*			
		(0.099)		(0.100)			
Welfare			0.145**		0.100		
			(0.059)		(0.064)		
Constant	0.334**	0.299**	0.049	0.175	-0.005	0.314	-0.499
	(0.150)	(0.139)	(0.163)	(0.137)	(0.159)	(0.280)	(0.557)
Observations	67	66	67	66	67	36	28
R-squared	0.074	0.171	0.130	0.252	0.225	0.175	0.326

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

^a Large cities subsample ^b Towns of Moscow region subsample ^c Logarithm of Distance to Moscow (x1000)

The challenge is to find an objective measure of civil society’s development that corresponds to the citizens’ view on the civic engagement of their fellow citizens. The social capital literature suggests different candidates, many of which we tested⁶. The number of consumer cooperatives

⁶We have tested referenda and local elections turnout, blood donation, newspaper readership, ethnic fractionalization and judicial statistics. All indicators appear to be poor indicators of civic engagement.

per citizen turned out to be highly correlated with civic engagement as measured by the survey poll. A consumer cooperative is a 'membership-based association for ownership of shares (at least 5 persons or 3 legal entities)'. There are farm, garage-construction, housing-construction, and credit cooperatives. In the beginning of 2010, Russia had 88,236 consumer cooperatives in total. Among them, the most popular are garage-construction (40% -70% of the total, depending on the region) and housing-construction cooperatives (10 - 30%). The number of cooperatives comes from Russian registration statistics of 2009. The life cycle of a cooperative is the following: people collect shares and invest collected funds in construction, then the cooperative is used as an organizational form to cover maintenance costs and for accounting. Our conjecture is that many of the cooperatives we observe today were de facto created in Soviet times since forming a cooperative was the good opportunity for citizens to get property).

From the perspective of this paper, the number of cooperatives is interesting for two reasons. Firstly, it takes joint actions and high ability to cooperate to organize a cooperative. Secondly, the high level of interpersonal trust is prerequisite, because otherwise people would not risk investing their money. The number of cooperatives per thousand fo citizens will be used as second measure of social capital.

Among large cities most cooperatives are in the Far East cities Vladivostok and Khabarovsk (1.2 organizations per thousand of citizens), while the least are in Lipetsk, Kemerovo and Ufa (0.3). In the Moscow region the leaders are Kolomna (1.3), Troitsk and Zhukovsky (1), while the outsider is Yegor'yevsk (0.6). The number of cooperatives per capita is positively correlated with better education and higher wages.

In what follows, an omitted variable bias is a serious problem. Differences in voting and development of civil society can be attributed to a third latent factor, so to exclude this possibility we control for various urban statistics. We use indicators of citizens' human capital (share of citizens with higher education, number of students per capita), welfare(average wage, pensions, size of deposits and unemployment), business conditions (total output and profit, retail trade volume), criminal statistics and demographic variables (population, migration, share of pensioners).

As Table 3 indicates the number of cooperatives is significantly positively correlated with the engagement measure (columns (4) and (5)). This relationship holds both for a subsample of large cities(6), and the towns of the Moscow region (7). For the subsample of large cities (6), the coefficient loses significance, but the size of the effect remains almost unchanged. In general, it can be argued that the variation in subjective assessments of engagement is supported by objective data.

2 Empirical Analysis

A regression specification is the following:

$$DemandForRegulation_i = \alpha + \beta SocialEngagement_i + \gamma_i Control_i + \epsilon_i \quad (1)$$

As a proxy for the demand for regulation we consider two measures - the average share of liberal parties results and liberality index. Our results may be driven by various factors like education,

economic situation in the city, past experience of liberal reforms, the presence of independent media⁷ or a successful mayor or governor who is a supporter of liberal or conservative forces. We account for some parameters by introducing the control variables. As indicators of education and wealth we use averages of the respondents' characteristics in the survey poll described above. They are the most informative in the regressions. The introduction of objective indicators of education - the proportion of people with higher education in the region from Census 1989 and 2002 - only strengthens the results.

