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**ORGANIZATIONAL DESIGN OF WELFARE-ENHANCING
PUBLIC BUREAUCRACY:
A Comparative Analysis of Russia's Regions**

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I hereby declare that this work contains no materials accepted for any other degrees in any other institutions. This thesis contains no materials previously written and/or published by another person, unless otherwise noted.

Abstract

The question ‘What type of bureaucracy is most likely to enable sustainable prosperity for all members of a society?’ is a classical puzzle in the field of political science. This thesis investigates this research question both theoretically and empirically. It draws on Gary Miller’s (2000) theory of interactive social production, which advocates the welfare-enhancing properties of a de-politicized bureaucracy (or civil service), and develops it further by showing the capacity of individual elements of civil service to contain politicians’ moral hazard. This theoretical argument is then investigated within the empirical milieu of regional governance of post-Soviet Russia.

Having revisited Meyer-Sahling’s analytical framework of formal political discretion (2003, 2006), the thesis employs the improved framework to systematically assess the provisions of Russia’s two major Civil Service Acts of 1995 and 2004. This analysis shows that, from a legalistic point of view, Russia’s personnel policy regime can be characterized as largely de-politicized. The thesis also examines the implementation of the law in practice in a large sample of Russia’s regions. The expert-based evaluation of personnel practices revealed a striking variation in *de-facto* de-politicization of Russia’s regional bureaucracy. This is the first systematic measurement of the organizational structure of public bureaucracy in post-Soviet countries and makes a welcome contribution to comparative public administration research.

Statistical analysis, subject of chapter 4, shows that, controlling for relevant factors, the striking variation in the levels of aggregate economic performance and small business growth observed across Russia’s regions is accounted for by the extent to which bureaucracy is de-politicized. Two cases-studies from the context of post-Soviet Russia further illuminate the working of the causal mechanism. These quantitative and qualitative analyses constitute the first empirical verification of Miller’s theoretical explanation of the welfare-enhancing properties of de-politicized bureaucracies, which perhaps is the most important contribution that this dissertation has made.

The documented variation in *de-facto* de-politicization of bureaucracy in Russia’s regions allows an inquiry into the reasons for the adoption of real merit, which is a persistent puzzle in social science. Whilst dominant explanations underscore the importance of interactions among core constituencies of voters, legislators, and executives in democratic settings, they fail to explain the adoption of merit in autocracies and are not corroborated empirically outside the Anglo-Saxon world. Utilizing analytical tools from game theory, this thesis offers an alternative – formal and parsimonious – theoretical explanation as to the conditions under which self-interested politicians opt to curb their authority over bureaucratic personnel decisions. Central to this explanation is the idea of the ruler’s discount rate or time horizons, which reflects the ruler’s strategic thinking over time as affected by the likely reaction of economic agents to the ruler’s choices. The thesis also subjects this theory to empirical test, using the obtained measure of de-politicization of bureaucracy as dependent variable. Controlling for factors from existing theories, it is found that rulers’ discount rate is the most powerful predictor of the level of de-politicization of bureaucracy. By challenging conventional wisdom about the factors that lead to the adoption of civil service, this thesis represents both theoretical and empirical contributions to the literature on merit adoption.

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INTRODUCTION

The starting premise of this dissertation is that public bureaucracy matters for social and economic development. This premise is based upon a wide consensus among scholars and policy-makers on the crucial role of the state for the welfare of its citizens. This consensus in turn rests upon the recognition that governments are not merely ‘the referees of a playing field’ but important players in their own right, who use their autonomy to formulate policies, allocate economic and political resources¹ and make the ‘rules of the game’ (North 1990) and eventually ‘dissipate a polity’s wealth or enhance it’ (Levi 2006: 6). In other words, a large and diverse literature claims that the quality of governance matters: good governance leads to economic and social development, misgovernance – to underdevelopment.² It is by being an integral part of governance that public bureaucracy matters for social welfare.

When the link between ‘the quality of bureaucracy’ and economic growth and investment rates was established empirically (Knack and Keefer 1995, Mauro 1995), the classical question in the field of public administration ‘What kind of bureaucracy is likely to enhance social welfare?’ re-emerged. In one of the first empirical studies on type of organizational design and economic growth, Rauch (1995) found that the adoption of civil service – a type of bureaucracy in which staffing powers of politicians are considerably limited – in the American cities in the early XXth century was powerfully positively associated with economic growth. Similarly, Evans and Rauch (1999) found that non-political merit-based recruitment and stable careers are powerful predictors of economic growth in the context of less developed countries. Having established an empirical link between a de-politicized bureaucracy and economic growth, Evans and Rauch offered a fairly intuitive explanation of why a de-politicized bureaucracy matters for aggregate growth and investment. This is because (i) meritocratic recruitment ensures that staff have at least a minimal level of competence, (ii) merit-based recruitment and predictable careers encourage organizational cohesion and form an *esprit de corps* that creates intangible costs of engaging in

¹ See, for instance, the literature on the state-led macroeconomic planning in post-war Japan (Johnson 1982) and in East Asia in the late twentieth century (Amsden 1989, Wade 1990), which is one of the major sources of the consensus.

² For an overview of the ‘good governance’ literature, see Rothstein and Teorell (2008), Holmberg *et al* (2009).

rent-seeking behavior. In other words, de-politicization makes public bureaucracy a better policy implementation instrument and enhances the developmental capacity of the state.³

This, however, is at best only part of the story with regard to the welfare-enhancing properties of a de-politicized bureaucracy. In 2000, Gary Miller published an article in which he presented a formal argument that a de-politicized bureaucracy enhances greater social welfare by, above all, providing ‘an enormous and beneficial shield’ against the actions of opportunistically minded politicians (316). Many scholars recognized political opportunism or moral hazard as the key issue for social welfare (see North 1981, North and Weingast 1989). Douglas North notes that throughout the history of humankind people who control the power of the state (hereafter referred to as powerholders) often use it to alter the ‘rules of the game’ to maximize their rents (1981: 25). This opportunistic behavior of powerholders is at odds with sustained economic growth as ‘The more likely it is that sovereign will alter property rights for his or her own benefits, the lower the expected returns from investment and the lower in turn the incentive to invest’ (North and Weingast 1989: 803). It is by placing credible restrictions on the politicians’ ability to manipulate economic rules to their own advantage, Miller posits, that a de-politicized bureaucracy enhances social welfare.

Miller’s analysis is of special interest for post-Communist countries such as Russia, where ‘double transition’ amplified the politicians’ moral hazard. On the one hand, the change from a command to market economy created the abundance of rents, which is considered by the relevant literature as the ultimate source of rent-seeking behavior (see Mauro 1995). On the other, this massive institutional change was taking place in the political environment of a nascent democracy, where a system of checks and constraints, such as the separation of power and party discipline, was underdeveloped (Golosov 1997, 2003; Lambert-Mogiliansky *et al* 2007; Stone-Weiss 2001a). In such a context the problem of political opportunism is of paramount importance for the overall well being of the society and shall be recognized as a critical issue in the design of public organizations.

³ It is important to note that despite Evans and Rauch’s call for more research on bureaucratic structures (1999), very little has been done since. Having compared the effectiveness of career bureaucrats vis-a-vis political appointees in the U.S. executive agencies, Lewis (2007) found that political appointees makes worse bureaucrats than career civil servants. Henderson *et al* (2007) used the dataset from Evans and Rauch (1999) to explore the link between a de-politicized bureaucracy and poverty reduction in the context of less developed countries. They concluded that ‘there does indeed seem to be a relationship’ between the two (2007: 515).

When in 1995 Russia launched bureaucratic reform aimed at transforming the former highly politicized system of *nomenklatura* to a de-politicized bureaucracy, this represented a unique opportunity for testing Miller's theory. Whilst *de-jure* hiring, firing and promotion was withdrawn from political control, there was every reason to believe that *de-facto* de-politicization takes on different values across administrations in the constituent members of the Russian Federation. First of all, although sharing a common denominator in historical, informational and cultural terms, Russia's regions exhibit a notable variation as far as socio-economic development (Ahrend 2005, Berkowitz and DeJong 2003, 2005; Brock 2005, Golubchikov 2007, Desai *et al* 2005, Mikheeva 1999, Kolomak 2006, Popov 2001, Slinko *et al* 2005) and politico-institutional settings (Ahrend 2005, Golosov 2001, 2003, Shleifer and Treisman 2000, Slinko *et al* 2005, Stoner-Weiss 1997) are concerned.⁴ This suggested that the organizational design of public administrations may also vary across Russia's regions. Indeed, as observations (see, for instance, Busovikov 1997, Gaida *et al* 1997, Ivanova 2002, Osejchuk 2002) and a few studies on Russia's bureaucracy showed, there is a considerable difference in the organizational structures across public agencies (Brym and Gimpelson 2004, Chirikova 2004, Gimpelson and Magun 2004, Magun *et al* 2003, Monusova 2004).

A systematic documentation of these differences with a focus on personnel policies would allow for a productive empirical probing of the welfare-enhancing properties of a de-politicized bureaucracy. Moreover, the differences in the institutionalization of a de-politicized bureaucracy in Russia's regions provides an opportunity to contribute to a large literature that seeks to answer the question 'Why at times do politicians renounce their staffing powers in favor of a more autonomous public bureaucracy?'

It should be noted that research on Russia's bureaucracy has remained scarce. There have been several attempts by the World Bank (Kozbanenko 2005, World Bank 2006a) and the OECD (Tompson 2007), organizations working on Russian' administrative reform under auspices of TACIS and other international donors (Nicolaas Witsen Foundation 2005a, 2005b) and individual researchers (Bekov 2001, Huskey and Obolonsly 2003, Kotchegura, 1999, Obolonsky 2002, Zaytseva 2003, Yuzakov 2005) to provide a narrative on Russia's public bureaucracy reforms since the regime change in 1991. Within this literature a number of studies exist that are

⁴ The reasons for this rest largely in the federative structure of the Russian state and the weakness of the federal government through the 1990s (see Stoner-Weiss 1999, 2001b).

characterized by an unsystematic, haphazard approach to detailing the organizational shape of Russia's bureaucracy (Barabashev and Straussman 2007, Konov 2006, Kotchegura 1999, Tompson 2007, World Bank 2006). A feature of such studies is that statements that purport to inform are insufficiently evidenced. Thus, evaluating the provisions of the federal program *Reform of the State Service of the Russian Federation (2003-2005)* Tompson states that the program envisaged the possibility of introducing competitive recruitment – something that was ‘required under the 1995 legislation but never implemented’ (2007: 18). No evidence of non-implementation of the 1995 law is provided. Similarly, having rightly stated that official statistics are scarce and do not allow for in-depth research, and that qualitative assessments of the extent of the implementation of FZ-79 on the ground were limited and lacked methodological rigor, the World Bank study concludes that ‘the reform is still largely on paper...’ (2006: 28). Therefore, a systematic analysis, in keeping with recognized academic standards, of Russia's bureaucratic reform would be an important contribution to the comparative bureaucracy literature.

Thus, the aim of this dissertation is threefold. Firstly, it seeks to provide a comprehensive account of the personnel component of Russia's bureaucratic reform, which commenced in 1995 and received a new impetus in 2004 under Putin's presidency. This account should include not only the analysis of the provisions of the formal-legal framework governing relations between politicians and bureaucrats (thereafter referred to as formal merit) but also the degree to which these legal provisions were implemented in reality (thereafter referred to as real merit) across Russia's regional governments. Secondly, building upon the obtained measures of the institutionalization of a de-politicized bureaucracy the thesis seeks to empirically investigate the link between the organizational structure of Russia's regional bureaucracies and social welfare. Thirdly, utilizing the information on the degree of the institutionalization of a de-politicized bureaucracy, the dissertation aims to investigate ‘Why some regions went further with regard to real merit adoption than others?’

These aims determine the outline of the dissertation. Chapter 1 discusses the theoretical foundations of the dissertation. Part one clarifies the central theoretical question of this project: ‘What organizational design of public bureaucracy is most likely to be welfare-enhancing?’, and specifies the notion of ‘organizational design of bureaucracy’ as a matter of the amount of political control over bureaucracy and the notion of ‘social welfare’ as the well-being of the society as a whole. Part two provides a brief overview of the relevant literature of both a

theoretical and empirical nature. It considers early attempts to find a link between a de-politicized bureaucracy and greater social welfare. Major tenets of principal-agency theory, that up until recently dominated both academic scholarship and the policy arena, are considered before the chapter proceeds with a detailed account of the theory of an efficient system of interactive social production, as advanced by Gary Miller, and its implications for the organizational design of welfare-enhancing public bureaucracies.

Chapter 2 discusses Russia's public bureaucracy reforms of the 1990s and 2000s. Firstly, it explores why a de-politicized type of personnel policy was chosen in Russia. The central part of the chapter analyses personnel policy arrangements established by the key legislation in the field – FZ-119 *On the Fundamentals of the State Service of the Russian Federation* on July 1995. In order to assess the amount of power wielded by politicians over bureaucrats under FZ-119 systematically, the analytical framework of *formal political discretion* developed by Jan-Hinrik Meyer-Sahling (2001, 2003, 2004, 2006) for these purposes is employed and further developed. The nature of each of the major domains of personnel policy – admissions, appointment, promotion/demotion/horizontal transfers and dismissals is assessed on a scale ranging from a fully politicized to a fully de-politicized bureaucracy. Finally, the personnel management component of Putin's public administration reform is discussed and compared with that of the 1990s period.

Chapter 3 deals with the evaluation of personnel policy regimes that *de-facto* existed in 40 of Russia's regions in the end of 2006. Firstly, it discusses a persistent discrepancy between formal and real merit, i.e. between a mere enactment of legislation that limits staffing powers of powerholders and *de-facto* institutionalization of a de-politicized bureaucracy, and outlines approaches to the assessment of real merit suggested by the literature. Then, drawing on the previous attempts to evaluate the state of real merit in Russia, it discusses the critical methodological issues, such as the structure of comparison, case and expert selection, and questionnaire design, of the project. Finally, it concludes with a quantitative picture of the personnel policy practices in 40 of Russia's regions.

Chapter 4 subjects to empirical tests the proposition derived from Miller's theory of welfare-enhancing public bureaucracy. It states that those of Russia's regions where a de-politicized bureaucracy has been institutionalized to a greater extent, exhibit greater rates of

aggregate economic growth and small business formation than those provinces in which it has been less fully incorporated. The key methodological issues – the choice of the proxies for the dependent variable, specification of models, data and the choice of statistical techniques – are discussed in length before the chapter presents the major findings from OLS and 2SLS regression analyses. The conclusion section of chapter 4 discusses two real life examples from the context of post-Soviet Russia that further illustrate the causal mechanism of Miller’s theory.

Finally, chapter 5 addresses a persistent puzzle in social science ‘Why do some rulers renounce their staffing powers adopting merit-based bureaucracies instead? Having conducted the review of the literature on the topic, we show that dominant explanations underscore the importance of interactions among core constituencies of voters, legislators, and executives in a democratic polity. The dominant explanations, however, cannot explain the adoption of merit in autocracies and their predictions are not corroborated empirically outside Anglo-Saxon democracies. Based on insights from repeated game theory, we propose an alternative theoretical explanation that focuses on the future discount rate of rulers— democratic or not—and their interactions with economic agents. An empirical test covering 40 Russian regions is undertaken to test the theory.

Chapter 1

A THEORY OF WELFARE-ENHANCING PUBLIC BUREAUCRACY

As a large number of scholars have tackled the ‘big question’ of political economy ‘What types of government are most likely to be welfare-enhancing?’, pointing at the organizational design of public bureaucracies as a key element, we begin our investigation with an overview of the relevant literature of both a theoretical and empirical nature. We consider early academic attempts to find a link between a de-politicized bureaucracy and greater social welfare and major tenets of principal-agent theory, that up until recently dominated both academic scholarship and the policy arena. The chapter proceeds with the evaluation of the contribution of Rauch (1995) and Evans and Rauch (1999, 2000) research to the debate. Finally, we provide a detailed account of the theory of an efficient system of interactive social production, as advanced by Gary Miller, and its implications for the organizational design of welfare-enhancing public bureaucracies. Developing Miller’s argument further we show how individual components of civil service shield bureaucrats from the day-to-day political intervention, therefore ensuring that the welfare intent of public policies is achieved. In the end, the limitations of civil service as a solution to the problem of political opportunism are discussed.

1.1 The Notions of ‘Organizational Design’ and ‘Social Welfare’ Specified

The central question of this research is “What organizational design of public bureaucracy is most likely to be welfare-enhancing?” Given the fact that the notions of ‘organizational design of public bureaucracy’ and ‘social welfare’ bear different meanings to different researchers, we shall first clarify the standpoint from which we approach the question in hand.

This dissertation approaches the notion of ‘social welfare’ in the vein of welfare economics, that is ‘a vector of individual welfares’, where the concept of individual welfare stands for ‘an individual’s well being, or more explicitly, his or her happiness, with happiness subsuming both sensual pleasure and pain and spiritual delight and suffering’ (Ng 2004: 2). Happiness is by no means straightforward to measure as it is influenced by a vast number of factors. In an attempt to solve this difficulty welfare economists often assume that ‘individuals are the best judges of their

welfare and that they maximize this welfare. So whenever they prefer x to y they are assumed to be happier at x than at y . So we can use their utility function (which represents their preferences) as an ordinal indicator of their welfare' (Ng 2004: 2). Understood as preference maximization, social welfare is conventionally expressed through consumption (Huetting 1980, McKenzies 1983, Slesnick 2001) or similar concepts: consumer surplus (D. Johnson 1996), income and expenditure (Jorgensen 1997), capital stocks (Daly 1996) and such like. Although more recently the scholarship has moved away from a predominantly materialistic interpretation of the notion of social welfare to the appreciation of such issues as equity, political liberty, social relationships and the environment (Clarke 2003, Landau *et al* 1996, Sen 1998), the desirability of sustainable material prosperity remains at the heart of social well-being.

An important implication of the interpretation of social welfare as societal well-being is the desirability of what can be called a 'productive economy' (Shirley 2005: 615, Stiglitz 2006: 7) as opposed to a 'rent-based' economy. A productive economy is, above all, a growing economy. Economic growth is the key to societal well-being as it increases general standard of living, life expectancy, employment, leisure time and reduces absolute and relative poverty, infant and maternal mortality and malnutrition (Beckerman 1995, Dollar and Kraay 2002, Gylfason 1999, Hufschmidt *et al* 1983, Jones 1988, Nailon 1992). The recognition of the beneficence of economic growth is such that "For most policy makers, the only differences of opinion on the benefits of economic growth have been the prescriptions for its achievements' (Clarke and Islam 2004: 34).¹

The recognition that government plays an important role in such an economy is a growing paradigm of the post-neoclassical political economy (Evans 1995, North 1990, Stiglitz 1989). The New Institutional Economics (NIS), in particular, underscores the importance of the state in setting up rules that foster exchange and lower transaction costs (including property rights and contract enforcement) for economic growth (Menard and Shirley 2005, North 1990, Williamson

¹ It should be noted that academic scholarship on economic growth has long recognized the existence of costs of economic growth (Meadows *et al* 1972), including such issues as pollution (Arrow *et al* 1955, Ayres 1996, 1998; Ekins 1993, 1997; de Bruyn 2000), inequality (Ayres 1996, Clarke 2003, Parnwell 1996), exploitation of non-renewable resources, increased pace of urban life, increase in crime, violence, drug use, suicide, divorce and anxiety. Whilst the analysis of the net benefits of economic growth had developed over the last two decades (Islam *et al* 2003), the dominant paradigm of the economic growth literature holds that benefits outweigh any associated costs; therefore economic growth is desirable for social welfare.

1985, 1996). These rules or the institutional foundations of economy provide an incentive structure that either encourages people to exercise a ‘positive economic activity’ (to specialize, to make costly asset specific investments and to undertake complex transactions) or to converge on the zero-effort Nash equilibrium.

Despite the existing consensus between scholars and policymakers on the importance of the rules that foster economic exchange and lower transaction costs, ‘Developed countries are exceptions, not the rule’ (Shirley 2005: 611). The vast majority of people live today in underdevelopment² because they have failed not to create but to sustain exchange-fostering and transaction costs-lowering rules. A critical issue here, according to the new institutional account, is the degree to which those who control the power of the state are ‘committed to or bound by these rules’ (North and Weingast 1989: 803). As North notes, throughout the history of humankind people who control the power of the state (hereafter referred to as powerholders) often use it to alter the ‘rules of the game’ to maximize their rents (1981: 25). This opportunistic behavior of powerholders is at odds with sustained economic growth as ‘The more likely it is that sovereign will alter property rights for his or her own benefits, the lower the expected returns from investment and the lower in turn the incentive to invest’ (North and Weingast 1989: 803). Therefore, ‘some credible restrictions on the state’s ability to manipulate economic rules to the advantage of itself and its core constituents’ must be imposed on those who control the power of the state or self-imposed by them (North and Weingast 1989: 808).

In tackling the issue of credible commitment, the neo-institutional literature focuses at the constitutional design of the state and other political institutions. Thus, in their seminal work on the Glorious Revolution of 1688 in England North and Weingast (1989) argue that the evolution of the constitutional arrangements in XVIIth century England (the diffusion of political power among several actors) was the key to a ‘remarkable’ economic growth experienced by England later (803). Similarly, Falaschetti and Miller hold that the Madisonian constitution of 1787 in America set high costs ‘of putting together a decisive coalition’ to monopolize the power of the state, thereby reducing the risk of welfare-undermining actions by the state (2001: 405).³

² Following Mary Shirley, by developed countries we mean countries that are in the World Bank’s high income category (above \$9,266 in 2000), have life expectancy at birth of over 70 years, infant mortality rate less than 10 per 1000 and 100% adult literacy rate (2005: 611).

³ Discussing the reasons for the adoption of the welfare-enhancing constitutional design of the state, Stasavage (2002) underscores such factors as the structure of partisan interests in a society and the existence of cross-issue

As the organizational design of the state matters, the question on the role of bureaucracy in solving the problem of credible commitment arises. ‘Does public bureaucracy play a role in constraining the politicians’ opportunism?’ ‘How should relations between elected and non-elected officials be organized as to enhance social welfare?’ These questions are explored in this thesis. Therefore, by ‘organizational design of public bureaucracy’ we mean, above all, the relationships between bureaucrats and politicians. This interpretation of the notion of organizational design could be viewed as a matter of the bureaucracy’s ‘grand design’ rather than a study of more nuanced features of public agencies’ design as the structure of goals and tasks, agency culture and such like (see, for instance, Rainey and Steinbauer 1999, Han Chun and Rainey 2005).

From the grand design point of view public bureaucracies can be viewed either as *politicized*, that is politicians retain full control over hiring, firing and promotion of bureaucratic personnel, or *de-politicized*, that is their staffing powers are limited (Frant 1993, Ruhil 2003, Tolbert and Zucker 1983). The notions of ‘patronage’ and ‘spoils’ are often used as empirical equivalents of the analytical category of a politicized bureaucracy, while ‘meritocratic bureaucracy’ and ‘civil service’ as a de-politicized one.⁴ In the light of the above, the puzzle we explore here can be reformulated as follows: “Is it a politicized or a de-politicized bureaucracy that is most likely to maximize social welfare?”

To sum up, the focus of our theoretical exploration is on the form of bureaucracy that is conducive to greater social welfare from a welfare economics viewpoint, as opposed to the meaning of ‘social welfare’ suggested by governmental actions that seek to provide a minimum level of income, service or other support to such disadvantaged groups (such as the poor, elderly, disabled and others). Similarly to welfare economists who evaluate ‘on the scale of better or worse, alternative economic situation open to society’ with regard to their capacity to maximize the utility function (Mishan 1969: 13), we consider politicized and de-politicized bureaucracies with regard to their capacities to enhance societal well-being. This can be seen as a ‘macro-level’ efficiency as opposed to a more narrow meaning of bureaucratic efficiency (micro-level) – that is

coalitions. McGuire and Olson (1996) emphasise the role of the time horizons perceived by powerholders: they should be sufficiently long to encourage the powerholders to restrain from rent maximizing policies. Shirley stresses that because the state has a virtual monopoly on power, effective restrictions may need to be self-imposed and self-enforced, i.e. imposed and enforced by those who control the power of the state (2005: 614).

⁴ We discuss the notion of civil service in greater detail later on in the chapter.

how well the agency discharges ‘the administrative and operational functions pursuant to the mission’ (Rainey and Steibauer 1999: 13) – which is commonly used in bureaucratic studies (Brewer and Selden 2000, Gilmour and Lewis 2006, Lewis 2007, Wolf 1997). Since this dissertation is concerned with bureaucratic efficiency at the ‘macro-level’, the notions ‘efficient’ and ‘welfare-enhancing’ are used interchangeably.

1.2 Bureaucracy and Macro-Efficiency: Historical Overview of the Literature

It is somewhat paradoxical that the question of societal efficiency of politicized vs. de-politicized public bureaucracies has not received a rigorous theoretical treatment up until the late 20th century, although the first historical examples of the transition from a politicized to a de-politicized public bureaucracy go as far back as Hohenzollern Prussia (1640-1786) and France of Louis XIV (1638-1715).⁵ The most prominent instances of the transition from patronage to civil service – the Northcote-Trevelyan Report (1854) in the U.K. and the Pendleton Act (1883) in U.S. – have been extensively studied,⁶ however not from the ‘grand design’ and macro-efficiency point of view.

It is well known that Progressivists, who in 19-century USA led the campaign for the institutionalization of de-politicized bureaucracy, used the argument of micro-level efficiency. They believed that the increased competence, inherent in meritocratic recruitment and a long-term service would lead to a better bureaucratic output (Hoogenboom 1961, Knott and Miller 1987, Schultz and Maranto 1998, Skowronek 1982, Van Riper 1958, Wilson 2003 [1887]). However, the quest for the macro-efficiency, e.g. increased well being of the society as a whole, was also clearly on the agenda of the American Progressivists. As Theda Sckocpol notes, at the end of the 19-century in the USA political parties ‘came under sustained attack from reformers who wanted to pursue ‘the public interest’ in non-partisan ways’ (1992: 71). A politically open bureaucracy, delivering particularistic goods to the politicians’ favored constituencies instead of public goods, was clearly an impediment to the reformers’ aim. ‘The removal of politics from

⁵ Hohenzollern Prussia was the first country in modern European history to introduce meritocratic hiring to its administration (Finer 1946, Fischer and Lundgreen 1975, Marx 1957), followed by France of Louis XIV (1638-1715) under whom the *Grand Corps* received a significant autonomy (Fischer and Lundgreen 1975).

⁶ To mention some Johnson and Libecap 1994a, Ingram 1995, Knott and Miller 1987, Shefter 1994, Silberman 1993, Simon, Thompson and Smithburg [1950] 1991; Skowronek 1982; Van Riper 1958.

administration’ – one of the most important Progressive values – was clearly about achieving ‘the public interest’. Nevertheless, the welfare-enhancing intent of the Northcote-Trevelyan Report and Pendleton Act (1883) remained under-researched up until the end of the 20th century.

The first scholar who paid systematic attention to the interaction between politicians and bureaucrats in achieving macro-efficiency was one of the founding fathers of comparative bureaucracy studies Max Weber. He held that ‘Historical reality involved a continuous, though for the most part latent, conflict between chiefs and their administrative staff for appropriation and expropriation in relation to one another (Weber 1978: 264). Weber suggested that at the heart of the conflict between ‘chiefs’ and ‘their administrative staff’ is a phenomenon known in the contemporary academic parlance as ‘the asymmetry of information’. As Weber wrote: “The ‘political master’ finds himself in the position of the ‘dilettante’ who stands opposite the ‘expert’, facing the trained official who stands within the management of the organization” (1946: 232). He anticipated that the task of combining information advantage (located on one side - bureaucrats) and authority (located on the other - politicians) would inevitably create problems for the efficient functioning of the state. Weber assumed that the growing rationality of bureaucracy was inevitable – the ‘iron cage’ of modernity – and feared that a fully developed bureaucracy would take the ‘over-towering’ power position in governance (1946: 232). Therefore, Weber’s solution to the asymmetry of information problem was a combination of organizational features that would allow bureaucrats to built competence but at the same time preserve the ultimate control of the political masters. Weber’s famous ‘rational-legal’ type of bureaucracy included both competence-enhancing features – such as meritocratic recruitment and prospects of advancement in a lifetime career – and authority-preserving features such as vertical hierarchy of authority and rigid operating rules and procedures that provide clear lines of accountability (1978: 289). Such a bureaucracy, according to Weber, was ‘the most perfectly adapted form for achieving the highest level of performance’ by a capitalist society (1978: 973). In other words, although Weber advocated de-politicization of bureaucracy through its professionalization, he never gave up the idea of the ultimate political control over bureaucracy. For him efficiency gains lay in the successful combination of both competence-enhancing and political authority preserving features.⁷

⁷ This is something that many scholars of bureaucracy tend to overlook in their research. Thus, for instance, for Evans and Rauch (1999) the notion of ‘Weberian state’ or ‘Weberianess’ includes only competence-enhancing

The next wave of interest in the relationships between politicians and bureaucrats did not come up until the 1950-60s, when public choice scholars began to apply the tools of economic analysis to politics (Arrow 1951, Buchanan and Tullock 1962, Downs 1957). By emphasizing the self-serving motivations of both politicians and bureaucrats, environmental uncertainty and the asymmetry of information, public choice scholars depicted politics 'more as common sense, as opposed to romance' (Buchanan 1995). The early public choice literature on bureaucracy, launched by William Niskanen, assumed that governmental agencies would use the information and expertise in administering specific public policies to obtain from relatively uninformed and inexperienced politicians either the largest possible budget (Niskanen 1971, 1973) or the expansion of governmental functions (Downs 1957, Breton and Wintrobe 1975), which would eventually lead to the overprovision of public goods, e.g. a socially sub-optimal outcome. Early public choice scholars remained largely pessimistic about the politicians' capability to effectively monitor and correct the behavior of bureaucrats and therefore achieve socially efficient outcomes.⁸

The next generation of scholarship on the topic, associated with the development of principal-agent theory (PAT) by political scientists in the 1980s, was more confident about the principals' capacity to discipline bureaucrats. As with Weber and early public choice theorists, the information asymmetry between principals (those, who hold formal authority) and agents (those who have information advantages) has been the major concern of principal-agent scholars. The PAT's hallmark solution to the problem of information asymmetry is outcome-based incentives: in a canonical principal-agency model a powerful principal sets *ex ante* outcome-based incentives and sanctions to control the performance of her agents. With the help of incentives, the agent's actions are aligned with the principal's interests and a greater efficiency is achieved. Whereas PAT was initially framed as a puzzle in business settings (Spence and Zeckhauser 1971, Holmstrom 1979), it has been applied for a variety of situations in politics: between the citizenry as principal and politicians as agent (Downs and Rocke 1994) and especially between politicians as principal and bureaucrats as agent (Calvert, McCubbins and Weingast 1989; McCubbins, Noll and Weingast 1987, McCubbins and Schwartz 1984; Moe 1982, 1985, 1989; Weingast 1984, Weingast and Moran 1983). In the latter case, political scientists

features of Weber's ideal-type of administration. Carl Friederich (1940) and Herman Finer (1941) were each impressed with a different side of Weberian bureaucracy that sparked a classical debate in the field of public administration.

⁸ The title of Niskanen's latter work (1973) is very telling 'Bureaucracy: Servant or Master?'

conceptualized political power as a form of incentive and used it as an underpinning for a theory of politico-bureaucratic interaction.

In his pioneering research on the American presidency and bureaucracy, Terry Moe (1982) empirically investigated the link between the ideological preferences of American presidents and bureaucratic output of three regulatory federal agencies over the 32 years period (1945-1977). Contrary to the dominant perspective on the politicians' capacity to oversee bureaucracy, Moe claimed that presidents were successful in achieving 'a degree of direction and control' over bureaucracy (1982: 198).⁹ Moe pointed at the presidential power to appoint senior bureaucrats as 'the fundamental mechanism of presidential influence' (200). A year later, in their seminal article, titled "Bureaucratic Discretion or Congressional Control?", Weingast and Moran claimed that the US Congress's committees 'possess sufficient rewards and sanctions to create an incentive system for agencies' (1983: 768). In the 1984 paper, analyzing incentives available to politicians, Weingast pointed to the congressional influence over the appointment of bureaucratic officials as one of them (157-160), implying that through the politicization of bureaucracy politicians align the agent's actions with principal's interests and therefore achieve better results. Thus, politicians' authority over personnel decisions was asserted by PAT literature as an important incentive device, and a greater politicization of bureaucracy was suggested as the dominant strategy for the achievement of beneficial societal outcomes.

The optimism of the studies that showed that efficiency of firms and governments may be enhanced through the application of a suitable incentive system coincided with a neo-liberal quest for a public bureaucracy that is more politically responsive, accountable for results and entrepreneurial in its spirit (Farnham and Horton 1996, Pollitt 1993). The ascendance of New Right ideology to power in major Anglo-Saxon countries in the 1980s was followed by a radical reform of 'old public administration' in many countries, including the USA, UK, New Zealand, Canada, Australia and some EU states. This reform, known as New Public Management (NPM), involved many ideas and practical measures, however the main thrust of NPM reforms has been

⁹ It should be noted that Terry Moe was one among first to recognize that in the situation of multiple and warring principals – which is a product of the separation of powers and highly competitive partisan politics – the ability of bureaucrats to use information asymmetries to their advantage is enhanced and the politicians' capacity to control is undermined (1987, 1989). Moe concludes that impossibility of political principals to extract the maximum effort from their bureaucratic agents is 'inherent in our democratic system as a whole' (1989: 324) or, in words of Gary Miller, the ability of politicians to control bureaucrats by the use of incentives is limited by the system of separation of power (2005: 211).

that ‘market forms of coordination should whenever possible be substituted for hierarchical coordination’ (Pollitt and Bouckaert 2000: 83-84). Namely, ‘the ‘agent’ (‘subordinate’ in old-fashioned hierarchical terms) agrees to supply the ‘principal’ (supervisor, boss) with a defined set of outputs within a fixed period at a predetermined cost’ (Pollitt and Bouckaert 2000: 84). In New Zealand, for example, through the State Sector Act of 1988 and the Public Finance Act of 1989, ministers were able to hire (on fixed-term contracts) from outside the bureaucracy ‘chief executives’ to run their ministries. In exchange for a performance agreement to deliver specific results at which the minister and her government were aiming, ‘chief executives’ were given ‘free hands’ over personnel policy decisions. As Schick notices, ‘chief executives’ were able to recruit to bureaucratic posts those who were ‘willing and able to take charge’ and shed those who shirked responsibility or were unproductive (Schick 1996: 41). In other words, in the 1980s in many countries around the globe important decisions about hiring, firing and promotion of the bureaucratic personnel were brought back under the control of politicians. The increased number of politician appointees in public bureaucracies has been reported in countries as different as the USA (Light 1995, National Commission on the Public Service 1989, 2003) Australia, Britain, Finland, France, Germany, Japan and Spain (Derlien 1996, Schnapp 2001, Suleiman 2003).

The major problem with PAT explanation of the welfare-enhancing impact of a politicized bureaucracy is that principal-agent relations are normally perceived as between a benevolent politician and a bureaucrat who maximizes her own interests/the goals of her organization or shirks.¹⁰ The problem of political opportunism is clearly not part of the intellectual puzzle of PAT scholars, for whom ‘the phrase “principal’s moral hazard” makes no sense, since the principal’s proclivity to follow her own interests is presumed to be natural and legitimate’ (Miller 2005: 220). However, the welfare-undermining effect of the politicians’ self-interest has been long recognized both theoretically and empirically (Miller and Hammond 1994, North 1981, North and Weingast 1989). If political opportunism is a danger to social welfare, then the alignment of bureaucratic preferences with those of politicians, advocated by PAT, seems to be inadequate for the achievement of stable socially beneficial outcomes.

It should also be noted there is a dearth of empirical research justifying the existence of causal relations between a politicized public bureaucracy and macro-efficiency. In New Public

¹⁰ For a comprehensive critique of principal-agency models see Miller 2005.

Management scholarship the value of a politicized bureaucracy has been primarily discussed in what Michael Barzelay (2001) called the ‘policy and doctrinal argumentation’ type of the literature as opposed to the ‘research’ type of the literature.¹¹ Outside the NPM literature, empirical research studied the value of a politicized bureaucracy primarily from a micro-efficiency point of view (see, for instance, Maranto, 1998, 2002; Nathan 1983, Randall 1979, Wood and Waterman 1994).

Despite the pervasiveness of the ‘incentive revolution’ (Miller and Whitford 2006: 214) in both academia and policy-making, a de-politicized bureaucracy continued to be an empirical fact and a focus of interest for social scientists. Civil service not only remained the prevailing mode of personnel policy in developed countries, but was also adopted by the countries of Central and Eastern Europe after the change of political regime in 1989 (Gaidushek 2007; Meyer-Sahling 2001, 2004, 2006; Nunberg 1999, 2000). As to social science, it has never abandoned a critical enquiry into the value of a de-politicized bureaucracy for social welfare.¹² Surprisingly, empirical research made a big leap ahead of theoretical justification of the welfare-enhancing properties of a de-politicized bureaucracy with case studies arriving ahead of comparative research. Thus, for instance, Jameson Doig (1988, 1990) provided a detailed account of de-politicized Port of New York Authority delivering much needed transport infrastructure in the Big Apple region in the 20th century. Steven Erie (1992) demonstrated how meritocratic bureaucracy of Los Angeles was a key driver for the impressive regional development in the beginning of the 20th century. At the same time, a number of studies pointed to patronage-based administrations as a key element of a system that maximizes rents for the ruler, but not public goods provision (Johnson and Libecap 1994b, Keefer and Vlaicu 2008, Miller 1989). Although these case studies constituted a significant contribution to the field, the extent to which their findings were characteristic of other de-politicized bureaucracies remained unclear. Therefore comparative research was needed to provide a serious justification for the claim of welfare-enhancing properties of a de-politicized bureaucracy.

¹¹ Derek Bok’s article – in which he argued that the citizenry is better off with politicized bureaucracy because the latter ‘counteracts inertia, ensures an influx of new ideas, and keeps government in touch with a variety of interested groups and constituencies’ (2003: 265) – would be a good example of the former stream of research.

¹² There is also a large body of literature exploring the link between de-politicized bureaucracy and micro-efficiency, including such influential research of Gilmore and Lewis (2006), Kaufman (1956, 1960), Hecló (1975, 1977), Ban and Ingram (1990), Rauch and Evans (2000), Suleiman (2003) and Lewis (2007).

A giant step forward was made in 1995, when James Rauch published the first comprehensive comparative empirical research on a link between the organizational design of public bureaucracy and macro-efficiency. He found that the institutionalization of civil service in 144 U.S. cities during the 23 years of the Progressive Era (1902-1931) had a positive effect on the share of municipal expenditure allocated to investment in infrastructure – road and sewer, which in turn was positively correlated with the level of both manufacturing employment and value-added growth (Rauch 1994). Interpreting the central finding Rauch stated that the potential impact of a de-politicized bureaucracy on economic development is in ‘minimizing the implicit taxation caused by rent-seeking’ of bureaucrats (1995: 968). Namely, credible prospects of long-term careers offered by the de-politicization of personnel policy diminish the attractiveness of a quick return from corrupt behavior. Therefore, Rauch saw the virtue of a de-politicized bureaucracy in controlling the potential rent-seeking behavior of bureaucrats. He also suggested, much more tentatively though, that a de-politicized bureaucracy was able to offset the politicians’ preferences to spend more on policies that yielded immediate benefit (such as police and fire service), therefore increasing voter satisfaction and enhancing the politicians’ chances for re-election, than on policies (such as infrastructure investment) that had long gestation and did not pay off until after a couple of election cycles (968-971).

Continuing this research program, Peter Evans and James Rauch (1999) examined the relationship between the extent of meritocratic recruitment and career stability in the core economic agencies in a sample of 35 less developed countries for the 1970-1990 period. Having collected an original data set on the bureaucratic structures of those countries through a mail survey of more than a hundred country experts, they found that ‘meritocratic recruitment and predictable, rewarding career ladders are associated with higher growth rates’ (760).¹³ Evans and Rauch claimed that it is the case because (i) meritocratic recruitment ensures that staff have at least a minimal level of competence, (ii) merit-based recruitment and predictable careers encourage organizational cohesion and form an *esprit de corps* that creates intangible costs of engaging in rent-seeking behavior. In other words, Evans and Rauch implied that the ‘Weberianessness’ enhances the developmental capacity of the state by making public

¹³ In their companion study Rauch and Evans found that meritocratic recruitment is positively associated with lower levels of corruption and overall bureaucratic quality as measured by country risk agencies (2000).

bureaucracy ‘more competent, purposive, and cohesive’ policy implementation instrument (1999: 752, Rauch and Evans 2000).

One major caveat of this explanation is that a more efficient bureaucratic machine may serve opportunist goals as good as welfare-enhancing ones. In other words, just like principal-agency theorists, Evans and Rauch’s explanation does not account for political opportunism.¹⁴ However, it is not only theoretically plausible to assume that politicians may fail to act in the interest of citizens, but also empirically evident. If we recognize opportunism by politicians as a threat to societal well-being, then Evans and Rauch’s theory is inadequate for explaining why a de-politicized bureaucracy is welfare-enhancing. Another major problem with Evans and Rauch’s explanation is that it is not clear what the mechanisms that link their ‘Weberianessness’ and social welfare are. The ‘Weberian state’ is not a fully developed theory, but rather an inductive statement of relationships. Evans and Rauch themselves emphasized that the aim of their research was ‘to establish a basic connection between bureaucratic structures and economic growth, thereby providing additional incentive to explore alternative mechanisms that might account for the connection’ (1999: 753).¹⁵ Thus, whereas the welfare-enhancing properties of a de-politicized form of bureaucracy were revealed through a robust statistical association, an elaborate theory that would connect the two was still missing.

1.3 A Theory of Welfare-Enhancing Bureaucracy

A theory that persuasively linked a de-politicized bureaucracy with social welfare was advanced by Gary Miller in his influential article ‘Above Politics: Credible Commitment and Efficiency in the Design of Public Agencies’, published in 2000 and subsequent research (2001, 2005, 2007). Gary Miller argues that the tension between the benign and malevolent faces of the state – the

¹⁴ This is understandable because the intellectual roots of Evans and Rauch explanation are in Weber’s classical argument on the comparative advantage of different forms of administrative organizations, which above all underscored the danger of the over-towering position of bureaucratic expertise and, consequently, the importance of preserving the ultimate political control over bureaucracy.

¹⁵ They also called for more comparative research on bureaucratic structures; however, little has been done since. It is worth noting Henderson *et al* (2007) study in which, having adopted both the analytical approach and the measure of ‘Weberian’ bureaucracy from Rauch and Evans’s research, they established a relationship between countries with ‘Weberian’ state apparatuses and their ability to reduce poverty in a sample of 29 developing and middle income countries.

problem of credible commitment, identified by the New Institutional Economists – lays in the organizational structure of the modern nation-state, which had been set forth at the very onset of the state formation (Miller 2000, Falaschetti and Miller 2001). Furthermore, the organizational design of the state that we inherit from the past is determined by the very problem for which the state was created in the first place – the problem of public goods production. Miller argues that the problem of public goods production is a variety of the situation of ‘interactive social production’ and explores it drawing on Bengt Holmstrom’s study of moral hazard in team production (1982), Eswarm and Kotwal’s critique of Holmstrom’s analysis (1984) and Thomas Schelling’s research on delegation to agents (1960). Miller claims that there is no perfect solution to the problem of organizational design of the state, hence to the problem of credible commitment and sustained societal welfare. However, in this second-best world a de-politicized bureaucracy plays an important role in ensuring that greater social welfare is achievable (2000: 290).

1.3.1 Interactive Social Production in Firms: Holmstrom’s Impossibility Theorem

A starting point for Miller was Holmstrom’s impossibility theorem (1982).¹⁶ Holmstrom tried to rationalize the prevalence among American corporations such organizational structure under which ownership was separated from management and labor as compared to partnerships. Holmstrom assumed that a partnership equates to a situation of ‘team production’ – when a group of people are engaged in mutually interdependent activities and divide the benefits of their team work fully among themselves (1982: 325). The latter characteristic of team production is known as budget balancing. Another generic characteristic of team production, according to Holmstrom, is ‘moral hazard’ – while the output of the team’s work reflects the contribution of many individuals, individual contributions cannot be perfectly observed. Since joint output is the only observable indicator of individual inputs, then the low performing team members cannot be identified and their non-cooperative behavior may yield an inefficient outcome (1982: 325). Given this, the question Holmstrom asked was ‘...whether there is a way of fully allocating the joint outcome x so that the resulting noncooperative game among the agents has a Pareto

¹⁶ In fact, the fundamental problem, underlying Holmstrom’s research, was studied prior to Holmstrom (Hurwicz 1979, Walker 1978) and attracted Miller’s attention as early as 1994 (Miller and Hammond 1994). Holmstrom here is credited as a starting point for Miller’s analysis because he provided a formal answer to the questions raised in previous research.

optimal Nash equilibrium?¹⁷ (1982: 326). In other words, Holmstrom was looking for an (collective and output-based) incentive scheme that would induce each member of the team to undertake the actions that would result in the output efficient for the team as a whole.

Holmstrom's answer to the question was in the negative. The essence of his argument is that the design of an incentive scheme that yields socially efficient outcome is constrained by three mutually inconsistent requirements: Pareto optimality (minimal efficiency requirement), Nash equilibrium and budget balancing. Presenting his argument formally, Holmstrom shows that any budget-balancing Nash equilibrium is Pareto suboptimal (socially inefficient) and any budget-balancing Pareto optimal scheme is not Nash equilibrium (is unstable due to the self-interest of one of the participants) (1982: 326). In other words, Holmstrom's impossibility theorem shows that as long as team members fully divide benefits created by their work between themselves, there will always be a team member who would prefer to slack on her effort to x – the output level of the team, therefore preventing the achievement of such Pareto optimal x .

As long as we insist on budget-balancing... we cannot achieve efficiency. Agents can cover improper actions behind the uncertainty concerning who was at fault. Since all agents cannot be penalized sufficiently for a deviation in the outcome, some agent always has an incentive to capitalize on this ... (Holmstrom 1982: 327).

Holmstrom argued that the best solution to the impossibility theorem would be to sacrifice a budget-balancing requirement, e.g. the distribution of benefits produced by the team should involve a larger set of people than the number of actual team members, whose actions determined the size of the benefits to be distributed. Consequently, Holmstrom argued that efficient team production requires a residual claimant – someone who does not take part in the production process but simply claims a share of benefits created by the team. Holmstrom emphasizes that for the scheme to be credible the residual claimant cannot be a team member, because her value to the efficiency is exactly in staying aloof from the production process. The presence of a passive residual claimant relaxes the budget-balancing requirement, allowing the attainment of the efficient outcome. Seen from this point of view, the separation of ownership and labor in modern corporations, which isolates shareholders from the day-to-day participation in the production

¹⁷ Nash equilibrium refers to a situation when there is at least one stable outcome in which each member of the team finds that her own self-interest is maximized, given the action of other participants. Pareto optimality refers to a situation when all team members should be in agreement that there is no other outcome (other than Nash equilibrium) in which they would all be better off. (Miller 2000: 294).

process, was recognized by Holmstrom as playing a budget-breaking and therefore efficiency-enhancing role.

The criticism of Holmstrom's solution to the problem of the efficiency of an interactive social production system is that it assumes away the problem of morally hazardous behavior¹⁸ on behalf of the residual claimant. As early as in 1984, Mukesh Eswarm and Ashok Kotwal in response to Holmstrom noted that the group punishment scheme¹⁹ – one of the incentive schemes, involving a passive residual owner that was suggested by Holmstrom – gives the passive owner 'the clear incentive to engage in morally hazardous behavior' (581). Presenting their argument in a formal fashion, Eswarm and Kotwal argued that since under the group punishment scheme the residual owner's share of the team's benefits increases drastically when the team does *not* reach the agreed level of the joint output (x), the residual owner prefers the team members to shirk. The scheme, therefore, gives the residual owner 'a clear incentive to bribe one of the agents to engage in a marginal amount of shirking' (Eswarm and Kotwal, 1984: 579). Effectively, by taking actions that affect the outcome of the production process (as bribing a team member), the residual claimant becomes a member of the production team herself, whereby re-imposing the budget-balancing, efficiency-retarding, condition. Consequently, Eswarm and Kotwal conclude that with the introduction of the passive owner the problem of moral hazard 'takes a different form but remains unsolved' (1984: 581). Their assessment of the danger of the residual claimant's moral hazard to efficiency is that it is potentially 'more devastating' than the problem of moral hazard of members of the production team. Equally important, in their three page long article, Eswarm and Kotwal pointed to a possible solution to the problem of the efficiency of a system of interactive social production – breaking the budget-balancing constraint *credibly*, i.e. to ensure (not assume as Holmstrom did) that the residual owner does not intervene into the team production process.

Continuing Eswarm and Kotwal's analysis sixteen years later, Miller argued that the only way the owner can stay detached from the production process is by constraining herself ahead of time of any actions that can affect the team production (such as giving a bribe to a team member)

¹⁸ For the purpose of this dissertation the notion of 'moral hazard' refers to the existence of 'an incentive to take actions that are destructive to efficiency' (Miller 2000: 290).

¹⁹ Group punishment scheme sets the team members' payoff at x -level of the team's collective output. If, however, the output falls short of the x , no one member of the team is paid and the benefits created by the team are taken by the residual claimant.

(2000: 298). Only by denying the residual owner any opportunity to act, is the efficiency of the team achieved. Paradoxically, Miller argues, self-constraint ahead of time is also the only way that the owner can ensure sustainable maximization of profit for herself. It is so because team members have every reason not to trust any incentive scheme offered by the owner because of her persistent moral hazard; and anticipating opportunistic actions on behalf of the owner (such as bribing) the team members either would not accept the contract in the first place (Miller 2000: 297) or, in a more accurate account of reality, would converge on the zero-effort Nash equilibrium at t_2 if the owner reneges at t_1 (Miller 2000: 298). In other words, the fundamental problem of the organizational design of firms from a macro-efficiency point of view is credible commitment – believable containment of the residual owner’s authority to act on her profit-maximizing motives.

There are different organizational solutions to the problem of credible commitment in firms. Thus, a historical example, brought to the literature by Abraham and Prosch (2000), shows how at the end of the XIXth century Carl Zeiss Stiftung – sole owner of a famous German firm Carl Zeiss – set up a severance pay scheme as a ‘hostage’ that constrained it from arbitrary firing of employees.²⁰ Drawing on Tomas Schelling’s delegation to agent research (1960), Miller claims that one of the most efficient ways to commit the owner to the efficiency of the firm credibly is to delegate the owner’s authority (to make compensation decisions) to someone whose motivations are different from those of the owner. Having extensively studied the strategy of conflict, Schelling showed the value of an agent whose preferences differ from those of her principal for the avoidance of a nuclear war (1960). Miller claims that ‘the role of budget breaker calls for an agent of Schelling’s sort’ (2000: 300) – someone who is clearly not committed to the owner’s short-term profit maximization and points to the managers in paternalistic American firms such as Kodak or AT&T as such agents. It is the managers of those firms, not the owners, who make compensation decisions for employees. At the same time, their own compensation is not directly

²⁰ As any high-tech enterprises, Carl Zeiss, which specialized in optics, required from employees costly assets specific investments – optic-related knowledge and skills. Carl Zeiss Stiftung – the sole owner of the firm – had the opportunity to maximize its short-term residual by firing employees who made job-specific investments. Knowing that the owner can fire them any time, employees were reluctant to invest to optic-related knowledge and skills, which had little applicability outside the firm. To encourage employees to make that assets-specific investment, the owner established a ‘hostage’ for itself – severance pay for dismissed. If in pursuit of short-term profit the owner decides to fire an employee, it punishes itself by paying a severance fee to the laid off worker, thus reducing the size of its residual. Therefore, severance pay was an institutionalized form of the owner’s credible commitment to honor the compensation contract and therefore the long-term efficiency of the firm.

linked to the achievement of short-term profits for shareholders, but to the longevity of their employment in the firm and seniority of their position or what labor economics calls ‘deferred compensation’ (Lazear 1979). These personnel and compensation arrangements, Miller argues, determine the managers’ preferences – they make managers visibly committed to long-run performance instead of quick profit maximization that is the shareholders’ motives. The structure of managers’ preferences makes their promise to respect the compensation scheme agreed with the employees credible from the employees’ point of view and, therefore, a Pareto-optimal Nash equilibrium outcome – that otherwise would have been inaccessible for the firm – is achieved.

