

States, Markets and Society

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In an influential book, Acemoglu and Robinson (2012) propose that the explanation for the extremely large income disparities we see across the world today is rooted in whether a political state was able to achieve a set of inclusive institutions. Such an achievement has been a historical rarity. Indeed, there are many obstacles that a state may face in establishing a tradition of inclusive institutions that foster markets and economic exchange.

By and large the literature focuses on two types of obstacles. First, as the aforementioned authors primarily discuss, the elite often face incentives that conflict with setting up inclusive institutions such as extending suffrage or instituting secure property rights. Second, as the literature on comparative historical analysis has long argued, exclusion is at the heart of many theories about institutional development. For example, Tilly (1990) points out war as a necessary tool for state building. These two types of obstacles showcase the tension between state and market development through the groups of society that are in conflict. Instead of focusing on conflicts of interest between different groups, we propose to explore the nature of this tension for decentralized social interactions within a society. In particular, we would like to understand whether states and markets give rise to conflicting objectives for individuals faced with the possibility of cooperating with each other to achieve better outcomes. In terms of social and economic development of a society, this tension is very real since both states and markets require massive social change with respect to how individuals interact with each other. The nation must replace the tribe. The stranger must replace the neighbor.

The co-construction of states and markets is both influenced by and affects cultural beliefs, social norms and social capital. For instance, social capital is an important element of societal interaction that leads to productive cooperation. Such productive cooperation is necessary for well-developed financial and economic markets. Likewise, social capital can also be important for state building. The question is whether the type of social capital required for the state and the market interfere with each other. On one hand, Fukuyama (1995) argues that a more centralized system and a strong state intervention into the public sphere destroys the social fabric of the society. On the other hand, Guiso and co-authors highlight the important interaction between social capital and market development. Or, in the context of informal enforcement, Greif (1993) demonstrates this tension by showing the importance of social exclusion or ostracism for enforcing contracts when the capacity of formal institutions to do so is weak or does not exist. The extent of the market is both enabled and limited by social networks. The existence of

these networks may weaken the demand for the state and hence the state may have a conflicting objective.

If there is this tension, do we observe states or markets actively affecting the type of beliefs, norms or social capital that exist in society. In the case of the Soviet Union, the powerful state could have had an influence on the type of social capital that fosters market exchange. Or, in the case of the US, the widespread use of market interactions could also curtail the evolution of social capital that is conducive for state building (Putnam 1995). Of course, depending on how persistent beliefs, norms and social capital are, neither states nor markets may have much of an influence, although they themselves are influenced by them.

At the decentralized level, we may also find no tension between states and markets. It could equally be the case that state and market development are independent or even complementary with respect to decentralized social interactions. However, this finding would be interesting in its own right because it would bolster the claims of Acemoglu and Robinson and others who see the problem of development as one very much tied to the problem of the elite and other well-defined groups in conflict.

We suggest to use theoretical models and rigorous empirical analysis to investigate the nature of this tension in decentralized social interactions, and the corresponding economic consequence, throughout Russia's history. The historical and contemporary experience of Russia provides a rich and varied environment – from geographic, ethnic, religious, cultural, institutional, political or economic points of view - that permits one to study these issues. The Russian comparative advantage is there are a lot of potential sources of exogenous variation as a result of a number of unique social experiments during its modern history (like the Soviet border reforms, industrial or national policies, forced migration of whole nations under Stalin, the First and Second World War shocks, mobilization and evacuations, the Gulag camps, the three Soviet famines, the Civil war and War Communism, the Stolypin reforms, the serf emancipation, Catherine the Great's reforms, etc.). In addition, there are a lot of historical data readily available to empirically study many of these episodes of Russia's history.

Specifically, in terms of the themes highlighted above, what is the evolution path of social capital in Russia, and how has it been affected by certain historical shocks or circumstances, particularly ones associated with state building or market development?

The conflict between state and market development is present early on in Russia's modern history. Already in the 17th-18th centuries, Tilly (1990) argues that Russia is an example of coercive state formation, where markets were poorly developed. One could observe the impact of by considering the core regions of the Russian empire with the outskirts where markets were suppressed by the state less.