The regression results for all cities in the sample are shown in Table 4. In the first block the vote of liberal parties was a dependent variable, while in the second the dependent variable was the index of liberality (the first principal component from Table 2). In general, the data support the hypothesis that civiness of the society and its liberality are linked in Russia. According to the specification (1), a 10% increase of the proportion of people, who at least rarely observe citizens engagement in public life is associated with an 0.4% increase of votes for liberal parties. The effect is quite robust to the addition of various controls. The weakest result is shown in the specification (2), where the proportion of people with higher education who participated in the survey is used as an education measure. As educated people are more liberal, the effect of the civic engagement is halved. A similar situation arises when considering the liberality index as the dependent variable (5,6).

If we use the number of cooperatives as an indicator of civil society, the relationship with the liberal indexes becomes more outstanding (columns 3-4). In this case the significance does not disappear when controlling for education and various welfare measures (both objective and subjective). The size of the effect is the following. The transition from a society with a minimal number of cooperatives (0.3 per 1,000) to a maximum in the sample(1.3) is associated with a 2% increase of the results of the liberal parties (specification (3)) or 1.7 st.dev. increase of the liberality index (specifications (7)).

The results do not change when we study a sub-sample of large cities separately. Table 5 shows the regression results for the large cities, the weakest in terms of the effects' size. For liberal parties' share of the vote as a dependent variable the coefficient is three times smaller and not-significant (column 1), but the relationship with the liberality index remains the same and even increases (specification 3).

In specifications (2) and (4) we use the number of cooperatives as social capital indicator. It is positively associated with indicators of liberality and significant at the 1% level. The increase in the number of cooperatives per thousand population per unit lead to the increase of the results of the liberal parties by 2.3 percentage points and to the increase in the liberality index by 2 standard deviations. As the partial regression plot shows (Figure 2), the results are not driven by the outliers. That is why the coefficient is measured so accurately despite the small sample size.

We can repeat the regression with the number of cooperatives on a larger sample, extending it to other cities that were not included in the survey. Results for a sample of 85 cities from 64 regions are shown in Table. 6. For each group of dependent variables, we examine two specifications: one

⁷Enikolopov et al. (2010) demonstrate the effect of free media on voting in Russia in case of 1999 parliamentary elections.

Table 4: The regression of liberal indexes on civic engagement measure and on number of cooperatives per capita

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Average liberal parties results				Liberality index			
Engagement	4.238** (1.823)	1.999 (1.922)			3.767*** (1.288)	2.059 (1.339)		
Cooperatives #			2.078** (0.794)	1.483* (0.759)			1.680*** (0.532)	1.244** (0.510)
Log popul	0.910*** (0.241)	0.653*** (0.195)	1.064*** (0.197)	0.767*** (0.190)	0.494** (0.187)	0.397*** (0.149)	0.628*** (0.156)	0.499*** (0.140)
Log wage	0.160 (0.14)	0.194*** (0.071)	0.239** (0.092)	0.230*** (0.056)	0.072 (0.088)	0.135** (0.053)	0.143* (0.078)	0.172*** (0.044)
Moscow reg	1.412* (0.722)	1.541*** (0.366)	1.207* (0.708)	1.557*** (0.365)	0.676 (0.520)	1.019*** (0.265)	0.531 (0.522)	1.033*** (0.262)
Log Dist	-0.116 (0.146)		-0.184 (0.127)		-0.108 (0.106)		-0.159 (0.0959)	
Education		5.479*** (2.045)		4.659** (1.827)		3.922** (1.533)		3.321** (1.313)
Constant	-9.816*** (3.601)	-8.931*** (2.259)	-10.46*** (3.278)	-9.867*** (2.167)	-8.220*** (2.914)	-8.955*** (1.745)	-8.706*** (2.547)	-9.664*** (1.583)
Observations	67	67	67	67	66	66	66	66
R-squared	0.317	0.449	0.405	0.506	0.282	0.432	0.382	0.504

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Table 5: The regression of liberal indexes on civic engagement measure and on number of cooperatives per capita for subsample of large cities

VARIABLES	(1) Average liberal parties results	(2)	(3) Liberality index	(4)
Engagement	1.539 (1.954)		4.087** (1.563)	
Cooperatives #		1.920** (0.754)		1.854*** (0.559)
Log popul	0.895*** (0.325)	1.008*** (0.306)	0.701*** (0.212)	0.816*** (0.200)
Log wage	1.585 (1.170)	1.334 (1.162)	0.947 (0.762)	0.848 (0.795)
Students' share	12.81* (6.708)	9.214 (6.077)	5.821 (4.795)	3.668 (4.461)
Constant	-13.74*** (3.390)	-14.58*** (3.169)	-14.76*** (2.117)	-14.63*** (1.977)
Observations	37	37	37	37
R-squared	0.506	0.595	0.535	0.635