In the light of Holmstrom’s approach, the primary role that managers play in corporate governance of paternalistic firms is to put the owners’ short-term profit maximization – efficiency-retarding motives – out of action. Personnel and compensation arrangements, such as seniority-based promotion and deferred compensation play a key role in ensuring that managers’ preferences differ from those of shareholders and therefore efficiency is enhanced.²¹ The proposition that delayed compensation ‘binds’ the management to their firms in long run, increases the productivity of the firms and even positively affects non materialistic aspects of social welfare as firms’ positive environmental actions, is well supported in the literature (Eaton and Rosen 1983; Huck *et al* 2004, Mahoney and Thorne 2005). In addition to this, managers are insulated from shareholders’ efficiency-retarding interests by what Miller calls a ‘managerial discretion doctrine’, e.g. a legally entrenched principle that not only ‘makes it difficult for shareholders to sue managers for bad decisions (2000: 304) but also keeps them free from direct control or supervision of anyone, including the firm’s shareholders’ (Blair and Stout 1999).

Managers are in fact the third set of actors, acting as a solution to a commitment problem by owners. As the logical extension of Eswarm and Kotwal’s conclusion that with the introduction of the passive owner the problem of moral hazard ‘takes a different form but remains unsolved’

²¹ It should be noted that managers are not free from the possible illicit pressure of owners that can alter the structure of managers’ incentives and induce efficiency-retarding actions from them similar to how bribing one team member by an owner induces an inefficient outcome for all. Say, the owner can offer a share of a quick profit to a manger, who would bribe a team member who would engage in a marginal amount of shirking that would result in the team not reaching x -level of joint output and, therefore, bringing the owner a substantial quick return. Contrary to the situation with bribing a member of the production team, the corrupt manager is easily identifiable. This carries considerable costs for the manager: she will most likely be fired after the deal is revealed, lose her retirement arrangements and have considerable difficulties in finding another job. Therefore, the owner’s offer to a manager should be such as to compensate for all the possible losses associated with the breach of agreement and trust. The amount of manager’s compensation in the ‘quick return’ scheme seems being prohibitively large for the owner to make such an offer to the manager in the first place.

(1984: 581), it is plausible to argue that the introduction of the third set of players relocated moral hazard to the managers. The question then is, what keeps managers from diverting resources from both owners and employees? Although Miller points to several mechanisms that may block unilateral, possibly selfish, actions of managers,²² his overarching conclusion is in line with that of Eswarm and Kotwal's – there is no system that can 'perfectly reconcile the conflicting self-interests of individuals in interactive social organization' (2000: 290).

1.3.2 Credible Commitment in States: Tying the Ruler's Hands

Miller's core innovation is his claim that the key problem of efficiency in team production – credible commitment of the residual claimant – is identical to the problem of public goods production by the state, which gave rise to the organizational structure of modern nation-state in the first place (2000, 2001). In both cases the problem arises from 'the dominant strategy individuals face to free ride when actions are costly to observe' (Falaschetti and Miller 2001: 392). As people tend to free ride when their individual contribution to the team's output is difficult to observe (team production) and when their true valuations about a prospective public good are difficult to reveal,²³ the need for an external agent arises. Interestingly, theorists of both the state and firms independently from each other concluded that the existence of an external agent is 'a necessary condition to sustain efficiency in collective endeavours' (Falaschetti and Miller 2001: 393). Thus, just like Holmstrom justified the need for a residual claimant in team production, social scientists argued – as early as Hobbs (1968 [1651]) – that an external agent is necessary to sustain efficiency in public goods production. The role of this external agent, however, is quite different in Hobbesian and Holmstrom's analytical frameworks.

The role of the Hobbesian external agent – sovereign or Leviathan – is to supply incentives (mostly a threat of punishment) to free ride-minded individuals to work towards group objectives in return for a share of benefits created by the production of public goods. Thus, Hobbesian Leviathan is not only an external but also *active* agent, who acts on individuals' motives to free

²² Joint fiscal responsibility of owners and managers for the firms as a whole, 'political constraints' - the ability of employees and suppliers to make the managers' life difficult (via strikes, slow-downs, lawsuits and such like) which makes it rational for managers to keep 'the entire array of stakeholders cooperative and contented' (2000: 305), representational opportunities of the employees on advisory councils or even the board of directors and employee stock ownership (306) – and the power of professional norms (307).

²³ See Miller and Hammond 1994.

ride when their true preferences are costly to reveal (see Miller and Hammond 1994). In other words, only by backing the sovereign by force and the capability to punish an efficient social order is possible. On the other hand, as the discussion above showed, Holmstrom saw the value of the external agent for social efficiency in its passivity. Thus, to be efficient a system of interactive social production requires an external agent who is simultaneously an active actor (capable to punish free riding) and a passive owner of the residual. This inconsistency or ‘logical impossibility’ is, according to Miller, the root cause of our failure to find a perfect design of governmental institutions that enables sustainable prosperity for all members of a society (Miller 2000: 289-290).

The question is then: “Why an active Leviathan cannot be at the same time a passive owner of the residual benefits”? The application of Eswarm and Kotwal’s analysis suggests that the production of public goods inevitably creates a temptation for powerholders to use the power of the state to maximise their residual, which is inconsistent with the overall social efficiency. Thus, a Leviathan’s property to be active, purposefully designed with efficiency-enhancing intent, can also play an efficiency-retarding role. A tendency of those who control the power of the state to maximize rent at the expense of the overall efficiency has been noted by other authors (Buchanan and Tullock 1962, Lambert-Mogiliansky *et al* 2007, Miller 1989, North 1981, North and Weingast 1989, Olson 1984, Slinko *et al* 2005). An early work of Miller (1989) showed how in the beginning of the 19th century in America the local ruling party organizations forced middle and small enterprises to pay large bribes by threatening the firms to enact a legislation that would be detrimental to the firm’s investment. Confiscatory extortion of the party machines meant ‘greater costs in recourses, uncertainty, and threat to property rights’ (689), a combination of conditions that discourages economic agents from participation. Slinko *et al* (2005) showed that a group of Russian large firms that was granted preferential treatment by Russia’s regional legislators and regulators in 1992-2000 performed better than large firms without political connections. They also found that a high level of regulatory capture adversely affects small-business growth and the tax capacity of the state. In a more general manner, North notes that throughout the history of humankind there has been a “persistent tension between the ownership structure which maximized the rents to the ruler (and his group) and an efficient system that reduced transaction costs and encouraged growth. This fundamental dichotomy is the root cause of the failure of societies to experience sustained economic growth.” (1981: 25).

Further application of Holmstrom and Eswarm and Kotwal's research implies that in order to achieve efficient social order powerholders must be deprived of opportunities to act on their residual-maximizing motives. One way to do it is to diffuse the political power among multiple actors. In their seminal work North and Weingast (1989) showed how the enactment of a set of constitutional checks on Stuart kings²⁴ or 'tying the king's hands' during the Glorious Revolution in the XVIIth century resulted in increased activity of economic agents, which eventually lead to a 'remarkable' economic effect (803). A recent theoretical contribution to the literature (Falaschetti and Miller 2001, Henisz 2000, Keefer and Stasavage 2003) has demonstrated that multiple veto players rather than a unitary agent have a greater capacity to produce credible commitment against opportunism.²⁵ Falaschetti and Miller underline the welfare-enhancing nature of a constitutional design that maximizes 'the transaction costs of putting together a decisive coalition' (2001: 405) that eventually disables powerholders' moral hazard. A developed party system seems being a necessary element for the success of such a constitutional design (Aldrich 1995, Alesina and Spear 1988, Cox and McCubbins 1994, Gehlbach *et al* 2008). As long-lived entities political parties care about their reputation, the argument goes, and therefore they control individual powerholders from imposition of their rent-seeking preferences and renegeing on campaign promises. The delegation of authority to independent agencies has been identified as another institutional mechanism through which governments can enhance the credibility of their commitments. A growing body of research showed that politicians delegate when they want to increase a policy's credibility at the stage of its implementation (for instance, see Horn and Shepsle 1989, Keefer and Stasavage 2003, Shepsle 1991). This argument is in line with a separate body of literature – on central banks – that has long underlined the role of independent central banks in cementing the credibility of government commitments in monetary policy (see Rogoff 1985).

Since both problems of efficiency – in teams and states – have the same root cause, then the introduction of Schelling's agent into the production scheme might be as beneficial for the overall societal efficiency as it is for the firm as a whole. Miller argues that civil service is an

²⁴ The Crown's authority was considerably diminished, parliamentary supremacy established and the 'independence of the judiciary from the Crown was assured' (1989: 816) by which 'the beginnings of division or separations of powers' was created (818).

²⁵ It is important to note that unlike other authors Falaschetti and Miller argue for the diffusion of hierarchical authority within a single actor rather than creating multiple external actors. Diffusing authority within a single agent equates to creating 'a team whose members must act collectively to benefit from opportunism' (2001: 401).

important element of a system of organizational solutions to the problem of credible commitment in modern states.

1.3.2.1 Civil Service as a Solution to the Problem of Credible Commitment in Modern States

Miller claims that civil service provides ‘an enormous and beneficial shield for bureaucratic decision-making, protecting it from much of the day-to-day political influence...’ (2000: 316). Having said this, however, he provides a rather large picture of how civil service enhances efficiency. The aim of this section is to show how individual components of civil service type of bureaucracy shield bureaucrats from the day-to-day political intervention. Before we proceed, however, we shall clarify the notion of civil service.

The notion of civil service has been interpreted differently in the academic literature. Some scholars treat the concept of civil service as public bureaucracy, i.e. a collection of all civilian non-elected posts within the government. Moreover, some authors of this group do not make any reference to the organizational design of public agencies they study (see Van Rijckeghen and Weder 2002), while others make a distinction between politicized (patronage) and de-politicized (meritocratic) civil services (Gaidushek 2007, Meyer-Sahling 2001, 2004, 2006). Another group of scholars treat civil service as the dominant organizational structure of the American public bureaucracy through the 20th century. For instance, Toblert and Zucker note that ‘prior to the recent wave of reforms [President Carter’s administrative reform of 1979 – MN] civil service structures ...were nearly universal in the United States’ (1983: 24). Similarly, Patricia Ingraham states that ‘The prevalence of civil service was as such that it was a synonym to human resource management system’ (2003: 49). Since a key characteristic of the organizational design of the U.S. public agencies is the isolation of personnel policy management from the main organizational line of command that flows from elected politicians to none-elected officials, some researchers use the notions of civil service in the sense of a fully de-politicized public bureaucracy (Frant 1993, Krause *et al* 2006, Lewis 2007), which constitutes in our opinion, the third approach. Thus, Howard Frant refers to civil service as a type of personnel policy where ‘important decisions about hiring, firing and promotion are ... not under the control of the chief executive’ (1993: 990). The idea of a *degree* of de-politicization or the amount of authority over personnel decisions inherent in the interpretation of civil service as a fully de-politicized

bureaucracy, suggests that de-politicized bureaucracies may vary with regard to the degree of political influence over personnel policy decisions. Jan-Hinrik Meyer-Sahling argues that relevant legislation ‘defines the specific set of personnel policy instruments, which ministers can choose to use as control measures in order to achieve bureaucratic compliance...’, and a combination of the instruments available to politicians in hiring, firing and promotion eventually defines a degree of politicians’ freedom to ‘determine the outcomes of personnel policy’ as stipulated by law (2006: 696).

Although there is no direct evidence that Miller recognizes civil service as a fully de-politicized bureaucracy, the logic of his argument implies that the greater the degree of de-politicization of public bureaucracy the higher the probability of the occurrence of stable socially beneficial outcomes. Therefore, for the purpose of this dissertation we employ the notion of civil service as an analytic concept, meaning a *fully* de-politicized public bureaucracy or a type of bureaucracy in which politicians wield the lowest amount of authority over personnel decisions.

A good starting point for the understanding of the welfare-enhancing effect of civil service is to look at the civil service’s opposite – a politicized bureaucracy or patronage. Patronage is a type of bureaucracy, in which powerholders have their ‘hands free’ with regard to personnel decisions. As powerholders can hire, fire, promote or demote any of their bureaucratic subordinates at any time, these powers provide politicians with an effective instrument to influence the work of non-elected governmental officials. Thus, patronage-entry to bureaucracy – in which a political superior appoints her bureaucratic subordinates at will, choosing from a handful of pre-selected candidates, one way or another affiliated with the superior – enables powerholders to establish firm control over bureaucratic behavior from the onset. One can say that at the entry stage politicians have ‘dual power’ – the power to determine a pool of candidates and the power to appoint (from the pool). The exposure to this ‘double power’ generates a strong sense of obligation to her political master in the successful candidate and gives rise to the mechanism of personal accountability between bureaucrats and politicians. In her MA thesis, devoted to personnel practices in one of the Russia’s regional governments in the beginning of the 2000s, the author of this thesis discovered that bureaucrats hired at patron’s will strongly felt that they should do as the patron tells them because, in words of the respondent O.V., ‘It is because of him that I am working here and if I don’t carry out his orders today I won’t be working here tomorrow’ (Nistotskaya 2001: 32). ‘Even if as a citizen and a professional I am not

happy about the way he wants me to carry thing out, - says respondent T.G., – I hardly can do anything because I am held accountable by the person who gave me the job’ (Nistotskaya 2001: 46).²⁶

In patronage a highly personalized mode of entry to the service is combined with a credible threat to dismiss or demote a bureaucrat, or to postpone her promotion. This provides bureaucrats with, what Howard Frant (1996) calls, ‘high-powered incentives’ to fully obey the political authority. High-powered incentives provided by patronage make bureaucratic personnel responsive to the instructions of the political masters. However, the same high-powered incentives would make bureaucrats not only work longer hours but also bend the implementation of the law in response to the informal pressure of opportunistically minded powerholders. Not responding to the powerholder’s demands would most likely have adverse consequences for the bureaucrat, since politicians are capable of punishing a vexatious bureaucrat. Therefore a rational strategy for the bureaucrat would be to fully succumb to the demands of the powerholder, which inevitably leads to socially sub-optimal outcomes.

In contrast to patronage, under civil service politicians do not control entry to bureaucracy. This is true as far as both elements of entry – admission and appointment – are concerned. Under civil service the appointing authority is delegated to an autonomous body (as, for instance, the U.S. Civil Service Commissions) that stays isolated from the main line of command that runs from politicians to bureaucrats. In addition job candidates’ suitability for the post is judged on the basis of their professional credentials rather than personal loyalties. It has long been acknowledged that such an appointing method, often referred to in the literature as meritocratic recruitment, is essentially ‘a politics eliminator’ (Civil Service Assembly 1942: 5). What has been consistently overlooked in the literature is the ‘politics eliminating’ properties of the civil service’s admission stage. Here pools of candidates are not determined at will by politicians. Instead candidates are self-identified by replying to vacancy announcements in the mass media. Paraphrasing the words of the respondent O.V. from our 2001 research, ‘I am here not because an individual patron wished this, but because I saw a vacancy announcement in a newspaper, submitted my application, and my knowledge and skills got me through the entry examination’.

²⁶ In addition respondents felt compelled to ‘pay back’ the favor of employment to the patron, which could be explained by the fact that in the 1990s the exchange of favors remained an important element of the socio-economic fabric of the Russian society and a deeply entrenched behavioral norm (see Ledeneva 1998).

Therefore, under civil service politicians not only have no control over appointment, but they are unable to influence the admission process by determining the pool of candidates for the consideration of the appointing authority. In contra distinction to the situation under patronage, de-personalization of the admission procedure and the delegation of power to appoint to an autonomous body reduce the ‘incentive intensity’ (Frant 1996: 378) for bureaucrats to follow the instructions of their political masters in day-to-day policy-making. In other words, if patronage makes bureaucrats responsive and accountable to politicians, de-politicized entry to bureaucracy lays the foundation for a ‘lifelong commitment to a firm’ (Miller 2000: 316) and gives rise to the alternative mechanism of accountability to ‘professional peers and to the public at large’ (Alesina and Tabellini 2007: 169-170) that has been observed in de-politicized bureaucracies (Bowman *et al* 2004, Kaufmann 1960, Mosher 1982, Riccucci 1995, Tonon 2008).

Another important building block of the bureaucratic commitment to larger long-term policy goals is the prospect of a life-long employment integral to many forms of a de-politicized bureaucracy. The argument that prospects of a long-term career cause bureaucrats to internalize the goals of the organization – not of their political master – was well-established well before Miller (see Wilson 1887).²⁷ The prospects of a life-long employment are credible because bureaucrats can be fired only for a gross misconduct (as bribery conviction), on the decision of the bureaucratic self-government organization (such as civil service commissions, Corps and such like) or the court. This implies that life-long career prospects not only make bureaucrats less ‘attuned’ to the powerholders’ preferences but also less responsive to their day-to-day oversight, which is exactly what we aim at designing an efficient system of interactive social production.

Just like at admission and appointment politicians wield no decision-making authority, seniority-based promotion – another central characteristic of the civil service type of bureaucracies – leaves no room for political intervention into personnel issues. The specificity of seniority-based promotions is that they occur in an almost automatic fashion as a function of the bureaucrat’s longevity in the service. Since seniority-based promotions do not presuppose a residual decision-maker, a politician’s promise to promote a bureaucrat or a threat to demote her is not fully credible. Similarly, a pay system in civil service is grounded to the bureaucrat’s

²⁷ A standard politico-economic account views of politicians as being primarily motivated by re-election (see Alesina and Tabellini 2007)

longevity in the organization and her rank. It is governed by an administrative procedure and a residual decision-maker is not required. Therefore, neither politicians can relocate officials along the bureaucratic ladder, nor influence their level of remuneration. This ‘politicians’ impotence’ implies that bureaucrats are much less sensitive to the day-to-day oversight by their political masters, which is the key to efficiency.

It should be noted that Miller does not argue against the overarching control of politicians over public bureaucracy: in a democratic state elected officials are legitimate masters of non-elected ones. Politicians’ responsibility is, however, not in the day-to-day oversight of bureaucracy but in reaching agreement on a package of public goods and policies that would be implemented by the bureaucracy (Miller 2000: 318). This implies that social welfare is not threatened when politicians exercise their control as a collective actor and ensure that bureaucracy carries out public policies that reflect the preferences of the citizens as a whole (aggregated, although imperfectly as Arrow’s (1951) impossibility theorem teaches us, by the legislature) and not of individual constituencies or individual powerholders.²⁸ Social welfare is, however, threatened when politicians push for narrow (i.e. of favored constituencies) or selfish interests in public policies; and that is precisely what civil service guards against.

To sum up, in his theory of interactive social production Miller exposes the threat to social welfare of politicians’ moral hazard and advocates civil service as a corrective to such. He, however, provides only a broad conceptualization of this solution. The contribution of this section has been in showing how individual elements of civil service create a set of incentives for bureaucrats not to act on politicians’ instructions in the day-to-day policy-making. It has paid particular attention to the overlooked ‘politics eliminating’ properties of the civil service’s admission stage. We argue that the public character of the admission is an important element of the whole civil service mechanism as it contributes to making bureaucratic careers independent from the preferences of the current winners in politics and bureaucratic decision-making less susceptible to the politicians’ moral hazard.

²⁸ Despite the Arrow’s impossibility theorem, following Aron Wildavsky we assume than democratically agreed policies have a welfare-enhancing – rather than faction- or self-enrichment – intent. ‘A promise underlines public policy: if the actions we recommend are undertaken, good... consequences rather than bad ... ones actually will come about’ (Wildavsky 1979: 35).

1.3.2.2 Standard Operating Procedures and Professionalism as Other Solutions to the Problem of Credible Commitment in Modern States

In addition to civil service, Miller argues, there are two other institutional mechanisms through which politicians can be credibility committed to social welfare intent of public policies: standard operating procedures (SOPs) and the power of professional norms.

‘Standard operating procedures’ refer to a set of written rules and procedures that a bureaucrat is required to follow performing her official duties. The control role of SOPs has been appreciated by political scientists since at least McCubbins *et al* (1987), who showed SOPs as an instrument of political control of the bureaucracy. The point that Miller makes is that SOPs are like a double-edged sword: they help ‘to identify and punish both the use of arbitrary power by bureaucrats... and elicit pressure from outside interests’ (2000: 318). He brings a dramatic example from a recent American history – so called the Keating Five scandal of 1987-90 – to show how, justifying their decisions by the reference to SOPs, four civil servants were able not to succumb to the pressure of five powerful US senators (including the Republic nominee in the presidential race of 2008 John McCain), who demanded a special treatment for the business of one of their major political contributors – Charles Keating of Lincoln Savings and Loans. William K. Black, one of four civil servants who were called to Washington D.C. to meet the senators, said that the meeting was ‘a show of force’ as the civil servants had to face ‘one-twentieths of the Senate in one room’ (Nowicki and Muller 2007).

Thus, by referring to a prescribed sequence of actions, standards of evidence or timetables, bureaucrats can buffer the policy intent from alterations by opportunistic powerholders. The power of SOPs should not, however, be overestimated, as it is difficult to imagine Mr. Black and his colleagues being sufficiently shielded from an ‘enormous pressure’ and ‘intimidation’ (Keating Economics 2008) of the senators by SOPs, had the senators been able to sack them at will. The strength of the welfare-enhancing impact of SOPs is likely to vary under different circumstances, and the example above suggests that such impact of SOPs is likely to be higher the greater a degree of de-politicization of a bureaucracy.

It should be noted that not all consider the promulgation of SOPs as an efficiency-enhancing measure. Thus, reform movements of the 1990s heavily criticized the prevalence of SOPs, or a system of accountability through following rules, as inadequate to the needs of societies living in an Information Age and suggested cutting red tape and moving to

accountability through achieving results (Gore *et al* 1993, Osborne and Gaebler 1992). However, as Pandey and Moynihan noted, the thinking of reformers did not take into account the academic literature on red tape, including a groundbreaking theoretical work by Bozeman (1993) and Kaufmann's (1977) seminal work (2006: 130). Meanwhile, Bozeman (1993, 2000) showed that only some SOPs could be qualified as red tape, i.e. 'have no efficacy for 'the rules' functional object' (1993: 283) and Kaufmann, drawing on a classic interest group pluralism approach, demonstrated that 'one person's red tape may be another's treasured safeguard' (1977: 4). Taken into consideration that SOPs are either directly enacted by legislative statutes or derived by bureaucratic agencies within the parameters set by the legislation (Schneider 1992), SOPs could be seen as a safeguard of the welfare intent of public policies against narrow or self-serving interests. The Keating scandal illustrates this point well:

The political interests who object most loudly to runaway or unresponsive bureaucrats are often special interest, like Keating, who find that bureaucrats obeying the law as articulated by Congress rather than bending the law in response to informal pressure (Miller 2000: 317).

Another organizational solution to the problem of credible commitment in modern state is, according to Miller, a professionalized bureaucracy. Although the notion of a profession is one of the most contested analytical abstracts in social sciences, scholars agree that professions are a form of work involving a distinct body of systematic knowledge (Abbot 1988, Bledstein 1978, Scarlett 1991). An important implication of the existence of a distinct body of knowledge is that it gives rise to a related professional ethics, which guides and constraints the behavior of the members of the profession. As Asa Kasher puts it: 'a professional act is the subject matter of the related professional ethics', i.e. a system of values, norms, principles, rules, policies and solutions (2005: 74-75). Bearing this in mind, a professionalized bureaucracy could be seen as a bureaucracy populated by people whose behavior is guided by professional ethics.²⁹

It is clear that as an institution that guides human behavior, professions are quite different from politics. As Mosher noted,

²⁹ In France and Spain professionals in different governmental agencies are united into profession-based self-regulatory organizations – Corps. In the US federal government there are many profession-based agencies as, for instance, The Federal Reserve System (economics), The U.S. Environmental Protection Agency (environmental science) and such like.

‘There is a built-in animosity between the professions and politics... Professionalism rests upon specialized knowledge, science and rationality. There are correct ways of solving problems and doing things... Politics is to the professions as ambiguity to truth, expediency to rightness, heresy to true belief’ (1982: 118-119).

Therefore, the role of a professionalized bureaucracy in public goods production is that of Schelling’s agent – it brings about an actor whose motivations are different from those of politicians. Just like civil service commits bureaucrats to long-term organizational goals, professions commit bureaucrats to ‘correct’ ways of bureaucratic decision-making, where ‘correct’ is determined by the professional knowledge and ethics. Professional ethics requires a bureaucrat to evaluate a possible political interference into bureaucratic decision-making from a professional point of view, instead of immediately taking them as an ‘actions guide’ (as principal-agent theory prescribes). A dense net of professional norms makes it more difficult for morally hazardous motivations of powerholders to penetrate the public goods production.

If the argument about the power of professional norms sounded quaint in the 1980s – beginning of the 1990s, when the ‘incentive revolution’ was in its zenith, it has gained more recognition recently. For instance, the professional act of William K. Black and his colleagues in the Keating Five case became the subject of at least three recent studies with quite telling titles: *Unsung Heroes: Federal Execucrats Making a Difference*, *The Professional Edge*, and *The Costs of Speaking Truth to Power: How Professionalism Facilitates Credible Communication* (Ricucci 1995, Bowman *et al* 2004, Tonon 2008).

Similarly to SOPs, the power of professional norms is likely to have a different strength under different circumstances. Since professions and politics are rivalry rather than complimentary institutes, a de-politicised bureaucracy allows for a more consistent application of professional norms than a politicised one. This implies that the strength of both SOPs and professionalization depends on a type of personnel policy existing in a given policy: the greater de-politicisation of bureaucracy the stronger the welfare-enhancing effect of SOPs and professional norms. Given the key role that personnel policy plays in the bureaucracy-related institutional arrangements that determine social welfare, and also taking into consideration financial and other limitations arising from the nature of doctoral research, in the remaining of the dissertation we focus on ‘personnel policy regime’ factor.

1.3.3 Limitations of Civil Service as a Solution to the Problem of Credible Commitment in Modern States

Having provided a plausible explanation how a de-politicized bureaucracy, by creating barriers between those actors of a system of interactive social production with moral hazard and the producers of the benefits, enhances the occurrence of socially beneficial outcomes, the theory also exposes the limitations of civil service as a welfare-enhancing device.

The first considerable limitation is that civil service does not induce the best bureaucratic effort, thereby arguably preventing the achievement of socially-optimal output. Johnson and Libecap (1994b) convincingly demonstrated that supervisors are severely constrained by civil service law to sanction inadequate bureaucratic effort and to reward superior one. Similarly, heads of 847 agencies and divisions in 10 American states, surveyed by Elling (1986), ranked difficulty in rewarding a better bureaucratic effort and difficulty in disciplining employees as the first and the fifth most serious managerial problems. Having been shielded in civil service, bureaucrats may become irresponsible not only to morally hazardous influence of politicians but also to their legitimate quests. Weir and Skocpol (1985) reported an interesting example of how in reaction to the Great Depression British politicians, becoming increasingly frustrated with the work of the Labour Department's bureaucracy, repeatedly took advantage of the loopholes of the British civil service legislation to bring people from outside the civil service on fixed contracts to the ministry's higher positions. The Labour Department became a center of policy innovations and contrasted sharply with the 'stodgy conservatism' of other domestic departments (Weir and Skocpol 1985: 127).

To sum up, 'reduced incentive intensity' (Frant 1996: 378) integral to civil service does not induce the best possible bureaucratic effort. In a sense, it disables Leviathan's *active* properties, which are important for achieving social welfare. A better bureaucratic effort is certainly induced if politicians retain a great deal of control over personnel decisions. However, the advancement of Leviathan's properties as an active agent also enhances its capacity to act more decisively on its own rent-extracting motives. In other words, designing governmental institutions we face a tradeoff between two corner solutions: an active Leviathan, capable to induce best bureaucratic effort but also to abuse the power of the state for its own benefit, and a Leviathan, who is constrained in its capacity to act on its own profit-maximizing motives but unable to induce the best bureaucratic effort. Although the first design has the capacity to yield the best outcome (an

active Leviathan effectively acts on free ride motives of the members of a system of interactive social production, induces best bureaucratic effort but does not act on its own rent-seeking interests), the continuous presence of Leviathan's rent-seeking motives makes such an outcome unstable. If, however, Leviathan succeeds in acting on its self-interests, the worst outcome is most probable – more and more participants withdraw from a system of interactive social production or converge on the zero-effort Nash equilibrium. In the light of this, there is a good reason to settle on a solution that contributes to the prevention of the subversion of public policies from its welfare intent by particularistic or rent seeking considerations and enhances the probability of the occurrence of socially beneficial public policies, implemented may be slowly and not necessarily to its maximum potential.

Another considerable limitation of civil service arising from Holmstrom's impossibility theorem is that moral hazard cannot be fully eliminated from a system of interdependent social production, but merely relocated. This implies that bureaucrats may be carriers of moral hazard as well as politicians. Indeed, in civil service bureaucrats seem being perfectly positioned to realize their selfish calculus: on the one hand, they possess significant discretion in rule-making and implementation, which enables them to trade the powers of the state for private gains; on the other hand, civil service provides them with a life-long employment, exempt from effective day-to-day oversight. Indeed corruption is widely perceived as one of the reasons that discourage investment and hamper economic growth (Aidt *et al* 2008, Del Monte and Papagni 2001, Gaviria 2002, Fisman and Svensson 2007, Mauro 1995).

Miller argues that just as civil service constrains politicians from welfare-undermining actions, it does gag bureaucratic selfish calculus. A combination of a system of deferred compensation with high costs of bribery conviction promotes, what Miller calls, 'an unprecedented level of honesty within bureaucracy' (2000: 316). A system of deferred compensation integral to civil service brings most of the materials gains at the end of bureaucratic career.

Civil service is a dramatic instance of deferred compensation. Civil servants... are paid less than their true marginal productivity early in their careers. They are rewarded for making a lifetime commitment to a firm by opportunities for promotion, pay raises, and beneficial retirement plans (2000: 316).

A bribery conviction – dismissal from office, often without a possibility to return to service – carries substantial immediate and deferred material losses. Under a credible threat of dismissal for bribery, a rational bureaucrat may not want to jeopardize her prospects for a long-term and rewarding career by receiving a bribe (unless the bribe is as large as to compensate all current and deferred losses and a possibility to rejoin the service). In the same vein, Evans and Rauch (1999) argue that career prospects ‘reduce the relative attractiveness of the quick return from corrupt individuals’ practices’ since the costs of breaking organizational norms are ‘directly proportional to the expected longevity of membership in the organization and the expected reward to longevity’ (752).

It has been argued that a de-politicized bureaucracy not only mitigates the perverse effects of moral hazard on the part of politicians (and bureaucrats alike), it also contributes to a positive solution of the problem of adverse selection by encouraging the development of human capital and a lasting competence (Evans and Rauch 1999: 752, Miller 2000: 318, 320, 325, Rauch 1995: 970-971), namely:

- meritocratic recruitment enables the selection of least minimally knowledgeable and skillful individuals, e.g. increases the quality of human capital in governmental agencies (Evans and Rauch 1999: 752);
- de-politicization of entry is a necessary precondition for the rise of ‘the constraining and motivating power of professional norms and expectations’ (Miller 2000: 320)
- prospects of a long-term employment facilitates job-specific investments on behalf of public managers that positively affects the bureaucratic output (Miller 2000: 318);
- the fact that under civil service bureaucratic and political terms of service do not coincide provides a degree of stability (especially at the end of the political term when the attention of politicians is moved away from their lawmaking duties to reelection or a post-political career), continuity and predictability that is appreciated by investors and entrepreneurs (Miller 2000: 322).

Although relevant literature points at several additional mechanisms that may block selfish actions of bureaucrats – including SOPs (Miller 2000), public service motivation (Perry and Wise 1990), improved civic control (Deininger and Mpuga 2004), the role of the mass media and international organizations – the message of Miller’s synthesis is that moral hazard cannot be fully eliminated from a system of interdependent social production and no organizational solution can perfectly reconcile the conflict of self-interested individuals in interactive social

organizations. However, in a world of second-best solutions, civil service plays an important role in credibly constraining rent-seeking interests on behalf of powerholders and bureaucrats alike that is invariably present in a system of interdependent social production. By limiting the staffing powers of politicians, civil service reduces the number of ‘technical’ points of entry in the day-to-day process of public goods production by opportunistically minded politicians.

1.4 Conclusion

Miller’s theory of interactive social production provides a rigorous positive explanation for a century old normative claim of Max Weber and American Progressivists about the desirability of a de-politicized bureaucracy for social welfare. Approaching the issue in the context of interactive social production, Miller finds that the functioning of the state is characterized by the persistent presence of moral hazard – ‘an incentive to take actions that are destructive to efficiency’ (2000: 290) – on behalf of both politicians and bureaucrats. Having explored the intrinsic properties of the parties that are involved in a system of social production, Miller achieves rather pessimistic conclusions that social welfare cannot be perfectly protected from the rent-extracting motives of both politicians and bureaucrats. One can never be completely certain that the politician is not going to manipulate the rules to the advantage of herself and her group or that the bureaucrat is not going to use her discretion for self-enrichment. Under these circumstances, Miller looks for solutions that would reduce the negative consequences of moral hazard. In doing so, he exposes the magnitude of the threat to social welfare contained in politicians’ moral hazard and advocates civil service as a corrective to such. This is in contrast to previous research that saw the value of civil service predominantly in terms of its ability to improve bureaucratic competence and generate behavioral norms that creates intangible costs of engaging in rent-seeking behavior (Evans and Rauch 1999, Rauch 1995, Rauch and Evans 2000).

Miller, however, provides only a broad conceptualization of civil service as a solution to the problem of politicians’ credible commitment. The contribution of this chapter has been in showing how individual elements of civil service create a set of incentives for bureaucrats not to act on politicians’ instructions in day-to-day policy-making. Particular attention has been paid to the overlooked ‘politics eliminating’ properties of the civil service’s admission stage. We argue

that the public character of the admission is an important element of the whole welfare-enhancing mechanism of civil service as it diminishes the politicians' ability to make and break bureaucratic careers, making bureaucratic decision-making less susceptible to the politicians' moral hazard.

Miller's analysis is of special importance for post-Communist countries such as Russia, where 'double transition' amplified the politicians' moral hazard. On the one hand, the change from a command to market economy created the abundance of rents, which is considered by the relevant literature as the ultimate source of rent-seeking behavior (see Mauro 1995). On the other, this massive change in the 'rules of the game' was taking place in the political environment of 'weakly institutionalized democracy', where a system of checks and constraints, such as the separation of power and party discipline, was underdeveloped (Golosov 1997, 2003; Lambert-Mogiliansky *et al* 2007, Stone-Weiss 2001). In such a context the problem of political opportunism is of paramount importance for the overall well being of the society and shall be recognized as a critical issue in the design of public agencies.

This dissertation subjects Miller's theory to empirical test in a relevant milieu, as in 1995 Russia launched the administrative reform, aiming to convert its state bureaucracy from *nomenclatura*, a variety of patronage, to a de-politicized type. Our empirical proposition is straightforward: those of Russia's regions where a de-politicized bureaucracy has been institutionalized to a greater extent, exhibit greater rates of economic development than those provinces in which this organizational structure has been less fully incorporated.

The remaining of the dissertation assesses the formal-legal framework governing personnel decisions in Russian public agencies and evaluates *de-facto* institutionalization of a de-politicized bureaucracy through expert evaluations of personnel policy practices in a sample of Russia's regional governments. We then analyze the impact of 'real merit' on aggregate economic growth and small business growth in a series of OLS and 2SLS regressions. The concluding chapter of the dissertation attempts to answer the question 'Why did some regions go further in the institutionalization of a de-politicized bureaucracy than others'?

Chapter 2

RUSSIA'S PUBLIC BUREAUCRACY REFORM, 1996-2006: ASSESSING THE LEGAL CHARACTER OF RUSSIA'S PERSONNEL POLICY REGIME

This chapter discusses Russia's public bureaucracy reforms of 1995 and 2000. Assessing the major initiative in the field of personnel management the 1990s – the civil service act of 1995, called *On the Fundamentals of the State Service of the Russian Federation* – it first explores why a de-politicized – civil service – type of personnel policy was chosen in Russia. Then, it discusses the different types of state posts that existed in Russia's system of governance in the 1990s, comparing functions and employment terms of posts of category “C” – those that constitute the phenomenon of public bureaucracy – with two other categories of state posts. The central part of the chapter focuses on the personnel policy regime established by the *Fundamentals*. Legal provisions regulating the hiring, firing and promotion of public managers are discussed in great detail, and the degree of formal political discretion contained in the 1995 law is assessed with the help of the analytical framework of formal political discretion, discussed in Chapter 1. Finally, the personnel management component of Putin's public administration reform is discussed and compared with that of the 1990s period. The core argument of this chapter is that from a formal-legal point of view Russia's bureaucracy today can be characterized as being largely de-politicized.

2.1 Choosing One Type of Personnel Regime

In 1995 the first legislature of post-Soviet Russia¹ passed the law FZ-119, called *On the Fundamentals of the State Service of the Russian Federation*. The law had become one of the major legislative acts in the sphere of the country's public administration for almost 10 years.² Not only did it regulate the public bureaucracy's human resource management system, it also

¹ The legislature that operated during 1991-1993 was elected in 1990 under the Soviet electoral law, though heavily amended.

² It is interesting to note that from the time the law came into force (January 1996) until it was substituted by a new law (February 1, 2005) it had not been subjected to any meaningful amendment.

contributed to the creation of an entire system of governance of post-Soviet Russia (summarized in Table 2.1).³ The 1995 law outlined the scope of authority and employment terms for different groups of state offices, and in doing so it drew boundaries between political and bureaucratic domains of governance. Most importantly, the law introduced rules and procedure for hiring, firing and promoting career bureaucrats, which had distinctive properties of a de-politicized personnel policy regime.

Russia has been one of the frontrunners of personnel policy for public bureaucracy reform in the Central and Eastern European region. It adopted its civil service law at about the same time as Poland and the Baltic countries, after Hungary (1990/1992), but before Bulgaria, Romania, Albania (1999), Slovakia (2001) and the Czech Republic and Slovenia in 2002.⁴ Gyorgy Gajduschek summarized the reasons, spelt out in the literature, for the adoption of a civil service version of the organizational design for public bureaucracy in post-Communist countries of Central and Eastern Europe (CEE): ‘a reaction to the previous communist spoils’ system ideology and practice’, the pressure of the European Union and ‘the lack of in-depth knowledge of new trends in Western Europe, namely the New Public Management’ (2007: 345).

In Russia as in other CEE countries the preference in personnel policy design was given to a de-politicized type of bureaucracy. This choice was primarily determined by a strong negation of the *nomenklatura* type of public bureaucracy that eventually brought the countries of the region to economic disaster. In the words of Eugenia Albats, a Russian investigative journalist, in the 1990s the Soviet *nomenklatura* was widely seen by the nation as ‘self-perpetuating, self-selecting, and self-serving fraternity... that had plunged the nation into poverty...’ (2004: 5). Vladimir Yuzakov, a champion of civil service reform in Russia and a principal drafter of the 1995 law, explains that the major aim of the reform was to “modernize the whole system of relations in the state apparatus, which was based on the party-state *nomenklatura* ... the system of *personal dependence* [emphasis is mine] of a subordinate on (her) superior” (2005: 17). The situation in Russia was, however, differed from that of the CEE countries. Despite strong anti-*nomenklatura* sentiments, shared by most of the members of Russia’s elite and the general public

³ Although FZ-58 on 27.05.2003 *On the System of State Governance* and FZ-79 on 27.07.2004 *On the State Civil Service* formally introduced a new system of state governance, the major provisions of the 1995 law have remained intact.

⁴ Having adopted civil service laws in the mid 1990s, Poland, Latvia and Lithuania failed to implement them and, therefore, adopted revised laws in 1998, 1999 and 2000 respectively.

in the 1990s, the need for fundamental bureaucratic reform was at best of secondary priority for Russia's reformers and there was also strong political opposition to the idea of radical de-politicization of the state apparatus.

Unlike some of the CEE countries, reform of the state apparatus had not been on the agenda of the Communist party of the Soviet Union's reform wing prior to the regime change. Unlike, for example, Hungary, where 'well before the regime change in 1990, civil service reform had become an important issue and strong proponents of reform had emerged' (Meyer-Sahling 2001: 965), public administration reform had never been an issue for the Soviet leadership. A governmental working group, formed as late as 1989, drafted a Law on Civil Service in the USSR, which has never been enacted (Kozbanenko 2005: 4-5). A radical change of the state apparatus had never been part of Boris Yeltsin's reform package either. Even as early as 1990-91, when many politicians of emerging post-Soviet Russia, trying to gain political recognition on anti-*nomenklatura* sentiments, actively supported the idea of establishing of a de-politicized bureaucracy (Albats 2004: 5), Yeltsin was fairly disinterested in the issue of bureaucratic reform. He had no stake in conducting a large-scale de-politicization of bureaucracy. His anti-*nomenklatura* credentials were already strong because of his campaign against the *nomenklatura*'s privileges in 1986-1988 (Skinner *et al* 2007: 205-224). At the same time, as an experienced *apparatchik*, Boris Yeltsin understood that a massive influx of meritocratically chosen public managers would be perceived as a threat by the old Soviet bureaucracy (which in the 1990s comprised the bulk of the public bureaucracy) and would eventually adversely affect the course of reforms. In his own words, Yeltsin's position was the following: 'While bringing into the government completely new, young and bold people, I still considered it possible to use in government work-experienced executives, organizers, and leaders' (Yeltsin 1994: 126-127). Yeltsin signaled this position as early as in November 1991, when he, in fact, abolished a structural unit within Russia's government, responsible for the conduct of bureaucratic reform – Civil Service Department, established by RSFSR Council of Ministers resolution N 16 of 23 November 1991. In a presidential decree (No 242 of 28 November 1991) Yeltsin ruled to reorganize Civil Service Department into a Main Department for Civil Service Personnel Training (known as *Roskadri*). Bekov and Skobeyev, then the head and a deputy head of *Roskadri*, recollected that *Roskadri*'s 'functions had to be matched with its new name... A portion of originally conceived functions that clashed with the new name had to be dropped at

the stage of approval of the new agency's Statute' (in January 1992) (2003: 45). Thus, in the course of five days the agenda of bureaucratic reform shrank from a large institutional reform to issues of personnel training.

It should be noted that despite its limited scope of authority *Roskadri* developed and submitted to Russia's president in July 1992 a comprehensive document, entitled *Fundamental Principles of Civil Service in the Russian Federation*.⁵ Based on this document, a working group, representing both legislative and executive branches of power, drafted a law on Civil Service, largely in the spirit of a de-politicized bureaucracy. On 24 November 1992, the draft was presented to both chambers of the Supreme Soviet – Russia's parliament. However, from December 1992 to September 1993, when president Yeltsin terminated it, the Supreme Soviet, however, had made very little progress on the draft. It is clear that a bitter confrontation between two branches of government, which occurred in the very beginning of Russia's statehood's formation, and peaked in an armed conflict in October 1993, adversely affected the fate of bureaucratic reform.

Another important reason why the issue of public bureaucracy reform did not gain sufficient political support was the fact that it ran counter to the intellectual mindsets of Russia's reformers.⁶ One of the dimensions of that intellectual mindset was anti-totalitarianism. There was a strong conviction that the new Russian authorities should intrude less into the life, both private and professional, of Russian citizens (Yuzakov 2005: 18). These anti-totalitarian feelings went hand-in-hand with a strong belief in the 'invisible hand' of the market. The 1990s in Russia were the heyday of the idea that the market was the best available instrument of resource allocation. Therefore, the reformers' focus was on privatization and price liberalization, while the importance of a suitable institutional infrastructure, including public bureaucracy, was completely overlooked (Black *et al* 2000; Krasnov and Satarov 2004). The influence of Western neo-liberal economists, who worked as advisers to the Russian government in the early 1990s, had also contributed to the proliferation of the belief that the market was predominantly a self-enforcing system (World Bank 2006a: 5-6).

⁵ The Principles were developed in cooperation with about 70 Russian and international – mainly from France, but also from Germany, Canada and the UK – experts (Bekov and Skobeyev 2003: 60-63, 76-81; Kozbanenko 2003: 188).

⁶ As the head of *Roskadri* remembers such high-profile figures in Yeltsin's government as Egor Gaidar and Alexander Shokhin were fierce opponents of bureaucratic reform (Bekov 2001).

It is very suggestive that the major political parties of the first Duma, as diverse as the liberal democratic *Yabloko* and the Democratic Party of Russia on the one hand and the populist LDPR of Vladimir Zhirinovskiy on the other, did not take part in the development of the *Fundamentals of the State Service* in 1993-1995. The FZ-119's working group consisted of low-profile politicians, representing only three out of eleven fractions in the first Duma.⁷ Representatives of two other fractions – who were also far from being significant political figures⁸ – joined the working group just at the stage of the introduction of the draft to parliament, most likely in order to increase the chances of passing the law. Thus, the working group could neither garner a majority of the parliament's political forces, nor attract powerful political leaders, who would openly support the concept of a de-politicized bureaucracy and could effectively campaign for the introduction of a full-bodied merit administration.

On the other hand, opposition to the plans for dramatic de-politicization of the state bureaucracy also existed. Numerous members of parliament, governors and other powerholders of the day – many of whom were members of the Soviet elite – were not prepared to fully give up their control rights over the public bureaucracy. Thus, the passage of the *Fundamentals of the State Service* was one of the most troubled in the history of the first Duma. When the first draft of the law was put forward for a public discussion in June 2004, the working group received more than 700 comments, including opinions from 57 regions (Yuzakov 2005: 20). Most of these comments suggested various mechanisms of greater political control over personnel policy. Consequently, it required seven hearings by the State Duma and rejections by both the upper house of parliament and by the president before the law was finally signed by Boris Yeltsin on July 31, 1995. Therefore, the final version of the law was much weaker than initially proposed, reflecting the existence of serious opposition to the idea of taking the staffing powers away from politicians. This opposition could have been more successful had it been better equipped with suitable contra-arguments. Suitably adjusted, the New Public Management's approach could have reinforced the anti-civil service camp's position in the debate. However, sufficient knowledge of organizational alternatives for civil service, namely New Public Management, was completely lacking in Russia of the 1990s as elsewhere in CEE countries (Bossaert and Demmke

⁷ O. Zastroznaja, V. Pokhmelkin, B. Titenko, V. Yuzakov – representing an umbrella anti-Communism, pro-market and pro-democratic movement, called *Russia's Choice*; I. Murav'ev, V. Ryzkov – a loose fraction in the first Duma, called *Russia*, with broad pro-democratic standings, O. Mironov – the Communist Party of the Russian Federation.

⁸ S. Openyshev from the Agrarian Party and S. Shapovalov from the Party of People's Unity and Accord.

2003: 9-14, Gajduschek 2007). The enacted law, therefore, was ‘within the range of a political compromise’ (Kozbanenko 2005: 33), reflecting the actual power configuration.

Although the European Union’s influence has also been evident in Russia, it cannot be compared to the pressure exerted on the accession states through the policy of ‘Europeanization’. The European Union has indeed supported public administration reform in Russia through TACIS – a program of technical assistance for the countries of the former USSR (except for the Baltic states) and Mongolia.⁹ In 1991-1999 almost 15 per cent of the €4.2 billion financial package of TACIS was spent on ‘public administration reform, social services and education’ (European Commission 1999). Russia, as the single biggest recipient of TACIS funds throughout the period (Commission of the European Communities 2000: 30) could certainly have benefited from the EU financial support, had the introduction of a meritocratic bureaucracy been among TACIS’s objectives. Instead, in the 1990s the European Union’s aid was mostly focused on personnel training and re-training (as for instance, projects EDRUS 9409, 9517, 9303, 9509 and 9604), which being isolated from other initiatives of administrative reform, added little or no value to the de-politicization of Russia’s bureaucracy. In fact, in some of Russia’s regions the very participation in TACIS’s projects, especially study tours to the EU countries, was often subject to patronage distribution (interview with A. Zhdanovsky). In addition, relevant TACIS projects were dispersed among all three levels of governance – national, regional and local – that helped neither to coordinate the reform, nor accumulate the experience of reform policies for its future dissemination as ‘good practice’. Therefore, despite substantial financial resources, the overall impact of TACIS on the introduction of civil service in the 1990s was low.

In summary, two out of three reasons for the adoption of a civil service concept of organizational design of public bureaucracy in CEE countries, identified by the literature, were at force in Russia in the mid 1990s. Although anti-*nomenklatura* sentiments were strong, their possible impact on the development of a fully de-politicized and professional public bureaucracy in Russia was undermined by the fact that the very issue of bureaucratic reform was of secondary importance for Russia’s reformers. Given the strength of anti-*nomenklatura* feelings in the country, the anti-civil service camp could not sustain its case by openly arguing for a fully

⁹ The cumulative funding of TACIS between 1991 and 2006 reached almost €7.5 billion: €4,226 million between 1991 and 1999 (European Commission 2000:3) and €3,138 million between 2000 and 2006 (Council Regulation 2000).

politicized bureaucracy. The anti-civil service camp was also weakened by the inability of its members to argue their case using modern public administration discourse. Although both sides were weak, the momentum was with pro-merit forces. Evidence of confrontation between the sides could be found in the *Fundamentals of the State Service*: although it had pronounced civil service properties, it also allowed for a certain degree of political control over personnel policy. While the EU's involvement rendered a very limited support to a civil service model of Russia's public bureaucracy in the 1990s, its impact on the fate of bureaucratic reform in the first decade of the 21st century remains to be seen.

2.2 Public Bureaucracy in the Structure of Russia's Governance in the 1990s

This section dissects the structure of Russia's system of governance, established by FZ-119, in order to identify the phenomenon of Russia's public bureaucracy – the subject under study. It discusses different types of state posts that existed in Russia's system of governance in the 1990s, comparing their functions in the policy process and employment terms.

The concept of state posts (*gosudarstvennaja dolznost'*) is a building block of Russia's system of governance. FZ-119 established three categories of state posts – “A”, “B” and “C”, each of which could belong to legislative, executive and judicial branches of federal, regional or municipal levels of authority (Tables 2.1, 2.2). The existing literature tends to treat all three categories of state posts as bureaucratic offices of diminishing managerial level (Brym and Gimpelson 2004: 93). However, not all state posts can be classified as public bureaucracy. If we look at the definition of *state post*, which is a position in one of the organs of state power with a range of duties pertaining to the discharge of the authority of that organ (Article 1, FZ-119), we can see that it does not differentiate between elected (political) and non-elected (administrative) positions and can, therefore, include both of them.¹⁰

¹⁰ In addition to posts that wield state authority, there is a considerable group of workers in the state apparatus, such as typists, drivers, couriers and such, whose duties do not pertain to the execution of state power. At the end of 2000 this group of auxiliary workers accounted for between 25 (Brym and Gimpelson 2004: 96) and 30 per cent (Federal Statistical Service 2007: 56) of total employees in the executive branch at all levels of authority.

**Table 2.1 Russia's System of State Governance, 1995-2003,
Established by FZ-119 *On the Fundamentals of the State Service***

The Basis for Classification	Main Groups of State Posts
Branches of Authority	<ul style="list-style-type: none"> • legislative • executive • judicial
Levels of Authority	<ul style="list-style-type: none"> • federal in Moscow ('federal federal') • federal in regions ('federal regions') • regional • local or municipal
Categories of State Posts	<p>A) elected and non-elected posts: defining the content of public policies (law-making)</p> <p>B) non-elected posts (political appointees): assistance in law-making</p> <p>C) non-elected posts (career bureaucrats): rule-making and implementation</p>
Grades/Ranks of "C" Posts	<p>5) most senior level</p> <p>4)</p> <p>3)</p> <p>2)</p> <p>1) most junior (entry) level</p>

Table 2.2 Employed in Russia's State Organs of the Executive Branch of Power: 1995, 2000, 2006, including auxiliary staff (thousands/per cent)

	Federal level in Moscow	Federal level in regions	Regional and local authorities
1995	33,8 (3.6%)	382,4 (40.4%)	529,0 (56%)
2000	30,3 (2.9%)	374,4 (36.4%)	624,8 (60.7%)
2006	33,1 (2.5%)	616,1 (45.8%)	695,5 (51.7%)

Source: ROSSTAT, Federal State Statistics Service (2007: 56)

Consider, for instance, state posts of category "A". This category included posts established by the Constitution, charters of the regions and major federal laws. Such posts as president, prime minister, members of legislature, regional chief executives, federal ministers and judges fell under the category of federal state posts of category "A".¹¹ Similarly, each province had its own catalogue of regional posts of category "A", normally including members of the regional legislature, the governor, vice-governors and heads of the individual departments of the regional

¹¹ Presidential decree No 32 on January 11, 1995 *On the State Posts of the Russian Federation* defines a full list of posts of category "A".

government.¹² In addition, there were posts of category “A” at municipal level. A striking feature of state posts of category “A” is that it included both elected and non-elected positions. The president, members of parliament and regional chief executives were elected posts, and for the purpose of this dissertation we shall refer to them as “A1”.¹³ Judges, federal ministers, ambassadors and permanent representatives in international organizations, Chairmen of the Central Bank and Central Election Commission, the Prosecutor General, and auditors at the National Audit Office are positions (hereafter referred to as “A2”), appointment to which are made by the president and/or parliament.