Historically, the state did not always try to suppress markets. The Stolypin reform of 1906 is an example of the state instituting a reform conducive to market development. However, as Moore (1966) argues, in his seminal book, the regime viewed the reform as

altering the nature of peasant solidarity (a type of social capital). The aim of the reform was to align peasants with the land owning gentry and disrupt any kind of peasant solidarity that would lead to the type of revolutionary unrest experienced in 1905. Historians still debate whether the changes to peasant solidarity actually were achieved in the manner that Stolypin envisioned and whether the reform, in fact, destabilized the countryside and contributed to the onset of the Russian Revolution.

As a more extreme example, consider the Great Terror, which was implemented to preserve the stability of the state but certainly should have altered the social fabric of Russian society. This, in turn, might have effects on the subsequent informal and formal institutions. Moreover, these historical shocks might have persistent consequences that can be observed even today. Such certain historical shocks might destroy not only informal institutions, such as trust and social capital, but also market structure and market development. For instance, what effect did the Great Terror have on the operation of the informal exchange system (blat) in Russia? In areas where Great Terror was felt more intensely, one can imagine both a destruction of the social capital among people and also their informal exchange economy. If that is true, this might have subsequent long-term effects on how markets function and in such areas we might observe today less developed markets. This leads to the one of the most fundamental questions in economics: how decentralized systems of exchange such as markets develop and grow in environments where formal institutions that support such exchange do not exist or are even hostile to market development?

To sum up, we envision the following research avenues:

- a) What could be the potential institutional factors that led to the persistence/destruction of social capital?
- b) Do institutional reforms in Imperial Russia and Soviet history have long-run consequences for economic growth? And, if so, via what channels?
- c) How do social interactions and in particular conflicts affect economic development? Do they have long run consequences?
- d) Do historic measures of social capital correlate with contemporary measures of governmental and bureaucratic performance, such as corruption?
- e) What is the relationship between institutional changes in Imperial Russia and social cohesion?
- f) How did the Great Terror impact levels of social capital in various parts of Russia?
- g) How did the Great Terror affect the informal exchange system (blat) in Russia? Is there a subsequent effect on the current market development?

We hope that this research seminar will enable students to produce highly relevant research to today's most pressing socioeconomic issues and will generate a better understanding of the economic development of Russia. Students can study these questions either theoretically or empirically. Students are not required to do both. However, to improve the students' discussion of other students' work throughout the year, we will require that students take a course in microeconometrics.

Finally, this research seminar also serves as a platform for students to engage with the Center for the Study of Diversity and Social Interactions, directed by Shlomo Weber, and the Russian Economic History Laboratory, directed by Andrei Markevich. Students who develop successful theses will find various funding opportunities, such as summer fellowships, research assistantships, and travel funding for conferences or seminars, available to them through these centers. In addition, students who demonstrate a strong interest in the themes of the centers' research will also have access to the world-renowned scholars that visit the centers as well as publication opportunities and the chance to pursue a more advanced degree after the Master's degree.

Possible Data Sources for Empirical Projects:

1) Russian official statistics

Modern Russian official statistics both at national and regional level available at official Rosstat website <http://www.gks.ru/wps/wcm/connect/rosstat/rosstatsite/main/> .

2) Russia Longitudinal Monitoring Survey

A series of nationally representative surveys that contain very detailed information on households' well-being as well as information on local public goods and infrastructure.

See also <http://iresearch.worldbank.org/lsmssurveyfinder.htm> for other countries.

3) Life in Transition survey

A survey evaluates personal and professional experience during transition, including individual perceptions and attitudes.

<http://www.ebrd.com/pages/research/analysis/publications/transition/data.shtml>

4) Russian historical statistics

Russia has relatively rich historical statistics at regional and sub-regional level. Various aspects of diversity in the past as well as regional dimension of social experiments are known from official statistical volumes publishing regularly since the second half of the 19th century. Results of historical population census are available on-line (<http://demoscope.ru/weekly/pril.php>).

5) World Bank surveys on local governance in rural Russia

The World Bank conducted two survey panels, a panel of district and settlement level public officials carried out in 2005 (a year preceding the enactment of the reform legislation) and 2007 and a survey of rural households carried out in the beginning of 2006 and in 2007 in the same randomly selected rural districts and settlements of three regions of Russia, the Republic of Adygeya, Penza, and Perm Oblasts.

Related Literature

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