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

includes the controls on the administrative status of a city (capital / regional capitals / other cities) and the other includes the a number of continuous variables that may be responsible for the liberality of electorate. The observed effects are not changed and the large sample allows us to estimate the coefficients more accurately (they are significant at the 1% level). An increase in the number of cooperatives per 1000 of citizens by 1 is associated with an increase of liberal parties share by a percentage point (specification (1-2)), the index of liberality by 2 st. dev. (3-4), decrease of the voting the Communist Party in 1995 by 3.8 percentage points (5-6) and of the voting for United Russia in 2007 by 4.2 percentage points (specification 9). As expected, more populous cities are more liberal. Interestingly, the development of the city's economy is unrelated to the electoral statistics.

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3 Robustness check

Our analysis supports the hypothesis on the relationship between civil society and the demand for state regulation. The relationship is robust and stays significant through different samples and different sets of control variables. However, the problem under consideration is so versatile that it is always possible to offer alternative explanations for our empirical results. Here we discuss some

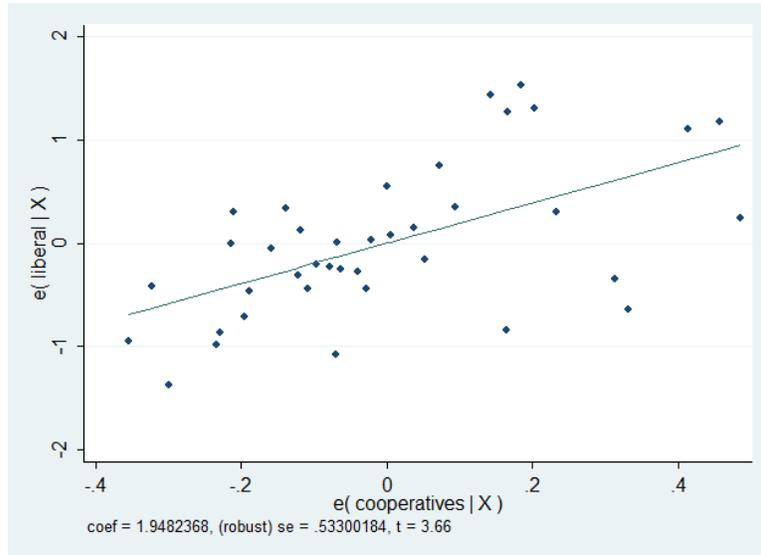


Figure 2: Liberality index and number of cooperatives per 1000(Partial regression plot)

of them.

3.1 Latent variables

First, it is possible that more liberal mayors and governors favour civic engagement and do not obstruct liberal and opposition parties at the elections. That may explain the observed relationship between the civil society and liberality at the city level. This suggestion, however, cannot explain the relationship between the number of consumer cooperatives and the number of votes for liberal parties at elections. To eliminate the "governors' effect," we control for other aspects of their activities, hoping that the governors' activity from 1995 to 2007 in Russia consisted not only of repressing civil society.

A set of control variables was taken from an extensive database of regional indicators used by the Ministry of Regional Development to assess the performance efficiency of executive bodies of subjects of the Russian Federation. The database includes 295 different indicators at the regional level - from the gross regional product and the effectiveness of budget spending to the number of sports facilities and the proportion of roads being repaired. Adding any of these variables to the regression does not change the results shown in Table. 6. To take into account the "mayors' effect" we control for the level of citizens satisfaction with the situation in the city and the performance of local administration. Including these variables also does not change the results.

Secondly, owning property in consumers cooperatives can be an indicator of citizens well-being. Richer people may be less likely to support government redistribution. That could be one of the possible explanations for the relationship between the number of cooperatives and liberality. This suggestion is not confirmed by the data - adding various indicators of citizens well-being

Table 6: Number of cooperatives and voting for parties

VARIABLES	Cooperatives #	Obs	R-sq
Liberal parties share '95-07, %	1.129*** (0.328)	93	0.456
	0.990*** (0.333)	78	0.586
Liberal index (st.dev)	2.259*** (0.554)	93	0.522
	1.992*** (0.625)	78	0.556
Communist party 95, %	-3.811*** (1.155)	94	0.338
	-3.975*** (1.350)	79	0.377
United Russia 07, %	-4.249** (2.049)	93	0.215
	-3.153 (2.571)	78	0.219

^a Each row - the result of separate regression (different specifications)

does not influence the results. This logic can not be applied to the relationship between the civic engagement and liberality at the city level. Nevertheless, we cannot rule out the possibility that owning property by itself affects citizens' engagement. A class of owners, formed in the past, could be the foundation of the today's civil society in Russia.