The presence of elected posts in this category undoubtedly indicates that it is situated beyond the boundary of public bureaucracy, which by definition is of a non-elected character. Moreover, a detailed analysis of FZ-119 and other legal statutes, which define the scope of authority of individual posts of category “A”, suggests that “A” posts represented the top tier of governance. Thus, according to Article 1.1.1 of FZ-119, state posts of category “A” were concerned with the *direct* [emphasis is mine – MN] discharge of the authority of state organs’, compared to posts of categories “B” and “C”, which are only responsible for *making provision* for the execution of state power (Table 2.3). Whilst the language of the law is unclear, particularly the use of the notion of ‘execution’ of state power, the essence of category “A” posts is that they played a leading role in defining the content of public policies. Suffice to say that, according to the Constitution, one of the primary responsibilities of Russia’s president is *defining* the general guidelines of the internal and foreign policies of the state (Article 80.3). The Constitution makes it clear that taking major strategic decisions in foreign and domestic policies is a prerogative of Russia’s president. This function – *defining* public policies – is replicated throughout the majority of category “A” posts (exceptions being auditors and the like). In addition, posts of category “A” were not only the highest tier in the system of governance, but were essentially political. The political nature of this tier stems from the fact that incumbency of these posts was determined by the logic of politics: electoral competition for elected posts and political appointment for non-elected ones. Indeed, appointments to “A2” posts are at full

¹² The relative importance of posts of category “A” is determined by the formal and informal ‘weight’ of the governmental organization the post belongs to. For instance, formally Russian prime ministers shall be accountable to both the parliament and president, however in reality legislature has had a very little influence over the work of the prime minister.

¹³ Since February 2005 regional chief executives have been appointed by the president. Before 1995 most of the gubernatorial posts were also filled directly by the president.

discretion of the incumbents of the elected posts: most often by the president (or governor for the state posts at the regional level) alone or together with the legislature.¹⁴ Therefore, posts of category “A” essentially are, in the language of this dissertation, *powerholders*. At the end of the year 2000, posts of category “A” amounted to about 33,000, including about 12,000 non-elected offices (Brym and Gimpelson 2004: 93, 99).

Table 2.3 Legal Definitions of the Authority of State Posts, stipulated by FZ-119

Category of state post	Article	Scope of Authority
A	1.1.1	Direct discharge of the authority of the state posts, established by the Constitution, regional charters and major federal laws
B	1.1.2	Assistance to individuals – incumbents of the state posts of category “A”
C	1.1.3	Discharge and provision of the authority of state posts other than those established by the Constitution, regional charters and major federal laws

Source: Federal Law N 119-FZ of July 31, 1995 *On the Fundamentals of the State Service of the Russian Federation*

In contrast to the positions of category “A”, “B” and “C” posts are strictly non-elected. The 1995 law brings them together under the notion of *state service* – “professional public activity, providing for the discharge of the authority of organs of state power” (Article 2.1). By allocating ‘providing’ or supporting functions to the holders of “B” and “C” positions, the law underlined the subordinate nature of these offices, compared to the positions of category “A”. Although formally belonging to the same legal category, the posts of categories “B” and “C” critically differ from each other. Thus, the purpose of the positions of category “B” is to directly assist individuals occupying “A” posts (Article 1.1.2). This nature of “B” posts – *assisting* the incumbents of “A” posts – determines both the scope of their authority and employment terms and conditions. Aides and advisors are most typical posts of the category “B”. At the end of the year 2000, there were about 19,000 such offices in the executive branch of authority at all levels, which accounted for 2.5 per cent of all state posts (Brym and Gimpelson 2004: 99). Normally

¹⁴ It should be noted that the existence of administrative posts, appointments to which are subject to political will, is not a unique feature of Russia’s system of governance. Most of the “A2” posts of the executive branch of authority match a group of positions known as senior civil service that can be found in many countries with largely de-politicized and professional public bureaucracy. In countries as diverse as US, Spain or Hungary politically informed personnel management at the senior echelons of public administration coexists with civil service personnel practices for most of public managers (Lewis 2005, 2008; Meyer-Sahling 2006, 2008; Sotiropoulos 2004).

aides and advisers provide organizational, information and analytical support to their superiors in policy definition. They are not involved in the implementation phase of the policy process; neither do they possess any rule-making authority. The 1995 law stipulates that entry to the positions of category “B” is at the discretion of individuals, occupying “A” posts (Article 21.7). In order to appreciate the high degree of control that power holders wield over this group of state employees, it is sufficient to note that FZ-119 specifies no qualification standards that an individual must attain so as to be considered for a “B” office. Power holders have ‘free hands’ not only in selecting but also dismissing their cabinet members. The *Fundamentals* only limit the upper boundary of the tenure for “B” posts to the term in office of the incumbent they serve (Article 2.2). In other words, as far as posts of category “B” were concerned, FZ-119 endowed politicians with a large amount of authority over personnel decisions. Because posts of category “B” are non-elected positions, they are in essence bureaucratic posts. However, because they enjoy responsibilities, relating to the *shaping* of public policies’ content and only marginally, if anything, deal with the rule-making and implementation phases of the policy process, posts of category “B” comprise that part of Russia’s public bureaucracy which is not in the focus of this research.

Finally, posts of category “C” are those ‘established by the state bodies for the discharge and provision of their authority’ (Article 1.1.3). Although this legal norm resembles the definition of the powers of “A” posts (discharge of the authority) and the definition of the powers of “B” positions (provide for discharge), posts of category “C” differ from both of those. Unlike “A” posts, positions of category “C” do not wield the authority to define public policies. The range of the posts of category “C” – from deputy ministers and heads of divisions within the federal ministries, regional and municipal administrations at the top, to front-desk clerks at the bottom (Article 6.1) – undoubtedly indicates that these posts are charged with the rule-making and implementation duties of the policy-making process, which are key prerogatives of public bureaucracy (Kerwin 2003; Peters and Pierre 2003: 1-2). It is important to note that at the heart of the job description of the posts of category “C” was the notion of expertise – a set of particular knowledge and skills, stemming from the functional peculiarities of individual posts and the specificity of the jurisdiction of the state organ they belonged to (Article 6.2.). Therefore, unlike “B” posts, which were functionally attached to the incumbents of “A” offices, positions of category “C” were expertise-based posts. In order to occupy a “C” position an individual should

have had ‘a relevant professional education’ (Article 6.3). The level and the field of education were two out of four core qualifying requirements for the holders of category “C” positions (Article 6.3.1-6.3.2). Another two were the length of job-related experience and a good knowledge of the Constitution and other major legislative acts, ‘applicable to the performance of relevant official duties’ (Article 6.3.2-6.3.3). The actual value of these requirements varied according to the rank of the post in a system, ranging from 1 (entry, most junior level) to 5 (most senior level).¹⁵ Thus, the role of posts of category “C” as stipulated by FZ-119 is expertise-based professional activity in the area of rule making and implementation of the policy process. It is the notion of expertise, which gave rise to a specific personnel policy regime, relating to the posts of category “C”, which is discussed in greater detail in the sections that follow.

In sum, of the four categories of state posts introduced by FZ-119, posts of categories “A2”, “B” and “C” are non-elected and, therefore, formally bureaucratic posts. However, in view of the role that these posts play in the policy process, only posts of category “C” represented Russia’s public bureaucracy since only posts of this category were responsible for the rule-making and implementation stages of the policy process. Posts of category “C” constituted the bulk of Russia’s public bureaucracy – at the end of 2000 they accounted for about 96 per cent of state posts of the executive branch of authority at all levels (Brym and Gimpelson 2004: 99). Our analysis focuses exclusively on this group of governmental officials. The majority of these posts, as the following sections of the chapter argue, were *de-jure* subject to a personnel policy regime of low political discretion.

2.3 Analytical Framework of Formal Political Discretion

Next, we turn to the analysis of the personnel policy arrangements under FZ-119 so as to determine the amount of authority that politicians wielded over personnel decisions and, ultimately, to determine the extent of de-politicization of Russia’s public bureaucracy. For this purpose we apply the analytical approach for the assessment of formal-legal frameworks governing bureaucratic personnel policy, developed by Jan-Hinrik Meyer-Sahling (2003, 2004,

¹⁵ A single rank could have had more than one post. Magun *et al* found out that an average bureaucratic ladder in regional and municipal bureaucracies in Russia in the 1990s consisted of 12 ‘steps’ (2003: 111).

2006). The section that follows outlines the major tenets of Meyer-Sahling's analytical framework of formal political discretion and discusses its further developments that permit to determine the extent of de-politicization of the public bureaucracy with greater accuracy.

Drawing on the so-called 'delegation studies' literature (for an overview see Pollack 2002), Meyer-Sahling develops the notion of *formal political discretion*, which is the possibility, provided in law, for a politician to determine the outcomes of personnel policy (2006: 699).¹⁶ One of the two major domains in which political discretion is exercised is the allocation of personnel within bureaus, i.e. appointments, promotions, lateral transfers and dismissals of bureaucrats (Meyer-Sahling 2006: 697).¹⁷

Meyer-Sahling argues that the law may limit the possibility for a politician to determine who gets appointed, promoted and dismissed (or determine the degree of formal political discretion) in two ways: 1) by sharing authority in personnel decision-making with other actors and 2) by procedures and requirements that a politician has to follow whilst taking personnel decisions.

With regard to the distribution of decision-making authority, Meyer-Sahling notices that 'civil service legislation rarely delegates unilateral authority over different kinds of allocation decisions to a minister *per se*' (2006: 697). He argues that it is more common to see decision-making arrangements in which politicians share the power to decide the personnel policy outcomes with other political or administrative actors. There are also situations when the authority over personnel decisions is delegated to an autonomous body, which is separated from a direct line of political subordination (as is the U.S. civil service commissions). Moreover, in some cases personnel decisions may be the result of administrative rules that do not require a residual decision-maker, as, for instance, seniority-based promotion in a classical civil service.

In other words, Meyer-Sahling explicitly distinguishes between political and administrative actors involved in personnel decision-making. Implicitly, however, he also differentiates between unitary and collective actors. In particular, he argues that the power of a politician to achieve a desirable outcome may be restricted through the need to get involved in collective action (2006:

¹⁶ This is in contrast to the classical notion of discretion, which is conceptualized as the amount of policy-making authority delegated by political principals to the bureaucratic agents, adjusted for the amount of procedural constraints imposed upon the bureaucracy to restrict its leeway (Epstein and O'Halloran 1999: 109).

¹⁷ The second domain – the determination of the levels of bureaucratic pay – is outside the focus of this thesis.

697). A distribution of these four properties – unitary, collective, political and administrative – produces a hierarchy of decision-making authorities with regard to the ability of politicians to determine the outcome of personnel decisions (Table 2.4).

Table 2.4 Types of Decision-Making Authority and Degrees of Formal Political Discretion

Decision-Making Authority	Degree of Formal Political Discretion
Unitary Political Actor	The highest
Collective Political Actor	
Collective Politico-Administrative Actor	
Unitary Administrative Actor	
Collective Administrative Actor	
No Formal Residual Decision-Maker	

Thus, when the law authorizes a unitary political actor to take personnel decisions unilaterally, the possibility for a politician to determine the outcome of personnel policy is ranked as the highest. The degree of formal political discretion is lower than this, if law authorizes a group of politicians to be a decision-making authority in personnel matters. It is so because the need to get involved in collective action creates considerable obstacles for individual actors to control the process fully (Meyer-Sahling 2006: 697, Falachetti and Miller 2001). Two politicians representing the same political party may disagree about, say, the best candidate for a certain bureaucratic post, creating difficulties for each other’s candidates to get appointed. Consequently, ‘a minister will only be able to appoint a civil servant with matching preferences to the extent that other parties involved in the appointment procedure will share the same preferences’ (Meyer-Sahling 2003: 46). The more the preferences of the decision-makers diverge, the more difficult for individual politicians to achieve the desirable outcome in personnel decisions (say, to appoint the preferred candidate to a bureaucratic post). Therefore, if the decision-making authority is made up of both political and administrative actors (whose preferences about personnel decisions are assumed to be different than those of politicians), the degree of formal political discretion is said to be lower than in the first two cases. Consequently, when only administrative actors constitute the decision-making authority, the degree of formal political discretion is thought to be low because formally politicians are excluded from the decision-making process.¹⁸

¹⁸ It should be noted, that Meyer-Sahling discusses the notion of formal, i.e. prescribed in law, political discretion. At the same time, he rightly recognizes that politicians may exercise a sort of informal political discretion by, say, subjecting the administrative members of the decision-making authority to informal political influence (2003: 50).

The freedom of politicians to determine the outcomes of personnel policy is restricted not only by the extent of the representation of the current holders of political power in the decision-making authority but also by ‘the extent to which the exercise of this authority is subject to specific procedural constraints’ (Meyer-Sahling 2006: 699-700). For instance, law may limit a politician’s appointing authority by requiring successful candidates to have a certain level of qualification and/or experience. Procedural constraints vary from being minimal or soft to ‘a dense web of formalized standards and procedures’ (Meyer-Sahling 2003: 50). In other words, as procedural constraints become more restrictive, the politicians’ ability to determine the outcomes of personnel decisions, or the degree of formal political discretion, diminishes.

Thus, by determining the composition of the decision-making authority and the strength of procedural constraints, personnel legislation may allow different degrees of formal political discretion: ranging from the highest, when law grants decision-making authority to political actors and stipulates a minimum or no procedural constraints, to lowest, when the decision-making authority is of a non-political nature and operates within multiple and confining procedures or when decisions are determined by administrative rules without the involvement of a formal residual decision-maker.

Based on the idea of degrees of formal political discretion, Meyer-Sahling develops a typology of personnel policy regimes.¹⁹ Focusing on the decision-making authority in two personnel allocation domains (initial hiring and further promotions) and on procedural constraints in four domains of personnel policy (initial hiring, promotion, transfers and dismissals),²⁰ he outlines four archetypes of personnel policy regime:

- De-politicised Personnel Policy Regime, which is characterized by a low degree of formal political discretion, as personnel legislation assigns politicians no place in the decision-making authority and introduces multiple and confining procedures;

¹⁹ Following the notion of political regime, which is the institutional arrangements that structure the access to and the exercise of political power (O’Donnell and Schmitter 1986), Meyer-Sahling suggests the concept of personnel policy regimes as ‘institutional arrangements that structure access to the specific set of personnel policy instruments and structure the way they are exercised (2003: 51).

²⁰ He also assesses the degree of formal political discretion in the remuneration domain of personnel policy process. Although we do not include this domain in the present analysis, this does not change the nature of the identified types of personnel policy regimes.

- Personnel Policy Regime of Structured (or Bounded) Politicisation, which is characterized by a low to medium degree of formal political discretion, as personnel legislation makes politicians only co-decision-makers together with other actors (at least some of whom are administrative actors) and regulates their decision-making through a dense web of norms and procedures.
- Personnel Policy Regime of Open Politicisation, which is characterized by medium to high levels of formal political discretion, as personnel legislation grants decision-making authority to political actor(s) and stipulate soft procedural constraints upon its exercise.
- Personnel Policy Regime of Unbounded Politicization, which is characterized by the highest levels of formal political discretion, as personnel legislation authorizes unitary political actors to take personnel decisions in the absence of any meaningful procedural constraints upon the exercise of such an authority (2003: 52-69).

We further develop this typology by revisiting two important elements of the conceptual framework of formal political discretion. Firstly, although Meyer-Sahling makes an implicit statement on the distinction between the unitary and collective nature of the decision-making authority (2006: 697), he does not use this distinction in his typology of personnel policy regimes. However, as discussed above, the difference between a unitary political actor and a collective political actor representing the decision-making authority makes a considerable difference to the nature of such an authority because the requirement to be involved in collective action limits the possibility frontier for individual politicians to determine the outcomes of personnel policy. This distinction, therefore, should find its place in the typology of personnel policy regimes.

Secondly, we suggest a different classification of the personnel policy domains as far as the personnel allocation is concerned. Instead of the four domains identified by Meyer-Sahling – admissions (initial appointment), further appointment (promotions), lateral transfers and dismissals – we suggest the following four domains: admissions, appointment, promotion/demotion/horizontal transfers and dismissals. The key difference between the two classifications is that whilst the former considers that the process of personnel allocation begins with the initial appointment, the later recognizes the pre-appointment stage as an important

integral phase of personnel policy process. As chapter 1 argues, the function of the pre-appointing stage is to determine the pool of candidates for the consideration of the appointing authority. The ability to determine the pool of candidates is in itself a distinctive power, which differs from other personnel powers such as, for instance, the power to appoint or dismiss. As with any other personnel authority the power to determine the pool of candidates (or the admission power) may be exercised by a variety of actors and may be subjected either to stronger or softer procedural constraints. Thus, for instance, in patronage this authority belongs to a unitary political actor whose actions are constrained neither by formal eligibility criteria, not by the requirement to publicize the information about bureaucratic jobs in the mass media. In contrast to patronage, in civil service admission relating decisions are the result of strict administrative rules (i.e. formal eligibility criteria and the detailed requirements to regularly publicize the information about bureaucratic jobs in the public domain) that do not require a residual decision-maker. Thus, at the admission stage of the personnel process it is possible to differentiate different types of decision-making authority (according to the classification contained in Table 4.2) and the strength of procedural constraints upon its exercise, whose character – from the politicized/de-politicized point of view – may be different than the decision-making authority and procedural constraints of the appointing stage.

For instance, the law may only loosely regulate the admission, allowing the politician who oversees a particular bureaucratic post to determine the pool of candidates. At the same time the law may require the politicians in question to engage with other political or administrative actors with regard to the appointment decisions. In other words, the degree of formal political discretion at the admission stage may be higher than at the appointment stage and, obviously, vice versa. Consequently, analyzing entry to bureaucracy as two phases (i.e. admission and appointment), each of which has a distinctive decision-making authority and procedural constraints, permits us to determine the nature of a personnel policy regime with a greater precision. Therefore, admission should be included in the typology of personnel policy regimes as a distinctive stage and thoroughly analysed when the character of a personnel policy regime is assessed.

The revisited categorization of personnel policy regimes is reported in Table 2.5. Unlike Meyer-Sahling's typology, which distinguishes between a political and an administrative decision-making authority in only two personnel allocation domains (initial hiring and further promotions), it accounts for four properties of the decision-making authority (and the strength of

procedural constraints upon its exercise) at each individual stage of personnel policy process, including admission. Accounting for a larger set of phenomena that matter for understanding the extent of de-politicization of a public bureaucracy and organizing the relevant variables in a more coherent way, the new typology permits those engaged in comparative bureaucracy research to determine the character of a personnel policy regime with greater accuracy.

In summary, whilst the idea to differentiate bureaucracies on the basis of the amount of staffing powers wielded by politicians – i.e. a politicized bureaucracy if politicians retain full control over hiring, firing and promotion and a de-politicized bureaucracy, if their staffing powers are limited – was not alien to public bureaucracy scholarship (Frant 1993, Ruhil 2003, Tolbert and Zucker 1983), Meyer-Sahling's framework of formal political discretion offered an analytical tool for a systematic and comparative analysis of the extent of de-politicization of public bureaucracies. We reconsidered two important elements of the framework – the categorization of the decision-making authorities and the classification of the personnel policy domains. This revision has improved the precision of this analytical framework as far as its capacity to determine the degree of formal political discretion and ultimately the extent of de-politicization of the public bureaucracy under consideration are concerned. By enabling researchers to determine with greater accuracy the character of the public bureaucracy this improved framework, and the new typology of personnel policy regimes developed on its basis, constitutes a useful contribution to the literature. It served us as a guideline for the assessment of the character of Russia's personnel policy regime, established by FZ-119 and subsequent acts.

Table 2.5 Typology of Personnel Policy Regimes

Regime Type/ Attributes	Unbounded Politicization/ Patronage (Band A)	Open Politicization (Band B)	Structured Politicization (Band C)	Fully De-Politicized/ Civil Service (Band D)
Admissions: Authority	Unitary political actor	Political (unitary or collective) actor	A collective politico-administrative actor	No residual decision-maker
Admissions: <i>Procedural Constraints</i>	No formal eligibility criteria; No requirement to publicize the information about bureaucratic jobs; Citizens do not have the right to seek employment on their own initiative; No right to appeal	Formal eligibility criteria; Minimal requirements to publicize the information about bureaucratic jobs; Formal check of the information provided by job applicants; Citizens do not have the right to seek employment on their own initiative; No right to appeal	Formal eligibility criteria; Formal requirement to regularly publicize the information about bureaucratic jobs; Formal check of the information provided by job applicants; No right to seek employment on their own initiative; Right to appeal	Formal eligibility criteria; Formal requirement to regularly publicize the information about bureaucratic jobs; No formal check of the information provided by job applicants (information is considered true until otherwise is proved); Citizens have the right to seek employment on their own initiative; Right to appeal
Appointment: Authority	Unitary political actor	Political (unitary or collective) actor	A collective politico-administrative actor	Administrative (unitary or collective) actor or no residual decision-makers
Appointment: Procedural Constraints	No (employment at politicians' will)	Minimal qualification/experience requirements; No formal recruitment procedure; No right to appeal	Compulsory qualification/experience requirements; Formal vacancy contests; Rejected candidates have right to appeal	Compulsory qualification requirements; Formal vacancy contests; Rejected candidates have right to appeal
Promotions (demotions/transfers): Authority	Unitary political actor	Political (unitary or collective) actor	A collective politico-administrative actor	No residual decision-maker
Promotions (demotions/transfers): <i>Procedural Constraints</i>	Possible at all times at will without giving reasons; Transfers do not require consent of bureaucrat; No right to appeal	Minimal qualification/experience requirements; No formal procedure; Transfers do not require consent of bureaucrat No right to appeal	Compulsory qualification/experience requirements; Formal procedure; Transfers require consent of bureaucrat; Right to appeal;	Seniority-based, internal only, promotions; Transfers require consent of bureaucrat; Right to appeal
Dismissals: Authority	Unitary political actor	Political (unitary or collective) actor	A collective politico-administrative actor	No residual decision-maker
Dismissals: <i>Procedural Constraints</i>	Possible at all times without giving reasons; No formal procedure; No right to appeal	Permanent tenure, but dismissals are possible under a range of circumstances	Permanent tenure; Dismissals possible under a small set of clearly defined circumstances Right to appeal	Permanent tenure; Dismissal possible only in exceptional cases (such as bribery and other criminal convictions)

2.4 Personnel Policy Arrangements under FZ-119 (1996-2005)

2.4.1 Admission

In the Soviet era entry to public bureaucracy was tightly controlled by the Communist Party, whose higher ranks distributed bureaucratic posts at their will. The Party-administered *nomenklatura* system of personnel management was a classic instance of an unboundedly politicized personnel policy, where public information about job opportunities, a formal recruitment procedure, compulsory qualification requirements and the right to appeal did not exist (Afanas'ev 2000, Atamanchuk 2002: 29-49, Voslensky 1984, Willerstone 1992). For this reason a career in the state apparatus was simply not a viable choice for the majority of the Soviet citizens. Those who managed to get into the '*nomenklatura* machine' did not play any substantial part in the recruitment process, but were mere recipients of the powerholders' will. In the beginning of the 1990s, despite the change of political regime, the situation remained largely the same. The delay in the adoption of a new set of rules for hiring, firing and promotion meant that information about vacancies in the public bureaucracy remained private, distributed among relatives, friends and acquaintances of politicians and high-ranking bureaucrats, who continued to appoint and dismiss rank-and-file bureaucrats at their will. Thus, in September 1995 the author of this study received information about a vacancy in one of the departments of the Krasnodar regional government, privately communicated to her by one of the department's senior officials. An informal interview with the head of the department resulted in the author's employment at that agency in late September 1995.²¹ Under rules such as these, a job seeker may find herself drawn into private, almost secretive, relations with her potential boss. The highly personalized nature of the relationships between the bureaucrat and her superiors makes a prospective civil servant subject to formal and especially informal pressures in the working environment. As a rule, the absence of public and transparent admission procedures goes hand-in-hand with the power of the superior to lay off a bureaucrat at any time. It is this combination which condemns a bureaucrat to complete control by powerholders.

²¹ The subsequent two years of work for that state agency confirmed that the way the author entered the service was the prevailing form of filling the vacancies at that and other departments in the regional administration.

FZ-119 authorized a set of rules that substantially transformed the roles of jobseekers and powerholders in the admission process. Two provisions were particularly important here. Firstly, the law enabled individuals to seek admission to the public bureaucracy on their own initiative (Article 9.5) and protect this right in court (Article 9.2). Secondly, as FZ-119 authorized vacancy contests as a major hiring mechanism to state posts of category “C”,²² they made it compulsory for the governmental organizations of all levels and branches of authority to publicize vacancy contests in the mass media – designated newspapers and websites of the state organs (Article 22.7). In practice this meant that any Russian citizen meeting formally established eligibility criteria – not only a relative, friend or member of a privileged group (such as *nomenklatura*) – could file an application for a publicly announced bureaucratic post. From a legalistic standpoint, filing an application implied that a job seeker automatically becomes a party to the recruitment process (Ivanova 2002: 30). Consequently, such an application could not be blatantly ignored or arbitrarily dismissed by powerholders because the public character of the information on bureaucratic vacancies puts the politician’s actions under the scrutiny of job seekers (including legal actions), political rivals and the mass media. Therefore, new admission rules had the capacity to populate the recruitment process with a large number of job seekers who were no longer mere recipients of political will, but a pro-active type of job applicants, purposefully pursuing bureaucratic careers and possessing the tools to protect their pursuit from the possible arbitrary actions of powerholders. The *openness* of the recruitment process changes the balance of power or acts as a ‘politics eliminator’ (Civil Service Assembly 1942: 5). Another important implication of the open character of the admission process as stipulated by FZ-119 was its capacity to considerably upset deeply entrenched relations of personal dependency that existed between powerholders and bureaucrats under the Soviet rule and in early post-Soviet period (Afanas’ev 2000, Voslensky 1984). As jobseekers become engaged in the recruitment process via publicly available information, i.e. independently of the powerholders’ will, the very grounds upon which the relationships of personal dependency between the job-receiver and the job-giver

²² Only entry-level positions, which at the end of 2000 accounted for between 11.8% (federal bureaucracy situated in Moscow) and 35.8% (regionally stationed federal bureaucracy and bureaucracy of regional governments) of all state posts of category “C” remained exempt from vacancy contests. For further discussion see the next section.

rest are eradicated. When such an independent jobseeker attains the status of employment, the ability of politician to apply informal adverse pressure is significantly reduced.

According to the legislative intent, regular job announcements in the mass media (Article 22.7) should have played an important role in achieving the openness of the recruitment process. Regular circulation of information on bureaucratic vacancies in the public domains should have enabled independent jobseekers to present themselves to the appointing authority. Despite calling for obligatory vacancy advertisement, FZ-119 did not set a clear mechanism for the practical implementation of this rule.²³ FZ-119 was designed as so-called ‘framework law’: besides containing 42 references to the existing statutory acts, it required the enactment of more than 35 other laws and regulations that would bring its provisions into action (Kozbanenko 2005: 198-199). As it is well known from the history of civil service adoption the absence of detailed direction rules and mechanisms and loopholes in the relevant legislative statutes often subject law enforcement practices to the arbitrary decisions of powerholders (Gajduschek 2007, Manning and Parison 2003, Sotiropoulos 2004). Therefore, it is plausible to assume that powerholders with strong patronage preferences could use the law’s imprecision to suppress the openness of the admission process by offering a pretence of the implementation of Article 22.7. We take this into consideration upon designing the instrument for the assessment of the institutionalization of a de-politicized bureaucracy in Russia.

The right of individuals to self-present themselves to the appointing authority was not unconditional. FZ-119 limited it by minimal eligibility criteria. Any Russian citizen over 18 years of age, who had a good command of the Russian language, was eligible to apply for available posts in the public bureaucracy (Article 21.1). These minimal eligibility requirements were supplemented by seven conditions under which an individual could not be a member of the public bureaucracy. As can be seen from Table 2.6 in addition to rather standard medical (1, 3), criminal (2) and security (4, 6) considerations, the law forbade immediate family members of acting officials (if the service involves direct subordination or control of one person over the other) and those citizens who refused to disclose their financial statements to apply for jobs in

²³ The entire clause on vacancy advertisement consisted of only 20 words that seemed more like a declaration of the principle than a direct action norm.

public bureaucracy. The ‘immediate relatives’ clause is entirely in accord with the theory of welfare-enhancing public bureaucracy: in order to ensure that politicians stay away from the day-to-day bureaucratic production process their opportunities to influence bureaucratic decision-making, including those opportunities that stem from family relations, should be minimized. Similarly, the clause on the disclosure of the jobseeker’s financial situation satisfies a requirement for a de-politicized bureaucracy, which prohibits public managers from being involved in any other paid activity (Meyer-Sahling 2003: 60).

Table 2.6 Conditions Under which Individuals cannot be Admitted to (or continue to hold) a State Service Position

1	If the individual is recognized by a court decision that has entered into legal force as legally incompetent or partially incompetent
2	If the individual is deprived the right to hold public offices in the civil service (during specific time) by a court decision that has entered into legal force
3	If the individual has an illness, which prevents her carrying out her official duties, and which has been confirmed by the medical institution in writing
4	If the individual refuses to undergo the authorization procedure for accessing information making up a state secret, if the duties of the post, contested by the individual, is associated with the use of such information
5	If the individual is in close kinship (parents, spouses, siblings, children and children of spouses) with current members of the state service (e.g. holders of posts of categories “C” or “B”), if their service is associated with direct subordination or control of one person over the other
6	If the individual has a citizenship other than Russian (except for the cases when access to the state service has been adjusted on a mutual basis by intergovernmental agreements)
7	If the individual refuses to submit to the state tax service information about the taxable incomes and property that belongs to her by right of ownership

Source: Article 21.3, Federal Law N 119-FZ of July 31, 1995 *On the Fundamentals of the State Service of the Russian Federation*

Thus, key admission criteria – eligibility – were set forth by an administrative act, not a residual decision-maker, which, following the logic of the theoretical framework employed for

this analysis, represents a significant constraint on politicians' discretion. Moreover, FZ-119 was clear that no additional eligibility requirement could be established by any federal or regional law. This was important for precluding the emergence of a residual decision maker as a secondary authority over this component of the admission process, which could potentially alter the set of eligibility criteria established by FZ-119 and 'stack the deck' of the admission process in favor of the politicians' preferred candidates.

Having clearly specified eligibility criteria, FZ-119, however, failed to prescribe clear procedural guidelines for the verification procedure. The law stipulated that all information and documents provided by the applicant²⁴ was subject to verification '*in accordance with the procedure established by a federal law*' (Article 21.5). The required law was, however, never adopted, which left an important verification authority unspecified. This would appear to present powerholders with the opportunity to usurp verification authority and use it for the exclusion of undesirable candidates from the admission process on the grounds of eligibility. In fact, even if it was the case that the verification authority could be usurped, the existence of the following two constraints would prevent this from happening. First of all, the accepted eligibility criteria were in the public domain and were known to all concerned parties. Furthermore, FZ-119 did not permit for additional and potentially discriminatory criteria to be introduced in order to support the politicians' preferences. Secondly, rejection of an applicant on grounds of eligibility had to be given in writing, and would therefore have to stand the scrutiny not only of the disappointed applicants, but also of a court of law with the power to enforce eligibility criteria already existing in the public domain. Therefore, despite the failure to pass the required follow-up legislation, the conditions contained within FZ-119 were sufficient to severely limit the ability of powerholders to blatantly exclude candidates on the grounds of eligibility. To do so could result in a costly court case requiring evidence-based justification.

To sum up, a set of admission rules, established by the 1995 law, exhibited important features of a fully de-politicized bureaucracy. Firstly, in their pursuit of employment in public bureaucracy, individuals were entitled to act on their own initiative. As filing an application for a

²⁴ This includes the statement on the absence of a citizenship other than Russian and immediate relatives in office, ID, educational certificates, official record of employment – a country-specific document called *trudovaja knizka* – tax return and medical certificate.

vacancy automatically made a jobseeker a formal party to the recruitment process, the political monopoly over admission was over. Although both parties were endowed with rights and obligations, the emphasis of the law was on the jobseekers' rights – to seek employment on their own initiative and to appeal irregularities in court. This encouraged the job applicants to actively oversee due implementation of the admission rules, further diminishing the powerholders' control over the personnel policy's outcomes. Moreover, a legal requirement to publicize most of the vacancies in the mass media had the capacity to populate the recruitment process with a large number of 'awkward' (from powerholders' point of view) job candidates, preventing large-scale abuse of jobseekers' rights by powerholders. Secondly, the admission rules had the capacity to transform the relations of personal dependency in the working environment, thus providing powerholders with fewer opportunities to intervene in the day-to-day bureaucratic decision-making. As jobseekers become engaged in the recruitment process via publicly available information, i.e. independently of the powerholders' will, it eradicates the grounds upon which the relationships of personal dependency between the job-receiver and the job-giver rest. However, the 'framework' nature of FZ-119 created opportunities for powerholders to retain some control over admissions. The lack of clearly specified rules and procedures for publishing information on bureaucratic vacancies could have been used by powerholders with strong patronage preferences to sabotage the proper enforcement of this requirement and to suppress the openness of the admission process. Finally, key admission criteria – eligibility – were set forth by an administrative act, not a residual decision-maker, which following the logic of the formal political discretion analytical framework represents a significant constraint on politicians' discretion. Despite the failure to legally establish the eligibility verification protocol (that could be seen as an opportunity for powerholders to seize the verification authority), our analysis suggests that the eligibility clause of FZ-119 severely limited the ability of powerholders to blatantly exclude candidates on the grounds of eligibility.

2.4.2 Appointment

Although law can significantly limit powerholders in their ability to determine the pool of candidates for bureaucratic posts, their role in the appointment process – whether their hands are tied or free – is the essential attribute of a personnel policy regime. Following the tenets of the employed analytical framework, the focus is on the distribution of decision-making authority and the procedural constraints upon its exercise. In an openly politicized regime, such as one of classical patronage, the authority over appointment decisions belongs to a unitary political actor with minimal or no procedural constraints (band A), while in the civil service (band D) the power to appoint belongs to a collective administrative actor (as, for instance, the US civil service commission), whose functioning is encased into strict procedural standards. In between these poles there are personnel policy regimes where a political actor shares the power to appoint with other political and/or administrative actors. A specific combination of power-sharing arrangements and procedural constraints determines the more pro-patronage (band B) or pro-civil service (band C) position of a given polity along the range of personnel policy regimes. In Russia FZ-119 authorized a mixed appointing regime: it assigned the power to appoint to entry-level posts of category “C” to the head of the recruiting agency, while a collective institution, known as vacancy contest jury, was made the appointing authority for the rest of state posts of category “C” (Article 22.9). The work of both of the authorities was encased into a number of procedures, regulating the exercise of their powers. The section that follows evaluates in detail the content of Russia’s legislation with regard to the appointment so as to determine its precise location on the patronage-civil service continuum.

The key to understanding how public managers are hired in contemporary Russia is the principle of meritocracy. FZ-119 proclaimed meritocracy as the main principle regulating appointing issues, where merit was understood as a combination of individual’s educational achievements and demonstrated capabilities to carry out a specific, expertise-based job (Article 5.5). As the core mechanism of meritocratic entry to public bureaucracy the law authorized vacancy contests (Article 22.4).²⁵ A vacancy contest is a formal procedure in which a collective

²⁵ In the executive branch of federal and regional levels of governance appointments to as many as 80% of posts of category “C” were subjected to formal vacancy competitions.

appointing authority – vacancy contest jury – evaluates formal professional credentials and/or knowledge and skills of eligible entrants and determines the winner. Thus, from the standpoint of the distribution of decision-making authority, this appointing scheme leans towards the civil service end of the continuum since the collective nature of vacancy juries (the need to get involved in a collective action) creates considerable obstacles for individual members of the organization to control the process fully (Meyer-Sahling 2006: 697, Falachetti and Miller 2001).

However, apart from proclaiming the collective nature of the juries and stressing that their decisions constitute the ultimate ground for the appointment (Article 22.9), FZ-119 clarified neither the composition of the vacancy contest juries, nor their *modus operandi*. The law left these and many other issues relating to the conduct of vacancy contests to the follow-up legislation, which would be developed by a special agency – the Council on Civil Service under the auspices of Russia’s president (Article 26). The *Fundamentals* stipulated that the Council, consisting of equal numbers of representatives of the president, both chambers of the parliament, the federal government and the higher judicial authority, was designed as the higher authority on state personnel matters. Not only would it adopt the required sub-statutory legislation, but also monitor its enforcement as to ensure competence and safeguard the political neutrality of the bureaucracy and even perform some day-to-day functions such as keeping a register of career public managers, (re)-training public managers and assisting recruiting agencies methodologically (Article 26.2). Similar Councils should have been established in each of the Russian provinces (Article 27). However, neither federal nor regional councils have ever emerged as autonomous merit protection bodies: while the federal council had only a couple of organizational meetings and by the end of 1997 disappeared altogether, a handful of regional councils which came into being in 1996-1998 have never performed the functions for which they were meant (Maning and Parison 2003: 55). The failure to institutionalize a merit protection autonomous body was a major setback to bureaucratic reform in the mid 1990s, since some aspects of human resource management remained in the form of general principles (as opposed to direct-action rules), inevitably subjecting law enforcement to the arbitrary decisions of power holders.

With regard to the appointment powers, the failure to establish the Councils led to a situation of legal vacuum on the matter, which lasted from January 1996, when FZ-119 came into force, until the end of April, when presidential decree N 604, regulating the conduct of vacancy contests in the organizations of the federal government, was published. Although the presidential decree N 604 has been rightfully criticized for the lack of clear criteria, necessary for the unequivocal practical use of the principle of meritocracy (Koichumanov and Lukashenko 2004: 12), it represented a significant step towards a de-politicized public bureaucracy as it provided recruiting agencies with a number of clear direct-action rules and mechanisms related to the vacancy contest conduct.

Although formally presidential decree N 604 authorized the conduct of the vacancy contests in the federal state organs, Article 3 of the decree recommended the regional authorities to follow the ‘federal’ norms and procedures in conducting their vacancy contests. The enactment of both FZ-119 and presidential decree N 604 provided the regional lawmakers with guidelines for developing their bureaucracies based on uniform principles. Within a couple of years after the adoption of the decree most regional authorities enacted relevant legislation, containing the ‘federal’ standard. Having analyzed regional civil service laws, Kozbanenko describes them as being ‘mostly consistent’ with the federal law, being similar to it ‘in form and structure, reproducing its general-regulation provisions’ (2003: 202). Therefore, the rules contained in presidential decree N 604 constituted a legal framework, regulating vacancy contests in Russia’s governmental organizations at federal and regional levels of all branches of power for almost nine years (until the beginning of 2005 when another legislative act governing vacancy contests came into force).

According to the decree, the make-up of the vacancy contest juries was to be decided by both a relevant Council on Civil Service together with the head of the recruiting state organ (Article 11). In the light of the fact that by the time the decree was issued the Councils’ fate was already clear, the decree, in fact, permitted the heads of the recruiting agencies, most of whom were either politicians or political appointees (holders of state posts of category “A”), to decide on the juries’ composition unilaterally. It is plausible to think that endowed with the right to decide on the composition of the jury, the head of the recruiting agency would be able to bring

aboard loyalists – those who would assist (rather than impede) the achievement of the contest's outcome as desired by the powerholder. In such a case, vacancy contest juries effectively stop being a collective body and the positive effect of the collective nature of the appointment authority disappears. Presidential decree N 604, however, placed limits on the head of the recruiting agency's right to decide the make-up of the vacancy jury by requiring the presence of independent experts on juries (Article 11).²⁶ The independent experts' ability to constrain the appointing authority of the head of the recruiting agency was twofold. Firstly, as outsiders to both political and administrative domains independent experts did not form a part of the power relations (formal and informal) existing in a given public bureaucracy and constituting a relatively independent faction of the jury. Secondly, experts' assessment of job candidates was a function of their professional judgment and not of political considerations. Therefore, the vacancy jury was not simply a collective decision-making authority, but a collective institution in which the preferences of the decision-makers considerably diverged. Since in a welfare-enhancing bureaucracy it is desirable for preferences between politicians and public managers to diverge and it is more difficult to get them aligned if the preferences of those who make appointing decisions considerably diverge (Hammond and Hill 1993, Meyer-Sahling 2003: 46, Miller and Falaschetti 2001), the presence of independent experts plays a welfare-enhancing role. Hence, from the standpoint of the distribution of decision-making authority the hiring scheme, established by FZ-119, falls into the category of a structured politicization (band C). It is so because of the collective nature of vacancy juries and the divergence of the preferences of their members, achieved by the presence of both administrative actors and the independent experts, created considerable obstacles for the head of the recruiting agency to determine the outcomes of the appointing process.

However, the above represents only part of the equation. In order to comprehend the nature of the appointing regime fully, it is also necessary to take into consideration how the exercise of power is structured. For this we have to look at formal-legal procedures authorized by FZ-119 that could constrain or enhance the ability of powerholders to influence the outcome of the hiring process. The major set of constraints stemmed from the principle of meritocracy, which was

²⁶ The decree did not specify the exact number of experts. It implied, however, that more than one was required.

institutionalized in law. Having proclaimed meritocracy as the major hiring principle, FZ-119 also introduced a number of specific qualifying requirements – obligatory in their nature – for each grade of posts of category “C” (Table 2.7).

Table 2.7 Obligatory Qualifying Requirements for Posts of Category “C” under FZ-119

Article	Content
6.3.1	the level of professional education, accounting for the rank and specialization of the post
6.3.2	the length of previous practical experience to the nature of the post, accounting for the rank and specialization of the post
6.3.3	the knowledge of federal and regional legislations, applicable to the discharge of the post’s duties
6.4.1	the field of professional education, accounting for the rank and specialization of the post

Source: Federal Law N 119-FZ of July 31, 1995 *On the Fundamentals of the State Service of the Russian Federation*

Thus, each post obtained a measurable definition of merit, not merely serving as a baseline for the evaluation of job seekers, but as legal requirements that must have been met by the appointing authority.²⁷ The failure to meet these requirements presupposed severe legal consequences for the principal decision-maker (in the case of the vacancy contest juries it was the chair of the jury, normally the head of the recruiting agency), including dismissal, fines or criminal charges. Therefore, one of the major welfare-enhancing achievements of FZ-119 was that it precluded the most blatant instances of politically informed appointments by considerably limiting the menu of legitimate actions of those who wielded appointing powers. In the same vein, minimal qualifying requirements provided a useful reference point for jobseekers, who could monitor the enforcement of their right to become public managers by virtue of ‘capabilities and professional training’ (Article 5.5) and challenge in court the actions of the appointing

²⁷ An important characteristic of these criteria is that they do not involve any deliberation: a candidate’s compliance to the compulsory qualifying criteria are assessed by a straightforward check of her credentials (such as documentary proof for the level and field of education and the length of experience) or the result of her performance (test on knowledge of the current legislation).

authority. Similarly to the admission domain, jobseekers had the potential to act in such a way as to ‘tie politicians’ hands’ by adding public scrutiny to the process.

In addition to compulsory qualifying requirements, FZ-119 also authorized what we call discretionary qualifying criteria. Discretionary criteria are those established by federal and regional laws, or the recruiting agency in addition to the compulsory ones. They include desirable competences, skills, abilities and attitudes, both professional and personal (Article 6.5). The clause on discretionary criteria formally created an opportunity for powerholders to partially regain control over the appointment by continuously altering the non-mandatory part of the qualifying requirements in favor of their preferred candidates. By permitting those discretionary criteria to be imposed at the level as low as the recruiting agency, FZ-119 certainly enhanced the powerholders’ capability to achieve the preferred appointing outcome. It is easier for powerholders to modify the post’s criteria at the level of the operational unit than via the amendment of the relevant legislation in federal/regional parliament, whose work inevitably draws the attention of jobseekers, the political opposition and the media. Although repeated alterations of non-mandatory requirements seems like a rational strategy for the head of the recruiting agency, who is considerably constrained in her appointing powers by compulsory criteria, it was also a complex ‘business’, in which the agency’s head and its human resource division needed to perform a series of interrelated actions (to assess the preferred candidates so as to identify her skills and abilities that would allow her to perform in the vacancy contest better than other job candidates, to authorize a new combination of desirable criteria, to inform about the changes all interested parties, including independent experts, and to monitor the performance of the preferred candidate). In the light of the costs associated with repeated alterations it is reasonable to expect that ‘stacking the deck’ of the appointment process by altering non-compulsory qualifying criteria did not occur to the extent that it invalidated the meritocratic spirit of the law.

Considering formal-legal procedures that governed the hiring process in the 1990s, it is important to look at those that regulated the behavior of independent experts. Did FZ-119 authorize any procedures that enabled independent experts to successfully hold back political considerations? The special status of independent experts as the providers of the authoritative

counterbalance to politically informed personnel decisions was achieved by formally recognizing that the professional judgments of independent experts constitute the standards for the jury's work (Article 11). In practice, experts' role was to ensure that each candidacy received due and fair consideration, e.g. that all candidates were evaluated against the same set of criteria and that the application of the selection criteria was consistent across all job seekers. The presence of such a 'watchdog' created significant barriers to the smooth flow of patronage and enhances the likelihood of the welfare-enhancing recruitment outcome. The welfare-enhancing impact of independent experts could have been even stronger had their special status been supported by appropriate voting entitlements. Instead of allowing a right of veto that would have made it impossible to overcome experts' position, FZ-119 provided for a simple (secret or open) majority vote (Article 14). Having made the voting powers of independent experts level with other members of the jury, the law laid down a possibility for powerholders to overturn the independent experts' position by putting each disputed issue to the vote, in which powerholders may get the majority by influencing other members of the jury. Similarly, the presidential decree N 604 in no way restrained the head of the recruiting agency from replacing the non-cooperative – from politicians' point of view – members of the jury, including independent experts, and to appoint obedient ones instead.

Do the voting procedure and the power to reshuffle the vacancy jury inevitably override the special status of independent experts to the extent that it makes impossible for a vacancy jury to achieve welfare-enhancing recruitment outcomes? Similarly to the situation with 'stacking the deck' of the hiring process by the repeated alteration of the discretionary criteria in favor of preferred candidates, it seems that the frequent repetition of this course of action would be too costly for politicians. First of all, loyalty is never free, and the powerholders are faced with the need to deliver the 'patron's favor' in exchange for the 'right vote' of the loyal members of the jury. Most importantly, however, such actions on behalf of powerholders are possible only in the situation of open confrontation with independent experts, which would inevitably draw attention to the powerholders' actions (firstly, of jobseekers themselves, who may choose to appeal against the arbitrariness of the jury in court, but also by the media) and expose the powerholders' low commitment to (or even, in critical cases, violation of) the legally recognized experts' role in the

recruitment process. Therefore, the repeat offence is more likely under conditions when politicians' preferences to patronage distribution of jobs are exceptionally strong. Having said that, it is important to note that a scenario in which powerholders achieve the desired recruitment outcome by co-opting independent experts is not entirely implausible.

To sum up, both the nature of the decision-making authority in this appointing scheme and the constraints upon its exercise meet the properties of a personnel policy regime of structured politicization. It is achieved through the institutionalization of a collective appointing authority, which exhibited a considerable divergence of preferences through the participation of political, administrative and autonomous actors. While the compulsory qualifying requirements and the right of rejected candidates to appeal in court firmly 'tied politicians' hands' (the right – civil service – boundary of the band "C"), the discretionary qualifying requirements and voting rules had the capacity for high level of political discretion (the left – open politicization – boundary of the band "C"). Given the complex nature of the elements of this appointing scheme, where do we locate it as a whole along the patronage-civil service range? This can be best illustrated by considering an example with three job candidates entering a vacancy contest. Candidate A is the politician's preferred candidate from a loyalty standpoint, but who does not meet compulsory qualifying requirements. Candidate B is the politician's second-best choice; she meets compulsory qualifying requirements, but is not favored by the independent experts. Candidate C meets the compulsory qualifying requirements and is favored by the independent experts, but not by the politician. Firmly constrained by the legal nature of compulsory criteria, the jury has to exclude candidate A, leaving candidates B and C in the battleground. It is here that heads of recruiting agencies face an option: they can either use discretionary qualifying requirements and an inbuilt majority to overrule the experts' professional opinion or not. If the powerholder decides to use these discretionary powers, then candidate B is appointed, if not then candidate C succeeds. In both cases the behavior of powerholders does not cross the lines of a regime of structured politicization, however the first case falls into the regime's end that borders with the regime of open politicization. Since personnel policy instruments made available to Russian powerholders by FZ-119 allowed for a scenario when candidate B gets appointed, then, in the spirit of the notion of formal political discretion, the appointing scheme as a whole shall be

located in that end of the band C, which borders with openly politicized personnel policy regime. For the purpose of this dissertation we shall call such an appointing scheme ‘weak structured politicization’. The precise distribution of appointing outcomes under this hiring scheme (more candidate B type of jobseekers appointed or candidate C type) depends on the intensity with which powerholders use their discretionary powers.

In the executive branch of federal and regional levels of governance the appointment to as many as 80 per cent of posts of category “C” was subjected to the above discussed appointing scheme, while the appointment to entry-level posts, accounting for about 20 per cent of the bureaucratic posts (Brym and Gimpelson 2004: 99), was left largely at the discretion of the head of the recruiting agency (Article 21.7). More specifically, the appointing powers for entry-level posts were assigned to the ‘appropriate official’ (Article 21.7), who formally could be any official of the recruiting agency in the managerial capacity: from grade three up to the head of the recruiting agency. In most of the cases these officials are bureaucrats themselves – holders of “C” posts, which then qualify the decision-making authority they represent as a unitary *administrative* actor and the appointing scheme under consideration as belonging to a regime of lower formal political discretion. At the same time, as heads of structural units within federal ministries and regional governments could be, as discussed previously, holders of “A2” posts, this qualifies them as a unitary *political* authority for entry-level posts. Therefore, from the distribution of decision-making authority point of view, it places the entry-level appointing scheme closer to the more politicized end of personnel policy regimes (bands A or B).

Similarly to the situation with vacancy juries, FZ-119 constrained the powers of the unitary political/administrative actor in hiring junior bureaucrats by obligatory qualifying requirements (Table 2.5). However, unlike the situation with vacancy juries, these constraints only weakly structured the choice of the appointing authority. It is so because the junior nature of the posts carries the lowest value of the qualifying requirement within the range. Thus, for example, with regard to the latter point, the majority of the entry-level posts required only school-level educational qualifications and minimal practical experience and many of them did not require any experience at all. In other words, qualifying requirements were only of a nominal nature, effectively giving the decision-making authority ‘free hands’ in appointment. When this is

combined with the facts that FZ-119 institutionalized neither the public disclosure of entry-level vacancies nor a formal recruitment procedure (informal interview instead), it becomes clear that, as far as procedural constraints are concerned, a personnel policy regime of the entry-level posts can be qualified as open politicization.

As framework of formal political discretion suggests this holds under both decision-making authorities – unitary political and unitary administrative, despite the fact that a unitary administrative character of decision-making authority is a property of a regime of structured politicization. It is so because powerholders ‘may be able to exercise some kind of *indirect* political discretion, the less confining the procedural constraints on a personnel policy decisions are (Meyer-Sahling 2003: 50). In other words, as holders of the posts of category “C” acting as an administrative appointing authority are not autonomous actors but form a part of a web of power relations existing in a given bureau, they may experience some influence from powerholders with regard to outcomes of the appointment process. Powerholders are more likely to assume the role of informal decision-making authority, the less restrictive the procedural constraints are. Therefore, the appointing scheme operating at the level of most junior bureaucratic posts is qualified as open politicization.

Does this mean that this appointing scheme undermines the meritocratic nature of the bureaucratic system, allowing a cohort of patronage to form and progress? We argue that the answer to this question is in the negative, because even if a cohort of patronage formed at the entry-level this cohort it was not able to automatically progress as such up the career ladder due to the rules governing the system of promotion, which are discussed in greater detail later in the chapter.

Table 2.8 summarizes the formal-legal framework governing appointment-relating component of Russia’s personnel policy regime under FZ-119. As one can see the law institutionalized different degrees of political control in appointment issues across different groups of bureaucratic posts. It is a regime of open politicization at the level of most junior posts and a regime of structured politicization for the rest of the posts (80%). In the latter case collective juries, which consist of political, administrative and autonomous actors, make appointing decisions within the limits, imposed by qualifying requirements and other procedural

Table 2.8 Appointing Schemes, Authorized by FZ-119

<i>Rank of the Post</i>	<i>Appointing Authority</i>	<i>Appointing Procedure</i>	<i>Selection Criteria</i>
5 (most senior)	Vacancy contest jury (collegial, including political and administrative actors and independent experts)	Formal examination, Jury votes, Rejected candidates have right to appeal	<u>Obligatory:</u> Higher professional education in the field relating to the nature of the post; Significant practical experience; Significant knowledge of the legislation <u>Discretionary:</u> desirable competences, skills, abilities and attitudes, both professional and personal
4 (senior)			
3 (intermediate)		Formal credentials check; Jury votes; Rejected candidates have right to appeal	<u>Obligatory:</u> Higher professional education relating to the nature of the post or in ‘Public management’; Practical experience; Good knowledge of the legislation <u>Discretionary:</u> desirable competences, skills, abilities and attitudes, both professional and personal
2 (junior)			
1 (entry-level, most junior)	Unitary political (“A2” official) or administrative actor (“C” official)	Informal interview	<u>Obligatory:</u> Middle professional education in the field relating to the nature of the post; Minimal or none practical experience; Knowledge of the legislation

Source: Federal Law N 119-FZ of July 31, 1995 *On the Fundamentals of the State Service of the Russian Federation*

constraints. In the former case, the appointing authority, represented by a unitary political or administrative actor, is only minimally restrained in its decisions. The existence of different levels of formal politicization within the same personnel policy regime is not a unique Russian feature, as similar patterns were observed across the world (Page and Write 1999). However, while in most of the developed countries the degree of political control is generally lower for the lower ranks (Bossaert *et al* 2001), Russia exhibits a higher degree of political control for entry-level posts than for other ranks.

