

Inhibition-points in the Russian economy: localization and effects of bad institutions.

*by Vadim Volkov, Ella Paneyakh, Kirill Titaev,
Aryna Dzmitryieva, and Anna Khovanskaya*

The low quality of the institutional environment in Russia negatively affects the speed of economic growth, decreases the well-being of the citizens and prevents technological development. Currently, as our study shows, the institutional environment is not as bad as it is generally believed to be – at least in regards to certain aspects. On the contrary, the bad institutions that stall economic activity are localized in specific clusters of the institutional environment. We may call them inhibition-points that have appeared within the Russian economy (as a counterpart of growing-points). The inhibition-points stall certain types of economic activity, and, although indirectly, negatively affect the economic situation in general, especially concerning the growth perspectives.

The brightest example of such a problematic field is construction, in which expenses connected with low quality of the institutional environment amount to dozens of percentage points of the cost of the final product (reaching up to 60 per cent in Moscow). Purchasing power of the Russian salary measured by the ability to buy 1 square meter of housing significantly lags behind the European norm; even when the adjustment is made to account for the lower labor productivity in Russia, the difference remains more than fourfold. High real estate prices and slow pace of construction not only increase the prices of directly related goods (housing, office rent, hotels), but also lower the efficiency of any business, which is to a significant extent dependent on capital expenses or rent of the premises (for instance, retail).

The source of problems in construction and other similar fields are the institutions that are embedded in permissive procedures. Undergoing these procedures is a necessary preliminary condition for starting a business. The procedures cause three main problems:

- The low bureaucratic culture of the permissive agencies and the “branchy” character of the procedure (when receiving a permission from one institution is a prerequisite of submitting documents to another institution) cause prolonged periods of coordination.
- Bribes may constitute a significant portion of the price of the project (unlike other fields, in construction the practice of direct bribing with large sums is still prevalent)
- Legalized corruption taking the form of structures “affiliated” with “permissive” agencies that are monopolists in the preparation of documentation for the coordination

Unlike the permissive procedures, the controls (inspections, submission of reports), contrary to the popular opinion, are not critical. Although they create certain additional workloads for the businesses, they do not produce prohibitive expenses.

In order to mitigate the negative influence of the permissive procedures on the quality of the institutional environment, as well as to eliminate the inhibition points, the following measures are to be undertaken:

- The quantity of preliminary permissive procedures must be lowered; the procedures must be standardized on the federal level
- The “branchy” character of the permissive procedures must be abolished. The process of project coordination through stages must be substituted by parallel approval of the project in different agencies. Acceptance of documentation for coordination must not set approval from other agencies as a prerequisite. A standard term of license issue must be set for the whole country. The following rule must also be introduced: “if, after expiration of the standard term, a justified rejection is not given, the permission is to be considered to have been granted.”
- Introduction of the principle according to which the expenses related to inspections and coordination are covered by the state and not by the entrepreneur. For instance, if expertise is required for project approval, it is ordered and paid for by the inspecting or “permissive” agency.
- Widening of the authority of the Federal Anti-Monopoly Service in terms of combating discrimination of clients by state organs. The “client” must have the opportunity to contest actions of regulating and controlling organs that discriminate against him or her as compared to similar objects of regulation.
- Free access of departmental instructions, sub-legislative acts and any other documents that regulate the process of coordination, conditions of receiving permissions, requirements to be fulfilled by the subjects of regulation or by employees of regulating agencies. Introduction of the principle, according to which an unpublished regulative document may not have legal force.