3.2 Effect of education and IV regression

Third, the calculations indicate that the level of education is an important source of liberality and civil society development. This result is consistent with numerous studies showing that more educated people are more trusting and are more likely to participate in charities and associations. We assume that civiness of the population serves as an intermediate channel between education and democratic society. An alternative hypothesis may be that educated people are inherently more likely to appreciate freedom and therefore are less supportive of government intervention.

Using the method of instrumental variables we can show that the development of civil society by itself is important in shaping the demand for regulation. Tabellini (2010) shows the impact of social capital on economic development of European regions using the literacy rate at the end of the 19th century as a predictor of current level of social capital. Similarly, in this paper we use the year of foundation of the first university in the city as a predictor of development of civil society and thereby of liberal electorate (only large cities in Russia were included in the sample).

The results of the first stage of the two-step procedure are demonstrated in columns (1-2) of Table 7. The dependent variable is the number of cooperatives in the city; the explanatory variable is the logarithm of the number of years since the foundation of the first university. The number of cooperatives today is higher in cities with longer history of higher education, which by itself is not associated with liberality (column 3). Instrumenting the number of cooperatives by the history of higher education, we obtain significant estimates. The size of coefficients coincide with those obtained in the previous regressions (columns (4-5)). We get stronger results when consider the liberality index as the dependent variable - the coefficient of the number of cooperatives variable

Table 7: The regression of liberal indexes on civic engagement measure and on number of cooperatives per capita for subsample of large cities

VARIABLES	Cooperatives #		Liberal parties share		
	(1)	(2)	(3)	(4)	(5)
			OLS	2SLS	2SLS
Cooperatives #			1.521*** (0.451)	2.291** (0.993)	2.098* (1.091)
Log University exp.	0.422*** (0.132)	0.307** (0.129)	0.223 (0.410)		
Log population	-0.199*** (0.072)	(0.139)	0.895*** (0.252)	0.930*** (0.150)	0.980*** (0.176)
Log wage	0.428*** (0.155)	0.402* (0.200)	1.315** (0.516)	0.841* (0.504)	1.076** (0.526)
Education	-0.208 (0.135)	-0.197* (0.110)	-0.371 (0.525)	-0.259 (0.439)	-0.213 (0.450)
Economic development		0.095** (0.045)	0.091 (0.097)		0.041 (0.143)
F-test of excluded instruments				10.2	6.1
Observations	55	52	51	55	51
R-squared	0.226	0.297	0.587	0.535	0.57

is significant at the 5% level. This confirms the mechanism according to which human capital accumulation leads to the development of civil society and later to a lower demand for government regulation.

Individual-level analysis

If our logic is true, we should be able to observe the relation between demand for regulation and civic activism on individual data. We expect people who perceive more civic activism to demand less regulation.

The preferred change in the level of regulation is measured by the question: “*Do you agree that the state should reduce control over economy and society?*”. The majority of respondents (71 %) does not support the idea of relaxing government control. Our dependent variable Y is equal to 1 if an individual thinks that there is no need to reduce control and 0 otherwise.

Citizens’ view on local bureaucracy quality is measured by the question “*What is your attitude towards local authorities in your city? Do you agree that local authorities work hard to ensure the prosperity of citizens?*”. We can also use the similar question “*Do you think that local authorities understand and take into account the will of citizens?*”. 70% believes that their local authorities

do not take into account the will of citizens and only 43% of citizens throughout Russia thinks that the authorities are doing much for the welfare of inhabitants.

The following probit regression is estimated:

$$Prob(Y_i = 1) = \Phi(\alpha + \beta_1 CivicEngagement_i + \beta_2 BureaucraticQuality_i + \gamma_l Control_i) + \epsilon_i \quad (2)$$

We control for the level of education, welfare, age, sex and on the satisfaction with life⁸. Estimation results are shown on Table 8.