2.4.3 Promotion, Demotion and Horizontal Transfers

This section analyzes the provisions of FZ-119 relating to a post-hiring domain of personnel policy – promotion, demotion and horizontal transfers. As the analytical framework of formal political discretion suggests, the degree of political discretion in these areas differs from one policy regime to another. Consider a classical civil service system in which entry to bureaucracy is limited to the bottom of the ladder and lateral entries are limited. Here progress along the career ladder is governed by the principle of seniority (e.g. the length of continuous service), which effectively excludes politicians from the promotion process. This is in contrast to an openly politicized personnel policy regime, in which bureaucrats can be promoted (as well as demoted or transferred to a position in another structural unit) at the powerholders' will at all times. In-between these two schemes, governing post-hiring domain of personnel policies, there is a so-called position-based system (World Banks 2006b). In contrast to a classical civil service, a position-based system does not constitute a distinctive personnel policy area, governed by a specific set of rules. Instead, in a position-based system all vacant posts, regardless of their rank, are open to both external and internal candidates and advancement in rank is carried out in accordance with the existing hiring rules. Therefore, here politicians are not completely excluded from the promotion process, and the importance of their role in making and shaping bureaucrats' careers is effectively a function of a degree of political discretion inbuilt into the admission and appointment rules.

With this in mind the first questions this section seeks to answer are: “What promotion system does Russia employ? And why was this particular design chosen?” Since the primary aim of Russia’s public bureaucracy reform was to eradicate the system of dependence between a bureaucratic subordinate and her political master (Yuzakov 2005: 17), a career-based system would have fitted this purpose better than a position-based system because it excludes powerholders from the promotion process, thus credibly isolating bureaucratic subordinates from exposure to the political pressure. The developers of FZ-119, however, opted for a position-based system in which all vacancies, apart from the entry-level ones, were subjected to a competitive contest between both external and internal candidates. The official explanation followed the logic of a classical justification that this system enables the best-suited candidate, be it from within the bureaucracy or from outside, to fill the post (Koichumanov and Lukashenko 2004: 41-43; World Bank 2006a). A more plausible explanation is, however, that a closed career system was not an option for Russia’s political leadership of the day. Maxim Parshin, head of the Department of Economic Foundations of State Service Reform and Anti-Corruption Policy of the Division of State Regulation of the Economy at Russia’s Ministry of Economic Development said in an interview with the author that the adoption of a closed system would have benefited Soviet-era recruits, who would progress up the bureaucratic ladder and dominate the state apparatus for decades. At the same time, Parshin says, it would impede the influx, above the entry level, of candidates, educated and socialized in the post-Soviet era. Although Boris Yeltsin wanted not to alienate the Soviet bureaucracy, his enormous program of reform required people in the state apparatus capable of handling the task in hand. Therefore, a position-system in which politicians’ hands ‘are tied’ through the open character of the admission process and merit-based selection seemed as an optimal solution: it would inhibit both the open political intervention and the dominance of the Soviet-era cadres, allowing at the same time for the inflow of qualified candidates at all levels of the bureaucratic ladder.

Russian legislators put bureaucrats and not politicians at the center of those provisions of FZ-119 that related to promotion. The law guaranteed bureaucrats the right to promotion (Article 9.1.6) and matched this by the right of bureaucrats to participate in vacancy contests on their own initiative (Article (9.1.5). In other words, FZ-119 treated promotion not as the privilege of

powerholders but the right of bureaucrats, limited only by the similar right of other job-seekers (internal and external) and by the vacancy contest rules and procedures.²⁸ As to the specific rules and procedures of promotion, they were in fact the mechanisms of admission and appointment, established by FZ-119 and the Presidential decree N 604. Since, as discussed above, those mechanisms had the capacity to inhibit open political intervention, their application to the domain of promotion had no adverse affect on the nature of this area of personnel policy. Moreover, the adoption of a position-based system had an added value from a de-politicization viewpoint, that is, it prohibited a cohort of patronage, which could potentially be formed at the entry-level, from freely climbing the ‘rungs’ of the bureaucratic ladder. Indeed, after a relatively effortless entrance to the service (hand-picked, informal and non-competitive job interview), junior bureaucrats should have faced a formal recruitment process in which their political patron was limited in law in her abilities to determine the outcome of the vacancy contest.

A further point to consider is the potential impact on the powerholders’ role in promotions of Article 21.9 of FZ-119. According to this article a bureaucrat could, by consent, take on the additional duties of another administrative post in the given agency (duties of a lower, higher or same level). In other words, that provision allowed powerholders an opportunity to ‘temporarily promote’ a preferred public servant. The *ad hoc* nature of ‘temporary promotions’ had the capacity of re-creating a kind of environment pertaining to patronage, e.g. a politician’s favor could make a bureaucrat receptive to the informal pressure of the former. Temporary promotion of this kind could also allow the bureaucrat to accumulate a position-related experience, making her a stronger contender for such posts when they become open to contest. In this way powerholders were able to place preferred candidates in the position of influence, and shape the career path of chosen, and therefore dependent, individuals. Whilst Article 21.9 made this a possibility, it seems that in practice the opportunities for this to occur were limited. First of all, such additional work must have been available for powerholders to offer it to the preferred

²⁸ It should be noted that Article 8.2 of FZ-119 mentioned cadre reserves as pools of acting bureaucrats ‘nominated for promotion’. The purpose of this personnel instrument has remained unclear (Lobacheva 2003). Was it an attempt to institutionalize seniority-based promotion, when long-serving officials receive a regime of most favored treatment or was it a personnel instrument meant to compensate for the powerholders’ diminished control (Huskey 2004)? In any case, the provision for cadre reserves as a promotion instrument has never been further developed and remained inactive during Yeltsin’s presidency.

subordinate. Given the pyramidal structure of the bureaucratic ranks, this is less likely to be available the higher up the ranks you ascend and most likely under circumstances such as prolonged illnesses and maternity cover. In other words, the application of Article 21.9 was unlikely to change the character of the promotion component of the personnel policy regime to a degree, invalidating its largely de-politicized nature.

In addition to ‘tying politicians’ hands’ on the issues relating to upward mobility, FZ-119 almost completely stripped politicians of such personnel policy instruments as demotion and horizontal transfers. As to demotion, the law did not provide for any mechanism of downward mobility within the public bureaucracy. Although there was recognition that a situation when a bureaucrat’s qualifications and competencies do not correspond to the post’s requirements can arise (Article 24.1), FZ-119 legislated to tackle the issue through training and the adjustment of bureaucratic remuneration and even dismissal (Article 14.1) but not relegation. In other words, the law did not furnish powerholders with this policy instrument. If a politician, however, decides to relegate a bureaucrat, she exposes herself to legal prosecution which can be initiated by the demoted official (Article 9.2). Temporary horizontal transfers were mentioned by FZ-119 as a distinctive personnel instrument that can be used by the bureaucrat’s superior when ‘office needs require’ (Article 21.10). However, the law ruled that it could be done only with the consent of the bureaucrat. Importantly, FZ-119 qualified the need to obtain the bureaucrat’s consent as the obligation of the employer – the state (Article 15.1.6). Therefore, the detachment of a public manager from her regular organization for temporary assignment elsewhere without her consent would be a serious breach of the labor agreement between the state and the employee, which the latter is entitled to defend in the court (Article 9.2). Therefore, we evaluate demotion and horizontal transfers as areas in which the degree of formal political discretion is close to the absolute minimum. These personnel policy areas are clearly de-politicized elements of the personnel policy regime established by FZ-119. The low credibility of the powerholders’ threat to downgrade bureaucrat or send her to another agency works as a considerable constraint on politicians’ ability to influence the day-to-day work of bureaus.

To sum up, from the 1990s up to the 2000s, Russian public bureaucracy followed the tenets of a position-based bureaucracy in which promotion did not constitute a separate personnel policy

arena, but was regulated by the norms of admissions and appointment. Governing the top four (out of five) bureaucratic ranks, those rules had the properties of a structurally politicized personnel regime. Moreover, a position-based promotion system had the capacity to inhibit the political influence – to which junior bureaucrats were supposedly exposed in the beginning of their careers – as they had to climb up the bureaucratic ladder through formal contests. FZ-119 allowed politicians a very limited access to demotion and horizontal transfers, which undoubtedly classifies these personnel policy areas as a de-politicized constituent of Russia’s personnel policy regime.

2.4.4 Dismissal

Dismissals constitute another distinctive set of personnel policy instruments available to powerholders. If the ability to fire a bureaucrat at will at any point of time is a key characteristic of a politicized personnel policy regime, then depoliticized bureaucracies powerholders’ access to this tool is limited. It is achieved through the imposition of the conditionality clause on the politicians’ authority and other procedural constraints. The sections that follows looks at the conditions established by FZ-119, under which powerholders may exercise their authority so as to assess the nature of this component of Russia’s personnel policy regime.

FZ-119 specified thirty-one conditions under which a bureaucrat could be lawfully dismissed by her superior. Seven conditions related to the compliance to the eligibility criteria (Table 2.6), nine conditions stemmed from the obligations (Table 2.9) and thirteen from the restrictions (Table 2.10) imposed by law on the state employees. In addition to the emergence of the above mentioned circumstances, Article 25 – devoted to dismissals – stipulated that a bureaucrat can also be laid off upon the attainment of the maximum age limit (60). In addition, Article 16, which dealt with the legal status of bureaucrats in case of the liquidation or reorganization of a state body, had a clause on dismissal as well.

The sheer number of the conditions under which a bureaucrat could be laid off suggests that politicians had an extended access to the dismissal tool. However, the use of the dismissal

authority was also constrained as for each of the aforementioned grounds for dismissal the powerholder had to have evidence that the conditionality was met. Given also that bureaucrats had the rights to appeal in court the evidence must be legally sound; otherwise the powerholder would lose the case. In some cases, the provision of legally sound evidence did not represent a problem for powerholders. A missed deadline by a bureaucrat for the annual submission of the information on her income would have been sufficient for a powerholder to sustain the case in court. However, in the overwhelming majority of cases, illustrated, for instance, by the restriction on bureaucrats conducting entrepreneurial activity, the burden of proof was so heavy as to make the use of this personnel instrument prohibitive

Table 2.9 Basic Duties of the State Servant under FZ-119

nn	Content
1	To ensure the supremacy of the norms of the Constitution of the Russian Federation and the implementation of federal and regional legislation (Article 10.1)
2	To properly perform the post's duties (Article 10.2)
3	To protect the rights and lawful interests of Russian citizens (Article 10.3)
4	To execute the orders of senior officials, except for illegal ones (Article 10.4)
5	To consider in a timely fashion requests of citizens, non-governmental and for profit organizations, state organs and local self government authorities and address them in accordance with the norms and procedures established by the federal and regional legislation (Article 10.5)
6	To comply with the internal regulations of the state organ and rules for handling official information (Article 10.6)
7	To maintain a qualification level adequate for the proper fulfillment of the post's duties (Article 10.7)
8	Not to disclosure sensitive information, including classified information (Article 10.8)
9	To submit annually to the state tax service information about the taxable income and property that belongs to the bureaucrat by the right of ownership (Article 12.1)

Source: Federal Law N 119-FZ of July 31, 1995 *On the Fundamentals of the State Service of the Russian Federation*

Table 2.10 Restrictions, Arising from the Membership in Russia’s Public Bureaucracy, Under FZ-119

nn	Content
1	Not to engage in any other paid activity, except for teaching, research or other creating activity (article 11.1)
2	Not to be a member of the Federal or regional legislatures or legislative organ of local self-government legislative organs (Article 11.2)
3	Not to conduct entrepreneurial activity personally or through agents (Article 11.3)
4	Not to be a member of the governing body of a for profit organization, unless otherwise is ruled by legislation (Article 11.4)
5	Not to act an agent/representative of third parties to a state organ where a bureaucrat is employed (Article 11.5)
6	Not to use for non-official purposes equipment, finance and information and any other state property available to a public servant (Article 11.6)
7	Not to receive payment for publication or public talks delivered as a public servant (Article 11.7)
8	Not to be paid by individuals or legal entities for carrying out post’s duties (Article 11.8)
9	Not to accept decorations, honorary and special titles of foreign states or international and foreign organizations without the permission of the President of the Russian Federation (Article 11.9)
10	Not to go on business trips abroad at the expense of individuals or legal entities (Article 11.10)
11	Not to take part in strikes (Article 11.11)
12	Not use the rights and privileges of a state servant in the interests of political parties, interests groups, including non-governmental organizations (Article 11.12)
13	To place in trust management securities and/or shares a bureaucrat may own (Article 11.13)

Source: Federal Law N 119-FZ of July 31, 1995 *On the Fundamentals of the State Service of the Russian Federation*

One may say that politicians could produce weak evidence and still win the case.²⁹ While this assumption is plausible, it is not universally applicable across all the conditions under which bureaucrats could be laid off. If under some circumstances the powerholder could very well succeed with contrived evidence, the majority of the conditions for dismissal either almost completely excluded the possibility for the powerholder to sustain the case using weak evidence³⁰ or bring about protracted litigation because weak evidence could be insufficient to instantly fire a bureaucrat (on the grounds of, say, a bureaucrat acting as the agent of a third party in the

²⁹ Especially, when you consider such a setting as Russia where judicial authority has been reported being dependent on the executive (see Lambert-Mogiliansky *et al* 2007).

³⁰ For example, in order to fire a bureaucrat under the citizenship condition a powerholder must have proof that the official in question either gave up her Russian citizen or acquired citizenship of another state, otherwise the powerholder loses the case.

state organs). Therefore, both the necessity to present legally sound evidence and the prospect of prolonged litigation made the blatant use of political dismissals prohibitive for powerholders.

Reorganization of bureaus, authorized by Article 16 of FZ-119, was the most problematic condition for dismissal from a de-politicized bureaucracy viewpoint. Since the right to determine a need for a change in the formal structure of an individual bureau or government as a whole lies in the political (rather than legal) field, it is difficult to envisage the existence of a formal list of circumstances under which such a change would be acceptable as legally sound evidence. This allows powerholders (not only in Russia but around the world) to ‘wrap up’ their politically motivated dismissal decisions into arguments – such as budget constraints and a policy’s change – that are difficult, if not impossible, to overturn. As the recourse to legal action is extremely difficult for those bureaucrats who are dismissed by reorganization, it is plausible to assume that powerholders would extensively use this clause as a formal excuse for getting rid of vexatious bureaucrats.

In order to protect bureaucrats from unfair dismissals through structural reorganization or staff reduction, FZ-119 introduced a ‘safety net’ measure. First of all, bureaucrats who were made redundant should have been offered a position – with due account to her qualification and responsibilities of the post she held – in another agency (Article 16.1). If it was impossible to employ a bureaucrat in another bureau immediately, she should have become a member of a cadres reserve (Article 16.2).³¹ Although the law did not make it clear what rights and privileges the cadres reserves’ membership carried, the predominant legal interpretation of the cadres reserves has been as the pools of former bureaucrats who possessed the privilege of priority access to newly available bureaucratic jobs (Lobacheva 2003). It was not FZ-119 but the Presidential decree N 604 that specified the mechanism of the priority access to bureaucratic posts for the members of cadres reserves. In particular, it ruled that the absence of a suitable candidate from the reserve was one of two pre-conditions for the calling of the vacancy contests (Article 3).³² Because the membership in cadres reserves was limited to ex-bureaucrats only, from the formal political discretion viewpoint Article 3 of PD-604 did not expand the scope of

³¹ A bureaucrat shall also be offered a training course when such is available (Article 16.2)

³² The existence of the vacancy itself was another precondition.

the powerholders' authority over admissions. At the same time, as the law required to re-employ the dismissed officials, e.g. the dismissed did not leave the bureaucracy permanently, the attractiveness of this personnel tool for powerholders may have diminished.³³ Overall, the level of formal political discretion and the strength of procedural constraints characterize dismissals as an area belonging to a structured politicization type of personnel policy regime, with dismissals by reorganization bringing much of the 'politicization' to this domain.

With regard to cadre reserves, it should be noted that Article 3 of PD-604 – effectively permitting the filling of bureaucratic positions without holding vacancy contests – created incentives for powerholders to expand the membership of the cadres reserves beyond the ex-bureaucrats. If powerholders manage to grant the cadre reserves' membership to those individuals they prefer to see as their bureaucratic subordinates, a greater politicization of the bureaucracy occurs. Consider the example of the authorities of St. Petersburg, reported by Huskey (2004). In December 2001 the city passed the ordinance N 1406-ra allowing local youth organizations to nominate representatives for membership of the city's cadres reserve. It is plausible to assume that using this statute as a formal excuse St. Petersburg's powerholders were able to populate the city's cadres reserve and then employ without holding formal contests a certain number of preferred candidates. At the same time, Lobacheva (2003) reports that by the time of the adoption of the new civil service law 2003 the overwhelming majority of those 21 regions of the Russian Federation that adopted special statutes on cadre reserves interpreted them as in line with the federal legislation, e.g. as pools of ex-bureaucrats.

To sum up, FZ-119 made it difficult for powerholders to arbitrarily lay off bureaucratic personnel. Although the number of formal reasons for dismissal was rather high, the law required powerholders to have legally sound evidence, as their decisions could have been challenged in court by the dismissed bureaucrats. The burden of evidence was heavy enough as to make the use of politically motivated dismissals prohibitive. The provision on reorganization (liquidation) of public agencies allowed politicians the easiest access to the dismissal instrument since the right to initiate reorganization or to put the end on the existing bureau altogether belonged to politicians

³³ Many regional laws required that the dismissed bureaucrats were to continue receiving their pay as long as they remain unemployed or up to 12 months. These financial considerations were also a factor preventing mass abuse of dismissal by reorganization personnel tool by powerholders.

and was largely unconstrained. FZ-119 provided bureaucrats, who were made redundant as a result of a structural reorganization of the agency or staff reduction, with a ‘safety net’: a similar post in another agency, re-training or a privileged access to newly available posts through the membership in the cadres reserve. As the law stipulated that the members of cadres reserves could be hired to a newly available bureaucratic posts without taking part in a vacancy contest, it created the incentive for the powerholders to extend the pool of cadres reserves beyond the ex-bureaucrats as to ensure that those individuals who they preferred to have as their bureaucratic subordinates get an unproblematic access to the bureaucracy through the cadres reserve’ membership.

2.5 Bureaucratic Reform under Putin’s First Term

State governance reform was a major priority of Vladimir Putin’s first presidential term (2000-2004). In his first presidential address to the Federal Assembly on July 8 2000, Putin said that inefficiency of the state apparatus was the main reason for the protracted and deep-reaching economic crisis, and the aim of the reform was to create a bureaucracy that protected private initiative and guaranteed all forms of ownership rights (Putin 2000). Putin’s public bureaucracy reform consisted of two components. One of them, known as ‘state service reform’, focused on the issues of personnel management, including issues of recruitment, promotion, security of tenure, pay and discipline. Another one, known as ‘administrative reform’, included various measures aimed to rationalize the performance of governmental organizations, such as delimitation of powers and clarification of revenue sources between various levels of government, elimination of unnecessary functions and wasteful duplication of work, and putting into place standardized procedures for making, approving and implementing decisions (standard operating procedures). Although formally separated, and even formally overseen by different authorities,³⁴ both policy domains represented a purposeful attempt to reinvigorate the public bureaucracy reform that had stalled during Yeltsin’s last years of presidency. The section that

³⁴ The first component was overseen by the Executive Office of President, while the second by the prime-minister.

follows analyses the personnel management component of Putin's administrative reform so as to evaluate the nature of the personnel policy regime currently existing in Russia and to compare it with that of the 1990s period.

2.5.1 Choosing the New Law's Concept

The personnel management component of the public bureaucracy reform was formally launched in mid-2001 when *The Concept of the State Service Reform of the Russian Federation*, developed by a working group at the Executive Office of Russia's President, chaired by Dmitry Medvedev (then the deputy head of the Executive Office of Russia's President), was approved by President Putin (Пп-1496 of August 15, 2001).³⁵ Most of the ideas contained in the *Concept* were translated into two federal laws – *On the System of State Service of the Russian Federation* (FZ-58, 27.05.2003) and *On the State Civil Service System* (FZ-79, 27.07.2004) – and a number of Presidential Decrees, adopted in the following years. The first law renounced the idea of the state post as the building block of Russia's system of governance, contained in FZ-119, instead bringing to its centre the notion of state service – professional activity pertaining to the fulfillment of the powers of the state (Article 1.1).³⁶ State service consists of public bureaucracy (civil service, in the parlance of the law), military and law-enforcing services (Article 2), all having common legal and organizational foundations (Article 3.1). FZ-58 also stipulated that while the army and law-enforcement service are types of the state service subordinated to the central government, civil service can be of federal or regional levels, with the latter one being a subject of joint jurisdiction of the central government and regional authorities. Another federal law – *On the State Civil Service System* – is a legal statute that has governed personnel management issues in organizations of public bureaucracy at both central and regional levels since January 2005.

³⁵ For a detailed account see Huskey and Obolonsky (2003).

³⁶ It is important to note that although FZ-58 did not distinguish between professional activities pertaining to the discharge of the state powers carried out by elected and non-elected officials, Article 1.2 of the law made it clear that FZ-58 was only about non-elected officials.

FZ-79 was drafted by the Ministry of Labor (MOL), and was promised to be a ‘revolutionary act’ that will comprehensively cover all stages of personnel management from recruitment to retirement.³⁷ The draft, however, was very similar to the existing FZ-119. It provided for the competitive entry to most of the posts in public bureaucracy, position-based promotion system, vacancy contest juries with independent experts (25% of the composition of the jury) and very restricted opportunities for powerholders to dismiss bureaucrats. The proposed changes were of such a minor nature that many experts in the government and outside expressed their doubts whether a new law is necessary at all. Thus, a parliament member and the principle drafter of the 1995 law Vladimir Yuzakov said that there was no point in adopting a new law, and the government should instead work on those 40 statutes that were required by FZ-119 and had not come into being (Arkhangelskaya 2003).³⁸ The MOL’s draft was also strongly opposed by the Ministry of Economic Development and Trade (MEDT) – the center of reform initiatives during Putin’s first term. MEDT wanted to see more New Public Management elements in the basic law on public bureaucracy. Specifically, MEDT argued for ‘pay for performance’ component making up 50% in the structure of bureaucratic pay (Bekker 2003b) and such a dismissal procedure that would ‘exempt the state from responsibilities towards an ineffective bureaucrat’ (Vremia MN 2003). At the same time, in civil service spirit MEDT argued for the elimination of political appointments to bureaucratic posts, more external representatives in vacancy contest juries (30-50%) and secret voting procedures (Bekker 2003b, Semenova 2002, Vremia MN 2003). The draft, presented by the MOL to the prime-minister Mikhail Kasyanov on April 3, 2003, received the approval of the prime-minister, who ordered the MOL to finalize the draft and submit it to parliament by mid April 2003 (Bekker 2003b). It had not been done, however, up until summer 2004 as the Ministry of Economic Development and Trade put a lot of effort – using its status of the engine for change, the driving force behind much of the presidential agenda – to modify the draft in accordance with its own vision. The final draft, passed by the State Duma on July 7 2004 and signed by President Putin on July 27 2004, was much closer to

³⁷ For a comprehensive list of press-coverage of the meeting of the authors of the law with prime-minister Mikhail Kasyanov see <http://www.garweb.ru/conf/president/20030313/smi/index.htm>.

³⁸ A similar view was expressed by some scholars of public administration (see Starilov 2004: 15).

the original MOL's version than to the one that MEDT stood up for. It came into force in January 2005 and is the status that governs the personnel policy in Russia's public bureaucracy currently.

2.5.2 The Structure of Governance under FZ-79

The law *On the State Civil Service System* (FZ-79) divided all bureaucratic posts into four categories: managers, advisers, specialists and supporting specialists (Article 9). The description of the categories of the posts (Article 9) contained in the law suggests that positions of the category 'managers' correspond to the posts of the category 'A2' of FZ-119 (these are non-elected officials charged with policy formulation responsibilities),³⁹ whilst posts of the category 'advisers' match the posts of the category "B" of FZ-119 (provision of organizational, information and analytical support to 'managers'). Similarly to FZ-119, Articles 22.2.1 and 22.2.2 of FZ-79 stipulate that appointments to and dismissal from these posts are subject to political judgment. Whilst elected officials such as the president, the prime-minister or governors hire, fire and promote employees of the category 'managers' at their will, 'managers' have free hands in personnel decisions relating to the posts of the category 'advisors'.

Another two categories – 'specialists' and 'supporting specialists' – match the category "C" of the 1995 law. These posts are charged with the rule-making and policy implementation functions of the policy process and, in the language of this dissertation, constitute the public bureaucracy *per se*. 'Specialists' and 'supporting specialists' are two subsets of the same category of posts, representing different levels of responsibility. Each subset is made up of four ranks, therefore the bureaucratic ladder has been extended by a further 3 ranks as compared to FZ-119.⁴⁰ These posts are subject to separate sets of hiring, firing and promotion rules that are considered in detail below.

³⁹ 'Managers' are emissaries of politicians in the public administration (just as individuals holding posts of the category "A" under FZ-119) and therefore, in the language of this dissertation, 'powerholders'.

⁴⁰ The extended bureaucratic ladder was seen as offering better incentives for bureaucrats to plan and develop their careers over a longer time-horizon (interview with M. Parshin).

2.5.3 Personnel Policy Arrangements under FZ-79

Similarly to FZ-119, FZ-79 endows all Russian citizens (meeting eligibility criteria, stipulated in Article 16 and identical to those contained in FZ-119) with the right to seek employment in the state service on their own initiative (Article 21.1) and provides for the vacancy contest as the principal hiring and promotion device, specifying that the contest is the ‘assessment of the professional credentials of job-seekers’ (Article 22.1). In addition to this, the law rules that the jobseeker shall not be admitted to the vacancy contest stage of the recruitment process if she fails the eligibility test or her professional credentials do not meet the minimal post’s requirements (Article 22.5). In relation to the eligibility test, FZ-79 simplified the procedure compared with FZ-119: it dropped the idea of a special authority that verifies the eligibility of job candidates, instead requiring jobseekers to submit a number of documents and to make a number of written statements that are considered truthful as long as contrary evidence does not become available. The removal of the residual decision-maker at this stage of hiring effectively eliminated the possibility for powerholders to stop job candidates progressing to a vacancy contest stage of the recruitment process on the grounds of eligibility, thus significantly diminishing political discretion compared to the situation that existed under FZ-119. A new conditionality criterion – the ‘compliance to the minimal post’s requirements’ – was introduced with the intent to halt the cost of interviewing those candidates who have no chance to take the post due to their low level of professional credentials (interview with M. Parshin). The implementation of this provision entails a technical comparison between educational certificates and other documents, supplied by a job seeker, with the post’s requirements. Performed by the clerical staff that is guided in their decisions by the written requirements for the post, the credentials check is a low political discretion stage of the appointing process. In summary, the admission rules under FZ-79 exhibit properties of a de-politicized public bureaucracy, allowing powerholders even fewer opportunities for control than they had under FZ-119.

Hiring has also remained a largely de-politicized component of Russia’s personnel policy regime. The vacancy contests, adjudicated by a collective body, consisting of politicians, bureaucrats and representatives of ‘educational, scientific and other organizations ... acting as

independent experts' (Article 17, Presidential Decree N 112, February 1, 2005), have continued to be the major hiring instrument. A detailed mechanism of the vacancy contests conduct was specified in the Presidential Decree N 112 (PD-112), signed by Vladimir Putin on February 1, 2005. PD-112 has preserved the central idea of the vacancy contests that the appointing authority belongs to a collective body, whose diversity of preferences is achieved by the inclusion of political and administrative actors as well as independent experts. At the same time, a few changes were introduced into the work of the vacancy contests, compared to the Yeltsin's-era *modus operandi*. An important change relates to the number of independent experts on vacancy contests juries, which, according to PD-112, cannot be less than 25% of the total number of jury members (Article 17). There should be at least one independent expert in juries featuring three members, two experts in juries featuring five or seven members and three experts in juries consisting of nine members. This arrangement provides a considerable counterbalance to the political considerations, making sure that they do not dominate the process. Another change is that PD-112 does not contain the provision about the special role of independent experts in the evaluation of job candidates, stressing instead the importance of the posts' written requirements as they guide the juries' decision-making (Article 19). In other words, instead of the experts' opinion about the applicants' fitness for job serving as the evaluation standards, FZ-79 authorized the juries' evaluation criteria to be specified in an impersonal fashion and ahead of the contest. One might think of this change as redistribution the evaluation authority of the residual decision-maker (the jury) to administrative act, which is, according to the analytical framework of formal political discretion, allows for a greater de-politicization of the bureaucracy. A change has also occurred concerning the voting procedure – open simple majority vote was institutionalized as the major voting mechanism (Article 20), compared to Yeltsin's degree N 604 that permitted both open and secret ballot. Overall, both from the viewpoint of the ownership of the authority and the constraints upon its exercise, the institute of vacancy contests allows for a low level of formal political discretion and falls within the band “C” – structured politicization.

FZ-79 authorizes six conditions under which the head of the agency appoints positions of the category ‘specialists’ and ‘supporting specialists’ at her discretion without running a vacancy contest:

- appointing to posts on fixed-term contracts (Article 25);⁴¹
- re-appointing of the bureaucrat whose post was made redundant to a position of similar responsibilities;
- re-appointing of the bureaucrat who cannot any longer perform the post-relating duties due to the state of her health;
- appointing to a post which duties are connected to the use of information classified as a state secret (in accordance with the list of such posts, approved by a Presidential decree);
- appointing to the lowest grade of posts of the category ‘supporting specialists’;
- appointing of a member of a cadre reserve, formed on the competitive basis⁴².

The first five aforementioned conditions are similar to those that existed under FZ-119: the first four of them fall within the ‘structured politicization’ category of the personnel policy regimes and the fifth exhibits the properties of the regime of ‘open politicization’. The last condition, relating to the appointment of the members of cadres reserves, was new insofar as Article 22.2.5 of FZ-79 interpreted the notion of cadres reserve differently than FZ-119 did. While the 1995 law treated cadres reserves as pools of ex-bureaucrats entitled to fast-track access to newly available bureaucratic jobs, the 2004 law saw them as pools of job seekers who had passed the entry exams to certain posts that are not vacant yet. Therefore the difference between the vacancy contests and entry exams is that in the latter case job candidates compete for posts that they cannot take immediately after the completion of the entry exam but in the (unspecified) future. Two questions arise here: why was such a change in the meaning of cadre reserves brought about and what is the nature of this personnel policy instrument from the standpoint of the formal political discretion point of view?

Answering the first question, both those who were involved in the design of FZ-79 and the personnel policy practitioners advanced the better ‘succession management’ argument. Andrey Burov from the Civil Service Department of the Rostov regional government said in an interview with the author that ‘while the organization of a vacancy contest normally takes between 2 and 3 month, including a statutory 30 days period between the first call for applications and the closing

⁴¹ Article 25 presupposes that fixed-term contracts are concluded under the following circumstances: maternity leave and other statutory cases when an absent employee is substituted by a fixed-term contractor, graduate employment scheme, service in diplomatic missions, cases where bureaucratic organs are created for a fixed-term period (special commissions), experimental posts with ‘pay for performance’ remuneration scheme.

⁴² Articles 22.2.3, 22.2.4, 22.3, 22.4, 22.2.5.

day for applications, departments need personnel as soon as the vacancies arise. Taking into consideration the [high – MN] turnover of staff that we had in the late 1990s – beginning of 2000s, it was not a surprise that we often found ourselves lagging behind the smooth replacement of the bureaucratic personnel... We [the department – MN] simply could not cope. The new law allows us to do much better. Recruiting to the cadres reserve means that we have available a person fit for the post and ready to go on with job as soon as the post becomes vacant. We, if you wish, hire people in advance’. Maxim Parshin from the Ministry of Economic Development and Trade echoed the argument of the regional practitioners (represented by Andrey Burov) that the re-shaped cadre reserves are nothing more but ‘a technical tool of the personnel policy, allowing for a smooth and timely replacement of the bureaucratic staff’ (interview with M. Parshin). Along similar lines, Konov argues that pools of pre-qualified candidates allowed the appointment process to be more flexible and ‘let government bodies fill vacant positions with qualified personnel in time...’ (2006: 2).

This argument is not entirely implausible in the light of the fact that in the beginning of the 21st century Russia’s public bureaucracy faced a massive retirement of bureaucratic personnel. Thus, the preamble to federal program *Reforming the State Service of the Russian Federation, 2003-2005*⁴³ stated that ‘about 50% of the bureaucrats in key posts’ would be leaving the state apparatus between 2002 and 2012. Therefore, the transformation of the institute of cadres reserve seems like a rational policy response to the accumulated experience and the changing circumstances. It also appears that this personnel tool has the properties of the ‘structured politicization’ personnel policy regime. It is so because the protocol of both the entry exam to the cadres reserve and vacancy contests is the same, in cadres reserve contests the powerholders’ staffing powers are just the same as in the vacancy contests – constrained.⁴⁴ At the same time, the politicians’ authority to appoint a member of the cadres reserve to a post is only of technical nature as the hiring decision was effectively made earlier.⁴⁵ Therefore, the nature of this

⁴³ Approved by the Presidential Decree N 1336 of November 19, 2002.

⁴⁴ As in the case with the vacancy contests, in cadres reserve contests a job seeker’s credentials are evaluated by a collective body against a set of parameters and compared with the credentials of other job seekers.

⁴⁵ It should be noted that ‘hiring in advance’ is not the same as hiring for an existing vacancy. The prospect of a deferred (and unspecified time-wise) employment might discourage some job seekers from

instrument falls within the ‘structured politicization’ band of the personnel policies spectrum. Overall, both the scope of the politicians’ authority over appointments and the strength of the constraints upon its exercise permit us to evaluate hiring as a largely de-politicized component of Russia’s personnel policy.

FZ-79 has maintained the position-based promotion system, introduced by FZ-119, where promotions are administered in the same way as first-time appointments. And since hiring is governed in such a way that open political intervention is inhibited, the promotion also falls within the ‘bounded politicization’ sector of the personnel policy regimes. A set of rules relating to horizontal transfers has also remained largely intact. Nowadays powerholders have the authority to permanently transfer a bureaucrat to another position (within the same agency or in another agency within the same location or in another geographical area) only with the latter’s written consent (Article 28.1). At the same time, a transfer without a written consent of the bureaucrat is possible only if the official is moved to a post of similar responsibilities (Article 28.4), where ‘post’s responsibilities’ is a legal term, specified by FZ-79. Article 24.3 states that the post’s responsibilities refer to the professional content of the job that is particularized in the job contract, concluded between the head of the recruiting agency on behalf of the state and a citizen who is taking on a bureaucratic post.⁴⁶ Therefore, the powerholders’ ability to move a bureaucrat to another post without the latter’s written consent is conditional on the availability of posts, whose duties are similar to the current duties of the bureaucrat and, speaking in practical terms, is limited. FZ-79 also permitted powerholders to exercise temporary (up to one month) transfers – up and down the ladder – without bureaucratic consent (Article 30). Although, as discussed in 2.3.3., temporary mobility up the bureaucratic ladder may enhance the promotion prospects of the bureaucrat who have held a more senior post for a brief period, short-term secondments are only a secondary personnel policy instrument with a trivial capacity to extend the scope of powerholders’ authority over promotions. Overall, the promotion (and related

applying for the positions in the cadre reserve. This in turn could produce a weaker pool of job candidates and, consequently, adversely affect the quality of the agency’s human capital.

⁴⁶ A job contract also includes other job’s terms and conditions, including: rights and obligations of the parties, pay scheme, assessment indicators, medical insurance, working hours and others (Articles 24, 25, 25, 29).

demotion and horizontal transfer) arrangements under FZ-79 exhibit the qualities of the personnel policy regime of bounded politicization.

Despite the effort of the Ministry of Economic Development and Trade to establish such a dismissal procedure that would allow the state to quickly get rid off ‘ineffective’ bureaucrats, FZ-79 has kept the powerholders’ authority over admissions encased in the conditionality clause and other procedural constrains. Similarly to FZ-119, the bulk of the conditions under which a bureaucrat can be laid off relates to the eligibility criteria, basic duties of public officials and restrictions stemming from the nature of the civil service (Articles 15, 16 and 17 correspondingly).⁴⁷ Besides this, Article 37 – exclusively devoted to dismissals – stipulates that a bureaucrat can also be laid off under the following circumstances: turning up for work in a state of alcoholic, narcotic or other intoxication; gross violation of the health and safety regulations in the workplace and mismanagement of finance and/or other state assets. Finally, FZ-79 also permits powerholders to fire bureaucrats in case of a bureau’s reorganization/liquidation (Article 31) and if a bureaucrat does not accept substantial changes in her job contract (Article 29). Altogether FZ-79 provides for forty-four conditions under which a bureaucrat may be dismissed that could be interpreted as a high degree of political discretion. However, the politicians’ power to dismiss is constrained by the necessity to produce legally sound proof that the condition allowing the dismissal is met. This necessity is grounded in the prospect of a lawsuit arising from the bureaucratic right of appeal in court. The use of with weak evidence in court exposes powerholders to the risk of achieving undesirable outcomes – from losing the case to prolonged litigation. The high cost associated with the requirement to support the poweholder’s dismissal decision with legally sound reasons prevents the profusion of blatant politically motivated dismissals. At the same time, the ‘reorganization of bureaucratic agencies’ condition provides

⁴⁷ Currently there are 39 conditions of this sort, compared to 29 under FZ-119. The rise is, however, of a technical nature rather than the issue of the increased scope of the powerholders’ authority over dismissals. Thus, for example, the eligibility clause related to the citizenship in the 1995 law is substituted by two clauses on the citizenship in the 2004, clarifying the case of having/acquiring a citizenship of another state in one clause and the case of denouncing the Russian citizenship in another. The fundamentally new conditions included: an obligation to inform the management of the situation of conflict of interests (Article 15.12); a restriction to make public statements in respect to the performance of the state organizations, unless it is a part of the official duties (Article 17.10); a restriction to use the advantages of the state post for electoral agitation (Article 17.12); a restriction not to set up branches of political parties and other public associations within the public bureaucracy (Article 17.14) and a prohibition for a bureaucrat to cease the performance her official duties in order to settle a job-relating dispute (Article 17.15).

powerholders with a safe pretext for politically motivated dismissal as many political considerations could be justified as legitimate reasons for the reorganization/liquidation of the bureau. It is important to note that FZ-79 does not grant the fired bureaucrats a privileged access to newly available administrative posts. This makes the dismissal especially costly for a bureaucrat and suggests that the fired bureaucrat would proactively defend herself had she been fired on suspect grounds. Overall, the dismissal component of Russia's personnel policy firmly falls within the category of bounded politicization.

2.6 Conclusion

Indifference, opposition and eventual compromise marked the process of bureaucratic reform in Russia's public bureaucracy in the post-Soviet era. Although this left its mark on the enacted legislations, the formal-legal framework that governed the personnel policy of Russia's public bureaucracy between 1996-2006 is characterized as enabling the creation of a de-politicized bureaucracy.

We arrived at this conclusion by analyzing the provisions of the relevant legislation through the lens of the theoretical framework of formal political discretion, developed by Meyer-Sahling (2003, 2004, 2006). To assist with the analysis we further developed one of the two core analytical tools of the framework – the concept of the distribution of decision-making authority. That is, in addition to the established distinction between the political and administrative nature of actors comprising the decision-making authority, we suggested differentiating between unitary and multiple actors and to include this differentiation in the typology of personnel policy regimes. Another revision is concerned with the classification of personnel policy domains. We hold that admission is an important stage of personnel policy and should be recognized as such when the nature of a personnel policy regime is analyzed. As the result of this, the revisited typology of personnel policy regimes by classifying the nature of the decision-making authority and the strength of the procedural constraints systematically across all stages of personnel policy process: admission, appointment, promotion (demotion, horizontal transfers) and dismissals.

The refined theoretical framework was applied to those provisions of FZ-119 and FZ-79 and other relevant legal acts that were concerned with non-elected officials active in the area of rule making and implementation of policy process. This specific group of posts, making up around 80% of all posts that wield state authority in the Russian system of state governance, was subjected to analysis. Our aim was to locate Russia's legal-formal framework governing personnel policy on a continuum running from patronage (A) through unbounded /open (B) and structured politicization (C) to a fully de-politicized bureaucracy or civil service (D), where high political discretion and little or no procedural constraints characterize the patronage end of the continuum and low political discretion and entrenched operating procedures are the dominant features of civil service.

With regard to **admissions**, our analysis showed that the personnel policy regime was essentially fully de-politicized. The right to self-admission, providing that minimum eligibility criteria were met, and the protection of this right in court, established jobseekers as a pro-active party, jealously guarding their newly acquired rights to the recruitment process, and shifted the balance of power away from politicians. Likewise, a requirement to publicize vacancies in the mass media was crucial in achieving the openness of the admission process, which is a key 'politics eliminator'. At the same time, our analysis revealed that with regard to the rules and procedures for publishing information on bureaucratic vacancies the formal-legal framework had considerable loopholes and lacked precision. As weak enforcement of the law could jeopardize the openness of the admission process, therefore suppressing the de-politicization of public bureaucracy, we singled out this particular area of admission process as a special task for the empirical evaluation of personnel policy practices.

As far as **appointments** are concerned, our analysis showed that the situation with regard to the nature of this personnel policy domain was more complex than that of the admissions process. The legislation instituted two appointing schemes, with a unitary actor responsible for entry-level posts, and a collective institution, consisting of political, administrative and autonomous actors (vacancy contest juries) responsible for all other appointments (around 80%). Thus, from a distribution of decision-making authority point of view, the former scheme signifies a higher level of formal political discretion and the latter – a lower level of political discretion. The

analysis of procedural constraints that surrounded the unitary appointing authority revealed their non-restrictive character, enabling powerholders to assert their preferences over the outcome of the personnel process. Therefore, the appointing scheme at the level of most junior bureaucratic posts is classified as belonging to a regime of open politicization.

Although in the case of the scheme involving the collective institution, the procedural constraints on the appointing authority were much more confining, the opportunity for powerholders to influence the outcomes of the appointing process was not completely eradicated. Thus, we evaluated the existence of discretionary qualifying criteria effectively as an opportunity for powerholders to ‘tailor’ the selection process in favor of their preferred candidates. Similarly, the independent status of experts on vacancy juries was not supported by the appropriate voting rules. Despite these complications, the collective character of the jury regime, particularly as bolstered by the presence of independent experts, obligatory qualifying criteria, and recourse to legal challenge, would locate the majority of appointments in the band of structured, although weak, politicization.

Promotion-wise, Russia adopted a position-based system, in which senior bureaucratic posts are open to both internal and external job seekers and advancement in rank is carried out through competitive contests. Although this system is characterized by a higher level of formal political discretion than a classical civil service, its adoption safeguarded the open character of admissions and meritocratic recruitment, as well as precluded the dominance of the Soviet-era cadres, that would have effortlessly progressed up the bureaucratic ladder, had a system of seniority-based promotion been adopted. Moreover, a position-based promotion system had the capacity to inhibit the political influence – to which junior bureaucrats could have been exposed in the beginning of their careers – as their career progress was subject to the outcomes of open formal contests. At the same time, our analysis revealed that the clause on short-term promotions that allowed powerholders to temporarily appoint a bureaucrat to a senior post at will, had the capacity to re-create the sort of environment conducive to patronage, e.g. a politician’s favor could make a bureaucrat receptive to the informal pressure of the powerholder. Despite this, the overall level of formal political discretion and the strength of procedural constraints characterize promotion as belonging to a structurally politicized personnel regime. Both FZ-119

and FZ-79 allowed politicians very limited access to such personnel policy instruments as **demotions** and **horizontal transfers** (temporary assignments outside the bureaucrat's regular organization) which undoubtedly classifies these areas as a de-politicized component of Russia's personnel policy regime.

With regard to **dismissals**, the existence of dozens of legal conditions under which a bureaucrat may be dismissed suggests that politicians had extended access to this personnel tool. However, as our analysis showed, the built in constraint of bureaucrats' access to legal action made the use of politically motivated dismissals generally prohibitive for powerholders. The alternative mechanism for politically motivated dismissal is through the re-organization of bureaus due to budgetary constraints or a change of policy. The clearly political character of the right to make such decisions makes the recourse to a legal challenge extremely difficult for the dismissed bureaucrats. In these conditions the legislation provided a safety net, ensuring that dismissed bureaucrats were offered an alternative position or entitled to membership of the cadre reserve, a pool of former employees with priority access to new positions, without a vacancy contest. Overall, the level of formal political discretion and the strength of procedural constraints characterize dismissals as an area belonging to a structured politicization type of personnel policy regime, with dismissals by reorganization bringing much of the 'politicization' to this domain.

Application of the framework of formal political discretion to FZ-119 and subsequent acts shows that the personnel policy regime created by the legislation is located in and around structured politicization with only one element – appointment to entry-level posts – being characterized as open politicization (Table 2.11). This may be weak structured politicization at times, bordering with the regime of open politicization, but on the whole, this categorization of the personnel policy regime created by FZ-119, DP-604, FZ-79 and DP-112 is reasonably robust.

Furthermore, it can be argued that taking the impact of the legislation as a whole, the totality of the transformation wrought is far greater than the sum of the parts, as suggested by simply totting up the progress towards a meritocratic system in each of the areas of admissions, appointments, promotion/demotion, and dismissal. This is for a number of reasons, and it is towards this that we now turn.

Table 2.11 Russia's Personnel Policy Regime (Formal Merit) Under FZ-119 and FZ-79

Regime Type/ Attributes	Unbounded Politicization/ Patronage <i>(Band A)</i>	Open (Bounded) Politicization <i>(Band B)</i>	Structured Politicization <i>(Band C)</i>	Fully De-Politicized/ Civil Service <i>(Band D)</i>
Admission				X
Appointment		X (entry level positions)	X (above entry-level posts)	
Promotion			X	
Demotion				X
Horizontal Transfers				X
Dismissals			X	

Firstly, the legislation placed the notion of merit, recognized as a combination of individuals' educational achievement and demonstrated ability to carry out a specific, expertise based job, at the center of the reform process. The notion of Merit is institutionalized through the establishing of clear qualifying criteria, the creation of vacancy contests and the presence of independent experts, all of which constrain the powers of politicians. The centrality of these factors is clear in relation to the appointment process, which is particularly important given that the role of powerholders here is a defining characteristic of the type of personnel policy regime within a given polity. Furthermore, the extension of the rules and regulations governing appointment into the area of promotion extends the reach of these factors even further.

Nevertheless, placing merit at the center of the reform is a necessary but not sufficient condition for the creation of a welfare enhancing bureaucracy. Equally important is the open character of the processes of admission that has transformed the relationship between politicians and job seekers. By moving from the closed *nomenklatura* system, a classical example of an unboundedly politicized bureaucracy, to a more open system in which powerholders are no longer in absolute control, reform has helped transform jobseekers from passive recipients of patronage, dependent on their political masters, to pro-active, independent career civil servants. This has been achieved by the introduction of the right to self-admission, providing that minimum eligibility criteria are met, alongside a requirement to publicize vacancies in the mass

media, and appointment through vacancy contests adjudicated by a collective institutions, made up of actors with diverse preferences. In effect the reform has empowered jobseekers, encouraging them to pursue opportunities to enter the service and to progress within its ranks, independent of political favor. It has consequently reduced the ability of politicians to interfere in the day-to-day operation of bureaus.

Moreover, a third element reinforces this process, and this is access to legal action, enabling bureaucrats to challenge perceived abuses of the admissions, appointment, promotion and dismissal stages of the personnel policy process. Recourse to legal action not only encourages bureaucrats to believe that the system of merit is protected by the power of the law, but it places considerable constraints on powerholders' ability to determine the outcomes of the personnel process.

These transformations represent a significant departure from seven decades of patronage and a major a major step towards civil service. And despite considerable imperfections and limitations of the legislation that governed Russia's personnel policy in 1996, from a formal-legal point of view Russia's bureaucracy today can be characterized as being largely de-politicized.

Chapter 3

REAL MERIT: ASSESSING THE EXTENT OF *de-facto* INSTITUTIONALIZATION OF DE-POLITICIZED BUREAUCRACY IN 40 OF RUSSIA'S REGIONS

Chapter 3 deals with the assessment of personnel policy regimes that *de-facto* existed in 40 of Russia's regions in the end of 2006. Section one discusses a persistent discrepancy between formal and real merit, i.e. between the mere enactment of legislation that limits staffing powers of powerholders and *de-facto* institutionalization of a de-politicized bureaucracy. It argues that the mere passage of personnel legislation, providing for a low degree of formal political discretion, does not constitute de-politicization of bureaucracy. In order to understand the true nature of a personnel policy regime the analysis of formal-legal framework should be complimented with the evaluation of *personnel practice*, i.e. the actual actions of powerholders. Based on the critical overview of the early scholarly attempts to assess the state of real merit (section two), the argument for an expert-based assessment of the personnel practice is developed in section three. Section four discusses the case selection and the properties of the pool of experts assembled for this study. Section five presents critical issues in questionnaire design and outlines the sequence of research actions undertaken within this project. Section six concludes with a quantitative picture of the personnel policy practice in 40 of Russia's regions. The expert-based evaluation of personnel practices revealed a striking variation in *de-facto* de-politicization of Russia's regional bureaucracy in the tenth year of Russia's administrative reform. The spatial distribution of our key measure – the *Meritocratic Recruitment Index* – indicates that *de-facto* politicization progressed unevenly across the territorial units of the Russian Federation, with six regions (Rostov, Samara, Novosibirsk, Belgorod, Tomsk and Tula) being considerably ahead and two regions (Ivanovo and Amur) lagging considerably behind the average.

3.1 Formal Merit vs. Real Merit

As chapter 2 argued, FZ-119 (31.07.1995) and subsequent FZ-79 (27.07.2004) significantly restricted the formal authority of Russia's powerholders over bureaucratic personnel decisions. However, as comparative public administration literature suggests, a mere enactment of legislation allowing a low degree of political discretion over personnel decisions (what we shall call for the purpose of this dissertation 'formal merit') does not necessarily lead to the institutionalization of a *de-facto* de-politicized bureaucracy (thereafter referred to as 'real merit'). Although the Northcote-Trevelyan Report (1854) in the UK and the Pendleton Act (1883) in US – probably the two most quoted examples of civil service adoption – are commonly seen as the introduction of truly de-politicized bureaucracies, the same does not hold for many other reforms during the 19th century or nowadays. For instance, Victor Lapuente reports that not one but several statutes establishing a de-politicized type of public bureaucracy were passed in Spain during the 19th century, including the 1852 Royal Decree of Bravo Murillo that introduced meritocratic recruitment and guaranteed life tenure for all public employees two years before the Northcote-Trevelyan Report. In practice, and unlike the British report, neither the 1852 Decree nor other laws led to the institutionalization of a de-politicized bureaucracy in 19th century Spain (2007: 151-152). Having studied the state of public bureaucracy in Hungary in the 1990s, Gajdushek concludes that 'behind the large merit-like legal façade there is a system that allows almost direct and unrestrained political influence' (2007: 351). Similarly, a World Bank study found that although Poland's civil service is 'in theory merit based and depoliticized', change of government is normally accompanied by significant senior staff turnover (Manning and Parison 2003: 49-50). Meyer-Sahling holds that the discrepancy between the attempts to establish a professional, de-politicized civil service and its continuing politicization is one of the 'major puzzles in the development of civil services in East-Central Europe' (2006: 693). Likewise, Sotiropoulos (2004) shows how formal rules that limit powerholders staffing powers are subverted in some Southern European countries.

Meyer-Sahling has made an important contribution to the literature that distinguishes between formal and real merit. Drawing on his theoretical framework of formal political discretion, he argues that personnel legislation only provides 'institutional conditions for the de-politicization of personnel policy, conditioned that it incorporates a low degree of formal

political discretion’ (2006: 700).¹ Therefore, personnel legislation may only ‘eliminate or minimize the availability of discretionary instruments that government politicians can use to determine personnel policy outcomes’ (Meyer-Sahling 2007: 713). In other words, the lesser the amount of staffing authority assigned to politicians and the more the exercise of this authority is regulated through formalized standards and procedures, the smaller the menu of personnel policy instruments available to politicians (thereafter referred to as discretionary instruments). From this point of view, the key to the understanding of the nature of a given personnel policy regime lies in the extent to which politicians exercise the available discretionary instruments in practice (Meyer-Sahling 2004: 74).

In addition, it is plausible to assume that politicians may act beyond the scope of formal political discretion, authorized by legislation. On the one hand, they may re-claim their staffing powers by simply violating the provisions of personnel legislation. Indeed, in 2006 the Office of the Prosecutor General of the Russian Federation conducted a large-scale audit of the extent to which personnel practices in governmental agencies at all levels, including regional administrations, complied with the current legislation. During this audit 47 000 violations of the acting legislation were revealed, including 600 that qualified as a criminal offence (Kulikov 2006).

On the other hand, politicians may determine the outcomes of personnel policy acting in an informal way. The need to account for the informal ‘rules of the game’ (North 1991: 97) is of particular importance for Russia. A relevant body of literature suggests that the role of informal practices remains paramount in post-Soviet Russia (Afanas’ev 2000, Chirikova 2004, Ledeneva 2006, Lonkila 1997, Panejah 2001, Zaslavskaya and Shabanova 2001). In her influential book *How Russia Really Works: the Informal Practices that Shaped post-Soviet Politics and Business* Alena Ledeneva asserts that although ‘requisite components of the rule of law’, i.e. formal laws and enforcement mechanisms, including courts, exist in Russia, ‘the ability of the rule of law to function coherently has been subverted by a powerful set of [informal – MN] practices...’ (2006: 12). Therefore, in order to understand how Russia’s public bureaucracy really works the analysis of the formal-legal infrastructure of personnel policy management should be complimented with

¹ Having analyzed four civil service laws that Hungary adopted in the 1990s, he goes as far as concluding that ‘implementing civil service legislation is neither a necessary nor a sufficient condition for de-politicization of personnel policy’ (2006: 713).

the assessment of how the legislation is enforced, violated and circumvented.

To sum up, unlike earlier literature on bureaucracy – that often equated the passage of a relevant legislation with the institutionalization of real merit (see, for instance, Horn 1995, Rauch 1995, Ruhil 2003) – contemporary scholarship of bureaucracy recognizes that the mere enactment of personnel legislation, even those containing a low degree of formal political discretion, cannot be taken as a measure of real merit. In order to understand the nature of a personnel policy regime the analysis of formal-legal framework governing personnel issues shall be complimented with the evaluation of *personnel practice*. This includes the powerholders' actions within and beyond the scope of formal political discretion. In other words, we need to account not only for the extent to which politicians utilize discretionary personnel instruments, but also for a possibility that the implementation of the personnel legislation can be violated or circumvented.

3.2 Assessing Personnel Policy Practice in Russia: Literature Review

Research on Russia's bureaucracy has remained scarce. There have been several attempts by the World Bank (Kozbanenko 2005) and the OECD (Tompson 2007), organizations working on Russian' administrative reform under auspices of TACIS and other international donors (Nicolaas Witsen Foundation 2005a, 2005b) and individual researchers (Atamanchuk 2002, Bekov 2001, Huskey and Obolonsly 2003, Obolonsky 2002, Zaytseva 2003, Yuzakov 2005) to provide a narrative on Russia's public bureaucracy reforms since the regime change in 1991. Within this body of literature a number of studies exist that are characterized by an unsystematic, haphazard approach to detailing the state of real merit in Russia (Agh 2003, Barabashev and Straussman 2007, Konov 2006, Kotchegura 1999, Tompson 2007, World Bank 2006a). A feature of such studies is that statements that purport to inform are insufficiently evidenced. Thus, evaluating the provisions of the federal program *Reform of the State Service of the Russian Federation (2003-2005)* Tompson states that the program envisaged the possibility of introducing competitive recruitment – something that was 'required under the 1995 legislation but never implemented' (2007: 18). No evidence of non-implementation of the 1995 law is provided. Similarly, having rightly stated that official statistics are scarce and do not allow for in-

depth research, and that qualitative assessments of the extent of the implementation of FZ-79 on the ground were limited and lacked methodological rigor, the World Bank study concludes that ‘the reform is still largely on paper...’ (2006: 28). Having said this, there is also a small number of studies that use a more rigorous methodology, in keeping with academic standards, to investigate the state of real merit in Russia.

‘It is surprising how little we actually know about that country’s [Russia - MN] state bureaucracy’, wrote Brym and Gimpelson in 2004 in their pioneering article on the size, composition, and dynamics of the Russian state bureaucracy in the 1990s (2004: 92). The authors stated that research on Russia’s bureaucracy was ‘practically non-existent’ and attempted to fill the gap by providing the ‘the distribution of personnel by rank, gender, age, training, and tenure...’ (2004: 92). Brym and Gimpelson used the aggregate official statistics on the holders of posts of category “C” in all bodies of state authority of the Russian Federation, derived from a short questionnaire, designed by the state and completed by this category of state employees in 1994-2000. As, in the opinion of the authors, such data reflected recruitment, promotion and dismissal practices in the Russian public bureaucracy, it allowed them to draw conclusions about the state of real merit in Russia as of the beginning of the year 2001 (2004: 108).

The scholars reported ‘significant gender segregation, with women concentrated in the lower ranks; rapid employee turnover at the lower ranks; lack of qualified personnel; an overabundance of Soviet-era personnel; the employment of a sizable number of pensionable employees’ (2004: 111). Having been influenced by Evans and Rauch (1999) and Rauch and Evans (2000) research on the effect of the Weberian bureaucracy on economic growth, Brym and Gimpelson compared the discovered state of Russia’s state bureaucracy with that of Weber’s ideal.² Their overall conclusion was that ‘much distance remains to be covered before the Russian civil service approaches the Weberian ideal of bureaucratic efficiency’ (2004: 111).

Although Brym and Gimpelson’s research provides a meaningful insight on the state of

² Although as it is argued in Chapter 1, Weber’s ideal of bureaucracy involved both competence enhancing (de-politicization) and political authority preserving feature (politicization), Brym and Gimpelson’s interpretation of the Weberian ideal of bureaucracy is largely as a de-politicised, involving such characteristics as competitive and meritocratic recruitment of personnel, predominantly internal promotions based on merit, a high proportion of personnel with professional skills and higher education and transparent and predictable career paths in a clearly defined hierarchy of positions (2004: 91).

post-Soviet Russia's bureaucracy,³ it does not tell us much about a degree of the institutionalization of civil service. First of all, some of the discovered facts do not necessarily lead to the conclusions drawn by the authors. Thus, the concentration of women in lower bureaucratic levels is not necessarily the outcome of non-meritocratic and non-competitive recruitment as Brym and Gimpelson suggest (2004: 102). A vast literature on gender in public sector jobs and the integration of women into governmental managerial ranks suggests that even in countries with largely de-politicized bureaucracies, such as the US, women remain concentrated in lower-echelon jobs (Bullard and Wright 1993; Cornwell and Kellough 1994; Guy 1994; Kellough 1990; Kerr *et al* 2002; Lewis and Nice 1994; Naff 1994; Newman 1994).

More importantly, however, most of the data reported by Brym and Gimpelson was as at the beginning of the year 2001, which makes it impossible to attribute a particular finding to the time period before or after the enactment of FZ-119. Thus, they stated that among holders of second most senior posts of category "C" (Table 2.1 refers to them as grade or rank 2) at federal level in Moscow 'almost a fifth have less than higher education, which is contrary to the norm specified by law' (2004: 106). Such data, however, does not enable us to make any certain statement about whether this 20% were hired in the pre- or post FZ-119 period. Only in the latter case, can one be sure that a violation of the formal rule took place. Moreover, a couple of pages later Brym and Gimpelson report statistics that show that the overwhelming majority of these bureaucrats (86.3%) were hired before the adoption of FZ-119. It is, therefore, very likely that pre-FZ-119 recruits constituted a large fraction in those 20% without higher education.

A feature of Russia's bureaucracy, reported by the scholars, that looks the most problematic from a de-politicized bureaucracy point of view is an 'exceptionally rapid turnover of young cohorts' of bureaucrats (2004: 102). It is plausible to assume, as the authors did, that 'the absence of clear and predictable rules for advancement through the ranks makes it undesirable for many young people to remain employed in the state bureaucracy for long' (2004: 104). However, evidence derived from 'highly aggregated' data that 'cover only a few rudimentary variables' (Brym and Gimpelson 2004: 112) is insufficient to corroborate or falsify this and other

³ This is also a study published in the English language that has made it a popular point of reference (see Hanson 2007, Hanson and Teague 2005, Oleinik 2006, Tompson, 2005, 2007).

propositions about the state of real merit in Russia.⁴

The authors themselves, perhaps, understood this, as they were behind a large-scale survey of young (up to 35 years old) bureaucrats conducted by the Institute of Sociology of the Russian Academy of Sciences in 2001-2002. In spring 2001 638 bureaucrats in three regional government and three municipalities of Russia were interviewed. A further 819 young bureaucrats in 10 federal ministries were surveyed in 2002. Among other things the surveys aimed to establish whether the entry to the service and promotion across the ranks were meritocratic or not. Up till now this research provided the most comprehensive quantitative data sets allowing for the assessment of the extent of the institutionalization of a de-politicized bureaucracy as of 2001-2002, i.e. almost 5 years after the adoption of FZ-119.

While Brym *et al* (2003) reported the results of the 2001 survey; Gimpelson and Magun (2004) combined the quantitative data from both research and Chirikova (2004) and Monusova (2004) supplemented the quantitative research with the analysis of in-depth interviews with higher ranking bureaucrats in the same public agencies where young bureaucrats were surveyed. The overall conclusion of these studies was that as of 2001-2002 entry to the service remained dominated by political considerations ('open politicization') and promotions of internal candidates depended on non-political considerations slightly more than on political considerations ('structured de-politicization'). Thus, with regard to promotion, Gimpelson and Magun showed that those who already worked in public bureaucracy considered that internal and external candidates had equal chances to be appointed to more senior vacant posts within their organizations. Furthermore, exploratory factor analysis revealed that two major underlying principles were behind a successful career development by internal candidates – meritocracy and personal loyalty to the head of the agency, with personal loyalty lagging slightly behind meritocracy (2004: 146).⁵ The results of the qualitative research of regional and municipal authorities by Chirikova (2004) correspond to those of the quantitative studies.⁶ Chirikova finds that although a bureaucrat's career development to a great extent depends on her loyalty to her

⁴ At the same time, there is an array of alternative explanations. For instance, research showed that rapid turnover of young personnel across all industries, and not only among state bureaucracy, was a feature of Russia's labour market in the 1990s (Gimpelson and Lippoldt 2001, Kapeliushnikov 2001).

⁵ The respondents were asked to choose among 16 factors that, according to their opinion, facilitated career development in a given public agency. Their responses were subjected to factor analysis.

⁶ Chirikova interviewed about 60 high-ranking officials in 3 regional governments and 3 municipalities (2004: 73). However, as the author provided just a few methodological remarks to her study, it remains unclear whether her study reveals the powerholders' or bureaucrats', albeit senior, point of view.

boss, the latter is not absolutely free in her promotion decisions and has to account for the formal rules and a possible response by other bureaucrats (2004: 74).

With regard to the entry to bureaucracy, as only between 2% and 12% of the respondents, depending on the branch of the authority, stated that they obtained their first bureaucratic posts as an outcome of vacancy contests (Brym and Gimpelson 2004: 132), this is, indeed, a poor result from a de-politicized bureaucracy point of view. The picture could, however, have been clearer had the authors controlled the extent of hiring through the vacancy contests by the year of entry to the service. An obvious comparison between two different groups of respondents – those who were hired before and after the enactment of FZ-119 – could have showed whether entering through the vacancy contests was more consistent for the post-FZ-119 recruits as some of the descriptive statistics suggest.⁷

A more detailed picture on recruitment emerges if we look at the reported data through the lenses of FZ-119. Thus, although the use of vacancy contests was found to be limited, they appeared to be a characteristic of hiring to higher rather than lower ranks (Brym and Gimpelson 2004: 132-133).⁸ Similarly, Chirikova reported that posts requiring higher levels of professional education and complex skills – such as economists or lawyers – were subjected to vacancy contests more frequently than other posts (2004: 73). This is in accordance with the provisions of FZ-119 (that allowed for a more politicized recruitment at the bottom of the hierarchy and less politicization for initial and subsequent appointments at the middle and top of the bureaucratic ladder), suggesting that the institutionalization of merit was taking root in precisely the areas, specified by the law. Secondly, it was found that, at least at regional and municipal levels, the practices of hiring on fixed-term contracts or through the membership in cadre reserves were not widespread (Brym *et al* 2003: 151-152, Chirikova 2004: 73-74), which is clear evidence of the limited use of these discretionary instruments by powerholders. Finally, between 10% (regional governments) and 20% (municipalities) of the respondents stated that they entered the service ‘from the street’ (Gimpelson and Magun 2004: 135), i.e. applied for jobs in an impersonal manner such as through vacancy announcement in the mass media or by being referred by a job center. This means that for a sizable number of young officials the opportunity to work in the

⁷ Brym *et al* (2003) reported that each fifth surveyed bureaucrat in regional or municipal bureaucracy was hired before the enactment of FZ-119.

⁸ This is contrary to an *ad hoc* statement by Barabashev and Straussman that ‘senior public service positions are, for the most part, de facto political appointments’ (2007: 377).

public bureaucracy was not bestowed as a mark of personal favor, which is an important attribute of a de-politicized bureaucracy. All these show that de-politicization of bureaucracy was taking root in Russia, albeit slowly and unevenly across public agencies of different branches and levels of authority. Unlike the authors of early real merit research we consider that the extent of de-politicization of bureaucracy as it was documented in 2001-2002 was a success rather than a failure. In the light of the comparative experience of merit implementation across time and space, there was no reason to expect the appearance of a fully de-politicized bureaucracy just five years after the adoption of the relevant legislation. At the same time, from the ‘distance travelled’ point of view, the reported evidence on the enforcement of FZ-119’s provisions, the use of discretionary personnel instruments and informal practices was encouraging.

The early studies on real merit in Russia were instrumental to this dissertation as they informed important research decisions of this project. First of all, the experience of Brym, Gimpelson and others made it clear that in order to make an affirmative conclusion about the state of real merit, a deep understanding of the parameters of the formal-legal framework governing personnel policy is required. Such an understanding enables a *systematic* evaluation of the implementation of the enacted rules and procedures. It also outlines areas where informal practices are most likely to occur. Secondly, the research showed severe limitations of the data on public bureaucracy collected by ROSSTAT – the Federal Statistical Service. Not only it is highly aggregated and covers mostly those dimensions of the public bureaucracy that are secondary to the understanding of a degree of de-politicization (for instance, gender distribution), it is also inconsistent across time because the terminology used by the statistical services and the legal terminology have changed since the data began to be collected in 1994 (Barabashev and Straussman 2007: 374). Therefore, it is not surprising that a survey of acting bureaucrats produced a dataset that shed more light on the state of real merit than the official statistics. Thirdly, although those surveys used evidence from multiple informants, which is in accordance with established standards of empirical organizational analysis (Hill 1982, John and Reve 1982, Seidler 1974, Van Bruggen *et al* 2002),⁹ their reliance on a single category of informants (acting bureaucrats in mid-level managerial positions) carries a risk to validity of the data. It is so because information drawn from the same informational source is likely to reflect a bias inherent

⁹ The multiple-informants approach ‘reduces the correlation between systematic error components, averages out random error in individuals responses, provides the opportunity to analyze the impact of error sources, and provides a method to correct for systematic error in informants’ responses (Van Bruggen *et al* 2002: 471).

in this source, which undermines the validity of the data. Therefore, drawing on evidence from multiple informants representing *different information sources* (e.g. different subsets of bureaucrats, scholars, people and organizations that have regular contacts with the public agency under study) would enable to minimize the source-relating error in the data and improve its validity. Equally important, in-depth interviewing proved to be an important tool of information gathering on organizational design of public bureaucracies. The value of this method for the assessment of real merit in Russia is of particular importance due to the omnipresence of informal practices in Russia's social fabric. Finally, the experience of Brym, Gimpelson and the researchers from the RAS' Institute of Sociology showed that the parameters of real merit differed not only across different types of public bureaucracy – federal (Moscow), federal (regions), regional and municipal – but also across public agencies within the same level of authority. Therefore, given the constraints of a dissertational research project, a focus on one of the subsets of Russia's public bureaucracy would offer an opportunity for a meaningful analysis.

3.3 Assessing Personnel Policy Practices in Russia: the Case for Expert-Based Evaluation of Regional Bureaucracies

One of the most important conclusions drawn from early research on real merit in Russia is the considerable limitations of the data on public bureaucracy collected by ROSSTAT – the Federal Statistical Service. It was the incompatibility of the official statistics with the specific aims of the current research that informed the decision to build a new, original data set for this project. This task posed two challenges – the selection of the principal method of data collection and case selections. This section justifies these two important research decisions.

We opted for an expert survey as the principal method of data collection. It was done first and foremost because we believed that experts, as people who possess extensive knowledge on the personnel matters of specific public agencies, would be able to provide evidence on all three components of real merit – the enforcement of formal rules and procedures stipulated by appropriate legislation, the extent of the application of discretionary personnel instruments by powerholders, as well as informal practices surrounding hiring, firing and promotion of bureaucratic personnel. This research decision was also prompted by the existence of a credible community of public bureaucracy experts, formed, above all, around universities and the nation-

wide network of training centers for state and municipal servants. The experts often go public – through publication in specialized or mass media outlets – with bureaucracy-relating commentaries relevant to the aims of this study. Some of them analyzed the norms the regional civil service legislations (Gafarov *et al* 1998, Ponomarev 1998, Shajhatdinov 1998) or case-studied the enforcement of the vacancy contests provision (Busovikov 1998, Ershov 2000, Ivanova 2002) or spoke about the use of fixed-term contracts, cadre reserves and other discretionary personnel tools by powerholders (Gaida *et al* 1998, Huskey 2004, Lebedeva 2006, Lobacheva 2003). Others, such as, for instance, Vladimir Osejchuk, a professor of public administration at Tomsk state university, was able to estimate the proportion of bureaucrats hired through vacancy contests in a certain public agency at different time points (Osejchuk 2002, 2005, 2006) or to reveal the types of informal influence that powerholders exerted on vacancy contest juries (Chirikova 2004, Savva 2006). Therefore, collected systematically, the information possessed by the experts could provide rich data on the state of real merit.

One may argue that expert assessments of real merit in Russia are a ‘weak’ type of data as compared to evidence gained from documents. We, however, hold that while documents such as application forms of job candidates or vacancy contest minutes could indeed give the most accurate data on the extent of the enforcement of formal legislation, they are less likely to reflect the use of discretionary personnel instruments by powerholders, let alone informal practices. In addition, those information resources proved to be hard to reach. In preparation for this research in 2003-2004 we made several unsuccessful attempts to gather relevant information in human resource departments of different governmental agencies and archives. In response to our enquiries the officials normally used ‘personal data protection’ concern as the argument for denying access to documents. Information hoarding and secrecy remains, unfortunately, a characteristic of the operation of Russia’s governmental agencies. In a special study on Russia and information revolution, Peterson states that when it comes to the information flows within government and between the government and the public, ‘officials still demonstrate a ‘cult of secrecy’ (2005: 59). In addition, governmental agencies do not meet the legally established standards of information availability online, consequently, their websites are often ‘hard to navigate, dull, not up to date and unhelpful’ (Peterson 2005: 60-62).

Considering our options about the method of evidence gathering we also drew on Evans and Rauch’s research (1999, 2000). Facing a challenge to assess the degree of ‘Weberianess’ of

public bureaucracies in 35 developing countries, they assembled a pool of experts on bureaucratic matters in those countries. The experts answered a set of close-ended questions about the extent of meritocratic recruitment, career opportunities and the level of bureaucratic compensation in the countries' core economic agencies. In order to counterbalance the subjectivity of individual assessments, at least three experts per country were selected and their responses were averaged. The cost of the mail survey was relatively low and the level of experts' cooperation was 'gratifying' (Evans and Rauch 1999: 754). This simple but effective research method produced a dataset, the validity of which has stood the scrutiny of the academic community. Rauch and Evans articles based on this survey have been cited more than 200 times across social science disciplines, and their data set has been used by other scholars (Henderson *et al* 2007, Lapuente and Nistotskaya 2009) and replicated in other empirical settings (Court *et al* 1999). In an effort to improve the methodology of expert-based assessment of real merit pioneered by Evans and Rauch we considered not only employing multiple informants but also making sure that they would represent different information sources, say, scholars, acting and former bureaucrats and journalists. This diminishes the bias that could be inherent in a particular information source, thereby increasing the accuracy of the data. We also considered it important to supplement a survey of experts with in-depth interviews with the key informants so as to illuminate issues that would be difficult to capture through closed-ended questions (such as, for instance, types of political informal pressure).

Another methodological challenge of this project, as with any other comparative research, was case selection. As several important decisions had to be made in connection with case selection, throughout this process we remained guided by the ultimate goal of the research – to estimate the impact of a de-politicized bureaucracy on economic development. In the first place, we had to decide between 'within-country' vs. 'between the countries' modes of comparison. Several reasons determined our decisions in favor of the within-country approach. Firstly, scholars have long pointed out the lack of comparative data on the characteristics of public bureaucracies (Evans and Rauch 1999, Kiser and Hechter 1991: 10, Lapuente 2007). Several international and business organizations have developed datasets on the quality of bureaucratic *outputs* (Knack and Keefer 1995, Mauro 1995), yet there is a dearth of cross-country indicators on specific features of the administrative *structure*, such as the degree of meritocracy in staff policy, that precludes cross-country comparisons. At the same time, early real merit research on

Russia showed that there was a considerable difference in the extent of de-politicisation of bureaucracy across public agencies (Brym and Gimpelson 2004, Chirikova 2004, Gimpelson and Magun 2004). It is this variation that provides the opportunity for a productive comparative research.

Of the four subsets of Russia's bureaucracy – federal in Moscow, federal in regions, regional and municipal – only the regional bureaucracy lends itself to the comparative analysis of the impact of a de-politicized bureaucracy on economic development. First of all, the structure of regional bureaucracies rests on distinctive policy areas within a framework, which is comparable across all constituent members of the Russian Federation. Secondly, Russia's sub-federal authorities wield significant powers with regard to the regulation of the economy (Kolomak 2006, Slinko *et al* 2005, Zhuravskaya 2000). Eugenia Kolomak, one of Russia's leading economists on the sub-federal regulation of economy, states that throughout the 1990s and 2000s regional authorities extensively used such measures as sub-regional tax exemptions and subsidies, direct price regulation, licensing and certification, and their impact on the level of regional development has been sizable (2006). These two distinctive advantages are not available in analyzing federal and municipal bureaucracies. At the federal level distinctive ministries produce distinctive outcomes, which are difficult to compare between each other. Municipal authorities lack the power to directly influence the economic sphere in such a way as to be the subject of the analysis focusing on the impact of bureaucracy on economic development.

It is important to note that Russia's regions exhibit a notable variation in their levels of socio-economic development (Ahrend 2005, Berkowitz and DeJong 2003, 2005; Brock 2005, Golubchikov 2007, Desai *et al* 2005, Mikheeva 1999, Kolomak 2006, Popov 2001, Slinko *et al* 2005) and politico-institutional settings (Ahrend 2005, Golosov 2001, 2003, Shleifer and Treisman 2000, Slinko *et al* 2005, Stoner-Weiss 1997), but still share a common denominator in historical, informational and cultural terms. Therefore, focusing on Russian's regions we avoid the main criticism of cross-country studies, namely that they fail to account properly for large attitudinal and cultural differences. The focus on localities within a single country enables researchers to concentrate their analysis on the factors with sound theoretical links to the phenomenon under study instead of controlling for broader differences between the cases (Ahrend 2005, Knack 2002, Ruhil and Camões 2003).

As our data is based on subjective assessments of real merit, the decision was taken to narrow the unit of expert evaluations from regional administration as a whole to one policy department so as to get more accurate evidence. As every regional government has a department of economic policy and, as argued above, decisions taken by local authorities impact the level of regional economic performance, we opted for the department that is responsible for regional economic development (department of economic policy). Departments of economic policy within Russia's regional governments have similar mandates, operating environments and constraints that enable their comparison. In the past, the 'the single public agency' approach to real merit assessments, pioneered by Evans and Rauch (1999, 2000) proved to produce data of satisfactory accuracy.

In summary, the specific aims of the research and the conclusions drawn from the experience of earlier research on real merit in Russia and cross-country determined both the use of an expert survey as the principal method of data collection and the structure of comparison. We argue that expert survey has the potential to capture all three dimensions of real merit. At the same time, the multiple-informants and the single public agency approaches – that is several experts, representing different informational sources, evaluate personnel practice at a specific public agency – improves the accuracy of the data. Our decision to focus on a cross-regional analysis of the impact of bureaucracy on economic development was determined, first of all, by a notable variation in both the degree of de-politicization of regional bureaucracies and the level of economic development and by the existent evidence that the latter has been affected by the actions of the regional authorities. Also, as growing literature showed, the cross-regional mode of analysis contributes to the improvements of the explanatory power of statistical analysis as it enables researchers to focus on theoretically relevant variables instead of controlling for broader differences between the cases.

3.4 Selecting Cases and Assembling the Pool of Experts

The totality of the population under consideration is the 89 constituent units that formed the Russian Federation in 1996-2006, including 21 republics, 49 oblasts, six krais, ten autonomous

okrugs, one autonomous oblast and two federal cities (Moscow and St. Petersburg).¹⁰ Although an ideal scenario would involve all 89 regions, many quantitative economic studies of Russia have to exclude regions for one reason or another (Ahrend 2005, Berkowitz and DeJong 2003, 2005; Desai *et al* 2005, Popov 2001, Slinko *et al* 2005). For example, for a number of years following the collapse of the Soviet Union, major socio-economic indicators were not recorded for eleven regions (ten autonomous okrugs and the war-torn Republic of Chechnya), therefore precluding their inclusion in comparative studies that require such data. Since our study dates back to the year 1995, when FZ-119 was enacted, and the data for these eleven regions is missing, we excluded them from the pool of cases from which the sample was drawn. Similarly, Moscow-city, which enjoys a unique position in the economic and political structure of post-Soviet Russia, is often excluded from Russia's cross-regional studies (Berkowitz and DeJong 2005: 29). As the post-Soviet economic development of Moscow-city has been several times higher than the national average,¹¹ Moscow's extraordinary economic success is said to be determined by its capital status to a greater degree than by the actions of its authorities. Therefore, given that the aim of the research is to identify the relationship between bureaucracy and economic development, the inclusion of Moscow would not be justifiable on these grounds. In addition, of the remaining 77 regions, six regions of the North Caucasus were excluded because of their distinctive clan-based social structure that has determined the economic and political development of the North Caucasus since the collapse of the USSR (Naimark 2001, Lieven 1998, Saglibaev 2008). As characteristic features of 'clan capitalism', such as the division between 'us' and 'them', and the system of blood ties being no less important than (and sometimes even taking precedence over) the law (Cheloukhine and King 2007, Rozmainskii 2004, Saglibaev 2008) seem to be at odds with the civil service principles of personnel allocation, it was reasonable to think that the extent of the de-politicization of bureaucracy in these regions would be inadequate to justify their inclusion in the analysis.

Therefore, after these exclusions the totality of the population to be considered was limited to 71 cases. Considerations of the project's feasibility and maintenance of data quality

¹⁰ In 2006-2008 six autonomous okrugs were merged with the regions that surrounded them, so as of March 1, 2008 the Russian Federation was made up of only 83 territorial units.

¹¹ In Moscow the share of small enterprises in total employment is twice the national average (Popov 2001: 869). Moscow also hosts the headquarters of Russia's largest enterprises: seven out of nine specialized tax inspection units, dealing with the taxation of Russia's largest taxpayers, are situated in Moscow (Pleshanova 2008).

determined the need for a sample of Russia's regions on which to base the study. From the total population, consisting of 71 regions, a simple random sample of 40 cases was selected. The size of the sample was decided by the minimal requirements for OLS regression (35 cases). A further 5 cases were included so as to safeguard the statistical integrity of the sample against unforeseen difficulties in data collection. Table 3.1 contains a full list of regions included in the analysis. The sample provides a good variety of the constituent units of the Russian Federation, including oblasts, krais and republics, covers the territory as a whole and includes representation from each of the twelve economic zones of Russia.

Table 3.1 Regional Coverage (Cases)

Belgorod obl	Ryazan obl	Stavropol kray	Ulyanovsk obl
Bryansk obl	Smolensk obl	Astrakhan obl	Tumen obl
Vladimir obl	Tver obl	Volgograd obl	Cheliabinsk obl
Voronez obl	Tulskaya obl	Rostov obl	Altaj kray
Ivanovskaya obl	Yaroslavl obl	Tatarstan Republic	Irkutsk obl
Kaluzskaya obl	Vologodskaya obl	Chuvashia Republic	Kemerovo obl
Kostromskaya obl	Leningrad obl	Nizhegorodskaya obl	Novosibirsk obl
Lipetsk obl	Murmansk obl	Penzenskaya obl	Omsk obl
Moskovskaya obl	Novgorod obl	Samarskaya obl	Tomsk obl
Orlovskaya obl	Pskov obl	Saratov obl	Amur obl

Having dealt with the issues surrounding the case selection, we now turn our attention to the problem of assembling a pool of experts. Our primary aim here was to identify people who possessed a thorough knowledge of the governmental bureaucracy in one of Russia's regions selected for the study and to gain their consent to participate in the research. The experts were identified through the screening of the major regional newspapers and academic publications¹² and six expert and alumni networks:

- The Network of Institutes and Schools of Public Administration in Central and Eastern Europe (NISPACEE),
- The Moscow School of Political Studies, non-governmental and not-for-profit organization, that existed between 1992-2006 and trained more than 6000 young

¹² This goes back as far as 2001 when, as part of her MA qualification, the author of this thesis conducted a quantitative research on informal personnel policy practices in several regions of Russia.

politicians, journalists and business leaders and civil society activists on issues of democracy, rule of law and civil society.

- The expert society of the Carnegie Moscow Center (Regional Monitoring Program),
- The alumni network of the exchange programs of the U.S. Department of State;
- The alumni network of Central European University and its special and extension programs;
- A large Russian business consultancy firm whose employees worked in the 1990s and the beginning of the 2000s as consultants and policy advisors on administrative reform projects financed by EU and other international donors.

Between 2004-2006 we made about 700 initial contacts – in writing, by telephoning and in person – explaining to the contacted experts the aims of the research project and inviting them to take part in it. ‘Initial contacts’ were also asked to advise us on other bureaucracy experts known to them. The list of secondary or ‘snowball’ contacts achieved about 250 names. We had a lengthy conversation (often several) either in person or via telephone with every prospective respondent to explain the aims of the research and the requirements to the expertise we sought – knowing how bureaucrats are hired, fired and promoted at the department of economic policy of the regional government in question. The prospective experts were provided with information about the format of the survey, including the examples of the questions in the questionnaire, and the expected date of its execution. The experts were asked to continue their observations keeping in mind the scope of the upcoming survey. We also made a considerable effort to assure prospective respondents of the strictly confidential nature of their responses.

By the beginning of summer 2006, when the survey took place, the database of bureaucracy experts in 40 of Russia’s regions who agreed to take part in the study included about 280 entries.¹³ The pool of experts consisted of several groups of informants who were either key participants in the personnel policy process – independent members of vacancy contest juries and representatives of the regional departments of personnel management – or its keen observers. The first group, hereafter referred to as *independent experts*, is predominantly made up of faculty members of departments of public administration in Russian institutions of higher education and representatives of higher education institutions that are specialized in state and municipal governance (former centers for the training and re-training of administrative personnel). It also features regional scholars and educators in such disciplines as economics, finance, political

¹³ Each entry in the database has the name of the expert, her official affiliation, mailing address, telephone, emails (the majority of the experts), record of experience in public bureaucracy issues, such as publications or media commentaries, and a CV (when available).

science and sociology. This is a well-informed and accessible group of experts. While the major source of their expertise is their service on vacancy juries, they also gain their knowledge on personnel policy practices from liaison with their graduates and the close cooperation with the regional authorities that is required at the stage of student internship and job placement. Most of these experts responded to the survey most favorably, answered questions with confidence and provided a substantial amount of supplementary documents and examples to support the choices they made in answering closed-ended questions. Many of them supported the author of this dissertation with advice and guidance throughout the project. This group of experts was least concerned with the issue of confidentiality, and this is taken as additional evidence of their independent status on vacancy juries.

Representatives of the regional departments of personnel management, hereafter referred to as *HR experts*, constitute the second group of experts. This is a well informed but ‘hard to reach’ group of informants. Given their close proximity to the process of hiring, firing and promotion, they are best situated to assess all aspects of the institutionalization of a de-politicized bureaucracy, including informal practices. At the same time, they demonstrated a great deal of reluctance in giving information. An initial ‘cold calling’ approach almost invariably (with the exception of three regions) produced a negative response. Therefore, most of the respondents from this group were recruited by ‘snowballing’ and through highly personalized recommendations. Among all respondents, this group was most concerned with the confidentiality issue. About half of the HR experts were interviewed face-to-face, refusing to write or otherwise act in a way that would reveal their identity. However, during face-to-face interviews, they answered questions with confidence, supporting their cases with multiple examples.

The third group of experts, hereafter referred to as *other experts*, includes representatives of firms that assist (for a fee) regional entrepreneurs to obtain licenses, state property lease, land lease and other ‘services’ from the regional authorities; aides and advisers to regional legislators, local scholars, journalists and acting and former officials. A detailed description of each subgroup of the *Other Experts* group is given in Table 3.2.

Table 3.2 Other Experts

Sub-Group	Description
Representatives of businesses	<p>This group of experts largely consists of representatives of local firms that assist (for a fee) regional entrepreneurs to obtain licenses, state property and land leases and other ‘services’ from the regional authorities.</p> <p>The very nature of the ‘middleman’ business presupposes that personal relations with bureaucrats at relevant department are built and personnel changes over time are traced. The firms have had close working relations with the departments of economic policy that enabled them to make confident statements on the state of real merit there. In many instances the answers to close-ended questions were supplemented with short and clear examples.</p>
Aids and advisers to regional legislators	<p>Aids and advisers to regional legislators represent another group of experts. Most of the respondents were recruited through different expert networks that previously solicited expertise from these individuals on regional political matters. Having been a rather numerous group initially, not all of the respondents could comment on personnel policy practice or practice at the chosen department, therefore reducing the overall number of respondents to about a dozen.</p>
Local journalists	<p>A number of regional journalists offered their expertise on the state of real merit. ‘Snowballing’ was the primary recruitment instrument for this group of respondents. This group of experts possesses very rich information, though their knowledge is not always focused on the bureaucratic structure <i>per se</i>. At the same time, journalists were well informed about ‘who is who’ in the regional administration, and answered questions with confidence, providing various examples.</p>
Others	<p>This multifarious group includes local scholars and educators, known for their research on Russia’s public bureaucracy, current and former bureaucrats, and representatives of political parties.</p>

3.5 Questionnaire and Survey

The expert evaluations of personnel practices at the department of economic policy were obtained by means of a self-administrated questionnaire, which was also used as a guide in face-to-face interviews. The questionnaire (Appendix A) was designed around the four earlier identified personnel policy domains: admissions, appointment, promotion and demotion, and firing. Most questions were closed-ended, offering a selection of specific – substance-related – answers, as

well as the ‘Don’t know’, ‘Difficult to say’, ‘Varies too much to tell’ and ‘Other’ options. At the same time, five out of thirteen questions were designed as *quantitative evaluations*, i.e. respondents were asked to assess certain personnel relating facts in absolute numbers, proportions or as a frequency of their occurrence. For example, one of the questions of the questionnaire reads: ‘Thinking about the last two years, approximately what was the average number of job applications per vacancy at the department of economic policy?’ Respondents were given ‘free hands’ in offering their estimates. This was employed as a check on the validity of the data. A wide dispersion of respondents’ assessments, including dispersion within the same group of experts (hereafter referred to as *within-the-group* dispersion or standard deviation) and between different groups of experts (*between-the groups* dispersion), would signify their inaccuracy and therefore compromise the validity of the data.

In November 2004 the questionnaire was pre-tested in a pilot survey. Forty-two experts, representing a range of the regions in question, answered 15 questions on different aspects of personnel policy practice. The pilot study employed both mail survey and face-to-face interviewing, which proved their adequacy in terms of the aims of the research. The pilot survey helped to improve the design of the questionnaire, making sure that the questions were clear to experts and meaningful in terms of the information required. It also helped to formulate the answer options for close-ended questions and to improve the sequence of the questions.

The fieldwork took place between May and August of 2006. At the beginning we telephoned the experts from the database, reminding them about the research, updating them on the requirements regarding the expertise, confidentiality clause and clarifying the experts’ availability for face-to-face interview. During this stage thirteen experts opted not to take part in the survey,¹⁴ and a further forty-four experts preferred to be interviewed face-to-face. At the second stage 221 questionnaires were mailed to the identified experts. The questionnaires were accompanied by a personalized covering letter in Russian signed by the head of the CEU department of Political Science, which emphasized the purely academic nature of the research and confidentiality of the respondents’ identity. We also contacted the experts by email, which directed them to the online version of the questionnaire.

It was planned to run the survey until the required response rate – 3 experts per region –

¹⁴ The fear that the personal data provided by them would be given to the third parties was mentioned repeatedly as the reason.

was achieved. By the end of August 2006 87 completed questionnaires were received (39.4% response rate), including 5 questionnaires in which experts evaluated a structural unit other than a department of economic policy (which were excluded from the analysis). In addition forty-four respondents were interviewed face-to-face. Therefore, the effective number of respondents is 126 (response rate is 47.6%), including 3 experts for 36 regions, 4 experts for 2 regions, and 5 experts for the remaining 2 regions.

3.6 Survey Findings on Real Merit

3.6.1 The Continuity of the Formal-Legal Framework

First of all, we asked respondents to assess the difference/similarity between FZ-119 and FZ-79's provisions. The responses to this question are summarized in Table 3.3, which shows that the overwhelming majority of experts (82%) considered FZ-79 and FZ-119 to be 'very similar' or 'pretty much the same'. A further 15.1% of the experts believed that there were more similarities between the major provisions of the laws than differences. 3.2% (4 experts) considered that FZ-79 has been a continuation of FZ-119 only to some extent with differences between the major provisions of the laws being more prominent than similarities. Finally, no expert chose the option 'FZ-79 is an entirely different piece of legislation compared with FZ-119: the founding principles and major provisions of the laws have nothing in common'.

Table 3.3 Provisions of FZ-119 and FZ-79 Compared (%)

No of valid responses 126

Pretty much the same	31
Very similar	50.8
More similar than different	15.1
More different than similar	3.2
Entirely different	0
Total	100

The expert evaluations suggest that both FZ-119 and FZ-79 constituted a single formal-legal framework that was consistent across the period under study (1996-2006). This is in accord

with the conclusions of chapter two of the dissertation, which analyzed and compared provisions of both legal acts. Based on this we therefore treat the state of real merit, reconstructed with the help of expert evaluations as of the middle 2006, as the cumulative outcome of the attempts at administrative reform since 1996.

3.6.2 Admission

Next, respondents were asked three questions on the number of job candidates applying for vacancies at the departments of economic policy. These questions were designed to clarify the degree to which politicians control admissions. In the light of the discussion on formal merit, we reasoned that if departments managed to attract a large number of job applicants per vacancy, this would signify that recruitment to bureaucracy is not limited to the ‘inner circle’ of the current winners in regional politics and information on bureaucratic jobs is circulated in the public domain (the mass media) sufficiently regular. In addition, given the statutory rights of job seekers to protect their career pursuit in public bureaucracy from the possible arbitrary actions of powerholders, a larger number of job applicants would signify a greater capacity for the public scrutiny of personnel policy process. In other words, the larger the number of job applications per vacancy the weaker the politicians’ ‘grip’ over this stage of personnel process.

The first question of this section of the questionnaire related to the average number of job applications per vacancy at departments of economic policy in 2004-2006. We did not provide experts with a range of possible answers; instead they were given ‘free hands’ in offering their estimates.¹⁵

The individual expert assessments ranged between no applicants at all (Ivanovo, Amur) and 8 applicants per vacancy (Belgorod, Moskovskaya, Rostov). The individual estimates were consistent across different groups of informants with independent experts offering the most conservative and homogenous estimates (Table 3.4). The regional averages, calculated by averaging individual assessments of experts from the same region, fluctuated between 1.8 (Amur)

¹⁵ Many answers were given as a range, such as for example, 2-3 or 7-8 candidates. Such responses were recorded as 2.5 and 7.5.

and 7.5 (Rostov) applicants per post (Appendix B). The cross-regional average number of applicants per post is 4.3 with 24 regions attracting on average four or more candidates, including six regions attracting five or more job applicants per vacancy on average.

Table 3.4 Average Number of Job Applications per Vacancy by Groups of Experts and Across Regions, 2004-2006

	Min	Max	Mean	Std. Deviation 'within-the-group'	Std. Deviation 'between-the-groups'
HR experts (N = 40)	2.5	8	4.4	1.4	0.15
Independent (N = 40)	3	7	4.1	.98	
Others (N = 46)	0	7.5	4.3	1.4	
Cross-regional (N=40)	1.8	7.5	4.3	1.2	

When asked how the average number of job applications per vacancy in 2004-2006 changed compared to the year 2000 (which is taken as a proxy for the outcomes of Yeltsin's attempts at administrative reform), the majority of the respondents (38%) said that it slightly increased and another 15% felt that it increased considerably (Table 3.5). 34% of respondents selected the 'No change' option. 3.2% of experts reported that the average number increased dramatically because there were no vacancy contests in 2000 at all and a further 3.2% of respondents stated that the average number of job applicants slightly decreased between 2000 and 2006. Notably, none of the respondents chose the 'Considerably less' option; 6.3% found it difficult to make a comparison over time.

It is important to note that the overwhelming majority (32 out of 48 or 72%) of 'No change' answers but none of the 'Dramatically more' and 'Considerably more' answers were given by experts from better performing regions.¹⁶ This suggests that by 2000 a group of Russia's regions progressed with de-politicization of bureaucracy much further than other regions. Also, the 'Considerably more' option was selected only by experts from those regions that did not achieve the cross-regional average of job applicants per vacancy, signifying an effort on behalf of some of worse performing regions to intensify the speed of bureaucratic reform after 2000.

¹⁶ 'Better performing regions' stands for the regions in which the average number of applications per vacancy achieved the cross regional average of 4 or more.

Table 3.5 Change in the Average Number of Job Applications per Vacancy, 2004-2006 and 2000 Compared (N and per cent)

No of responses 126

	1*	2	3	4	5	6	7
Experts from all regions	4 (3.2%)	19 (15.1%)	48 (38.1)	43 (34.1%)	4 (3.2%)	0 (0%)	8 (6.3%)
Experts from better performing regions	0	0	32	31	3	0	2
Experts from worse performing regions	4	19	16	12	1	0	6

*1 = 'Dramatically more', 2 = 'Considerably more', 3 = 'Slightly more', 4 = 'No change', 5 = 'Slightly less', 6 = 'Considerably less', 7 = 'Don't know/Difficult to say'.

Lastly, respondents were asked: 'Thinking about all applications for vacancy contests received by the department of economic policy in 2004-2006, approximately how many of those applications were filed by bureaucrats who already worked for the regional government?'. Experts were given 'free hands' in offering their estimates as per cent.¹⁷ The individual expert assessments varied between 17.5 and 75 per cent. They were consistent across different groups of informants with HR experts offering the most conservative and homogenous estimates (Table 3.6). The regional values of the number of internal job candidates in the total number of applicants, obtained by averaging responses of the experts representing the region, fluctuated between 18.8 (Rostov) and 58.3 (Amur) per cent (Appendix B). The cross regional average of the number of internal applicants in the total number of applications is 32.5 per cent.

Table 3.6 Proportion of Internal Applicants in the Total Number of Vacancy Contest Applications by Groups of Experts and Across Regions, 2004-2006

	Min	Max	Mean	Std. Deviation 'within-the-group'	Std. Deviation 'between-the-groups'
HR experts (N = 40)	17.5	50	31.1	9.9	1.6
Independent (N = 40)	19	60	32.2	11.2	
Others (N = 33)	20	75	34.2	13.6	
Cross-regional (N=40)	18.8	58.3	32.5	10.9	

¹⁷ Many answers were given as a range, such as for example, 30-35% or 18-20%. Such responses were recorded as 33.5% and 19%.

It is important to note that regions with a smaller number of internal job seekers in the total number of job candidates are those that have larger number of job applications per vacancy average ($r = -.694, p = .000$), suggesting that a possible link between the two is in the extent to which vacancy-relating information was distributed outside the bureau.

What do these findings tell us about the admission process? First of all, we interpret the value of the cross-regional average of job applications per vacancy (4.3) and the fact that only one in three job seekers on average was internal candidate as evidence that information relating to bureaucratic vacancies was circulated in the public domain (such as the mass media) sufficiently regular, attracting candidates from outside bureaucracy and without political connections. If powerholders wanted just to mimic the openness of entry to bureaucracy, they would have limited the number of job applicants to the statutory minimum of two candidates. This argument is not only plausible in the light of Russia's recent past, when in so-called 'competitive elections' there were invariably two candidates, carefully selected by the appropriate Party's officials, it was also suggested by many experts during in-depth interviews (more than others by O.V., P.Kh., O.R., M.P. and M.Sa). Thus, M.Sa., who was particularly concerned that bureaucratic reform in the region he evaluated was 'rather an imitation than reform' said: 'There are always two candidates in pre-determined contests. They [politicians – MN] could not be bothered to fabricate one, never mind, two or more additional candidates. If there are three candidates in the contest, be sure that something went wrong [for politicians – MN] and one of the job seekers is an 'undesirable' candidate' (interview with M. Sa). As the cross-regional average of job applications per vacancy is twice larger the statutory minimum, this suggests that the degree of openness of the admission process was a way beyond politicized types of bureaucracy.¹⁸

Moreover, expert comments indicated that the number of job applications per vacancy is a direct function of the regularity with which bureaucratic vacancies are advertised in the local mass media. Thus, A.H., the HR expert from the Tomsk region, says: 'I am absolutely sure that the legal requirements to advertise bureaucratic jobs regularly in the mass media are implemented here more consistently than anywhere else in the country. And this directly translates into the

¹⁸ In patronage job related information normally does not reach the public domain, reflecting the absence of legal requirements to publicize such information. In openly politicized type of personnel policy regime, such information is circulated sporadically, reflecting the minimalist nature of formal requirement to publicize such information.

[large – MN] number of job applicants per vacancy that we have, not only at this department [of economic policy – MN] but across the board’ (interview with A.H.). Indeed, whilst in 2006 the average number of job applications per vacancy at the Department of Economic Policy, reported by the experts from Tomsk region was 4.67, the average number of job applications per vacancy across all departments of Tomsk regional government was 4.3 (Tomsk Department of State Service and Administrative Reform 2006: 4). The fact that the numbers are of similar magnitude is more than a coincidence as many experts that took part in this survey mentioned Tomsk as the forerunner of bureaucratic reform as far as the regular publication of job vacancies is concerned. Altogether fourteen experts from outside Tomsk and all three experts, representing Tomsk, brought this region as the example of the proper implementation of the admission rules.

The data obtained from in-depth interviews also helped to clarify other important issues relating to the admission. Firstly, from human resource managers we learnt that a larger number of jobseekers indeed translates into ‘more trouble for me as there is more queries from the applicants and, especially, complaints’ (interview with T.M.). This point of view was expressed by 15 of 23 interviewed human resource managers, five of which admitted (without being directly asked) of having experience of going to court to resolve admission disputes with jobseekers. Interestingly, three out of five human resource managers who had court experience included managers from six top regions as far as the average number of job candidates is concerned. This suggests that litigations may not necessarily be indicative of a more politicized bureaucracy.

Secondly, our experts commented on how politicians manage to circumvent the openness of the admission stage. The observation of M.Sa., an ‘other’ expert from a worse performing region, provides a good representation of what was said by other experts: ‘Our governor obviously is not interested in open and competitive contests, but he also cannot not breach the law blatantly. So, what does he do? They skillfully hid the information in the labyrinth of the administration’s website. A smart move... To begin with, not all [citizens – MN] have Internet... Secondly, you have to navigate through several pages before you find it [a vacancy advertisement – MN] in the category... ‘Procurement’. What are the chances for an average citizen to find this job advertisement? I tell you, they are very low. But this is not the end of the story. Job vacancies have to be published in a print media as well. So, he [the governor – MN] orders job vacancies to be published in ... [the name of a marginal media outlet, published by the regional government

monthly in 1200 copies – MN]. The general public, of course, has not a clue about the existence of that outlet. As a result, the legal requirement is formally observed, but ‘so-called’ vacancy contests remained populated by pre-selected candidates’ (interview with M. Sa.).

Thirteen experts (of all categories) corroborated the evidence presented above as far as difficulties in finding job advertisements online are concerned, two among the thirteen also corroborated the evidence as far as the limited circulation of the mass media outlet where the job advertisements are printed is concerned. Three other experts insisted that not all job vacancies are publicized in the mass media even though all the criteria for their public release are met. As some of job advertisements are withheld from the circulation, this is an unambiguous breach of the acting legislation. In other words, there is evidence that politicians acted beyond the scope of formal political discretion so as to regain their control over admissions. The qualitative data suggest that the subversion of the formal requirement to publicize job advertisements in the mass media was used more often than the direct violation of the law. It should also be noted that 17 experts (that commented on how politicians manage to circumvent the openness of the admission stage) represent the regions situated in the bottom part of the table as far as the average number of jobseekers per vacancy is concerned, suggesting that there may be a systematic difference in personnel policy practices across Russia’s regions.

Returning to the quantitative analysis, as three quarters of experts believed that the average number of job applicants per vacancy (4.3) did not change or changed only slightly over the period of six years, this suggests that there was a constant inflow of job seekers. In other words, the circulation of relevant information in the public domain over time was far of being sporadic. As fluctuations in the average number of job applications per vacancy over a considerable period of time were only slight, this may signify that this average was either near to the optimal number¹⁹ or indicative of a certain conjuncture of events at this stage in the development of the competitive system. Our data, however, does not permit a robust evaluation of these alternatives, and a further research is required.

Third important conclusion drawn from the data on the average number of job applicants per vacancy and the ratio of internal and external applications is about the considerable spatial variation in the degree of progress of bureaucratic reform in Russia’s regions. The data makes it

¹⁹ In the absence of cross-national data on the average number of admissions it is difficult to establish with conviction what would represent a benchmark for a ‘healthy’ number of applicants per vacancy.

clear that in all but two regions the average number of job applications per vacancy exceeded the statutory average (2). In other words, only in one region (Amur) politicians acted beyond the scope of formal political discretion and, therefore, the personnel policy regime in this region, as far as admissions are concerned, can be characterized as unbounded politicization. The personnel policy regime in the rest of the regions could be classified as within the range of open and fully-depoliticized bureaucracy. This includes six regions – Tula, Novosibirsk, Moskovskaya, Lipetsk, Belgorod and Rostov – that lean more towards a fully de-politicized bureaucracy (5 job applications per vacancy or more) and six regions (Ivanovo, Altaj kr., Irkutsk, Bryansk, Orel and Tumen – that lean more towards an openly politicized bureaucracy.

Finally, the distribution of answers to the question on the temporal change in the cross-regional average of job candidates per vacancy makes it clear that already by the year 2000 there was a considerable cross-regional variation in the progress of bureaucratic reform measured as the average number of job applicants per vacancy. Moreover, it seems that whilst between 2000 and 2006 most ‘better performing’ regions experienced a slight but steady increase in the number of job applications, some of the ‘worse performing’ regions advanced this component of bureaucratic reform faster than other regions of this kind.²⁰

3.6.3 Appointment

This section of the questionnaire contained three questions that were designed to capture both the degree of the institutionalization of vacancy contests as a hiring mechanism (and how that degree changed over time) and the extent to which the outcomes of vacancy contests were independent from powerholders’ informal influence.

Firstly, respondents were asked to evaluate the proportion of the currently (summer 2006) working bureaucrats at the department of economic policy who were hired via formal vacancy contests (thereafter referred to as ‘meritocratic recruitment’). Just like with the question on the number of vacancies, we did not provide experts with a range of possible answers; instead they were given ‘free hands’ in offering their estimates. The individual expert assessments ranged between zero (Voronez, Amur) and 60 per cent (Rostov). The evaluations were consistent across

²⁰ They are Bryansk, Vladimir, Kostroma, Murmansk, Chuvashia, Altaj kr., Orel.

different groups of informants, with independent members of juries offering the most conservative and homogenous estimates (Table 3.7). The regional values of the meritocratic recruitment indicator, obtained by averaging responses of the experts representing the region, varied between 3.33 (Ivanovo) and 52.5 per cent (Rostov) (Appendix B). The cross-regional average of the size of bureaucratic personnel hired via vacancy contests across 40 of Russia's regions is 25.4 per cent (Table 3.7), with seventeen regions achieving this or a higher value.