Table 8: Support for the current regulatory level as a function of bureaucratic quality and social capital

VARIABLES	(1)	(2)	(3)	(4)
Bureaucratic Quality	0.020 (0.019)		0.041** (0.020)	0.000 (0.027)
Citizen Initiative		-0.091*** (0.023)	-0.099*** (0.024)	-0.160*** (0.037)
Bur.Quality x Citizen Initiative				0.049** (0.023)
Observations	5,580	5,317	5,182	5,182
Pseudo R-squared	0.0237	0.0248	0.0265	0.0272
LR chi2	158.2	158.6	165.1	169.7

^a Notes: Abbreviated results of a probit regression. Individual controls are not shown. Standard errors are in parentheses. *** p<0.01, ** p<0.05, * p<0.1

The support for currently high regulatory level does not depend on the perception of bureaucratic quality if we do not account for civic engagement perception capital (specification (1)). Social capital is significantly negatively correlated with the demand for regulation (2). The better respondents think of their neighbours, the less they want the state to interfere. If we consider bureaucratic quality and social capital together, the role of bureaucracy becomes significant. The preference for government control and its quality was determined by differences in social capital. To make this evidence more remarkable we add in a cross-term (5). The coefficient is positive and significant, which tells about interchangeability between social and state governance.

⁸The dependence of variables on the individual characteristics is shown in the Appendix Table 9

Conclusion

The main goal of the paper is to understand to what extent the political development of a country is a by-product of the society's ability to self-organize. If social capital is low, people call for the state to ensure public good provision. The paper tests the hypothesis that the poor civil society entails a strong demand for government regulation. If the relationship between the civil society development and the demand for government regulation exists, cities where civil society is more developed should be more liberal as compared to cities where society is more passive. This proposition formed the basis for the study.

The following observations helped us to test the hypothesis. While Russia as a whole is characterized by a high level of government regulation and a low level of social capital, the level of civic engagement demonstrates a substantial variation across cities. This variation helped us to measure the effect. Additionally, this indicator is linked to the number of consumer cooperatives per capita in the city. We thus demonstrate the relationship between subjective and objective measures of civil society.

Secondly, the electoral landscape in Russia distinguishes liberal and conservative parties, and, in this sense, more liberal and more conservative cities can be observed. The variation in voting across cities remained stable over the past four electoral cycles. This allowed us to create a composite index and therefore reduce noise in the data by eliminating the specifics of a particular electoral cycle.

As a result, we show that even within a fairly homogeneous population with low levels of civic engagement the relationship between civiness of society and its demand for government intervention can be observed.

Differences in the level of engagement between the most passive and the most active city lead to a 1.6 percentage points increase in liberal parties' results. That's a substantial number, considering that, on average, liberal party got 4.5% in the election. A unit increase in the number of consumer cooperatives per a thousand people leads to a 2 percentage points increase in votes for liberal parties and a 3.5 percentage points decrease in votes for Communist Party in 1995. These results do not pretend to be complete and have unambiguous conclusions. However, they may be an important step that will help advance the discussion on the role of civiness in a society's development.

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Table 9: Dependence of individual estimates of regulation, quality of bureaucracy and engagement of people around on individual characteristics

Variables	Demand for regulation			Bureaucratic quality			Civic engagement		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
woman	0.084***	0.085***	0.083***	0.017	0.011	0.004	0.031***	0.030***	0.030***
age	0.029***	0.029***	0.029***	0.014***	0.019***	0.021***	-0.035***	-0.034***	-0.035***
2.education	0.053***	0.058***	0.058***	-0.025	-0.022	-0.010	-0.002	-0.000	0.004
3.education	0.077***	0.081***	0.082***	-0.057***	-0.054***	-0.039**	-0.007	-0.009	-0.008
2.welfare	0.012	0.016	0.018	0.107***	0.078***	0.076***	0.017	0.006	0.003
3.welfare	-0.007	-0.000	0.005	0.140***	0.100***	0.090***	0.045***	0.030*	0.024
4.welfare	-0.045*	-0.037	-0.033	0.129***	0.083***	0.075***	0.030	0.011	0.007
5.welfare	-0.100**	-0.092*	-0.087*	0.201***	0.146***	0.151***	0.011	-0.012	-0.011
1.life_sat		-0.031	-0.034		0.044*	0.040		-0.000	-0.006
2.life_sat		-0.021	-0.018		0.135***	0.152***		0.017	0.013
3.life_sat		-0.045*	-0.042		0.192***	0.206***		0.061***	0.058***
popul1	-0.008*	-0.010		0.014***	-0.005		0.006*	0.008	
Moscow region		-0.009			-0.098***			-0.000	
City FE	NO	NO	YES	NO	NO	YES	NO	NO	YES
Observations	5,303	5,228	5,757	5,744	5,663	6,227	5,435	5,358	5,860
Pseudo R-squared	0.0215	0.0227	0.0325	0.00900	0.0219	0.0712	0.0278	0.0327	0.0517
LR chi2	137.0	142.9	223.9	70.77	169.8	604.9	137.4	159.3	275.4