Table 3.7 Proportion of Current Bureaucrats Hired via Formal Vacancy Contests by Groups of Experts and Across Regions, 2006

	Min	Max	Mean	Std. Deviation 'within-the-group'	Std. Deviation 'between-the-groups'
HR experts (N = 40)	0	60	25.7	14.3	.65
Independent (N = 40)	5	55	24.6	12.5	
Others (N = 46)	0	55	25.8	13.5	
Cross-regional (N=40)	3.3	52.5	25.4	12.8	

In order to evaluate the extent of informal political intervention into appointment affairs, experts were asked: 'Even if formal vacancy contests take place at this department, their outcomes are decided in advance in __cases out of 10.' The individual expert assessments of the number of pre-decided outcomes ranged between zero (at least one expert in 26 regions) and two (Moskovskaya obl). The expert evaluations were consistent across different groups of informants (Table 3.8).

Table 3.8 Number of Outcomes of Formal Vacancy Contests that were Pre-decided by Groups of Experts and Across Regions, 2006²¹

	Min	Max	Mean	Std. Deviation 'within-the-group'	Std. Deviation 'between-the-groups'
HR experts (N = 39)	.85	1	.93	.053	.012
Independent (N = 40)	.85	1	.92	.051	
Others (N = 45)	.8	1	.94	.056	
Cross-regional (N=40)	.867	1	.93	.034	

²¹ For the purpose of better representation of the results, the answer 'zero number of cases' was converted to '1', similarly 1= 0.9, 1-2 = 0.85, 2 = 0.8.

Across regions and on average there was approximately one pre-decided outcome in every 10 cases, with twenty-one regions achieving this or higher value (Appendix B). Only in three cases did all three experts agree that the outcomes of vacancy contests were never pre-determined by politicians in advance (Belgorod, Tver and Pskov) and in five regions two experts, including independent members, agreed that this was the case (Vladimir, Lipetsk, Volgograd, Nizhegorodskaya obl, Penza).²²

We then weighed the individual scores of meritocratic recruitment by the degree of informal political intervention and obtained individual values of the *Meritocratic Recruitment Index* variable (Table 3.9).²³ By averaging individual scores we calculated the regional values of the *Meritocratic Recruitment Index*, which quantifies the size of the bureaucratic personnel that was hired without undue political inference or, using Miller’s (2000) metaphor, is ‘above politics’. The regional values of the *Meritocratic Recruitment Index* fluctuated between 3 and 50 per cent (Appendix B). On average and across regions ‘above politics’ bureaucratic personnel makes up 23.8 per cent of the total bureaucratic staff at the departments of economic policy (Table 3.9), with nineteen regions reaching this or higher value.

It is important to note that this variable reflects the ‘distance travelled’ by the regions between the mid-1990s, when patronage was ‘the only game in town’, and the mid-2000s, when a remarkable variation in the organization design of regional bureaucracies was documented through the expert survey.

Table 3.9 Meritocratic Recruitment Index by Groups of Experts and Across Regions, 2006

	Min	Max	Mean	Std. Deviation ‘within-the-group’	Std. Deviation ‘between-the-groups’
HR experts (N = 40)	0	60	24.3	14.4	1.23
Independent (N = 40)	4	55	22.58	11.7	
Others (N = 46)	0	55	24.9	13.8	
Cross-regional (N=40)	3	50	23.8	12.2	

²² In addition to this, independent members from two regions (Kostroma and Amur) reported that the outcomes of vacancy contests are not predetermined in advance.

²³ 45% * 0.9 (1 case out of 10) = 40.5%, 10% * 0.85 (1-2 cases out of 10) = 8.5, 30% * 0.8 (2 cases out of 10) = 24.

A strong positive correlation between the *Meritocratic Recruitment Index* and the average number of job applicants per vacancy ($r = .850, p = .000$) suggests that regions with the larger average number of job applications per vacancy tend to have larger corps of bureaucratic personnel that is hired without undue political inference.²⁴ Likewise, regions with a smaller number of internal job seekers in the total number of job candidates tend to employ more ‘above politics’ bureaucrats ($r = -.746, p = .000$).

The *Meritocratic Recruitment Index* is highly positively correlated with other measures of bureaucratic reform progress in Russia’s regions. Thus, in 2006 Russia’s Ministry of Economic Development and Trade held a competition among the Russian provinces that aimed to provide financial assistance to regions advancing public administration reform (12 reform areas, excluding personnel policy). Forty-six regions took part in the competition and received a score (Ministry of Economic Development and Trade, 2006), which is highly positively correlated with the *Meritocratic Recruitment Index* ($r = .572, p = .001$). The results of the second round of the Ministry’s contest, which took place in April 2007, are also highly positively correlated with the *Meritocratic Recruitment Index* ($r = .645, p = .000$). Therefore the validity of the data obtained by means of expert evaluations stands up to reality checks.

Finally, respondents were asked how the number of bureaucrats hired via formal vacancy contests in 2005-2006 changed in comparison to 2004 and 2000. As Table 3.10 shows, the majority of respondents thought that the proportion of public managers hired via vacancy contests steadily increased over time: about 90% of respondents thought that it was more in 2006 than in 2000 and almost 60% thought it was more in 2006 than in 2004. The argument that the number of ‘above politics’ bureaucrats considerably increased between 2000 and 2006 is also supported by the proportion of ‘No change’ answers for 2000 and 2004: 4% and 37% correspondingly. Notably, none of the respondents selected the options ‘Slightly decreased’ and ‘Considerably decreased’, suggesting that meritocratic recruitment advanced steadily over time across all regions.

²⁴ The table of coefficients of bi-variate correlation between measures of real merit is reported in Appendix C.

Table 3.10 Change in the Number of Bureaucrats Hired via Formal Vacancy Contests, 2005-2006 Compared to 2004 and 2000 (%)

No of responses 126

	Dramatically More	Considerably More	Slightly More	No Change	Slightly Less	Considerably Less	Don't know/ Difficult to say
2000	3.2	77	11	4	0	0	4.8
2004	0	13.5	46	37.3	0	0	3.2

To sum up, the expert evaluations suggest that about a quarter of all bureaucratic staff at the departments of economic policy in 40 Russia's regions was hired through formal vacancy contests without undue political interference. A strong positive correlation between the *Meritocratic Recruitment Index* and alternatives measures of bureaucratic reform in Russia's regions proves that the data obtained in our survey stands up to external validity checks. The spatial distribution of the values of the *Meritocratic Recruitment Index* indicates that the progress of the reform, as far as admissions are concerned, was uneven across the territorial units of the Russian Federation, with six regions (Rostov, Samara, Novosibirsk, Belgorod, Tomsk and Tula) being considerably ahead and two regions (Ivanovo and Amur) lagging considerably behind the average. With regard to the temporal changes in the appointment process our data suggests that this component of Russia's civil service reform advanced steadily over time across Russia's regions without major set backs.

3.6.4 Promotion and Demotion

This section of the questionnaire contained four questions on promotions and a question on demotion. The first question related to promotion by contests, namely to the deployment of such personnel policy instrument as vacancy contests for filling senior bureaucratic posts. In particular, respondents were asked: 'Thinking about the last two years, approximately what is the proportion of bureaucratic posts of higher importance (the two highest grades) at the department of economic policy that were filled via formal vacancy contests, open both to internal and external candidates?' Respondents were offered eight options from which to select. The

distribution of answers is reported in Table 3.11. It shows that the overwhelming majority (84%) of experts stated that between 50 and 100 per cent of such posts were filled via formal vacancy contests.

Table 3.11 Proportion of Bureaucratic Posts of Higher Importance Filled via Formal Vacancy Contest, 2004-2006 (%)

No of responses 126

	100%	About 90%	About 2/3	About Half	About 1/3	Less than 1/3	None	Don't know
Vacancy contests	1.6	23	34.1	25.4	12.7	.8	1.6	.8

Having assigned numerical values to individual answers,²⁵ we were able to compare within-the group and between-the-groups assessments. The mean values and the values of standard deviation, reported in Table 3.12, show that expert assessments are consistent across different groups of informants.

Table 3.12 Promotion by Contest: Proportion of Bureaucratic Posts of Higher Importance Filled via Formal Vacancy Contests by Groups of Experts and Across Regions, 2004-2006

	Min	Max	Mean	Std. Deviation 'within-the-group'	Std. Deviation 'between-the-groups'
HR experts (N = 40)	0	6	3.93	1.18	.23
Independent (N = 40)	2	5	3.58	1.01	
Others (N = 45)	0	5	3.51	1.18	
Cross-regional (N=40)	1.3	5.3	3.66	1.04	

The cross regional average of the *Promotion by Contest* variable, obtained by averaging individual expert assessments at the regional level, is 3.7 (Table 3.12). In other words, about 68% of all posts of higher importance at the departments of economic policy in 40 of Russia's regions were filled via formal vacancy contests. These findings are largely in accord with the formal requirements on promotion that required that each bureaucratic vacancy, but the entry level ones, should be filled via contests open to both internal and external candidates.

²⁵ 1 = 'Less than 1/3', 2 = 'About 1/3', 3 = 'About half', 4 = 'About two-thirds', 5='About 90%', 6 = 'About 100%'.

The *Promotion by Contest* variable is highly positively correlated with the *Meritocratic Recruitment Index* ($r = .795, p = .000$). This means that those regions that hire a larger number of bureaucrats without undue political interference tend to employ formal vacancy contests to fill posts of higher importance more often than other regions. Therefore, higher values of the *Promotion by Contest* variable seem to signify a more de-politicized personnel practice.

In addition, experts were asked ‘Thinking about the last two years, what were the other methods of filling vacant bureaucratic posts of higher importance (the two highest grades) at the department of your expertise?’ Respondents were provided with six options and could select as many options as applied. The distribution of experts’ choices is reported in Table 3.13, which shows that appointment from the regional government’s cadre reserve was mentioned most frequently, followed by ‘At discretion of the head of the department or other official with appropriate authority’ and ‘Vacancy contests for currently employed bureaucrats only’. In addition, the ‘None of the above’ option was chosen by 13.5% of respondents.²⁶

Table 3.13 Other Methods of Filling Bureaucratic Posts of Higher Importance (%)

		<i>No of responses 126</i>
1	Appointment from the cadre reserve	25.4
2	At discretion of the head of the department	15.1
3	Vacancy contests for currently employed bureaucrats only	4.8
4	None of the above	13.5
5	Other	0
6	Don’t know / Difficult to say	7.1

Total does not equal 100% as respondents were able to select any number of options

It should be noted that only appointment from cadre reserve is a legitimate personnel policy instrument. Options 2 and 3 are policy tools that were authorized neither by FZ-119 or FZ-79. In other words, the data provides clear evidence of the violation of personnel legislation as far as promotion is concerned. As the spread of the *internal contests* instrument (option 3) was limited,

²⁶ The ‘None of the above’ option was designed as a check on the *Promotion by Contest* variable. We reasoned that if more senior posts were filled by none of the ‘other methods’ (options 1-3), then they should have been filled via vacancy contests. Hence, the *Promotion by Contest* variable would be highly positively associated with the *None of the Above* variable, constructed by aggregating the number of ‘ticks’ in the answer box for the ‘None of the above’ option placed by experts from the same region. Indeed, the *None of the Above* variable appeared to be positively correlated with the *Promotion by Contest* variable ($r = .570, p = .000$), which is in accord with the hypothesized relations between the two variables. This statistical test evidences for internal validity of the data.

we focused our further analysis on the *promotion at discretion* instrument (option 2). By aggregating the number of ‘ticks’ in the answer box for the ‘At discretion of the head of the department’ option placed by experts from the same region,²⁷ we obtained the *Promotion at discretion* variable and subjected it to a test of statistical association with other measures of real merit (Appendix C). The analysis revealed that the *Promotion at Discretion* variable is highly negatively correlated with such indicators as the *Meritocratic Recruitment Index* and the *Promotion by Contest* ($r = -.672, p = .000$ and $r = -.716, p = .000$ correspondingly). As promotion at discretion was employed more frequently in those regions where meritocratic recruitment and meritocratic promotion were weak, it seems to be indicative of the political nature of this personnel policy tool.

A similar analysis was carried out for the *Appointment from Cadre Reserve* variable, constructed in the same way as the *Promotion at Discretion* variable. The statistical test revealed no correlation exists between the *Appointment from Cadre Reserve* on the one hand and the *Meritocratic Recruitment Index* and the *Promotion by Contest* on the other hand ($r = .258, p = .108$ and $r = .224, p = .164$ correspondingly). However, the *Appointment from Cadre Reserve* variable shows a moderate negative correlation with the *Promotion at Discretion* variable ($r = -.333, p = .036$). This means that the use of this personnel policy tool was not curbed in more depoliticized bureaucracies, at the same time its application was also limited in more patronage-oriented regions. In other words, the nature of this personnel policy tool remains ambiguous in the light of the quantitative data.

From in-depth interviews with 44 experts we learnt that departments of economic development sometimes *consult* with the regional cadre reserve list when a vacancy arises. Much more often departments *recruit* to the region’s cadre reserve pool prior the moment a vacancy arises (which is a provision introduced by FZ-79 in 2004). Six experts who reported the consultation use of cadre reserves (not only in the context of appointment to higher, but to all posts) were supportive of it. They unanimously stated the membership in the region’s cadre reserve belonged to bureaucrats who were made redundant and recognized cadre reserve as a

²⁷ For instance, as only HR and ‘other’ experts, representing Vladimir ‘ticked’ the answer box for the ‘At discretion of the head of the department’ option, Vladimir’s score for the *Promotion at Discretion* variable is 2. Similarly, as only the independent expert from Murmansk ‘ticked’ the answer box for the ‘At discretion of the head of the department’ option, Murmansk’s score is 1. If none of the region’s experts ‘ticked’ the answer box for the ‘At discretion of the head of the department’, that region receives a score of zero.

‘mechanism serving the purpose of getting former bureaucrats back to the service well’ (interview with T.M.). Importantly, respondents underscored the pro-active position of ex-bureaucrats-members of cadre reserves in terms of pursuing their right of returning to the service, with two human resource managers admitting that ex-bureaucrats were threatening with legal actions against the administration (interviews with P.Kh. and T.M.).

Experts were less unanimous in their perceptions of the recruitment dimension of the cadre reserves use. Some of them (17 out of 44) held that ‘hiring in advance’ was an ‘excellent idea that helps personnel changes to be smooth and quick’ (interview with A.Pa.). However, 11 experts expressed their doubts that ‘hiring in advance’ brings the best out of the idea of vacancy contests as ‘There is clearly fewer people applying for places in the cadre reserve than for the ‘proper vacancy contests’ ... and I would say that the quality of the candidates is also lower’ (interview with A.Z.).

It should also be noted that ten experts reported cadre reserves to be ‘dormant’ as a ‘safety net’, yet underdeveloped as a recruitment tool. Most importantly, none of the experts could bring an example of politicians using this policy instrument in patronage purposes. The response of M.G. is typical in this respect: ‘I think cadre reserve contest is not much different than the vacancy contest. A candidate, even very well connected politically, still has to pass assessments and interview with the jury. The room for political maneuver is limited. I am not saying that there is no room for maneuver at all. The boss [the governor – MN] can always send ‘a message’ to the jury to give ‘due consideration’ to such and such candidate...but beyond this I think there is little he can do with the cadre reserve’ (interview with M.G.).

Therefore, in the light of this qualitative data, the use of cadre reserves seems to be within the boundaries of more de-politicized types of personnel policy. And a proposition that politicians could have used cadre reserves as a modified version of *nomeklatura* (Huskey 2004) does not find support in the data.

Another promotion-related issue subjected to experts’ evaluation was short-term assignments of currently working bureaucrats to a position of higher importance within the department of economic policy or elsewhere within the regional government. Respondents were asked to assess the frequency at which this occurred between 2004 and 2006. Their evaluations, reported in Table 3.14, suggest that *temporary promotions* are by no means an alien personnel

practice in Russia's regional governments: 85% of experts acknowledged coming across such a phenomenon. At the same time, the frequency at which this discretionary personnel policy instrument was deployed seems to be limited: about two-thirds of the respondents stated it was used 1-2 times over two years. It is plausible to assume that operational needs of one of the largest structural units within regional governments may involve a limited number of short-term assignments of currently working bureaucrats to posts of higher importance.

Table 3.14 Frequency at which Currently Working Bureaucrats were Assigned to Positions of Higher Importance Temporarily, 2004-2006, (%)

No of responses 126

Never came across of such a case	4
1-2 times	68.3
3-4 times	15.1
5 times	1.6
More than 5 times	0
Don't know / Difficult to say	11.1
Total	100

Indeed, as the distribution of answers to the next question revealed (Table 3.15), the majority of experts (48%) believed that short-term promotions were determined by the urgent operational needs of the department and a further 38% of respondents thought it was 'a probation in post'. At the same time, about 17% of experts considered that temporary promotions had been used to enhance current employees' chances for upward mobility. Eighteen respondents (11%) thought that short-term career advancements signified a powerholder's personal favor. A further 6.3% of experts selected the 'Other' option²⁸ and 12% the 'Don't know' option.

It is tempting to conclude that patronage-driven short-term promotions are the exception rather than the rule, as only a small proportion of experts (11%) chose option 4. However, option 3 – 'To enhance current employees' chances for upward mobility' – could also reflect politically-motivated decision, especially if a bureaucrat whose chances are sought to be improved by short-term promotion was hired at political discretion in first place.

²⁸ Among eight respondents who chose the 'Other' option, only four specified their answers: 'team building exercise', 'to retain a promising official at the department', and 'a way to financially reward bureaucrats for their good performance in the past' (2 counts).

Table 3.15 Reasons for Temporary Promotions (%)*No of responses 126*

1	It is an emergency measure, caused by some unplanned personnel-related developments and other urgent needs of the department	47.6
2	It is a kind of probation in post, a test of a bureaucrat's capacity to cope with the duties in a new post	38.1
3	It is done to enhance the chances of the currently employed bureaucrats to succeed in vacancy contests for more senior posts by advancing their experience relevant to senior posts	23
4	It is a personal favour of the head of the department or other senior official, not related to the office needs	11.1
5	Other	6.3
6	Don't know/Difficult to say	11.9

Total does not equal 100% as respondents were able to select any number of options

In an attempt to answer the question 'Does the frequent deployment of short-term promotions signify a politicized bureaucracy?', we assigned numerical values to individual expert answers to the question on the frequency of short-term promotions²⁹ and averaged them at the regional level. The *Temporary Promotion* variable was subjected to a bivariate correlation test with other measures of real merit. It showed that the less frequent deployment of temporary promotions sits very comfortably with such indicators of a de-politicized bureaucracy as *promotion by contest* ($r = .486, p = .001$) and *meritocratic recruitment* ($r = .489, p = .001$). At the same time, the *Temporary Promotion* variable is associated with the *Promotion at Discretion* variable ($r = -.348, p = .028$).³⁰ In other words, those regions where personnel policy took on a more de-politicized mode tend to deploy short-term promotions less often.

Thus, the quantitative data suggests that politicians indeed used short-term promotions to regain their control over bureaucracy. The qualitative data, however, does not unequivocally support this conclusion. Whilst the practice of selective promotion of staff to positions of higher importance (albeit only temporarily) was explicitly condemned by seven experts in their in-depth interviews as 'damaging the neutrality of bureaucracy' (interview with O.V.) and 'reviving the spirit of personal dependency' between the politician and the bureaucrat (interview with P.Kh.), others (eleven experts) praised it as a 'flexible managerial tool' (interview with M.K.), seeing

²⁹ 1 = '5 times', 2 = '3-4', 3 = '1-2', 4 = 'Never'.

³⁰ The negative sign of the correlation implies that the less frequent deployment of *temporary promotions* is correlated with the less frequent use of promotion at discretion.

‘nothing wrong in wanting to promote someone who you worked previously with’ (interview with O.R.). Yet, the largest group of experts³¹ recognized that the application of this personnel policy tool ‘could be harmless [for neutrality of bureaucracy - MN] in some cases, but could be also used [by the poweholder – MN] to get who he wants to the post comfortably’ (interview with P. Ko.).

Thus, the data suggests that temporary promotions could be an instrument of political control as well as a purely managerial tool. The data also revealed that in the former capacity this personnel policy instrument was used more often in those regions where admissions and appointments tended to be more politicized. Further research is required as to clarify the conditions under which short-term promotions become an instrument of political control.

The final question of this section was on demotions. With clear reference to 2004-2006 respondents were asked how often currently working bureaucrats were demoted to a position of lesser importance at the discretion of the head of the department or other senior official. It should be noted that none of the relevant legal acts provided for a mechanism of downward mobility. Demotion, therefore, is an illegal policy instrument.

Respondents were offered 5 options and instructed to select one option only. The distribution of answers is reported in Table 3.16, which shows that demotion at powerholders’ discretion was rarely deployed in Russia’s regional bureaucracies in 2004-2006: only 4% of experts reported its use as often as 1-2 times over two years and a further 75% stated that they never came across such a case. A further 20% of experts chose the ‘Don’t know/Difficult to say’ option or did not answer the question altogether.

Table 3.16 Frequency at which Currently Working Bureaucrats were Demoted to a Position of Lesser Importance, 2004-2006, (%)

No of responses 126

Never came across such a case	75.4
1-2 times	4
3-4 times	0
5 times	0
More than 5 times	0
Don’t know / Difficult to say	16.7
Missing	4
Total	100

³¹ 19 respondents, representing all types of expertise.

Having dichotomized the expert assessments,³² we obtained the *Demotion at Discretion* variable. This variable is correlated with none of the above discussed measures of real merit, including such indicators of a de-politicized bureaucracy as the *Meritocracy Recruitment Index* and the *Promotion by Contest* ($r = -.186, p = .252, r = -.176, p = .278$) and a politicized bureaucracy such as the *Temporary Promotion* and the *Promotion at Discretion* ($r = -.252, p = .114$ and $r = .128, p = .430$ correspondingly). Although from a formal-legal point of view demotions are an illegal personnel policy instrument, at this point the quantitative data does not provide clear-cut evidence of the political nature of this personnel policy tool. In the light of the fact that in in-depth interviews all 44 experts reported not coming across instances of demotion at political discretion, a definite conclusion about the nature of this personnel policy instrument require further research.

3.6.5 Dismissal

The last section of the questionnaire contained a question on dismissals. It was designed to assess the frequency at which such argument as the need for structural re-organization of the department of economic policy was deployed to fire bureaucrats during 2004-2006. It should be noted that although dismissals by reorganization is a lawful personnel policy instrument, the ease – in-built into the legislation – at which this tool could have been deployed by politicians raised our concerns that structural reorganizations may be used as a pre-text for politically motivated dismissals.

Respondents were provided with 6 answer options and instructed to select one of them only. The distribution of answers is reported in Table 3.17.

³² 1 = ‘At least one instance of demotion at discretion’, 0 = ‘No instances of demotion at discretion’.

Table 3.17 Frequency at which Currently Working Bureaucrats were Fired on Grounds of Structural Reorganization of the Department, 2004-2006, (%)

No of responses 126

Never came across such a case	0
1-2 times	22.2
3-4 times	66.7
5 times	7.9
More than 5 times	0
Don't know / Difficult to say/Missing	3.2
Total	100

It shows that firing on the grounds of structural reorganization was a frequently employed personnel policy tool in the Russian regional governments. That is, none of the respondents reported never coming across such a case, and 97% of experts stated that firing on grounds of structural reorganization happened at a frequency of between one and five times over the course of two years. It is important to note that none of respondents selected the maximum frequency – ‘More than 5 times’. We obtained the *Dismissal by Reorganization* variable by assigning numerical values to individual responses and averaging them at the regional level.³³ As Table 3.18 suggests the individual expert estimates of the frequency at which this personnel policy tool was deployed are consistent across different groups of informants.

Table 3.18 *Dismissal by Reorganization*: Frequency at which Currently Working Bureaucrats were Fired on the Grounds of Structural Reorganization by Groups of Experts and Across Regions, 2004-2006

	Min	Max	Mean	Std. Deviation 'within-the-group'	Std. Deviation 'between-the-groups'
HR experts (N = 40)	2	4	2.95	.504	.087
Independent (N = 40)	2	4	2.78	.577	
Others (N = 42)	2	4	2.83	.537	
Cross-regional (N=40)	2	3.75	2.85	.408	

A test of bivariate association revealed that fewer dismissals on the grounds of reorganization occurred in the regions with the larger number of bureaucrats hired without undue political interference ($r = .686, p = .000$). There is also a strong association between fewer cases

³³ 1 = ‘More than 5 times’, 2 = ‘5’, 3 = ‘3-4’, 4 = ‘1-2’, 5 = ‘Never’.

of firing by reorganization and the *Promotion by Contest* variable ($r = .654, p = .000$), i.e. those regions where appointment to higher bureaucratic posts was executed through contests more often tend to have fewer cases of firing public managers on the ground of structural reorganization. At the same time, the *Dismissal by Reorganization* variable sits very comfortably with measures that signify a politicized bureaucracy, i.e. *promotion at discretion* and *temporary promotion* (Appendix C). In other words, the data supports the conclusion achieved in chapter 2 that firing on the grounds of structural reorganization of bureaucracy might be an instrument that enhances rather than restricts political control over bureaucracy.

It should be noted that evidence exists that decisions to fire bureaucrats on the grounds of reorganization are challenged by the dismissed bureaucrats in court. Thus, eight experts told us during in-depth interviews about coming across such cases. Information about litigations between dismissed public managers and politicians also reaches the mass media. Thus, in January 2006 *Novaya Gazeta* reported how 44 bureaucrats in Republic of Kalmykia, dismissed on the grounds of the liquidation of their bureau, won a case against the head of their organization and were restored in their posts by the court decision (Lebedeva 2006). This shows that although politicians cross the borders of formal political discretion, their actions do not always achieve the outcomes they desire because of the effect of the public scrutiny present in personnel policy process.

3.7 Conclusion

Contemporary scholarship of bureaucracy recognizes that the mere enactment of personnel legislation containing a low degree of formal political discretion cannot be taken as a *de-facto* measure of the nature of a personnel policy regime. Rather it is necessary to also understand whether the actions of powerholders remain within the boundaries of the authorized scope of discretion or transcend them. This chapter, therefore, has focused on the analysis of personnel practices in 40 of Russia's regions.

Drawing on the research of real merit in less-developed countries conducted by Rauch and Evans (1999, 2000) and the early studies on real merit in Russia, we grounded our analysis in expert evaluations of personnel policy practices at the departments of economic development in

40 constituent members of the Russian Federation. Exhibiting a satisfactory degree of internal and external validity, expert assessments revealed a systematic difference in personnel policy practice across Russia's regions. Thus, whilst in some regions politicians' actions were largely within the scope of discretion authorized by the legislation, in others they went beyond the boundaries of formal political discretion. The latter includes the extensive use of discretionary personnel policy instruments (such as temporary promotions and dismissals by reorganization), open breach of legal provisions (such as the withdrawal of vacancy-relating information from circulation in the public domain, promotion and demotion at political discretion and promotion by contests for internal candidates only) and the circumvention of the implementation of the law (informally influencing vacancy contests juries and obstructing the circulation of job-relating information in the public domain).

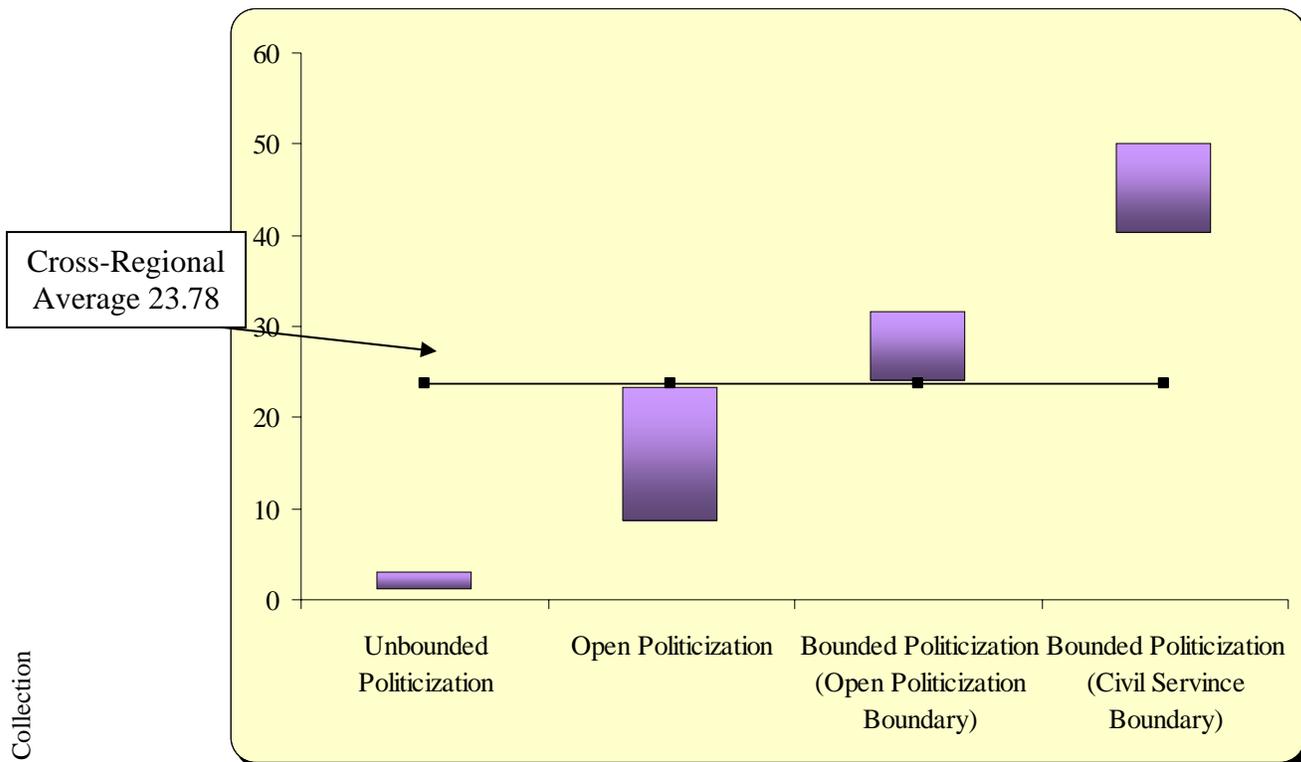
By averaging individual assessments of the experts representing the same region, we obtained seven indicators of the application of different personnel policy tools at the regional level and subjected them to a test of statistical association. The test revealed that there is a high positive correlation between *appointment by vacancy contests without undue political interference* (the Meritocratic Recruitment Index) and *promotion by vacancy contest*, and a high positive correlation between *promotion by discretion, temporary promotion* and *dismissal by reorganization*. At the same time, these two clearly defined groups of personnel policy instruments exhibit a high negative correlation with each other. These correlation patterns, combined with the conclusions of the analysis of the formal-legal framework, enabled us to classify the former group of instruments as being of a de-politicized nature and the latter as being of a politicized nature. At the same time, our data does not permit us to establish with conviction the nature of such personnel policy instruments as appointment from cadre reserve and demotion by discretion. This will require further research.

Given that the nature of the appointment process is the key attribute of a personnel policy regime, we use the *Meritocratic Recruitment Index* as the principal indicator of the extent of de-politicization of bureaucracy in a region.³⁴ Based on the distribution of the values of the *Meritocratic Recruitment Index* we conclude that seven regions (Lipetsk, Rostov, Samara, Novosibirsk, Belgorod, Tomsk and Tula) are at the top of the league table of bureaucratic reform

³⁴ The *Meritocratic Recruitment Index* is also highly positively correlated with other indicators of a de-politicized bureaucracy and highly negatively correlated with indicators of a politicized bureaucracy (Appendix C).

in Russia's regions, followed by another twelve regions that achieved above the average values of the *Meritocratic Recruitment Index*. Although none of these nineteen regions reached the civil service state of their administrations, their public bureaucracies can be classified as belonging to the bounded (structured) politicization type, with the former group leaning more toward the civil service end of the distribution of the personnel policy regimes and the latter towards the open politicization end. Two regions that achieved the lowest values of the *Meritocratic Recruitment Index* (Ivanovo and Amur) can be classified as unboundedly politicized type of bureaucracy, with the rest of Russia's regions fitting the openly politicized type (Table 3.19).

Table 3.19 Distribution of the *Meritocratic Recruitment Index*'s Values by Types of Personnel Policy Regime



To what extent can these findings be generalized to Russia's regional bureaucracy as a whole? Given that the department under study, from the point of view of both its functionality and staff profile, represents a fairly typical example of an administrative unit in post-Soviet

regional governance, there is every reason to believe that these findings can be extended to Russia's regional bureaucracy as a whole.

Having established that Russia's regions varied with regard to the institutionalization of a de-politicized bureaucracy, we now turn to the statistical analysis of the impacts of a de-politicized bureaucracy on social welfare, using the *Meritocratic Recruitment Index* as a measure of de-politicization. The fact that this variable reflects the 'distance travelled' by the regions between the mid-1990s, when patronage was 'the only game in town', and the mid-2000s, when a remarkable variation in the organizational design of regional bureaucracies was documented through the expert survey, permits its use in a panel (data) analysis. As the *Meritocratic Recruitment Index* variable stands for the percentage of the currently working bureaucrats that stay 'above politics', it facilitates the interpretation of the correlation coefficients obtained in the multivariate regression analysis of the impact of a de-politicized bureaucracy on social welfare, to which we proceed in the next chapter.

Chapter 4

DE-POLITICIZED BUREAUCRACY AND ECONOMIC DEVELOPMENT

This chapter subjects to empirical test the proposition derived from Miller's theory of welfare-enhancing public bureaucracy. It states that those of Russia's regions where a de-politicized bureaucracy has been institutionalized to a greater extent, exhibit greater rates of aggregate economic growth and small business formation than those provinces in which it has been less fully incorporated. Section one explains why aggregate economic growth and small business growth were selected as indicators of social welfare. Section two provides a brief overview of the literature on growth, which informed the selection of control variables for the economic growth model. The issues of the potential impact of the outliers and the endogeneity problem are discussed before section two proceeds with the findings from OLS and 2SLS regressions. Section three discusses key methodological issues – model specification, data and the choice of statistical techniques – before presenting major findings from conditional correlation analysis of the impact of de-politicization on the rates of small business formation.

4.1 Selecting the Dependent Variable

Although the impact of a de-politicized bureaucracy on societal well-being has been measured in terms of aggregate economic growth (Evans and Rauch 1999, Rauch and Evans 2000), investment to infrastructure (Rauch 1995), poverty reduction (Henderson *et al* 2007) and scientific productivity (Lapuate 2007), the essence of the theory of welfare-enhancing bureaucracy – that is that a de-politicized bureaucracy encourages existing economic agents to actively participate in economic activity (to invest more, to expand their businesses) and provides incentives for potential economic agents to enter economic activity – suggests that an adequate measurement of the impact of a de-politicized bureaucracy would be of an economic nature. For this reason, and after considering a variety of factors suitable to capture the phenomenon of

increased economic participation, such as investment,¹ we selected small business growth and aggregate regional growth as dependent variables for the empirical analysis.

The focus on the rates of small business formation permits us to test the causal mechanism of Miller's theory that de-politicization of bureaucracy serves as an institutional solution to the problem of opportunism in the relations between those who control the power of the state and those subject to that power. If meritocratic bureaucracy indeed effectively constrains public policies from the rent-seeking motivations of both politicians and bureaucrats, then its developmental (anti-predatory) properties would be recognized by the entrepreneurial-minded regional population, particularly by those without connections to the current winners in regional politics. Consequently, this will be translated into increased rates of small business growth.

We focus on small business because large business is not only arguably less susceptible to the consequences of moral hazard than small and medium business (Chepurensko *et al* 2005, Miller 1989), but it may even benefit from it by colluding with holders of political power (Slinko *et al* 2005). Having said this, it should be noted that the size of the firm is by no means a guarantee against opportunistic behavior of politicians. Thus, in August 2008 Rupert Murdoch, a global media tycoon who owns the largest outdoor advertising firm in Russia, declared his intention to sell *News Outdoors Russia* because of the predatory position of the Russian authorities. In particular Murdoch said: 'The more successful we'd be, the more vulnerable we'd be to have it stolen from us, so there we sell now' (Chaffin and Edgecliffe-Johnson 2009). Similarly, Anton Oleinik (2007) argues that it was because of uncertainty with regard to their property rights, that the owners of one of Russia's largest mining company *Yuzkuzbasugol* maximized their profits at the expense of health and safety measures, which eventually led to a major catastrophe on the *Ulianovskaya* mine in spring 2007 in which more than 100 miners were killed.

We use the total change in the number of small business organizations (per 1000 inhabitants) as a proxy for small business development for several reasons. Firstly, since at least Low and MacMillan's path-breaking article the entrepreneurship research defines entrepreneurship as the 'creation of new enterprise' (1988: 141). Secondly, as the large literature on credible commitment in general and the theory of welfare-enhancing public bureaucracy in

¹ Russian regional capital stock and investment data is 'of particularly low quality' (Ahrend 2005: 290) and 'unrealistic given the lack of modern accounting methods at many firms' (Brock 2005: 329).

particular predict, a predatory government leads to lower levels of economic activity. However, in Eastern Europe and the former Soviet Union the opportunistic behavior of powerholders and bureaucrats has driven a large number of businesses into the unofficial economy (Fry and Zhuravskaya 2000, Johnson *et al* 1998). Instead of exiting economic activity altogether, entrepreneurs prefer not to register their business legally, not to pay taxes and not to benefit from key governmental services such as enforcement of contracts.² Therefore, the emergence of a welfare-enhancing bureaucracy should be translated into the increase of legally registered small business start-ups. In addition, feasible alternative measures for small business growth have considerable limitations: investment data, as mentioned earlier, is unreliable due to poor accounting standards, small-business employment – because many small firms underreport employment for tax evasion purposes (Slinko *et al* 2005: 304) and retail turnover is at best only an indirect proxy as it accounts only for a part of what small businesses do. We measure small business growth as the total percentage change in the number of small businesses per 1000 in the period between 1996 and 2006. The data comes from ROSSTAT – Federal State Statistics of the Russian Federation’s annual publications on socio-economic characteristics of Russia’s regions (2006b, 2007, 2008).

As far as aggregate economic growth is concerned, it is a universally accepted measurement of economic development and the relative prosperity of a society. As was argued in chapter 1, economic growth improves general standard of living, life expectancy, employment, leisure time and reduces absolute and relative poverty, infant and maternal mortality and malnutrition. Whilst the direct positive impact of meritocratic recruitment on economic growth was empirically ascertained by Evans and Rauch in the context of less-developed countries in 1970-1990s (1999, 2000), Rauch (1995) provides empirical evidence of indirect positive impact (mediated via the infrastructure development) of the adoption of civil service on economic growth in US municipalities in the first half of the XX century. Therefore, a statistical test on the impact of a de-politicized bureaucracy in a new empirical milieu would be an important contribution to the literature. We selected total percentage growth of GRP per capita³ as our measure of the

² Johnson *et al* 1998 argues that most of the ex-Soviet Union countries ended up in a ‘bad’ equilibrium: firms leaving official sector reduce state revenue, which reduces publicly provided services and further reduces the incentive to register in the official sector (387).

³ In the Russian statistics calculation of GDP in constant prices (real GDP) is still unavailable both at the national and regional levels. Although there are a number of techniques which allowed researchers to estimate this

aggregate economic growth not only for the purpose of comparison with Evans and Rauch's research, but also given the considerable limitations of the alternative measures. Thus, for instance, real income, which is used in the research of Berkowitz and DeJong (2003, 2005) is considered to have significant limitations, as changes in real income result not only from the changes in regional output but also from a complex scheme of private and government financial flows between Russia's regions (Popov 2001: 873-876). The data comes from ROSSTAT – Federal State Statistics of the Russian Federation's annual publications on socio-economic characteristics of Russia's regions (2006b, 2007, 2008).

4.2 De-Politicized Bureaucracy and Economic Growth

4.2.1 Model, Data and Method

It is well-known that the economic development of the Russian economy has had a very fragmented spatial character, and a number of scholars have examined the driving forces behind the interregional inequalities of the country's economic development. They showed that relative economic development in Russia's regions in the 1990s-2000s, measured as change in GRP, income, industrial output or FDI, was largely dependant on the structural characteristics of regional economies that were inherited from the Soviet era (measured as the availability of natural resources, export capabilities and industrial structure), as well as by urbanization and human capital endowment (Ahrend 2005, Berkowitz and DeJong 2003, 2005; Brock 2005, Golubchikov 2007, Popov 2001, Slinko *et al* 2005, Van Selm 1998).

In contrast, scholars appeared to disagree on the impact of regional reform packages on aggregate growth in Russia's regions. Thus, Berkowitz and DeJong (2003) found that regional differences in price liberalization policies exhibited a positive direct correspondence with growth (measured as per capita income) in 1993-1997 and large-scale privatization affected positively the regional formation of new enterprises, which in turn positively affected growth. Engaging with Berkowitz and DeJong's findings, Popov (2001) argues that although there is no evidence

macroeconomic parameter in constant prices (Mikheeva 1999), change in GRP per capita has been extensively used in research on Russia's regions (Slinko *et al* 2005).

that economic reforms of the early 1990s has led to a better industrial output and investment dynamics in the period between 1990 and 1997, the reform, however, indeed affected regional differences in per capita income change. In other words, the impact of the differences in regional reform packages on aggregate growth was indirect, through the stimulation of domestic demand, which became the key driver for economic growth in the 2000s (Litwak 2006). At the same time, Ahrend holds that economic reform variables explain relatively little of the observed difference in regional economic performance, suggesting that ‘the degree to which a region implemented economic reforms seemed to have played a far less prominent role in explaining its economic performance that we would have expected’ (2005: 311).

In addition to the ‘pre-existing structures’, human capital and reform packages, scholars of Russia’s regional economic growth made several attempts to empirically test the ‘institutions matter’ hypothesis (Ahrend 2005, Popov 2001, Slinko *et al* 2005). Thus, Ahrendt (2005) found no evidence that a region’s performance in the 1990s was influenced by its politico-institutional factors, such as the political orientation of its leaders/legislature, the political preferences of the population or the institutional capacity, proxied by tax collection per capita and the ratio of tax collection to budget expenditure. Similarly, having constructed an original data-set on state capture, measured as a number and concentration of laws and regulations that treated selected large firms in 73 of Russia’s regions preferentially, Slinko *et al* (2005) found no evidence that capture affected aggregate growth in Russia’s regions in the 1990s.⁴ Using a set of completely different proxies for institutions, such as the share of the shadow economy in total regional output, privately constructed indices of investment risk and even small business growth or crime rate, Popov concludes that institutions had a ‘considerable impact’ on regional performance (2001: 865).⁵

Based on this recent econometric work on growth in Russia’s regions as well as on the classical growth literature (Barro 1995, Barro and Sala-I-Martin 1997), we considered the following control variables: ‘pre-existing conditions’ (measured alternatively as GRP per capita in 1995 or the share of oil and gas in the total output), initial level of regional education

⁴ At the same time, Slinko *et al* (2004) found that capture affected small business growth and the tax capacity of the region.

⁵ This difference in the conclusions achieved by the authors demonstrates that a meaningful attempt to empirically adjudicate the ‘institutions matter’ hypothesis requires a set of quality indicators, which are not readily available in the context of Russia’s region. The lack of such indicators in the domain of the official statistics prompts scholars to construct their original, most often, survey-based, data sets (Fry 2004, Slinko *et al* 2004, Zhuravskaya 2000).

(measured as the share of labor force that attained higher education), size of the region (measured as log population), urbanization (measured as the share of urban population in 1995) and initial reformist activity (measured as the share of vote cast for pro-reform parties in parliamentary elections of 1995).⁶ The data on the GRP per capita in 1995, size of population and urbanization comes from ROSSTAT (2006b, 2007, 2008). Whilst the data on initial level of regional education and the share of oil/gas in the total output in 1995 comes from Slinko *et al* (2004), the data on pro-reformist voting in 1995 is coming from Berkowitz and DeJong (2003, 2005). We thank Ekaterina Zhuravskaya and Daniel Berkowitz for kindly sharing the data with us.

Our estimations are based on the following equation:

$$[GRP\ per\ capita_t - GRP\ per\ capita_{(t-1)}] = \alpha + b_1 [Meritocratic\ Recruitment\ Index_t - Meritocratic\ Recruitment\ Index_{(t-1)}]^* + b_2 Pre-Existing\ Structure + b_3 Initial\ Level\ of\ Human\ Capital + b_4 Size\ of\ the\ Region + b_5 Urbanization + b_6 Initial\ Reformist\ Activity + Error_t \quad (1)$$

* The *Meritocratic Recruitment Index* has properties of panel data as it reflects the ‘distance traveled’ by the regions between the mid 1990-s (*t-1*) when patronage was ‘the only game in town’ and the mid 2000s (*t*) when a remarkable variation in the organizational design of regional bureaucracies was documented.

Table 4.1 reports correlation patterns measured among the independent variables. It shows that correlation coefficients between all pairs of independent variables are less than 0.5, except for the variables *Urban* and *Pro-Reform Vote* (0.562). A strong bivariate correlation (0.710) is found between two proxies for the ‘pre-existing structure’, which are used alternatively in the analysis of conditional correlation patterns.

⁶ The last measure was informed by an empirical finding, reported in Berkowitz and DeJong (2003) that regions in which price liberalization and privatization initiatives had been implemented more coherently in the beginning of the 1990s voted for pro-reformist parties in the first parliamentary elections in 1995.

Table 4.1 Independent Variables for Aggregate Growth Model: Bivariate Correlations

	1	2	3	4	5	6	7
1 Merit	1						
2 GRP_95	-.056	1					
3 Oil/Gas 95	-.126	.710***	1				
4 EDUC 94	.184	.111	.124	1			
5 Pro-reform Vote	.139	.283	.203	.209	1		
6 Urban 95	-.106	.425**	-.001	.238	.562**	1	
7 Pop 95	.229	.214	.133	.364*	.255	.231	1

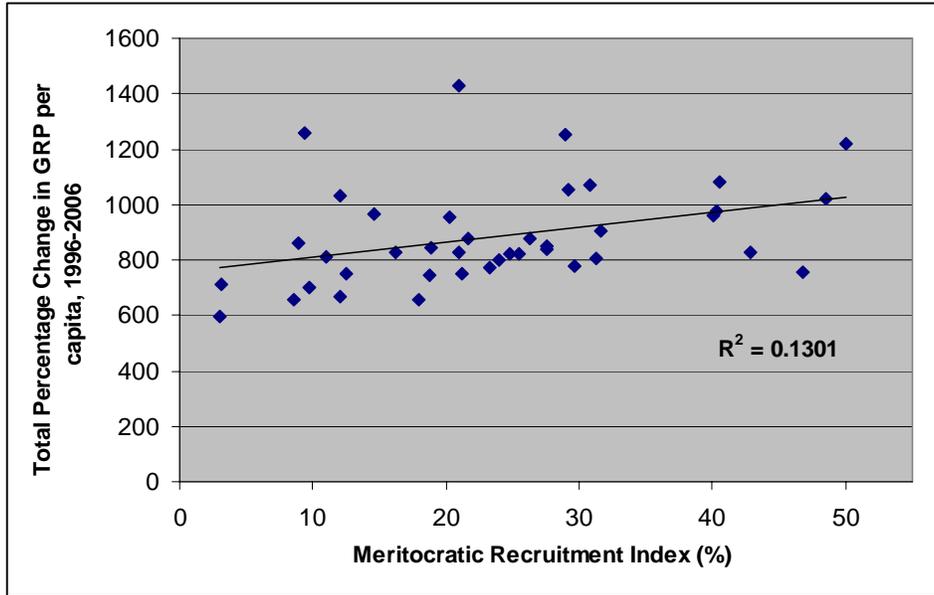
Note: *Significant at $p < 0.1$, ** at $p < 0.05$, *** at $p < 0.01$.

Figure 4.1A plots the correlation between the *Meritocratic Recruitment Index* and *GRP Growth*. One can observe that all regions in the sample experienced positive growth during the time period under consideration. The range of growth, however, considerably varies, with three regions – Leningrad *oblast*, the oil-rich Tumen and Moscow *oblast* – showing above-average growth. Figure 4.1B plots aggregate growth against our measure of a de-politicized bureaucracy for a sub-sample of the dataset that excludes three potential outliers. Their exclusion increases the unconditional correlation between the series from 0.13 to 0.36.

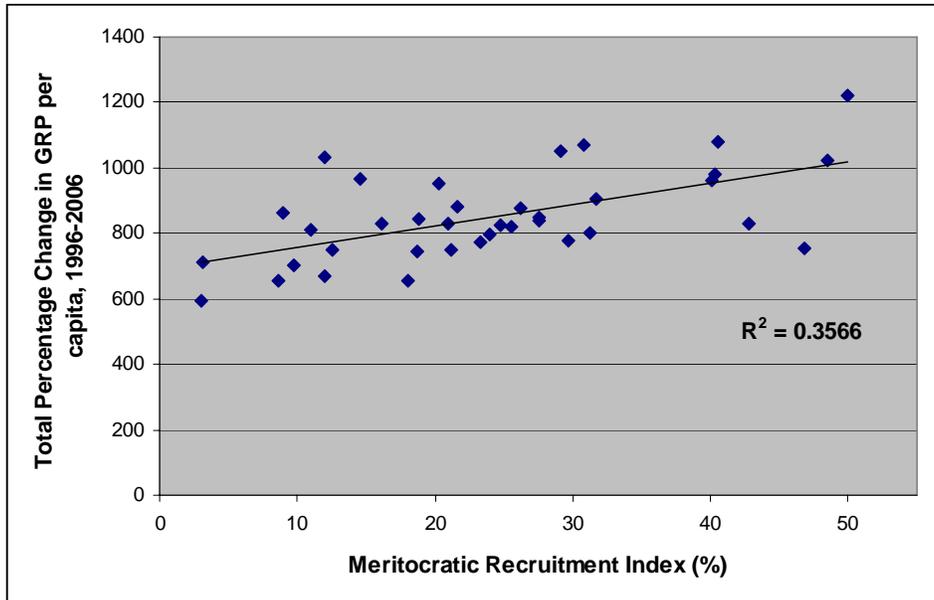
In quantifying the relationships between a de-politicized bureaucracy and economic growth, controlling for other variables, special care was given to the following issues: the potential impact of outliers and potential simultaneity between de-politicization of bureaucracy and growth. To deal with the former issue, we conducted our analysis with and without the identified outliers. We deal with the potential endogeneity problem, arising from the quite plausible dependence of both the extent of de-politicization of bureaucracy and aggregate economic performance on the same unobserved factor, using a two-stage least squares (2SLS) estimation procedure in which the *Meritocratic Recruitment Index* is instrumented with variables that are thought to have no direct association with aggregate growth.

Figure 4.1 Unconditional Correlation between the *Meritocratic Recruitment Index* and Total Percentage Change in Gross Regional Product per capita, 1996-2006

A



B



4.2.2 Findings from OLS and 2SLS Analyses

We begin our analysis by exploring the relationship between a de-politicized bureaucracy and aggregate growth, controlling for selected variables using ordinary least squares (OLS) regression. We first regressed the aggregate growth on the set of variables considered by the relevant literature as key explanatory factors of growth, without including the *Meritocratic Recruitment Index* (Table 4.2, Model 1). Five independent variables of this basic model of growth explain 44% of the interregional variation in aggregate economic growth in Russia. Four out of five variables in our basic growth regression – *GRP 1995*, *Log Population*, *Pro-Reform Voting* and *Urbanization* – appeared to be significant, with the *GRP 1995* being the most powerful predictor, followed by *Pro-Reform Voting*.

The exclusion of Moscow and Leningrad *oblasts* (alone or together) does not change the estimation coefficients. However, the exclusion of Tumen from the sample decreases the R square to 31 per cent and the *GRP 1995* variable becomes insignificant, suggesting that the ‘pre-existing conditions’ matter for a handful of Russia’s regions such as natural resources-rich Tumen. The *Pro-Reform Voting*, *Urbanization* and *Log Population* retain their significance and magnitude.