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 10: Dependence of the support for state regulation on the individual estimates of local bureaucratic quality and social capital. Probit model, marginal effects

VARIABLES	(1)	(2)	(3)	(4)	(5)
bur_quality	0.008 (1.236)		0.014** (2.026)	0.012* (1.834)	0.014** (2.052)
civic_engagement		-0.028*** (-3.403)	-0.031*** (-3.691)	-0.032*** (-3.821)	-0.029*** (-3.533)
Indiv controls	YES	YES	YES	YES	YES
City FE	NO	NO	NO	NO	YES
Observations	5,068	4,815	4,694	4,750	4,750
Pseudo R-squared	0.0234	0.0245	0.0262	0.0255	0.0359
LR chi2	143.0	142.7	148.7	146.4	205.8

z-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 11: Number of consumer cooperatives per 1000 citizens in major cities

City	Number of cooperatives per 1000	Found. of the University (college)
Cherepovets	3.80	1869
Petrozavodsk	2.01	1931
Tomsk	1.62	1878
Vladivostok	1.58	1899
Saratov	1.53	1909
Khabarovsk*	1.33	1925
Perm	1.24	1916
Barnaul	1.22	1933
Penza	1.20	1845
Archangelsk	1.15	1929
Ivanovo	1.14	1918
Ulyanovsk	1.12	1932
Murmansk	1.08	1939
Vladimir	1.05	1919
Omsk	1.00	1813
Kursk	0.96	1918
Sochi	0.91	1966
Magadan	0.90	1960
Kurgan	0.90	1944
Yekaterinburg	0.89	1914
Ryazan	0.88	1915
Yaroslavl	0.87	1908
Novosibirsk	0.87	1929
Tyumen	0.84	1930
Belgorod	0.84	1876
Krasnodar	0.82	1918
Orenburg	0.73	1915

^a Total number of housing construction and garage-construction cooperatives in city is given (according to SPARK database). The data on the foundation of the first university(college) is collected from the open sources(internet)

Table 11: Number of consumer cooperatives per 1000 citizens in major cities (continued)

City	Number of cooperatives per 1000	Found. of the University (college)
Petropavlovsk-Kamchatsky	0.73	1931
Ufa	0.68	1909
Kaluga	0.61	1948
Cheboksary	0.60	1930
Rostov-on-Don	0.60	1915
Stavropol	0.59	1930
Irkutsk	0.58	1918
Tver	0.55	1917
Astrakhan	0.51	1918
Krasnoyarsk*	0.51	1930
Kazan	0.51	1804
Samara	0.49	1911
Kemerovo	0.48	1949
Nizhny Novgorod	0.47	1911
Togliatti	0.47	1951
St. Petersburg	0.46	1724
Surgut	0.45	1986
Moscow	0.44	1755
Smolensk	0.44	1918
Orel	0.38	1931
Tula	0.37	1930
Novokuznetsk	0.37	1930
Magnitogorsk	0.34	1931
Voronezh	0.34	1913
Izhevsk	0.30	1931
NaberezhnyeChelny	0.27	1980
Volgograd	0.25	1917
Blagoveshchensk	0.22	1961
Chelyabinsk	0.18	1930
Lipetsk	0.18	1949
Nizhny Tagil	0.11	1939
Bryansk	0.11	1931

^a Total number of housing construction and garage-construction cooperatives in city is given (according to SPARK database). The data on the foundation of the first university(college) is collected from the open sources(internet)

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