Next, we introduced our measure of a de-politicized bureaucracy – the *Meritocratic Recruitment Index* – to the basic model of growth. Models 2 and 3 report estimates of the equation (1), using *GRP per capita in 1995* as a measure for the ‘pre-existing structure’ in Model 2 and the *Share of Oil and Gas Industry* in Model 3. The introduction of the *Meritocratic Recruitment Index* to Model 2 changes the estimates of the basic model of growth. Firstly, our measure of the extent of de-politicization of public bureaucracy considerably increases the value of adjusted R square – from 44 to about 65 per cent. It also almost doubles the value of F-statistic of Model 2 compared to Model 1. Secondly, as the values of the standardized coefficients in Table 4.2 suggest, the *Meritocratic Recruitment Index* becomes the second most powerful predictor of growth after the *GRP 1995* variable. The quantitative significance of the *Meritocratic Recruitment Index* is also substantial: a one-standard deviation increase in the *Meritocratic Recruitment Index* (representing an 12.3% increase in the number of bureaucrats in the department of economic policy hired independently from political considerations) is

Table 4.2 De-Politicized Bureaucracy and Aggregate Economic Growth in Russia's Regions, 1996-2006

	Model 1	Model 1 without Tumen	Model 2 Unrestricted	Model 2 without Tumen	Model 3 Unrestricted	Model 3 without Tumen	Model 4 Parsimonious	Model 4 Parsimonious without Tumen	Model 4 Fully Restricted
Meritocratic Recruitment Index	----	----	.474*** (1.273)	.589*** (1.273)	.505** (1.647)	.605*** (1.246)	.448*** (1.294)	.574*** (1.274)	.593*** (1.230)
Education	-.103 (14.141)	-.101 (14.568)	-.171 (11.350)	-.154 (10.873)	-.193 (14.527)	-.117 (11.112)	---	---	---
Log Population	-.230* (89.647)	-.256* (90.922)	-.330** (72.820)	-.392** (69.572)	-.275** (91.578)	-.395** (69.995)	-.351** (74.245)	-.413** (69.991)	-.414** (69.462)
GRP per capita, 1995	.561*** (.004)	.254 (.009)	.610*** (.003)	.119 (.006)	---	---	.590*** (.003)	.090 (.006)	---
Share of Oil/Gas Industry	----	----	----	----	.392** (112.723)	-.080 (119.922)	---	---	---
Urbanization	-.479** (2.656)	-.516** (2.728)	-.325** (2.194)	-.287** (2.145)	-.157 (2.764)	-.267* (2.103)	-.344** (2.244)	-.296** (2.176)	-.266* (2.059)
Pro-Reform Voting	.549** (3.541)	.632** (3.693)	.423** (2.889)	.521*** (2.781)	.408** (3.707)	.574*** (2.838)	.410** (2.961)	.515** (2.823)	.537*** (2.733)
Adjusted R square	.44	.309	.647	.618	.435	.613	.628	.606	.612
F-statistics	6.808	4.213	12.294	10.719	5.738	10.520	13.470	12.088	15.210

Note: This table reports the result of OLS regressions of aggregate economic growth on selected independent variables. Each column reports standardized coefficients and standard errors (in parentheses). *Significant at $p < 0.1$, ** at $p < 0.05$, *** at $p < 0.01$.

associated with a 5.7 percentage-point increase in aggregate GRP growth. The introduction of the *Meritocratic Recruitment Index* does not change the significance level and magnitude of other independent variables: whilst *Log Population*, *Pro-Reform Voting* and *Urbanization* retain their significance, the measure of the initial human capital remains to be insignificant.

The exclusion of Moscow and Leningrad *oblasts* (alone or together) does not change the estimates of Model 2. However, the exclusion of Tumen from the data makes the *GRP 1995* variable insignificant and the *Meritocratic Recruitment Index* becomes the most powerful predictor with other variables behaving in the same way as they did in the unrestricted sample. The quantitative significance of the *Meritocratic Recruitment Index* also improves: the addition 12.3% of ‘above politics’ bureaucrats in a region’s department of economic policy corresponds with a 6.5 percentage-point increase in the regional growth.

The *Meritocratic Recruitment Index* is the most powerful predictor of the aggregate growth in Model 3 (Table 4.2), in which the ‘pre-existing conditions’ are proxied by the share of oil and gas industry in the regional output. A substantial decrease in the value of the R square of Model 3 as compared to Model 2 (from almost 68 to 44 per cent) at the very least suggests that the initial GRP per capita gives a better representation to the entire spectrum of the ‘pre-existing conditions’ of Russia’s regions than the natural resources endowment. It may also point at a limited role for natural resources endowment in the economic growth of Russia’s regions in 1996-2006, as suggested by some recent research (Golubchikov 2007, Slinko *et al* 2005). Indeed, the exclusion of oil and gas rich Tumen from the sample, changes the magnitude and significance of the predictor in question: the *Share of Oil/Gas Industry* becomes insignificant. At the same time, the rest of the explanatory variables (with the exception of *Education*) are significant. The R square increases from 45 per cent, when the regression is ran on the unrestricted sample, to 61 per cent, when Tumen is excluded. The value of F-statistic increases from 5.7 to 10.5, suggesting that the data without Tumen fits the model better than the data based on the unrestricted sample. The *Meritocratic Recruitment Index* remains the most powerful predictor of the growth in Model 3, when the sample is reduced to 39 cases.

Finally, in the spirit of the general-to-specific strategy of modeling (Hendry 2000), the insignificant *Education* variable was eliminated from the regression model. The parsimonious Model 4 contains five variables – the *Meritocratic Recruitment Index*, *GRP 1995* (as better reflecting the ‘pre-existing conditions’), *Pro-Reform Voting*, *Log Population* and *Urbanization*. All of them are significant and explain about 63% of the variance in the dependent variable. The *Meritocratic Recruitment Index*

remains the second most powerful predictor of growth, after the initial level of economic development. A one-standard-deviation increase in the number of bureaucrats in the department of economic policy hired independently from political considerations is associated with a 5.4 percentage-point increase in total GRP.

The exclusion of Moscow and Leningrad *oblasts* (alone or together) does not change the estimates of Model 4. However, the exclusion of Tumen from the data makes the *GRP 1995* variable insignificant and the *Meritocratic Recruitment Index* becomes the most powerful predictor with other variables behaving in the same way as they did in the unrestricted sample. The quantitative significance of the *Meritocratic Recruitment Index* also improves: the addition of a one-standard deviation of ‘above politics’ bureaucrats in a region’s department of economic policy corresponds with a 6.5 percentage-point increase in the regional growth. At the same time, the values of R square and F-statistic decrease only slightly: from 63 to 61 per cent and from 13.5 to 12.1. The elimination of the *GRP 1995* variable from Model 4 without Tumen slightly improves the model fit (the R square here is .612 and F-statistic is 15.2) with the rest of the independent variables retaining their significance and the *Meritocratic Recruitment Index* becoming the most powerful predictor of growth.

We draw some preliminary conclusions from these OLS regressions. First, our key variable – the *Meritocratic Recruitment Index* – behaves consistently across different model specifications as far as both significance and magnitude are concerned. Secondly, whilst two potential outliers – Moscow and Leningrad *oblasts* – exert only marginal influence on the estimates, the presence or absence of oil and gas rich Tumen *oblast* changes the estimates as far as the measures of the ‘pre-existing structure’ are concerned. Thirdly, the measure of human capital is consistently insignificant across all model specifications and, therefore, shall be excluded from the growth analysis in a 2SLS framework.

We next conduct a 2SLS analysis in which we instrument the *Meritocratic Recruitment Index* in a first-stage regression, and then use its predicted values with the variables from Models 2 and 3 (Table 4.2) as predictors for aggregate economic growth. Considering the first step of 2SLS analysis, the *Meritocratic Recruitment Index* was instrumented with three variables – unemployment in 1995, the share of non-Russian population in 2002 and the number of governors that a region had in 1991-2006).⁷ The estimates of the first stage of 2SLS regression are reported in Table 4.3. The R square statistics of .357 indicates that the variables used as instruments provide a satisfactory characterization

⁷ The data on the first two variables comes from ROSSTAT – Federal State Statistics of the Russian Federation’s annual publications on socio-economic characteristics of Russia’s regions (2006b, 2007, 2008). For the full description of the *Number of Governors* variable see Table 5.1.

of the *Meritocratic Recruitment Index*. The coefficients of the *Number of Governors*, *Unemployment* and *Non-Russian Population* are statistically significant. The standard errors appear reasonable, and F statistic gives no indication that the model used to predict the *Meritocratic Recruitment Index* values is misspecified.

Table 4.3 2SLS Estimates (First Stage) of the *Meritocratic Recruitment Index*, 1996-2006, on Selected Independent Variables

	Coefficient (B)	Std. Error	t Statistic	p Value
Number of Governors, 1993-2006	-3.629	1.213	-2.992	.005
Unemployment, 1995	-1.657	.687	-2.414	.021
Share of non-Russian population	-.274	.122	-2.245	.031
R square	.357			
F statistic	6.670			

Estimates of the second step of 2SLS analysis are reported in Table 4.4, where unrestricted Models 1 and 2 contain estimates of the equation (1), using *GRP per capita in 1995* as a measure for the ‘pre-existing structure’ in Model 1 and the *Share of Oil and Gas Industry* in Model 2. The R square statistic we obtain in unrestricted Models 1 and 2 is .495 and .279 correspondingly. This is a deterioration in fit compared to the OLS results (unrestricted Models 2 and 3) reported in Table 4.2, suggesting that OLS estimates could be biased due to the endogeneity problem. In Model 1, whilst all five variables are statistically significant, the exclusion of the endogenous component in the variance of the *Meritocratic Recruitment Index* changes the contribution of individual explanatory variables in explaining the variance in regional growth. Namely, initial reformist activity becomes the most powerful predictor of aggregate growth and the *Meritocratic Recruitment Index* is the least powerful predictor. Despite a slightly decreased magnitude vis-à-vis other predictors, the quantitative significance of the *Meritocratic Recruitment Index* remains substantial: a one-standard deviation change in the number of bureaucrats in the department of economic policy hired independently from political considerations is associated with a 5 percentage-point increase in aggregate GRP growth in Model 1 (compared to 5.4 percentage-point in the corresponding OLS regression).

The exclusion of Moscow and Leningrad *oblasts* (alone or together) from the data for Model 1 Unrestricted does not change the estimates. However, the exclusion of Tumen makes the *GRP 1995* variable insignificant and slightly improves the magnitude of the *Meritocratic Recruitment Index* with

other variables behaving in the same way as they did in the unrestricted sample. The quantitative significance of the *Meritocratic Recruitment Index* also improves: the addition of a one-standard-deviation of ‘above politics’ bureaucrats in a region’s department of economic policy corresponds with a 6.8 percentage-point increase in the regional growth. At the same time, the values of R square and F-statistic decrease, suggesting that the data with Tumen fits Model1 slightly better than the data from the restricted sample. The elimination of the insignificant *GRP 1995* variable from Model 1 without Tumen improves the model fit (the R square here is .438 and F-statistic is 8) with the explanatory variables retaining their significance and magnitude.

Table 4.4 De-Politicized Bureaucracy and Aggregate Economic Growth in Russia’s Regions, 1996-2006

	Model 1 Unrestricted	Model 1 Without Tumen	Model 1 Parsimonious	Model 2 Unrestricted	Model 2 Without Tumen
Meritocratic Recruitment Index	.250** (2.453)	.371** (2.597)	.396** (2.369)	.269* (2.932)	.458** (2.337)
Log Population	-.267** (84.369)	-.309** (82.320)	-.308** (81.291)	-.204 (99.950)	-.313** (77.823)
GRP per capita, 1995	.535*** (.004)	.073 (.008)	-----	---	-----
Share of Oil/Gas Industry	----	----	----	-.244* (123.139)	-.254* (138.176)
Urbanization	-.477** (2.520)	-.473** (2.504)	-.453** (2.382)	-.345* (2.956)	-.497** (2.306)
Pro-Reform Voting	.481** (3.405)	.589** (3.380)	.605** (3.260)	.489** (4.097)	.675*** (3.205)
Adjusted R square	.495	.424	.438	.279	.485
F-statistic	8.253	6.299	8.018	3.868	7.789

Note: This table reports the result of the second stage of 2SLS regressions of aggregate economic growth on selected independent variables. Each column reports standardized coefficients and standard errors (in parentheses).

*Significant at $p < 0.1$, ** at $p < 0.05$, *** at $p < 0.01$.

In Model 2, in which the natural resources endowment is taken as a proxy for the initial conditions, four out of five variables are statistically significant. The exclusion of the endogenous component in the variance of the *Meritocratic Recruitment Index* diminishes the magnitude of this explanatory variable, compared to the OLS estimates. In 2SLS regression it is only the third most

powerful explanatory variable in the unrestricted Model 2, whilst it is the most powerful predictor in a similar OLS regression (Model 3 Unrestricted). Despite a decreased magnitude vis-à-vis other predictors, the quantitative significance of the *Meritocratic Recruitment Index* remains substantial: a one-standard-deviation increase in the number of bureaucrats in the department of economic policy hired independently from political considerations is associated with a 5.4 percentage-point increase in aggregate GRP growth in Model 1 (compared to a 5.6 percentage-point in a corresponding OLS regression).

The exclusion of Moscow and Leningrad *oblasts* (alone or together) from Model 2 Unrestricted does not change the estimates. However, when Tumen *oblast* is excluded from the dataset (Model 2 without Tumen) the model fit improves and all variables become significant. The *Meritocratic Recruitment Index* remains the third most important explanatory.

Overall, the proposition that a de-politicized bureaucracy fosters economic development finds its support in the data. Our analysis showed that regions in which a de-politicized bureaucracy was institutionalized to a greater extent performed on average better than provinces in which this organizational structure has been less fully incorporated. The effect of the *Meritocratic Recruitment Index* is robust to different modeling choices, although it is not always the most powerful predictor. The latter can be partially explained by the fact that as our analysis covers the period of revolutionary transformations of the economic and political foundations of post-Soviet Russia, it is reasonable to expect that at least some of those transformations would have had a stronger effect than the organizational design of bureaucracy. A slight difference between OLS and 2SLS estimates suggests that the endogeneity problem is likely to exist between de-politicization of bureaucracy and economic growth, which should be taken into account when interpreting findings of the previous research (Evans and Rauch 1999, Henderson *et al* 2007, Rauch 1995) and upon conducting new empirical research.

The problem with this analysis is, however, that it does not directly corroborate Miller's causal mechanism of de-politicization, i.e. that a de-politicized bureaucracy disables political opportunism, therefore providing economic actors with incentives to participate in economic exchange at a level of effort that is associated with a 'productive economy' and, consequently, greater social welfare. One can also claim that the major benefits of de-politicization are in the increased competence, cohesion and purposefulness of bureaucracy, which is the mechanism advocated by Evans and Rauch (1999). Indeed, aggregate economic growth is a variable that reflects too many stories about the society it represents. In order to bring Miller's causal mechanism to light by means of a statistical analysis we need to employ a dependent variable that would capture the readiness of economic agents to pursue actions that are

associated with a 'productive economy'. As section one of this chapter argued, the rates of small business formation will serve this purpose well. As starting a firm is one of the most important decisions that entrepreneurs make, the rate of the small business formation is a crude test of the credibility of the powerholders in the eyes of active and potential entrepreneurs.

4.3 De-Politicized Bureaucracy and Small Business Growth

4.3.1 Model, Data and Method

Although entrepreneurship since at least Schumpeter (1934) is considered by many as the key to innovation and growth, 'entrepreneurship research is in its adolescence' (Low 2001: 17). Until very recently the field was characterized by 'weak theory development' (Low and MacMillan 1988: 157). The current state of the theoretical development of entrepreneurship research is known as a 'catchall' (Low 2001: 20) and empirical research on the topic is 'surprisingly limited' (Djankov *et al* 2005: 587). Therefore, unlike the economic growth literature, there are no 'core variables' that proved to be robustly associated with the increased rates of entrepreneurship.

Recent entrepreneurship scholarship has primarily utilized three conceptual perspectives: psychological/cognitive, sociological and institutional (Djankov *et al* 2005). The psychological/cognitive perspective underscores the difference between entrepreneurs and non-entrepreneurs with respect to various aspects of personality, such as attitudes towards risk, locus of control, a personal need to excel (Bygrave 1989, Hatten 1997), and cognitive process (Baron 1998, Shaver and Scott 1991). In empirical studies in which the level of analysis is above individuals, these psychological/cognitive predispositions are often labeled as 'human capital' and proxied by the level of education of the population under study (Bartik 1989, Basareva 2002, Slinko *et al* 2005). Thus, Basareva argues that in the context of small business formation in the early 1990s in Russia higher education can be taken as a measure of the people's ability to embrace new ideas and risk and their desire to shape their own destiny (2002: 25). The empirical findings for Russia about the impact of university education are mixed, though, as elsewhere (Aidis and Estrin 2006, Barberis *et al* 1996, Basareva 2002, Slinko *et al* 2005).

The second perspective – the sociology of entrepreneurship – has examined how attributes of culture, social class ethnic or migrant group affect entrepreneurial behavior (Bates 1997, Hoang and

Antoncic 2002, Light and Bhachu 1993, Thornton 1999, Zimmer and Aldrich 1987). The ‘network tradition’ of the sociology of entrepreneurship perspective, which emphasizes the instrumental benefits of social relationships (Aldrich and Martinez 2001: 47), has been successfully applied in the context of Russia at the individual level of analysis (Batjargal 2003, Djankov *et al* 2005).

The third perspective, increasingly popular in the field of entrepreneurship research, underlines the importance of institutions in fostering or thwarting entrepreneurship. The literature on entrepreneurship in Russia has extensively utilized this approach: the cost of entry, the security of property rights and the rule of law and state capture have been examined in relation to the levels of entrepreneurial activity (Barkhatova 2000, Basareva 2002, Fry and Zhuravskaya 2000, Kolomak 2006, Safavian *et al* 2001, Slinko *et al* 2005, Radaev 2002, Yasin *et al* 2003). The objective of this thesis is located within this area of the debate. It is by subjecting the *Meritocratic Recruitment Index* to empirical test in relation to small business growth that we aim to make a contribution to the literature in this field.

The review of recent literature on entrepreneurship, including empirical studies conducted in the Russian context, informed the selection of the following control variables: initial level of entrepreneurial activity (measured as the number of legally registered small business organizations per 1000 inhabitants, 1995), human capital (measured as the share of labor force that attained higher education, 1994) and the size of a regions’ ethnic and migrant communities (measured as the share of non-Russian population in 2002, and the average number of people who arrived/left a region in 1996-2006 per 10 000 inhabitants, including international migration). We treat the *Non-Russian Population* as a region’s fixed effect variable because the difference in the region’s ethnic composition changed only negligibly over the period under study. The data on all but one variable come from ROSSTAT (2006b, 2007, 2008). The *Migrant Population* variable was obtained from the Independent Institute of Social Policy (2004).

Our estimations are based on the following equation:

$$\begin{aligned}
 & [Number\ of\ Small\ Business\ Enterprises\ _t - Number\ of\ Small\ Business\ Enterprises\ _{(t-1)}] = \\
 & \alpha + b_1 [Meritocratic\ Recruitment\ Index\ _t - Meritocratic\ Recruitment\ Index\ _{(t-1)}]^* + b_2 [Size\ of\ Migrant \\
 & Community\ _t - Size\ of\ Migrant\ Community_{(t-1)}] + b_3 Initial\ Level\ of\ Small\ Business + b_5 Size\ of\ Ethnic \\
 & Communities + Error_t
 \end{aligned}
 \tag{2}$$

* The *Meritocratic Recruitment Index* has properties of panel data as it reflects the ‘distance traveled’ by the regions between the mid 1990-s (*t-1*) when patronage was ‘the only game in town’ and the mid 2000s (*t*) when a remarkable variation in the organizational design of regional bureaucracies was documented.

The coefficients of bivariate correlation, reported in Table 4.5, show that independent variables only weakly correlated between each other.

Table 4.5 Independent Variables for Small Business Growth Model: Bivariate Correlations

	1	2	4	5	6
1 Small Business per capita 1995	1				
2 EDUC 94	.347*	1			
4 Migrant Community	.152	-.107	1		
5 Ethnic Communities	.083	-.080	-.090	1	
6 Merit	-.029	.184	.385*	-.158	1

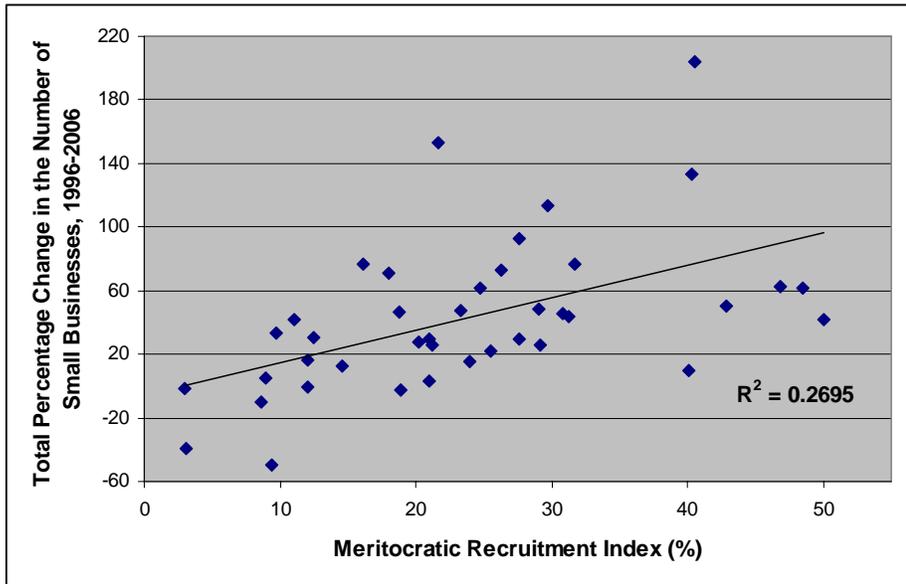
Note: *Significant at $p < 0.1$, ** at $p < 0.05$, *** at $p < 0.01$.

Figure 4.2A plots the correlation between the *Meritocratic Recruitment Index* and *Small Business Growth*. A wide range of experiences with regard to small business formation is observed in the sample: whilst the average growth over the period under study is about 43%, Tumen is at the sample's minimum of -50% and Belgorod is at the sample's maximum of 204%. Figure 4.2B plots aggregate growth against merit for a sub-sample of our dataset that excludes two potential outliers: Belgorod and Pskov (153%). Their exclusion increases the unconditional correlation between the series from 0.27 to 0.31.

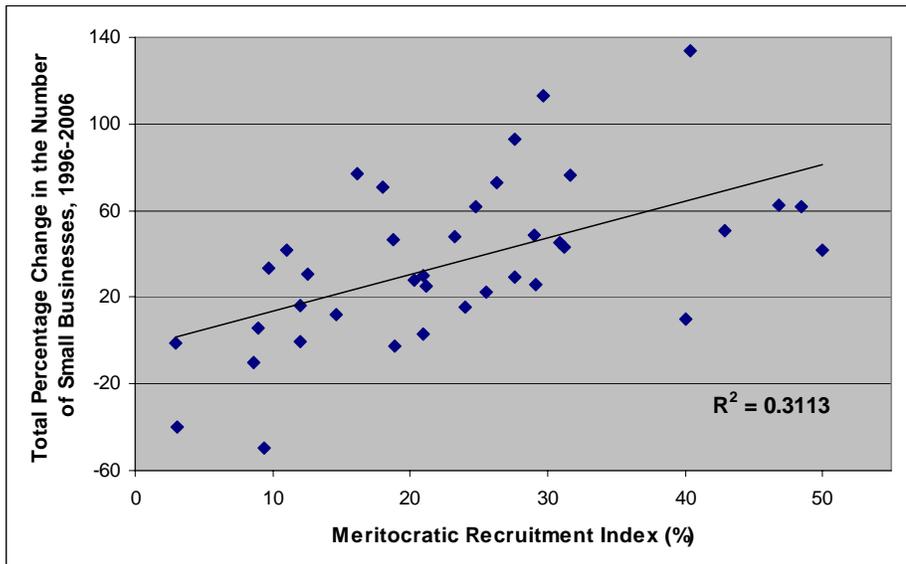
Similarly to aggregate growth analysis, in quantifying the relationships between a de-politicized bureaucracy and small business growth, controlling for other variables, special attention was paid to the issues of the potential impact of outliers and the endogeneity problem. To deal with the former concern, we conducted our analysis with and without the identified outliers. The endogeneity problem arises from a quite plausible assumption that de-politicization of bureaucracy and small business growth is affected by the same unobserved factor. We deal with the potential endogeneity problem using a two-stage least squares (2SLS) estimation procedure in which the *Meritocratic Recruitment Index* is instrumented with variables that are thought to have no direct association with small business growth.

Figure 4.2 Unconditional Correlation between Meritocratic Recruitment Index and Total Percentage Change in the Number of Small Businesses per capita, 1996-2006

A



B



4.3.2 Findings from OLS and 2SLS Analyses

First we regressed the *Small Business Growth* on the set of selected control variables, without including the *Meritocratic Recruitment Index* (Model 1, Table 4.6), using OLS procedure. Four independent variables of this basic growth model explain 31% of the variation in small business growth in Russia's regions, which is a satisfactory fit for models on small business growth in Russia (Slinko *et al* 2005). Two out of five variables – the initial level of small business development and the *Size of Migrant Community* – appeared to be significant. The exclusion of two potential outliers reduces the value of adjusted R square (to 19 per cent) and slightly reduces the magnitude and the significance level of the *Size of Migrant Community* variable.

Table 4.6 De-Politicized Bureaucracy and Small Business Growth in Russia's Regions, 1996-2006

	Model 1 OLS	Model 2 OLS	Model 3 2SLS	Model 3 Without Outliers
Meritocratic Recruitment Index	---	.439** (.534)	.279* (1.093)	.395** (.889)
Number of Small Businesses pc, 1995	-.547** (4.445)	-.463** (4.186)	-.516** (4.327)	-.503** (3.564)
EDUC 1994	.074 (4.64)	-.054 (4.298)	.053 (4.501)	.147 (3.643)
Ethnic Communities	.083 (.459)	.118 (.408)	-.009 (.475)	-.023 (.380)
Migrant Community	.439** (.211)	.246* (.218)	.310** (.230)	.153 (.197)
Adjusted R square	.31	.458	.355	.307

Note: This table reports the result of OLS (Models 1 and 2) and the second stage of 2SLS (Model 3) regressions of aggregate economic growth on selected independent variables. Each column reports standardized coefficients and standard errors (in parentheses).

*Significant at $p < 0.1$, ** at $p < 0.05$, *** at $p < 0.01$.

Next, we introduced our measure of a de-politicized bureaucracy – the *Meritocratic Recruitment Index*. This change, as Model 2 Table 4.6, shows increases the adjusted R square of the model from 31 to about 46 per cent. The extent of de-politicization of bureaucracy is significantly positively related to small business growth. A one-standard deviation increase in the *Meritocratic Recruitment Index* (representing a 12.3% increase in the number of bureaucrats in the department of economic policy

hired independently of political considerations) is associated with a 1.7 percentage-point increase in number of legally registered small business enterprises. The introduction of the *Meritocratic Recruitment Index* does not affect the significance of other independent variables: whilst the *Number of Small Businesses* per capita in 1995 and the *Size of Migrant Community* retain their significance other independent variables continue to be insignificant. The exclusion of Belgorod and Pskov only slightly changes the value of adjusted R square (from .458 to .449); however, one of the previously significant variables – the *Size of Migrant Community* – becomes insignificant.

We next conduct a 2SLS analysis in which we instrument the *Meritocratic Recruitment Index* in a first-stage regression and then use its predicted values together with other controls in a second-stage regression. The *Meritocratic Recruitment Index* was instrumented with three variables – unemployment in 1995, the share of urban population in 1995 and the number of governors that a region had in 1991-2006).⁸ The estimates of the first stage of 2SLS regression are reported in Table 4.7. Three independent variables explain about 30% of the variance in the *Meritocratic Recruitment Index*. The coefficients of the *Number of Governors* and the *Unemployment* variables are statistically significant. The standard errors and F statistics appear to be reasonable.

Table 4.7 2SLS Estimates (First Stage) of the *Meritocratic Recruitment Index*, 1996-2006, on Selected Independent Variables

	Coefficient (B)	Std. Error	t Statistic	p Value
Number of Governors, 1991-2006	-2.954	1.211	-2.438	.020
Unemployment, 1995	-1.661	.719	-2.311	.027
Share of urban population, 1995	-.249	.204	-1.221	.230
R square	.296			
F statistic	5.054			

Estimates of the second step of 2SLS analysis are reported in Model 3 Table 4.6. The value of R square statistic we obtain here (.355) is a deterioration in fit compared to the OLS results (Models 2), suggesting that OLS estimates could be biased due to the endogeneity problem. After the exclusion of

⁸ The data on the first two variables comes from ROSSTAT – Federal State Statistics of the Russian Federation’s annual publications on socio-economic characteristics of Russia’s regions (2006b, 2007, 2008). For the full description of the *Number of Governors* variable see Table 5.1.

the endogenous component from its own variance, the *Meritocratic Recruitment Index* continues to be a significant factor in explaining the variance in regional small business growth. Although it is only the third most powerful explanatory after the initial level of entrepreneur activity in a region and the regional *Size of Migrant Community*, its quantitative significance is sizeable: a one-standard-deviation increase in the number of ‘above politics’ bureaucrats leads to a 2 percentage-point increase in the number of legally registered small business entities (compared to a 1.7% impact in the OLS regression).

The exclusion of Belgorod and Pskov (Model 3 without outliers) makes the *Size of Migrant Community* variable insignificant, but improves the magnitude of the *Meritocratic Recruitment Index*, with other variables behaving in the same way as they did in the unrestricted sample. The quantitative significance of the *Meritocratic Recruitment Index* also slightly improves: the addition of a one-standard-deviation of ‘above politics’ bureaucrats in a region’s department of economic policy leads to a 2.2 percentage-point increase in the regional growth. At the same time, the values of R square and F-statistic deteriorate, suggesting that the unrestricted data fits the model better than the data without the outliers.

Overall, the proposition that a de-politicized bureaucracy encourages small business growth finds its support in the data. Although OLS and 2SLS regressions produced slightly different results, with some decrease in the magnitude and the significance levels as far as the *Meritocratic Recruitment Index* is concerned, there is a strong robust impact of a de-politicized bureaucracy on regional rates of small business growth. Namely, those provinces of Russia, in which a de-politicized bureaucracy was institutionalized to a greater extent, exhibit higher rates of small business formation than those regions where this structural feature of bureaucracy was only weakly institutionalized. As small business growth reflects the entrepreneurs’ perception of the credibility of powerholders not to pursue confiscatory actions, these findings directly corroborate the idea that the impact of de-politicization is in the capacity of de-politicized bureaucracies to constrain politicians’ opportunism. This constitutes the first empirical verification of Miller’s theoretical explanation of the welfare-enhancing properties of de-politicized bureaucracies.

4.3.3 Bureaucracy and Small Business in post-Soviet Russia: Evidence from Two Case-Studies

This section provides two real life examples from the context of post-Soviet Russia that further illustrate the causal mechanism of Miller's theory. The first case-study, which discusses how politicians used a patronage-based bureaucracy as an instrument of extortion, is followed by a case-study showing how de-politicization contains politicians' threat to property rights and enhances social welfare.

The story of a St. Petersburg's entrepreneur Aleksey Reshetkin, reported by several Russian media outlets, including the reputable *Novaya Gazeta* (Vishnevsky 2007) and *Novaya Politika* (Il'insky 2007) is one of many examples illustrating the socially adverse effect of political opportunism in contemporary Russia. In 2003 Reshetkin started a small outdoor advertising firm and by the beginning of 2007 he owned 68 street merchandising stands in suburbs of St. Petersburg and employed 4 people. At the end of January 2007 Reshetkin signed a contract with a political party *Fair Russia: Motherland/Pensioners/Life* to place their election campaign posters on the stands. *Fair Russia* participated in St. Petersburg's legislative elections scheduled for March 2007. A day after the contract with *Fair Russia* was signed a representative of another political party, *United Russia*, approached Reshetkin with a proposal to place its election campaign posters instead of *Fair Russia*'s. Reshetkin refused and this decision eventually cost him his business.

United Russia is generally perceived as a Kremlin-designed instrument for consolidating political power in the hands of a group of people associated with ex-president and prime-minister Vladimir Putin (see Konitzer and Wegren 2006). By the time when the story of Alexey Reshetkin began to develop, *United Russia* firmly controlled the majority of regional legislatures, including St. Peterburgh's, and featured many of the regional governors as its members and Vladimir Putin as its leader.⁹ 'The party of power' as it is often referred to in the press and academic literature, *United Russia* also exercised a tight control over local authorities.

In the afternoon of the same day when a representative of *United Russia* paid a visit to Reshetkin, Eugeny Motorin, the first deputy head of the administration of *Petrodvorec* – the district where Reshetkin's business is officially registered – invited the entrepreneur 'for a chat'. Motorin demanded Reshetkin to annul the contract with *Fair Russia* and to place *United Russia*'s campaign materials on his street stands, otherwise Motorin threatened Resetkin to do everything to close the latter's business. Indeed, within the next 22 days Reshetkin was subjected to what some called 'an administrative racket'

⁹ In April 2008 Vladimir Putin became the official leader of the party.

(NTV 2007) by the regulatory agencies of the district's administration. He was found in violation of almost all rules regulating the outdoor advertisement business and threatened with fines and bankruptcy. In addition, several major clients of Reshetkin, predominantly state controlled enterprises, terminated contracts with Reshetkin. The instant reaction of the bureaucratic agencies suggests that they operated under the 'high powered incentives' scheme. Indeed, when we asked three experts from our pool representing Leningradskaya *oblast*, to which the district belongs, to comment on the character of its personnel policy regime, all three experts agreed that *Petrodvorec* is 'notoriously famous for its clan politics' (interview with Y.P.), where 'several political figures control bureaucratic appointments and dismissals' (interview with O.N.).

However, bureaucratic harassment was not the end of Reshetkin's ordeal. On February 21, 2007 secretly and under the cover of night, about half of Reshetkin's street merchandising stands were dismantled. When he filed a complaint and a compensation claim, the other half of the stands was dismantled. Moreover, the dismantlement was conducted in such a way that the stands were irrevocably damaged. In other words, the business was destroyed, just like Motorin promised.

The actions of the local political bosses and bureaucrats irrevocably damaged not only Aleksey Reshtkin's merchandising stands, but also his entrepreneurial spirit. In several interviews following the incident he clearly stated that it was unlikely that he would return to business. In addition, as the story was extensively debated in the Russian LiveJournal – a community of Internet bloggers, comments such as 'what happened to Reshetkin is exactly why I never dared to become an entrepreneur myself' (user *kwasek...*) were rather common. Moreover, between March and April 2007 we traced about 150 entries in the Russian LiveJournal commenting other actions of *Petrodvorec* administration from which it became clear that the use of regulatory agencies as a tool of extortion and harassment was a common practice in *Petrodvorec*, and that the actions of the administration imposed uncertainty and transaction costs (ranging from fines and license suspension to bribes) on many local businesses.

In contrast to Reshetnikov's case, the story of *marshrutkas* shows how a group of civil servants was able to resist the informal pressure from politicians with welfare-undermining motives to take part in a large-scale confiscatory campaign. First, a few words on *marshrutkas*. *Marshrutka* is a type of public transit specific to many countries of the former-USSR. Essentially, *marshrutka* is a shared fixed-route taxi. It normally seats 15-20 people depending on the capacity of the minibus and follows a fixed route that may or may not be the same as an established public transit route. It stops anywhere along its route to pick up a passenger if there is space inside the cabin, or to let a passenger out. Although *marshrutkas* existed in the Soviet times, they boomed in the 1990s providing an efficient solution to the

overcrowded and underfunded public transport. Because *marshrutkas* are considerably quicker than any other means of public transportation, they remain very popular among the Russian urban population, with high demand for their services.

Today every large Russian city has a dense web of *marshrutka* routes. Local authorities regulate both individual drivers and *marshrutka* cooperatives, which is the main legal form of this type of business, by issuing commercial transport licenses (individual drivers) and permits (cooperatives) to serve certain routes in a city. Cooperatives are partnerships of minibus owners who normally also drive their vehicles.

The story with *marshrutkas* happened in one of Russia's large cities. In summer 2006 the city authorities, who own the companies that provide the city with public transport and also set the costs for the use of public transportation by citizens – raised the costs of a single trip on busses, trams or trolleybuses by a staggering 33 per cent to the level of the *marshrutkas*' tariff, which is set by the cooperatives. Within a couple of weeks following the price rise, the city witnessed a sharp decline in the number of people using buses, trams and trolleybuses. For the same prices people preferred quicker and more comfortable trips by *marshrutka*. The reaction of the municipality was quite predictable – to persuade the *marshrutka* cooperatives to raise their prices, thus bringing back those passengers who 'voted with their feet' for *marshrutka* back to the state-owned public transportation. At a meeting between the city's authorities and the cooperatives, the latter was told to raise the price of a single trip by 25 per cent, otherwise, the cooperatives were told, the case would be passed to the municipality's department of transport, *marshrutkas*' main regulatory agency, which would 'persuade' through fines, suspensions and cancellation of licenses.

The cooperatives refused, reporting the case to the local newspapers, where from the author of this thesis learnt about it whilst being on a field research visit associated with this project in the region in the end of August. Initially it looked like another example of an administrative racket. However, when we interviewed representatives of several cooperatives, who gladly commented on the situation, we found out that the department of transport did not carry out the planned and widely announced business intimidation campaign. The story behind this cancellation is a remarkable example of the welfare-enhancing effect of a de-politicized bureaucracy. We would like to thank O.B., a local journalist, who helped us in organizing interviews with both the representatives of the cooperatives and the officers from the municipal department of transport. To preserve the requested anonymity of some of the respondents, all names, including the name of the city, have been withheld.

About a week after the meeting between the municipal authorities and the cooperatives, X.X., the vice-mayor, called together the department of transport for a team meeting. ‘He said, that the decision has been made that, starting from tomorrow, all the employees of the department will go on the streets to issue big fines to at least 150 drivers of *marshrutkas* a day’, says A.P., the head of a division within the department of transport and one of the central figures in the story. ‘It was shocking, – continues A.P., ‘many of us felt that essentially the position of the authorities over the tariffs was wrong. *Marshrutkas* gave us all a good lesson in the market economy that the most efficient survives. At the same time, letting trams and trolleybuses to simply die overnight was, of course, also wrong. And one of the solutions to the problem, I stress, just one of many, was to negotiate with the cooperatives a higher price for a trip by *marshrutka*. Not the ridiculous 25 per cent [demanded by the municipality – MN], but something more acceptable for the cooperatives and passengers! However, to force the cooperatives to ‘cooperate’ by inflicting financial penalties for ‘non-cooperation... that was simply shocking’ (interview with A.P.).

X.X. made it clear that the decision was made ‘at the very top’ – i.e. the ‘150 a day’ operation was sanctioned not only by the mayor but by the governor of the region – and therefore could not be objected (interviews with A.P., R.S. and E.Y.). A.P. however, openly objected the order, calling for a continued dialog with the cooperatives. And after X.X. repeated that the order was coming from ‘the very top’, A.P. said that he would only carry it out if there was a written instruction (interviews with R.S. and K.B.). ‘After A.P.’s demarche, – recollects K.B., ‘X.X. said that everyone who needed the command to be in writing should see him in his office. This sounded like a threat, but still fifteen of us [about 50 per cent of the staff of the department – MN] gathered in front of X.X.’s office’.

A.P. went first to see X.X. ‘X.X. said that if I don’t bring five penalty receipts and one license suspension order by the end of the next working day, I will face a severe punishment and even can be fired for not performing my duties. I said that my duties were exactly the point I was trying to make, and what he asked me to do was beyond my job description. I knew that he did not have the power to fire me. I am on a permanent contract. I was hired by a jury. I signed a contract with the municipality not with X.X. or Y.Y. [the name of the mayor – MN] who were not even here when I started my job four years ago. To fire someone like me is very-very difficult... Old days are gone. But I did not want to antagonise him by saying that his threat to fire me is empty. I did not want the conversation to turn really nasty. After all, he was responsible for the transport in the [city – MN] government and our paths would inevitably cross. I, therefore, stuck to the job description and the written request argument’ (interview with A.P.). X.X. spoke to several other transport officers, including E.Y., K.B., and R.S.,

whose accounts of their encounter with X.X are very similar to A.P.'s. Then X.X. let the remaining seven transport officers who were still waiting for the audience in his reception area to go back to work. 'Honestly, I expected something to happen next day, – says A.P., 'I though X.X. would try to push us somehow, but actually nothing happened. Not a single employee was sent to fine *marshrutkas* neither next day nor afterwards. The issue quietly faded away' (interview with A.P.). From the interviews with the representatives of the cooperatives it became clear that they did not know exactly why the authorities called the '150 a day' operation off, but they were, obviously, very relieved that the department did not go on a 'fine spree', as a representative of one of the cooperatives put it (interview with P.T.).¹⁰

There are several welfare-enhancing consequences of the actions of A.P. and other civil servants of the city's department of transport. The most immediate effect was the welfare of many *marshrutka* users who were not adversely affected by the execution of the '150 a day' plan and the cooperatives' reaction to it.¹¹ Secondly, and more importantly, already in the aftermath of the incident one could see that the authorities' actions positively affected the entrepreneurs' perception of the prospects for a profitable business. 'I have not seen the guys as excited as those days after the '150 a day' plan [was called off – MN]. Some are still skeptical, but there is only half of the gloom about the future they normally show', - said P.T., the representative of the cooperative '9' in September 2006. Equally important, according to the testimonies of the representatives of the cooperatives, more drivers than ever before expressed their readiness to invest. 'My boys [the drivers – MN] think of buying new cars [minibuses – MN], they told me today. Normally, you cannot make them even to replace a split wind screen, – said the chairperson of the cooperative '2' (interview with A.S.). Indeed, in a telephone interview in November 2007, A.S. told us that since September 2006, 36 drivers from his cooperative, consisting of 121 members, have been operating new minibuses. This is the highest replacement rate since the cooperative was registered in 1999. Similarly, two other cooperatives of 98 and 139 members, acquired 22 and 28 new minibuses which is also their record highest replacement rate.¹² Of course, one can argue that the general economic growth that Russian witnessed before the 2008 crisis contributed

¹⁰ The cooperatives knew about the '150 a day' operation because under the direct instruction of X.X. several transport officers, among those who were prepared to obey X.X., called the cooperatives with a warning that the department was starting the operation the next day.

¹¹ 'During the operation we wanted to put only the very minimum of minibuses on the routes, so as to let at least those who were still paying for their minibuses to stay at home, – said the chairperson of the cooperative '4' (interview with N.S.). 'We planned this because in our business the minimal fine equals to seven days of a driver's work. It will take at least a month to restore a license... Yes, our actions would have definitely affected the people, because our [of all the cooperatives together – MN] share in the daily passenger turnover is about 40 per cent, – the representative of the cooperative '7' said (interview with K.O.).

¹² The information on how many new minibuses were acquired by other city's cooperatives is unavailable.

to the renewal of the *marshrutka* business's fixed assets. However, the rate at which the city's cooperatives were replacing their minibuses was exceptionally high when compared to cooperatives in other cities. Thus, in another large city of the Federal District to which the city under study belongs, two cooperatives of a comparable size (79 and 111 members) acquired from September 2006 to November 2007 only 13 and 18 minibuses correspondingly (interviews with A.T. and S.Z.). Therefore, it is plausible to suggest that the actions of A.P. and his colleagues triggered a series of actions with welfare-enhancing consequences.

This case-study supports large-N statistical evidence of the welfare-enhancing effect of a de-politicized bureaucracy on small business growth and shows how welfare-enhancing effect is achieved. The ability of a group of meritocratically recruited bureaucrats to say 'no' to the welfare-undermining motives of politicians and not to act upon their informal instructions prevented a large confiscatory campaign, thereby boosting the confidence of entrepreneurs in the non-confiscatory character of the local authorities and positively affecting the entrepreneurs' propensity to make costly investments. This in contrast to the situation discussed in the first case study, which showed that a patronage-based bureaucracy is routinely used by politicians as a tool of extortion.

4.4 Conclusion

The empirical evidence we have presented in this chapter with regard to Miller's theory of a welfare-enhancing public bureaucracy is twofold. On the one hand, the findings from the economic growth models are not perfectly conclusive with regard to the causal mechanism through which greater social welfare is achieved. It is not clear whether de-politicization enhances economic growth through Evans and Rauch's mechanism of a more competent, cohesive and purposeful bureaucracy or because it credibly commits powerholders to the legislative intent of public policies, providing economic agents with the confidence to make costly investments. From a theoretical point of view both mechanisms complement, rather than contradict each other, therefore it is plausible to assume that both causal mechanisms are at work in the case of economic growth. However, the task of shedding light on the contribution of Miller's de-politicized bureaucracy to social welfare remained.

In order to bring Miller's causal mechanism to light by means of a statistical analysis we employed a dependent variable that better captures the key property of his explanatory mechanism – the credibility of the powerholders not to pursue confiscatory actions as perceived by active and potential entrepreneurs. Having employed the small business growth variable as a proxy for

entrepreneurs' perception of powerholders' commitment not to confiscate, it was found that regional differences in the institutionalization of a de-politicized bureaucracy is a robust explanatory factor for the striking variation in the number of small business start-ups observed across regions of post-Soviet Russia. The increased rates of small business formation in those regions where the extent of de-politicization is greater suggest that de-politicization raises the confidence of entrepreneurs, especially those without connections to the current powerholders, that their costly investments will not disappear overnight as a result of politicians' manipulation of the rules of the game to the advantage of politicians and their associates but will reap benefits to the entrepreneur, her family and her community. This constitutes the first empirical verification of Miller's theoretical explanation of the welfare-enhancing properties of de-politicized bureaucracies, which is an important contribution to the literature.

Two cases-studies from the context of post-Soviet Russia, discussed in the final section of chapter 4, further illuminate the working of Miller's causal mechanism. The ability of a group of meritocratically recruited bureaucrats to say 'no' to the welfare-undermining motives of politicians and not to act upon their informal instructions prevented a large confiscatory campaign, thereby boosting the confidence of entrepreneurs in the non-confiscatory character of the local authorities and positively affecting the entrepreneurs' inclination to make costly investments. This is in contrast to the situation discussed in another case study, which showed that a patronage-based bureaucracy is routinely used by politicians as a tool of extortion.

More generally, our findings, from the empirical background of a transition economy, complement the evidence for the welfare-enhancing role of a de-politicized public bureaucracy from a number of contexts (Evans and Rauch 1999, Rauch 2005). The robust association that has been found between a de-politicized bureaucracy and economic growth in this and previous studies suggests that the organizational design of public bureaucracy variable is a potential addition to the set of core determinants of economic growth that have been agreed by economists in recent studies (Barro 1995, Barro and Sala-I-Martin 1997). This requires gathering systematic evidence on the organizational design of public bureaucracies at both national and sub-national levels – a task that scholars of bureaucracy find themselves increasingly concerned with (Teorell 2008) – and innovative research that would clarify what causal mechanism is at work.

Likewise, our findings contribute to the entrepreneurship literature, pointing out that the characteristics of the organizational structure of bureaucracies in countries and regions where firms operate can spell the difference between the rates of entrepreneurial activity. Finally, our research contributes to a larger literature that emphasizes the role of state apparatus in economic development

(see Amsden 1989, Evans 1995, Mauro 1995, Rothstein and Teorell 2008). The difference in the extent of de-politicization of public bureaucracy provides a theory-based, parsimonious and replicable alternative to the analytically unsatisfying argument of the ‘quality of bureaucracy’.

If a de-politicized bureaucracy is conducive to greater social welfare, then the question arises ‘Why in some regions did politicians go further with regard to limiting the exercise of their staffing powers than in other regions?’. This question is addressed in the next chapter.

Chapter 5

POLITICS AND MERIT ADOPTION: EVIDENCE FROM RUSSIA'S REGIONS

When they are contending for victory, they avow the intention of enjoying the fruits of it. If they are successful, they claim, as matter of right, the advantages of success. *They see nothing wrong in the rule that to the victor belong the spoils of the enemy"*
William L. Marcy (1832)

The words of Senator William Marcy capture what has been the norm in most developed countries for most of their history, what is still the norm in some of them, and what is the pervasive norm in many developing ones: a patronage-based state bureaucracy, in which every new incumbent (either democratic or authoritarian) replaces most public managers with her protégées. It seems natural to prefer your own supporters as subordinates rather than bureaucrats selected under the rule of former (and very likely) opposing incumbents. Nevertheless, starting as far back as Prussia in the 17th century at least for the Western world, many rulers (both democratic and authoritarian) have renounced the distribution of patronage jobs to their followers, adopting civil service systems instead. They have tied their hands in the management of public managers, delegating their staffing powers to autonomous bodies (e.g. U.S. civil service commissions). The puzzle we address in this chapter is thus, why do some politicians adopt merit systems, refusing to enjoy the spoils of their victories?¹

Section one provides a brief literature overview, challenging conventional wisdom about the factors that lead to the adoption of de-politicized bureaucracies. Based on insights from repeated game theory, in section two we propose an alternative theoretical explanation that focuses on the rulers' (democratic or not) security in office and their interactions with economic agents. Utilizing our measure of de-politicization of bureaucracy as the dependent variable, section three analyses the relationship between the major explanatory factor of the theory – rulers' discount rates – and merit adoption across Russia's regions.

¹ This chapter is a revisited version of an article published in *Governance* (Lapiente and Nistotskaya 2009). The conceptual contribution of Victor Lapiente to the theoretical model is gratefully acknowledged.

5.1 Literature Review

The first dominant approach, existing within the considerable body of literature on merit adoption involves cultural factors. Traditionally the study of bureaucracies has been monopolized by explanations that, by emphasizing so much the inherent complexities of bureaucracies and their cultural underpinnings, resist building testable theoretical propositions (Moe 1997: 455). As a result, they tend to be more subjective and descriptive than analytical. For example, the German civil service is frequently explained as a ‘guarantor of the public good’ (Goetz 2000: 87) and the French as a result of the ‘strong state tradition’ (Meininger 2000: 189). The cultural approach also faces the problem of how to explain how such widely differing societies as Japan, France or Germany end up possessing similar state administrative structures which, in turn, are different from those of the U.S., the U.K. or Sweden (Silberman 1993: 8). Furthermore, cultural factors cannot sufficiently account for within-country differences (in timing as well as in the depth) of merit reforms, such as, for instance, the ones we find among U.S. cities or states (Ruhil 2003: 28) This chapter addresses the shortcomings of this approach, embracing an institutional or New Political Economy (hereafter referred to as NPE) perspective² and testing its predictions across Russia’s regions.

The second dominant explanation tends to see meritocratic bureaucracies as the result of interactions among political actors (namely, interest groups, legislators and executives) in democratic settings. Autonomous merit bureaucracies would be ‘inherent in our democratic system as a whole’ (Moe 1989: 329). The choice between merit and patronage administrations would not be dependent on the different *outputs* they produce (in terms of a more or less efficient policy implementation or more or less corruption), but on what can be called the *input* side of democracy. In particular, NPE literature emphasizes the role of fragmentation of political authority in that input side of a democratic polity.

The first prediction, emerging from this view, is that, faced with greater separation of powers or diffusion of power (e.g. divided government at federal level, conflict between elected officials such as intra-city disagreement between mayor and councillors), politicians will prefer merit over patronage as happened in American national and sub-national politics (Frant 1993,

² The core of this approach would probably be what Miller labelled ‘positive political theories of bureaucracy’ (1997: 1173).

Ruhil 2003). There are two main mechanisms through which this fragmentation of authority leads to the replacement of politicized bureaucracies by meritocratic ones. To begin with, when politicians are divided among themselves, then the bureaucrats may be able to conquer (Hammond 2003). In their review of delegation theories, Bendor, Glazer and Hammond (2001: 245) consider that one of the best established hypotheses within the literature is that the more political principals there are, the more difficult it is to control bureaucratic agents. Consequently, bureaucratic agents obtain their most preferred personnel system: an autonomous and de-politicized merit system. Another mechanism suggests that, with fragmented political authority, one branch of authority (e.g. legislators of majority party A), in order to protect the interest groups which support them, will try to isolate public bureaucracy from another branch of authority (executive) which is in the hands of party B. Similarly, for Johnson and Libecap (1994b), merit emerges as a second-best solution that reduces the costs associated with the struggle to control the bureaucracy when the opposing branches of authority are in the hands of different parties (i.e. Congress and the Presidency).

The second prediction of NPE literature is similar to the first one; however, instead of explaining merit as a result of what could be called real time or intra-temporal political fragmentation, they point towards what one may label inter-temporal – across time periods – political fragmentation. Political uncertainty (i.e. legislators do not know if they will remain in incumbency for long) is the driving force behind the preferences of interest groups and legislators over the organizational design of bureaucracy (Moe 1989: 273-275). In order to protect the interest groups supporting them, legislators will try to make bureaucracy less responsive to ‘high-powered’ political incentives by isolating it through the enactment of civil service arrangements. By removing political appointees from the bureaucracy and replacing them with ‘untouchable’ public managers, legislators protect their public policies from rapid reversals by future hostile political coalitions (Horn 1995; Williamson 1999). Similarly, several authors have underlined that increased political competition may reduce the choice of patronage in favour of merit since it precludes the new ruling coalition from exerting its political influence through patronage appointments (e.g. for a recent theoretical elaboration of this argument, see Mueller 2007; for a classical empirical comparative analysis see Geddes 1994).

In sum, New Political Economy mostly sees merit systems as the result of fragmentation of political authority and political uncertainty – or, as one may call them, intra-temporal and

inter-temporal political fragmentation. Although these factors have helped explain the adoption of merit within the context of Anglo-Saxon democracies, their explanatory power outside this empirical setting seems very limited. Many merit systems have been adopted under regimes of high concentration of power across time and space, such as the France of Louis XIV, the Japan of the Meiji Restoration, the Brazil of Getulio Vargas or the Spain of Francisco Franco. The kind of open negotiation between legislators and their constituencies assumed by NPE authors seems difficult to conceive in dictatorships. Can we reasonably imagine a dictator tying her hands in managing public bureaucracy in order to protect her public policies from a future (maybe democratic) incumbent?

What determines the organizational design of public bureaucracies in non-democracies is not part of the intellectual puzzle of NPE authors. This chapter addresses this gap by proposing an NPE-based model for explaining merit adoption which covers both democratic and authoritarian settings. It does so by shifting the focus of attention from *input*-side explanations to something that all rulers, irrespective of how they come to power, have in common: *outputs* that their bureaucracies produce.

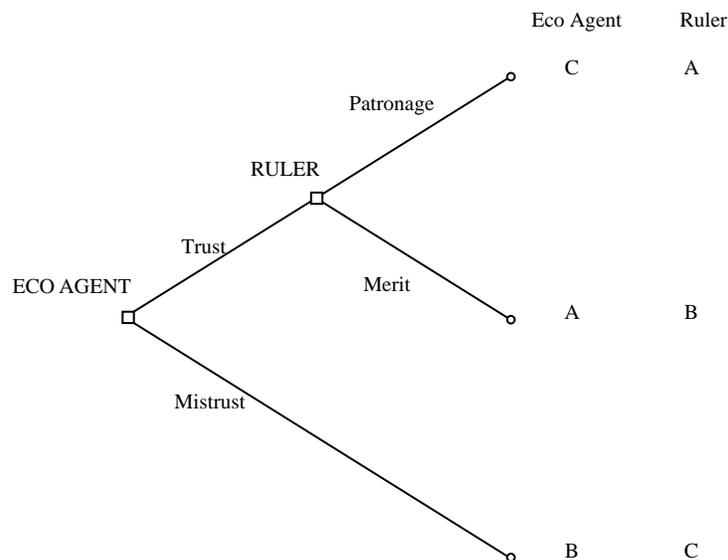
5.2 Alternative Explanation: Merit as a Function of Ruler's Time Horizon

One of the main dilemmas of social interactions – within organizations as well as in the relationships between politicians and citizens – is captured in the so-called Trust Game (Kreps 1990; Miller 1992). The core of the game is that threats and promises concerning future behavior may influence current behavior, often leading to undesirable social outcomes. Following the insights of Victor Lapuente (2007) we contend that the Trust Game, in its repeated form version developed by Robert Gibbons (2001), grasps some essentials in the relationships between the ruler and the ruled that explain the choice of the organizational design of public bureaucracy. An adaptation of Gibbons' game for explaining the implementation of merit systems, developed by Lapuente and Nistotskaya (2009), follows.

The first actor, the Economic Agent, must choose either to Trust or Not Trust the Ruler. This choice is a heuristic device to capture the myriad of subtle day-to-day decisions that economic agents take (e.g. more or less investment in physical or human capital), which may be

subject to opportunistic defections by rulers. Institutional economists have extensively studied this issue (e.g. North 1981). Dictators, even if they are predatory autocrats, also need cooperation from economic agents (Levi 1988); “and to obtain cooperation, they must provide incentives for people to reveal their private information, to work and to save” (Gandhi and Przeworski 2007: 1281). Therefore, the model is sufficiently general to capture both democratic and authoritarian rulers.

Figure 5.1 The Trust Game in Public Administrations



Trust means “devoting more efforts to the production of taxable goods” and *Mistrust* “devoting less efforts to the production of taxable goods”. *Patronage (Merit)* is the equivalent of “Violate Trust” (“Honor Trust”) in Miller’s (1992) version of the game. The Economic Agent’s and Ruler’s outcome rankings are $A > B > C$.

If economic agents trust their governments they produce a bigger taxable base than where they do not trust. This represents a temptation for rulers who, despite the promises they may have made (e.g. fair taxes, respect of property rights, provision of public goods) have incentives to take advantage of their situation (e.g. extractive taxes, expropriation of properties, delivery of targeted private goods to core constituencies). That is, in node two the Ruler obtains a higher payoff by

violating than by honoring trust. Thus, the game captures the classical formulation of the credible commitment problem by North – that throughout the history of humankind there has been a “persistent tension between the ownership structure which maximized the rents to the ruler (and his group) and an efficient system that reduced transaction costs and encouraged growth. This fundamental dichotomy is the root cause of the failure of societies to experience sustained economic growth” (1981: 25). Throughout this dissertation we hold that the choice between civil service and patronage represents an essential part of this ‘fundamental dichotomy’. This argument is based on the growing body of theoretical and empirical literature, which claims, firstly, that meritocratic bureaucracy is a crucial component of a system that encourages social welfare (Evans and Rauch 1999, Miller 2000, Nistotskaya 2007, Rauch 1995, Rothstein and Teorell 2008, Tonon 2008). At the same time, several authors have shown how patronage-based administration is a key element of a system that ‘maximizes the rents to the ruler’, but not the public goods provision (Johnson and Libecap 1994a, Keefer and Vlaicu 2008).

If the Trust Game were a one-shot interaction, the Economic Agent, anticipating the likely violation of trust by a ruler tempted to take opportunistic *ex post* actions, would refuse to trust the latter. The result would be a Pareto-suboptimal Nash Equilibrium (No Trust), since both of them would be better off with the socially optimal outcome (Trust/Merit). However, Lapuente argues (2007), a more accurate description of reality must also take into account the possibility of several interactions. Therefore, similar to Gibbons (2001: 5), for analytical simplicity (but also for behavioral realism), in the Trust Game actors are assumed playing ‘trigger’ strategies in the repeated version of the game. That is, actors cooperate in the first period and, if cooperation breaks at any point, they then punish for the rest of the game.

The outcome of these trigger strategies, as Gibbons (2001: 6) points out, depends on the interest rate – r , with which actors discount their payoffs across periods.³ The interest rate r reflects not only the time-related preferences of the actors, but also the probability that they will meet again after the current time period. If one of the two actors wants to deviate from the trigger strategy at some point, she must weigh the short-term gain from defection, followed by the long-term loss from punishment, against the present value of continued cooperation. Although the result is symmetrical for both actors, this dilemma is solved for the player Ruler – since this is the

³ In its simplest interpretation, this interest discount rate means that the present value of \$1 received every period starting tomorrow is $\$1/r$

one subjected to empirical analysis. Ruler obtains B from cooperation (Merit), A from defection (Patronage), and C from punishment (No Trust) – where $A > B > C$. If Ruler aims at deviating from cooperation, she must evaluate two-time paths of payoffs (A,C,C...versus B,B,B...). Continued cooperation will thus give a higher present value payoff than defection if $B + 1/r B > A + 1/r C$.

That is, Ruler will choose Merit if her future discount rate is below a given threshold:

$r < (B - C)/(A - B)$. When Ruler's future discount rate r is sufficiently low (e.g. close to zero), then the long-term consideration dominates, and she will prefer to forgo the short-run temptation of using patronage now and will opt for merit. If, on the contrary, $r > (B - C)/(A - B)$, and thus short-term dominates over long-term calculus, Ruler will prefer patronage. Given the impossibility of finding a particular threshold (value of r) for each interaction between a ruler and each economic agent within a country, the theoretical hypothesis that we subject to further empirical scrutiny could simply be written as follows: *ceteris paribus*, the lower the future discount rate of a ruler, the higher the probability she enforces a merit system.⁴

⁴ Further research should address the impact of the other half of the equation – $(B-C/A-B)$ – over meritocratic bureaucracies, but the lack of appropriate data prevented us from analysing that within the scope of this project.

5.3 Determinants of Merit Adoption in Russia's Regions

5.3.1 Data

Russia's bureaucratic reform of the 1990s represents a unique setting for testing merit adoption theories in general and future discount rate hypothesis in particular. Formally, FZ-119 and subsequent legislation eliminated the former *nomenklatura*/patronage system and established a largely de-politicized bureaucracy. In fact, as our survey-based data showed, the implementation of the formal legislation has varied across the Russian provinces.

These differences were observed among subjects which exhibit a notable variation in their political and socio-economic conditions, but which still share a common background in cultural and historical terms. A focus on the Russian provinces allows us to undertake the first systematic quantitative analysis of sub-national variation in merit adoption outside U.S. The availability of socio-economic and political data for the Russian provinces made it possible to probe the explanatory power of the factors identified by a vast literature as responsible for the adoption of merit in the American states and cities in a new sub-national context. Last but not least, these differences reflect the 'distance traveled' by the regions between the mid-1990s, when patronage was 'the only game in town', and the mid-2000s, when a remarkable variation in the organizational design of regional bureaucracies was documented. This useful panel data property of the dataset allows us to confidently locate the adoption of civil service within the ten year period under study, although we cannot attribute the adoption of merit to a certain ruler (within the period under study). For this reason, we have to account for the discount rates of all the rulers a region has had during the period under study (and not only the current ruler's discount rate). At the same time, as in its post-Soviet history Russia experienced alternation between elected and non-elected regional chief executives and our data-set includes both types of rulers, it provides a unique setting for testing our theoretical model, which stresses the exchange between economic agents and rulers, be they democratically elected or not.⁵

⁵ It is important to remark here that that the elections of regional chief executives formally began in 1991, when 11 Russian regions held elections. This process was interrupted in November 1991 when the Supreme Council honoured president Yeltsin's request for a one-year moratorium which was extended until the beginning of 1996. Nevertheless, during that period Yeltsin authorized elections in more than a quarter of regions and there were also two unauthorized regional elections in the Tyva Republic and the Sverdlovsk Oblast. Democratic contests for all governors were reinstated in March 1996. President Putin reversed this process by effectively appointing most governors from February 2005.

Regarding measurements for rulers' future discount rate or time horizons, we use the concept of 'tenure in office' – similar to other political economists' approaches to the issue. Put simply, that which has survived for a long time is expected to be more likely to last than what is new (Clague *et al* 1996: 249). We narrow our analysis of the ruler's future discount rate by the time horizons of regional chief executives because, according to Russian regional charters, it is the governor, not the regional assembly, who is responsible for the organization of a regional administration. As Grigory Golosov notes, only a few of the regional legislations have non-legislative powers 'such as participation in cabinet formation and cabinet dismissal; even if possessed, such powers are rarely exercised' (2001: 48). Given that frequent rotation in power leads to the shorter time horizons of power-holders, as argued above, the number of different governors a region has had during the period under study can be understood as a measure of the average conditions for rulers' time horizons in a region. Alternatively, we could have relied on party tenure, instead of that of the governors. However, in Russian regions, politics is characterized by weak party institutionalisation and high personalization (Gehlbach *et al* 2007, Solnik 1998). Russian politicians, including governors, do not hesitate to change their party allegiance frequently or position themselves as independents. In other words, while some formal changes of the party in government could hide the persistence of the same ruling group in other cases the formal maintenance of the same party could imply a total renewal of the ruling elite. For these reasons, we argue that focusing on the replacement of the chief executive officer, the governor, is a more suitable proxy for rulers' time horizons in the case of Russian regions.

The variable *Number of Governors* reflects the number of chief executives a region has had in the period from 1991 until 2006 (Table 1 in the end of this chapter). We start counting the number of governors in 1991 – four years before the adoption of FZ-119 in 1995. We do so in order to more accurately differentiate between those governors who by 1996 (the time FZ-119 started being implemented) had survived presidential appointment and elections or two elections, i.e. had longer time horizons, and those who acquired gubernatorial office for the first time (be it by virtue of elections or appointment).⁶ This approach, above all, allows us to capture the longevity of the time horizons of governors with a continuous period in office, e.g. those who by

⁶ For example, by 1996 Mikhail Prusak of Novgorod, Victor Kress of Novosibirsk and Leonid Polezaev of Omsk, who were appointed by President Boris Yeltsin in 1991 and won gubernatorial elections in December 1995 or Mintimer Shaimiev of Tatarstan, who won election in both 1991 and 1996, had longer time horizons than Alexander Surikov of Altaj kraj or Alexander Chernogorov of Stavropol who both won elections for the first time in the end of 1996.

1996 were serving their second consecutive term.⁷ The *Meritocratic Recruitment Index*, obtained as a result of our expert-based survey, is employed as the dependent variable. We also use a number of control variables, associated with different strands of the literature on merit adoption. The data come from ROSSTAT, Russia's Federal State Statistics Service (2006a, 2007) as well as from other sources (Table 5.1).

5.3.2 Findings

Figure 2 plots the correlation between *Meritocracy* and *Number of Governors*. One can observe a negative relationship: those regions in which there has been more rotation of governors seem to present lower levels of meritocracy than those regions ruled by few or one single governor for the entire period. Table 5.2 explores more deeply the relationship between these variables, controlling for three different groups of explanatory factors, traditionally considered by the literature as relevant for explaining merit adoption.

Model one controls for political factors: the available proxies for the NPE factors. First of all, we control for the fact that some regional governors might not be electorally accountable, but either appointed by the President or through elections that fail to be fair and competitive. The variable *Level of Democracy* captures the relative distribution of the political climate in Russia's regions along a democracy-autocracy scale. According to NPE explanations, we should expect more meritocracy in those regions with higher levels of democracy, but, again, this variable does not show any significant impact. It does not seem to matter if decision-making is based on democratic politics or not.

⁷ We recognize the limitations of this approach, as ideally we should have controlled not only for the governors' longevity in office but also for the difference between elected and appointed governors throughout the period. However, capturing the diversity of regional circumstances in one variable requires case-by-case *ad hoc* decisions and extensive explanation. Given the constraints of the dissertation format we opted not to include such a variable in this analysis.

Table 5.1 Description of the Variables used in the Analysis

Number of Governors 1991-2006 and **1995-2006** reflects the number of chief executives a region has had in the period from 1991 or alternatively from August 1995 (time of the Civil Service Act adoption) until 2006. The data come from *Politika*: Electronic Periodic Resource, available online at <http://www.politika.su/vybory/rre91t.html>, Inter-Regional Electoral Network of Assistance, available online at <http://db.irena.org.ru>, and Independent Institute of Elections, available online at http://www.vibori.ru/elects/lead_r_2000.html.

Meritocratic Recruitment Index is part of a data set built on comparable expert evaluations of the institutionalization of real merit in 40 of Russia's provinces, gathered between May and August 2006.

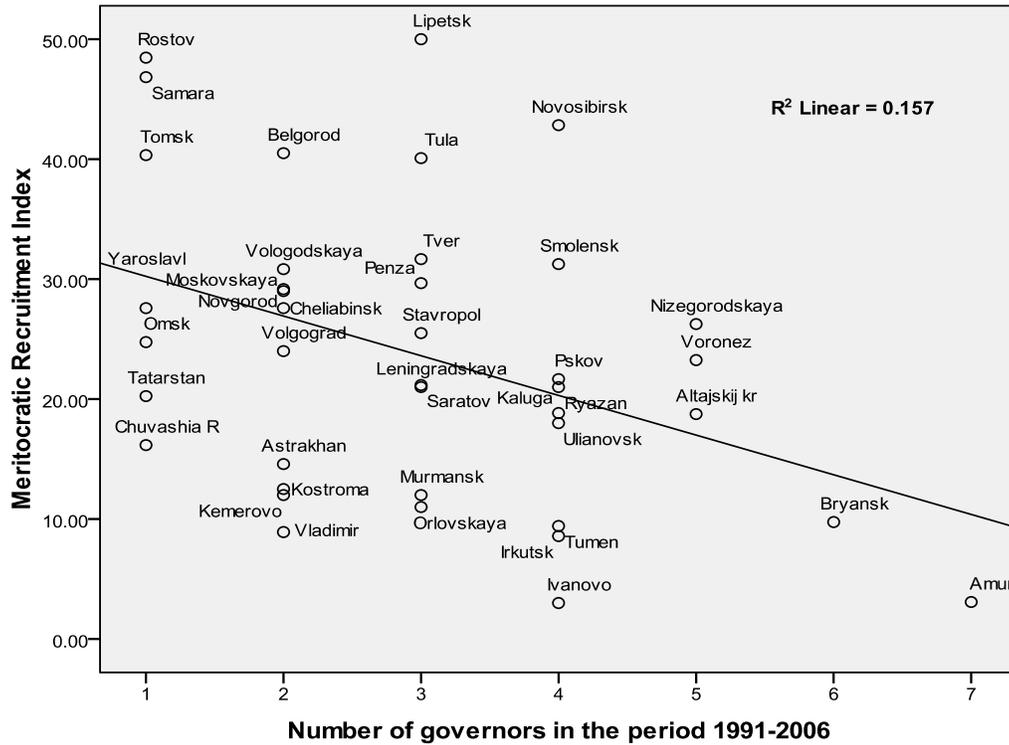
Level of Democracy is a composite index of eight indicators of the level of democracy, published by a reputable think-tank Public Expertise in the end of 2005. It is based on the results and experts evaluations of all federal and regional election campaigns in Russia during 1995-2005. Available online at <http://www.freepress.ru/publish/publish043.shtml>.

Electoral Competition measures the average difference between the winner and runner-up in the gubernatorial elections held in the post-communist period. Russian gubernatorial elections were held from June 1991 through to February 2005, since then regional executives have been chosen by a system of presidential nominations. Most regions held two elections during the period while others held four or even five. There are missing data for some electoral contests. To ensure equal treatment for each region, we calculate the average of the first two elections in the region for which we have full data for the two main candidates and their results. The data come from *Politika*: Electronic Periodic Resource, available online at <http://www.politika.su/vybory/rre91t.html>, Inter-Regional Electoral Network of Assistance, available online at <http://db.irena.org.ru>, and Independent Institute of Elections, available online at http://www.vibori.ru/elects/lead_r_2000.html.

Higher Education is the share of the population fifteen years old and higher as of 1994 that finished high school and received at least some post-secondary training. This variable was collected in the 1994 Russian household micro-census by Russia's Statistics Office (Russia's State Committee on Statistics 1995).

The data for **Unemployment 1995**, **Urban Population 1995**, **Non-Russian Population 2002**, **Population of the Region 1995**, **Number of Public Employees 2005** come from ROSSTAT (2006b, 2007).

Figure 5.2 Number of Governors in each Russian Region since 1991 and Meritocracy



Electoral Competition measures the average difference between the winner and runner-up in the gubernatorial elections held in the post-communist period (for the description of the variable see Table 1). There are two main reasons to include this variable. First, given the *de facto* absence of significant political constraints on the executives at a regional level in Russia during the period under study,⁸ *Electoral Competition* is a measurement, which captures the degree of political fragmentation in a polity (for the description of the variable see Table 1). In those regions with single-digit differences between the winner and the runner-up we may assume the existence of a more organized opposition than in those regions where the winner leads by margins of 70 – or even sometimes of 95 – percent of the votes.

⁸ Hyde notices that many of Russia’s regions are “dominated by their governors or presidents, who marginalize the regional legislatures” (2001: 719). On regional chief executive exerting influence over the regional judiciary see Lambert-Mogiliansky *et.al* (2007).

Table 5.2 Determinants of Merit in Russian Regions

Independent Variables	<u>Model 1:</u> Political Factors	<u>Model 2:</u> Political Factors + Patronage Demand Factors	<u>Model 3:</u> Political Factors + Patronage Demand Factors + Organizational Factors
<i>Number of Governors</i>	-4.076*** (1.395)	-4.465*** (1.288)	-4.283*** (1.341)
<i>Level of Democracy</i>	1.2572 (1.825)	0.366 (1.815)	0.560 (1.882)
<i>Electoral Competition</i>	-0.035 (0.107)	-0.068 (0.099)	-0.047 (0.106)
<i>Unemployment 1995</i>		-1.663** (0.703)	-1.637** (0.778)
<i>% Higher Education</i>		1.346 (1.110)	1.014 (1.257)
<i>% Urban Population</i>		-0.356** (0.200)	-0.367* (0.210)
<i>% Non-Russian Population</i>		-0.289** (0.136)	-0.245 (0.171)
<i>Population Region</i>			0.002 (0.002)
<i>Number of Public Employees</i>			-0.001 (0.001)
<i>Constant</i>	31.314*** (9.744)	67.135*** (20.981)	67.129*** (22.101)
R Square	0.193	0.459	0.472
N	40	40	40

Note: Standard errors in parentheses.

*Significant at $p < 0.1$, ** at $p < 0.05$, *** at $p < 0.01$.

Secondly, electoral competition on its own has been found to be relevant for explaining within-country differences in merit for U.S.: across states (Ruhil and Camoes 2003) or across-time (Johnson and Libecap 1994b). The argument is that politicians in one-party settings see little reason to abandon patronage while “politicians who faced stiff electoral competition, particularly in the gubernatorial races, recognized the benefits of blanketing public-sector employees” (Ruhil and Camoes 2003: 34). The more likely it is that an incumbent may lose the next election, the more prone she will be to insulate her policies from possible interferences by the future winner. One can see in Table 2 that the coefficient of *Electoral Competition* has the sign predicted by the U.S. literature – the more difference between winner and runner-up, the less merit – but again it is far from being significant.

Model two introduces a group of factors used to explain differences in merit adoption at sub-national level for U.S. – mostly for the first decades of the 20th century. The general argument of this literature is that merit became a feasible alternative to patronage because it allowed politicians to shirk patronage demands when such demands were becoming increasingly difficult to fulfill (Ruhil 2003: 161). The main problem of this approach is its empirical intractability: one can always find two opposing effects on merit of the variables that compose ‘patronage demand’: one direct and another indirect. In the first place, higher levels of unemployment (or other measures of a struggling economy)⁹ may engender increased demands for patronage. This could have a positive effect on the level of patronage (direct impact) or a negative effect in an era of dwindling spoils when rulers have too many applicants per position and selection involves too high costs for politicians (indirect impact). For the case of U.S. states, the latter effect has been found to be significant (Ruhil and Camoes 2003). In the context of Russia’s regions, it seems that the former (or direct effect) is at work: the variable *Unemployment* for the year 1995 exerts a negative and significant impact on merit. The more unemployed people, the more governors choose patronage over merit.

Another relevant variable, identified by the U.S. literature, is the level of education. While patronage mostly benefited low-educated job-seekers, supporters of merit reform tended to come from the educated middle classes (Tolbert and Zucker 1983: 31). We introduce the variable,

⁹ Ruhil and Camoes (2003) use *Business Failures* instead. We contend that the level of unemployment is a more accurate proxy given that a high number of business failures could be compensated in dynamic regions with a high number of business creations.

which measures percentage of people with *Higher Education* in the region for the year 1995. As model two shows, its effect is statistically insignificant.

The percentage of *Urban Population* within a given setting has also been considered as important by the literature. Big cities, on the one hand, represent appropriate settings for the development of patronage-hungry vested interests (which could have a direct negative impact on meritocracy) and, on the other hand, big cities are counter-balancing forces and may impose a threat to the regional/state governments (which could have an indirect positive impact on meritocracy). Although the analysis showed that the percentage of citizens who live in cities in each Russian region is a significant predictor of the merit adoption, the sign of the correlation is opposite to the postulated by the dominant theories.

Finally, one of the most pervasive arguments within the demand-side literature on sub-national differences in patronage is that rent-seeking networks prosper among certain cohesive ethnic-cultural groups. They take advantage of societal collective action problems to continue enjoying their privileged access to targeted private goods such as patronage jobs in sub-national entities. The proxy most extensively used for the existence of these ‘patronage constituencies’ in early 20th-century U.S. is the percentage of certain foreign populations (mostly Irish and Italian). The percentage of *Non-Russian Population* within a province is one of the few available proxies for the existence of ethnic-based patronage constituencies in Russia’s regions. One can see that it exerts a significant negative impact – although only at 10% level – in model two along the lines of the ‘direct effect’ explanation (more Non-Russian Population, less Merit). Nevertheless, the effect of Non-Russian Population diminishes slightly – becoming statistically insignificant – once we control for organizational variables in model three.

The aim of model three is to introduce two explanatory factors from organizational economics that have also helped explain the historical spread of merit across U.S. administrations. Building on the organizational economics notion that there is a loss of control as organizations enlarge, Johnson and Libecap (1994b) argue that, as public bureaucracies grow, it becomes gradually more costly to incumbents to effectively control their appointees. They find a strong correlation between the number of employees of an administration and merit adoption. However, for Russian regions, this organizational hypothesis does not seem to work. Neither the *Number of Employees* of the regional administration nor the *Population of the Region* (used in

other U.S. analyses as a proxy for the organizational complexity of a given bureaucracy) exhibits any significant effect on meritocracy.

In sum, two findings have emerged from the analysis of Russia's regions. The main result is that tenure in office seems to be the single most consistent determinant of real meritocracy. *Number of Governors* remains strongly significant irrespective of the inclusion of several variables seen as relevant in the literature. Even as a growing number of controls are added, our key independent variable stays consistent. A secondary finding is that these latter variables – the *political* factors, underlined by comparative NPE authors, as well as the *patronage demand* and the *organizational* factors, highlighted by research on US sub-national differences – do not seem to work for the Russian regions. One explanation for these divergent results could lie in national or cultural divergences between two settings so separated geographically and chronologically. An alternative reason – taking into account that the above cross-country analyses also included very different cultural settings – could simply be that studies focused on the U.S. have not systematically controlled for all these factors. Most particularly, and probably due to their underlying assumption of merit reform as a by-product of democratic forces, NPE analyses do not include proxies for rulers' time horizons.

5.4 Conclusion

A large number of scholars have tackled the 'big question' of political economy: "What types of government are most likely to generate economic development"?, pointing towards meritocratic administrations as a key element. An important part of this intellectual puzzle concerns the determinants of the emergence of de-politicized bureaucracies. Traditionally, historians and administrative comparativists have explained merit systems by their higher efficiency – or, using Weber's famous formulation, its 'technical superiority' (1978: 973), – for public services delivery. During the last decades, NPE scholars have rejected efficiency arguments after analyzing (almost exclusively) merit reforms in Anglo-Saxon democracies. What matters, they argue, is rulers' political calculus. As Terry Moe openly remarks, bureaucracy 'arises out of politics' and, therefore, it 'is not designed to be effective' (Moe 1989: 267).

This chapter attempted to bridge this gap between administrative historians and NPE scholars at theoretical and empirical levels and, perhaps, to move the discussion forward. Similar to historians and unlike NPE scholars, we contend that, although the efficiency argument may not be a sufficient cause for merit adoption, it seems to be a necessary one when numerous descriptive accounts (many of which are from developing and/or non-democratic environments) underline the existence of widespread social preferences for merit. In addition, merit reforms have tended to take place in emerging market capitalist economies, like Britain and the US at the end of the 19th century, Japan's Meiji Restoration, Eastern Asian and Southern European developmentalist autocracies in the 1950-60s or Eastern European countries in the 1990s. On the other hand, akin to NPE approaches, we contend that an explicit political calculus lies behind merit reforms. However, unlike previous NPE studies, we showed that the relevant political factors do not seem to be *how rulers come to power* or *how policy decisions* are taken, but *how long rulers are in office*. The relevant interactions here are not those among core constituencies of voters, legislators and executives – that is, the dynamics of the *input* side of the political system, but the interactions in the *output* side of the political system – in the exercise of public authority (Rothstein and Teorell 2008: 169-170). Empirically, like historical and unlike NPE approaches, we look at real merit instead of formal merit; and, like NPE and unlike historical accounts, we rely on quantitative instead of qualitative analysis.

Here we have provided evidence that, to say the least, contradicts mainstream predictions by NPE scholars on merit adoption: that it is the result of either fragmentation of power or political uncertainty. Nevertheless, our findings engage with empirical (Clague *et al* 1996) as well as theoretical (Besley and Persson 2007) developments which have been increasingly emphasizing the advantages of political stability over the nature and dynamic of politics. Similar to them, we argue that longer-lived rulers reap the long-term economic gains of an attractive investment climate, giving them an incentive to choose a second-best option like meritocracy instead of the short-term first preference of patronage.

Finally, it is important to remark on what we are not arguing. Normative implications – on the advantages of having long-term authoritarian rulers vis-à-vis democratic rotations in power – cannot be inferred from a research, which has focused on within-country analyses of an unconsolidated democracy. As Philip Keefer (2007) shows in his comparison of the performance between young and old democracies – i.e. younger democracies deliver more targeted policies,

less public goods, and are more corrupt – democracies have mechanisms (e.g. party reputation) to lengthen the shadow of the future for rulers, which may be more effective than long-tenured autocrats. Yet party reputations (e.g. respecting meritocratic rules) can take time to build, and proto-democratic settings of Russia's regions may have been incapable so far of doing so. Until they acquire such democratic mechanisms, to the short-sighted victors will probably still belong the spoils.

CONCLUSION

This thesis has explored two classical puzzles in the field of political science ‘What type of bureaucracy is most likely to be welfare-enhancing i.e. enables sustainable prosperity for all members of a society?’ and ‘Why at times do politicians renounce their authority over personnel policy decisions in favor of a more autonomous bureaucracy?’ With a view to making a meaningful contribution to the literature, we investigated these research questions both theoretically and empirically in the context of regional governance in post-Soviet Russia.

The study began with an overview of the literature on the classical controversy of public administration scholarship – the debate regarding the importance of the contribution of either politicized or de-politicized bureaucracy to social welfare, which goes back as far as Max Weber’s search for the ‘ideal type’ of bureaucracy. In particular, it discussed two recent contributions to the debate – principal-agent theory (PAT) and the ‘Weberian state’ argument. The principal-agency perspective, that implicitly advocates a greater politicization of bureaucracy, argues that the fundamental problem with achieving social welfare is in the creation of incentive systems that would align the preferences of bureaucrats with those of politicians (see Weingast 1984). Following the literature, we showed that the main problem of this perspective is that it assumes away the problem of political opportunism. If political opportunism is a danger to social welfare, as has been argued at both theoretical and empirical levels (Miller and Hammond 1984, North 1981, North and Weingast 1989), then the alignment of bureaucratic preferences with those of politicians, as advocated by PAT, seems to be inadequate for the achievement of stable socially beneficial outcomes. On the de-politicized side of the debate there is the ‘Weberian state’ argument revitalized by Evans and Rauch (1999). This advocates merit-based and long-serving bureaucracy as the key to greater social welfare. For Evans and Rauch efficiency gains come from increased competence, cohesion and purposefulness of a de-politicized bureaucracy.

Having discussed the limitations of both PAT and the ‘Weberian state’ explanations in length, we adopted Gary Miller’s theory of interactive social production (2000). In his formal theoretical approach, Miller exposes the threat to social welfare of politicians’ moral hazard and advocates civil service as a corrective to such. Drawing on Holmstrom (1982) and Eswarm and Kotwal’s (1984) research, Miller finds that the propensity of politicians to take actions that are destructive to social welfare is constant and due to ‘certain logical impossibilities’ (2000: 290) in the organization of the state. In order to achieve efficient social

order, his argument goes on, powerholders must be credibly constrained from opportunities to act on their particularistic motives. One way to do so is to keep politicians away from the day-to-day oversight of the bureaucratic process by limiting the amount of their authority over personnel decisions. Miller, however, provides only a broad conceptualization of this solution. The contribution of this dissertation to the theoretical debate has been in showing the capacity of individual elements of civil service in containing political opportunism. It has argued that the openness and de-personalization of the admission process, merit-based appointment system, seniority-based promotion and life-long career prospects make bureaucrats less 'attuned' to the powerholders' preferences and also less responsive to their day-to-day oversight, therefore disabling their moral hazard. It has paid particular attention to the overlooked 'politics eliminating' properties of the civil service's admission stage. It argues that the public character of the admission is an important element of the whole welfare-enhancing mechanism of civil service as it diminishes the politicians' capability to make and break bureaucratic careers, making bureaucratic decision-making less susceptible to the politicians' moral hazard.

This thesis also sought to offer empirical verification of the welfare-enhancing properties of a de-politicized bureaucracy, and post-Soviet Russia seemed to provide a relevant empirical milieu in which to make appropriate tests. However, as the existing literature on Russia's bureaucracy is limited, impressionistic and often contradictory with regard to the nature of Russian public bureaucracy, prior to engaging with this empirical exercise it was first necessary to make sure that Russia's bureaucracy was indeed of a de-politicized nature. This involved considering both the amount of personnel authority that the relevant legislation assigned to politicians (formal merit) and the amount of personnel authority that politicians exercised in reality (real merit). The first task was achieved by utilizing the analytical framework of formal political discretion devised by Jan-Hinrik Meyer-Sahling (2003, 2006). This enables us to systematically evaluate the amount of staffing powers formally wielded by politicians by differentiating between the political and administrative nature of the decision-making authority and by evaluating the strength of the procedural constraints upon its exercise in major personnel policy domains. This dissertation has enhanced Meyer-Sahling's typology of the decision-making authority by suggesting a differentiation not only between the political and administrative nature of the decision-making authority, as Meyer-Sahling explains, but also between its potential unitary and collective character. As the need to get involved in collective action creates considerable obstacles for individual actors to control the process fully (Falachetti and Miller 2001, Meyer-

Sahling 2006: 697), the differentiation between, say, political unitary and political collective authority allows us to more accurately capture the extent of the politicians' ability to determine the outcomes of personnel decisions. Furthermore, we have refined the classification of the personnel policy domains to incorporate the idea, discussed in chapter 1, that admission and appointment constitute two distinctive phases of the personnel process. Taken together these two measures have improved the analytical precision of the framework. By enabling public bureaucracy scholars to determine with greater accuracy the extent of de-politicization of the public bureaucracy under study, this improved framework constitutes a useful contribution to the literature.

By systematically assessing the nature of the decision-making authority and the strength of the procedural constraints upon its exercise across four domains of personnel policy process – admissions, initial appointment and promotion/demotion/horizontal transfers and dismissals – we were able to categorize the nature of Russia's personnel policy regime, established by two major civil service acts of 1995 and 2004, as largely de-politicized. In addition to this, this thesis investigated how those formal-legal provisions were implemented in practice in a large sample of Russia's regions. Having considered methodological issues in documenting the organizational structures of public bureaucracies, including early real merit studies in Russia, we opted for an expert-based survey in which 126 individuals known for their expertise in regional bureaucracy matters took part. As a result of this exercise the first systematic measurement of the organizational design of public bureaucracy in the post-Soviet countries was obtained. Exhibiting a satisfactory degree of internal and external validity, expert assessments revealed a systematic difference in personnel policy practice across provinces of Russia. Given that the availability and reliability of data is indeed 'a sore point' in the development of comparative public administration research (Brans 2003: 426, Kiser and Hechter 1991: 10, Lapuente 2007: 301), a new data set on the organizational structure of Russia's regional bureaucracy is a welcome contribution to the literature. Overall, by providing the first comprehensive, systematic and theory-informed analysis of the formal-legal framework governing politico-administrative relations in post Soviet Russia and the empirical measurement of the organizational structure of Russia's public bureaucracy, this dissertation makes an important contribution to the comparative bureaucracy scholarship.

The variation in the extent of the institutionalization of a de-politicized bureaucracy, revealed by field research, enabled a productive empirical test of the main theoretical proposition about the welfare-enhancing role of a de-politicized bureaucracy. Our statistical analysis showed that, controlling for factors identified by the relevant literature, the extent of

de-politicization of bureaucracy accounts for the striking variation in the levels of aggregate economic performance observed across Russia's regions. The effect of our measure of de-politicization is robust to different modeling choices and statistical techniques. Moreover, by employing the two-least-squared regression analysis we were able to control for the endogeneity problem and produce more convincing results when compared to previous research (Evans and Rauch 1999, Rauch 1995). Furthermore, this is one of only a few empirical studies on the relationship between a de-politicized bureaucracy and economic growth and the first empirical study in the context of transition society.

At the same time, the findings from the economic growth models were not perfectly conclusive with regard to the causal mechanism through which greater social welfare is achieved. It is not clear whether de-politicization enhances economic growth through Evans and Rauch's mechanism of a more competent, cohesive and purposeful bureaucracy or because it credibly commits powerholders to the legislative intent of public policies, providing economic agents with the confidence to make costly investments. From a theoretical point of view both mechanisms complement, rather than contradict each other, therefore it is plausible to assume that both causal mechanisms are at work in the case of economic growth. However, the task of shedding light on the contribution of Miller's de-politicized bureaucracy to social welfare remained.

Having employed the small business growth variable as a proxy for entrepreneurs' perception of powerholders' commitment not to confiscate, a positive and robust association has been found between the increased rates of small business formation and greater extent of de-politicization of bureaucracy. This suggests that de-politicization raises the confidence of entrepreneurs, especially those without connections to the current powerholders, that their costly investments will not disappear overnight as a result of politicians' manipulation of the rules of the game to the advantage of politicians and their associates but will reap benefits to the entrepreneur, her family and her community. Two cases-studies from the context of post-Soviet Russia further illuminate the working of Miller's causal mechanism. This constitutes the first empirical verification of Miller's theoretical explanation of the welfare-enhancing properties of de-politicized bureaucracies, and this is perhaps the most important of all contributions that this dissertation has made.

The findings of this dissertation have important policy implications in so far as they suggest that the notions 'good governance', 'state capacity', and 'quality of bureaucracy', whose positive effect on social welfare is fairly undisputed today, equate to de-politicization of bureaucracy. However, given that the empirical evidence on the welfare-enhancing

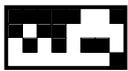
properties of a de-politicized bureaucracy is essentially limited to a handful of studies, there seems to be insufficient grounds for the claim that the effort of governments and international donors to improve the ‘quality of governance’ should be focused on the de-politicization of bureaucracy. Instead, this dissertation argues that more and better evidence on the organizational structure of state bureaucracies that would enable a systematic assessment of the impact of different types of bureaucracy on social welfare is needed, and funding agencies should give full consideration to the now 10-year old appeal by Evans and Rauch for support for the academic community in ‘building the necessary data infrastructure’ (1999: 761) that has not been addressed fully to date.

The documented variation in *de-facto* de-politicization of bureaucracy in Russia’s regions opened up an additional line of inquiry into the reasons for the adoption of real merit. Having conducted an overview of the literature on merit adoption, we identified the limitations of the dominant theoretical explanations, namely the limited applicability of the New Political Economy’s account of merit adoption outside stable democracies. Utilizing the analytical tools from game theory, we offered an alternative – formal and parsimonious – theoretical explanation as to under what conditions self-interested politicians will opt to curb their authority over bureaucratic personnel decisions. Central to this explanation is the idea of the ruler’s discount rate or time horizons, which reflects the ruler’s strategic thinking over time as affected by the likely reaction of economic agents to the ruler’s choices. We also subjected this theory to empirical test, using the obtained measure of de-politicization of bureaucracy as dependent variable. Controlling for factors from existing theories, we found that rulers’ discount rate is the most powerful predictor of the level of de-politicization of bureaucracy. By challenging conventional wisdom about the factors that lead to the adoption of civil service, these findings represent both theoretical and empirical contributions to the literature on merit adoption.

Although this thesis can genuinely claim to have made important contributions to the ‘rediscovery bureaucracy’ agenda (Olson 2005) that has been on ascending in the 2000s, it represents only an initial enquiry and several avenues open to improve our understanding of the role of bureaucracy in enhancing social welfare. In more general terms, the most pressing need is to sort out the ‘sore point’ of the comparative bureaucracy scholarship, i.e. the availability and reliability of the data on organizational structure of public bureaucracy. Although this research project demonstrated that individual endeavor can be fruitful, the dearth of the data that the scholarship faces requires a coordinated effort by academic and policy-making communities. As the validity of the data is another critical issue of

bureaucratic research, bringing policy-makers aboard may also assist in solving the problem of access to archival and other ‘hard’ sources on the organizational structure of public agencies. However, as expert-based evaluations have been employed in the most recent research on organizational structure of public agencies undertaken by one of the ‘power houses’ of the scholarship – the Quality of Government Institute at University of Gothenburg (see Theorell *et al* 2008), it seems that they remain our best available methodological tool to date.

As far as this particular project is concerned, collecting data for a larger sample of regions is the most obvious way to strengthen the robustness of the relations reported in this thesis. To extend the observations beyond the initial post-Soviet period (that was characterized by massive changes in the ‘rules of the game’) is equally important as it would help us to better understand the contribution of a de-politicized bureaucracy to economic development compared to other potential explanatory factors. Thirdly, the hypothesized relationships between de-politicization and greater social welfare as well as between the rulers’ discount rate and the extent of de-politicization should be further corroborated by case studies, which would clarify the mechanisms through which the predicted effects are achieved. Last but not least, whilst this thesis focused only on personnel policy dimension of a welfare-enhancing bureaucracy, its other elements – standard operating procedures and professionalism – should also be explored so as to appraise the full potential of such a bureaucracy.



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Appendix A.



Personnel Practices in Russian Regional Administrations Expert Survey

Dear XXXXXX

Thank you for taking part in the survey.

As you are aware, the aim of this research is to document personnel practices in Russian regional administrations. We solicit your help as an expert in Russia's public bureaucracy to help us to better understand how bureaucrats in regional administrations are hired, promoted and fired.

By 'bureaucrat' we mean those officials who occupy public posts of category 'specialists' and 'supporting specialists', formerly known as category 'C'. We are interested neither in the top management of the department ('posts of category 'managers'), nor in their advisers ('posts of category 'advisers'). Auxiliary personnel (drivers, typists and such like) is also outside the focus of this survey.

Several questions of this questionnaire ask you to evaluate certain personnel related facts in absolute numbers (proportions or frequency). We do understand that you may not know the *exact* answers to these questions. Please, do not hesitate to give us your best estimates. If, however, you don't know the situation with regard to some elements of the personnel practice, please do not hesitate to select the 'Do not know / Difficult to say' option.

The questionnaire asks you for some personal details that we need to compose a collective portrait of the pool of experts and for the communication purposes. All details are kept **STRICTLY CONFIDENTIAL** and will not be shown in the reports, articles and other materials based on this research. Your personal details will not be passed to any third party either.

If you have any queries about this survey do not hesitate to telephone the Research Team on XXXXXXXXXXXX.

Please complete the questionnaire and return in the pre-paid envelope provided.



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SECTION A : About yourself

First, we would like to ask you some questions about yourself. Your personal details will only be used to process the information relating to the study and not for any other purposes. All personal information will be kept strictly confidential and will not be passed on to any third parties.

A1. What is your first name? *Please print in block capitals below*

A2. What is your surname? *Please print in block capitals below*

A3. What is your place of work? *Please write below.*

A4. Bearing in mind the main theme of this study - personnel practices or how bureaucrats are hired, fired and promoted - what of Russia's regions are you most familiar with? *Please write below the name of ONE region that you know the best.*

We are particularly interested in personnel practices at the department within the regional governance of your expertise which is responsible for economic development - the department/ministry of economic policy/economic development

A5. Do you know the situation with regard to personnel practices at the department/ministry of economic policy / economic development sufficiently well?

- Yes [please go to the next section]
 No [please, contact the researcher to discuss the situation]

SECTION B : Legislation

B1. Currently the personnel policy issues are governed by FZ-79 of 2004 that replaced FZ-119 of 1995. In your view, which of the following best describes these two pieces of legislation with regard to their founding principles and major provisions?

Please select ONE option only

- FZ-119 and FZ-79 are pretty much the same
 FZ-119 and FZ-79 are very similar
 FZ-119 and FZ-79 are more similar than different
 FZ-119 and FZ-79 are more different than similar
 FZ-79 has nothing in common with FZ-119
 Don't know / Difficult to say



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SECTION C : Admission

Please remember that all the questions in this section relate to the the department/ministry of economic policy/economic development.

C1. Thinking about the last two years, what, *approximately* has been the average number of job applications per vacancy? Please write in your estimate in the box below. Please note that you can write your estimate as a range of values, e.g. 11-12.

C2. How has this number changed compared to the year 2000? Please select ONE option only.

- | | |
|--|--|
| <input type="checkbox"/> Dramatically more | <input type="checkbox"/> No change |
| <input type="checkbox"/> Considerably more | <input type="checkbox"/> Slightly less |
| <input type="checkbox"/> Slightly more | <input type="checkbox"/> Considerably less |
| <input type="checkbox"/> Don't know / Difficult to say | |

C3. Thinking about all applications for vacancy contests received by the department of economic policy within the last two years, *approximately* how many of those applications were filed by bureaucrats who already worked for the regional government? Please write your estimate in the box below.

_____ PER CENT of all job applications has been filed by bureaucrats who already worked for the regional government.

SECTION D : Appointment

Please remember that all the questions in this section relate to the the department/ministry of economic policy/economic development.

D1. *Approximately* what is the proportion of the currently working public officials of category 'specialist' and 'supporting specialist' (formerly posts of category 'C') that was hired via vacancy contests? Please write in your estimate in the box below.

_____ PER CENT

D2. Even if the formal vacancy contests take place at this department, their outcomes are decided in advance in _____ cases out of 10.

D3. How has the number of bureaucrats hired via the formal vacancy contest in the last two years changed compared to the year 2004 and 2000. Please select ONE option in each column.

Compared to the year 2000

- Dramatically more
- Considerably more
- Slightly more
- No change
- Slightly less
- Considerably less
- Don't know / Difficult to say

Compared to the year 2004

- Dramatically more
- Considerably more
- Slightly more
- No change
- Slightly less
- Considerably less
- Don't know / Difficult to say



SECTION E: Promotion and Demotion

Please remember that all the questions in this section relate to the the department/ministry of economic policy/economic development.

E1. Thinking about the last two years, *approximately* what is the proportion of bureaucratic posts of higher importance (the two highest grades) at this department that were filled via formal vacancy contest, open to both internal and external candidates? Please select ONE option only.

- | | |
|---|--|
| <input type="checkbox"/> 100% | <input type="checkbox"/> About one-third |
| <input type="checkbox"/> About 90% | <input type="checkbox"/> Less than one-third |
| <input type="checkbox"/> About two-thirds | <input type="checkbox"/> None |
| <input type="checkbox"/> About 50% | <input type="checkbox"/> Don't know / Difficult to say |

E2. What other methods of filling posts of higher importance have been used at this department within the last two years? Please select as many options as apply

- Appointment from the cadre reserve
- At discretion of the head of the department
- Vacancy contests for currently employed bureaucrats only
- None of the above
- Other [please, specify in the space below]
- Don't know / Difficult to say

E3. Thinking about the last two years, approximately how frequently have bureaucrats been temporarily appointed to a post of higher importance ? Please select ONE option only

- | | |
|--|--|
| <input type="checkbox"/> Never come across such a case | <input type="checkbox"/> 5 times |
| <input type="checkbox"/> 1-2 times | <input type="checkbox"/> More than 5 times |
| <input type="checkbox"/> 3-4 times | <input type="checkbox"/> Don't know / Difficult to say |

E4. Why do you think temporarily promotions were used? Please select as many as apply

It is an emergency measure, caused by some unplanned personnel-related developments and other urgent needs of the department

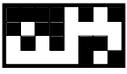
It is a kind of probation in post, a test of a bureaucrat's capacity to cope with the duties in a new post

It is done to enhance the chances of the currently employed bureaucrats to succeed in vacancy contests for more senior posts by advancing their experience relevant to senior posts

It is a personal favour of the head of the department or other senior official, not related to the office needs

Other [please specify in the box below]

Don't know / Difficult to say



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E5. Thinking about the last two years, approximately how frequently have bureaucrats been demoted? *Please select ONE option only*

- | | |
|--|--|
| <input type="checkbox"/> Never come across such a case | <input type="checkbox"/> 5 times |
| <input type="checkbox"/> 1-2 times | <input type="checkbox"/> More than 5 times |
| <input type="checkbox"/> 3-4 times | <input type="checkbox"/> Don't know / Difficult to say |

SECTION F: Dismissal

Please remember that all the questions in this section relate to the the department/ministry of economic policy/economic development.

F1. Thinking about the last two years, approximately how often were bureaucrats at this department dismissed because of the change in the organizational structure of the department? *Please select ONE option only*

- | | |
|--|--|
| <input type="checkbox"/> Never come across such a case | <input type="checkbox"/> 5 times |
| <input type="checkbox"/> 1-2 times | <input type="checkbox"/> More than 5 times |
| <input type="checkbox"/> 3-4 times | <input type="checkbox"/> Don't know / Difficult to say |

Thank for your time. Your expertise is much appreciated.

Appendix B. Indicators of Personnel Policy Practice (Real Merit)

	Region	Average number of applications per vacancy	Proportion of internal job candidates in the total number of job seekers	Meritocratic recruitment index	Promotion by vacancy contest	Promotion at political discretion	Promotion by cadre reserves	Temporary promotions	Temporary demotion	Dismissal by reorganisation
1	2	3	4	5	6	7	8	9	10	11
1	Belgorod obl	6,83	22,2	40,5	5,3	0	1	3,5	0	3,7
2	Bryansk obl	3,33	35,8	9,75	2	1	0	3	0	2,7
3	Vladimir obl	3,67	37,5	8,92	2	2	1	3,33	0	2,3
4	Voronez obl	4,5	28,3	23,25	4,7	0	1	3	0	3
5	Ivanovo obl	2	43,3	3	1,3	1	0	2,5	0	2,7
6	Kaluga obl	4	30	18,83	4	0	1	3	0	3
7	Kostroma obl	4	32,5	12,5	3,3	1	1	3	0	3
8	Lipetsk obl	6,7	21,9	50	5	0	0	3,5	0	3,75
9	Moskow obl	6,5	28,3	29	3,7	1	1	2,33	0	2,7
10	Orel obl	3,33	53,3	11	2	2	0	2,5	2	2
11	Ryazan obl	4,33	32,5	21	3	1	0	2,67	0	3
12	Smolensk obl	4,33	31,25	31,25	4,3	0	1	3	0	3
13	Tver obl	4,5	25	31,67	4	0	2	3	0	2,7
14	Tula obl	5,67	20,8	40,08	4,7	0	0	3	0	3,3

	Region	Average number of applications per vacancy	Proportion of internal job candidates in the total number of job seekers	Meritocratic recruitment index	Promotion by vacancy contest	Promotion at political discretion	Promotion by cadre reserves	Temporary promotions	Temporary demotion	Dismissal by reorganisation
1	2	3	4	5	6	7	8	9	10	11
15	Yaroslavl obl	4,17	22,5	27,58	4	1	1	2,5	0	3
16	Vologda obl	4,17	20	30,83	3,7	0	2	3	0	3,3
17	Leningrad obl	3,83	28,3	21	2,7	1	2	2	0	2,7
18	Murmansk obl	3,88	25,8	12	2,5	1	0	2,75	1	2,5
19	Novgorod obl	4,5	22,5	29,17	4,3	0	1	3	0	3
20	Pskov obl	3,83	30	21,67	5	0	1	3	0	3
21	Stavropol kray	4,33	24,2	25,5	5	0	0	3	0	3
22	Astrakhansk obl	3,83	32,5	14,58	2,7	1	0	2,5	0	2,7
23	Volgograd obl	4,33	21,33	24	4,3	1	1	3	0	3
24	Rostov obl	7,5	18,83	48,46	4,7	0	2	3	0	3
25	Tatarstan	4,33	35	20,25	3,4	1	1	2,75	1	2,75
26	Chuvashia R	3,67	34,5	16,17	4	1	0	2,67	0	3
27	NN	3,67	38,3	26,25	3,3	0	1	2	1	2,7
28	Penza obl	4,33	25	29,67	4	1	0	2,67	0	2,7
29	Samara obl	4,83	25,8	46,83	4	0	1	3	0	3,3

	Region	Average number of applications per vacancy	Proportion of internal job candidates in the total number of job seekers	Meritocratic recruitment index	Promotion by vacancy contest	Promotion at political discretion	Promotion by cadre reserves	Temporary promotions	Temporary demotion	Dismissal by reorganisation
1	2	3	4	5	6	7	8	9	10	11
30	Saratov obl	3,83	32,5	21,17	3,7	0	2	2,33	0	2,5
31	Ulyanovsk obl	4,13	38,3	18	4	1	0	2,25	0	3
32	Tumen obl	3,33	55	9,42	3,3	1	1	2	0	2
33	Cheliabinsk obl	4,17	31,7	27,58	4	0	1	2,5	0	2,3
34	Altaj kray	3	45	18,75	3	0	0	2,67	1	2,7
35	Irkutsk obl	3	55	8,58	2,3	1	1	3	0	2
36	Kemero obl	3,67	56,7	12	3	1	0	2,33	0	2,3
37	Novosibirsk obl	5,83	23,3	42,83	5	0	2	3,33	0	3,3
38	Omsk obl	4,33	33,3	24,75	4,7	0	2	3	0	3
39	Tomsk obl	4,67	24,2	40,33	5	0	0	3	0	3,3
40	Amur obl	1,83	58,3	3,08	1,7	1	1	2	0	3

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Appendix C. Real Merit Indicators: Bivariate Correlation

	1	2	3	4	5	6	7	8
1 Meritocratic recruitment index	1							
2 Average number of applications per vacancy	.850***	1						
3 Promotion by vacancy contest	.795***	.720***	1					
4 Promotion at political discretion	-.672***	-.427**	-.716***	1				
5 Promotion by cadre reserves	.258	.220	.224	-.333**	1			
6 Temporary promotions	.489**	.504**	.486**	-.348**	.068	1		
7 Demotion at political discretion	-.186	-.149	-.176	.128	-.147	-.254	1	
8 Dismissal by reorganization	.686***	.561***	.654***	-.563***	.059	.533***	-.381**	1

Note: *Significant at $p < 0.1$, ** at $p < 0.05$.

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