

The Legitimacy of Private Property in Russia: An Unresolved Issue¹

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Abstract. The institution of private property has existed in Russia for almost 25 years. However, the legitimacy of private property rights established in this period, as well as the legitimacy of the institution itself, remains questionable. Despite the change of generations and the improvement of living standards, many opinion polls show that the majority of Russians still have a negative view not only of the privatization of the 1990s and its results, but also of private property as such. Optimistic forecasts on the adaptation of people to new realities have not come true. The authors analyze the reasons for and consequences of the illegitimacy of private property rights today and compare different ways of legitimizing these rights. They conclude that there is no sense in discretionary state intervention in this protracted process, and that the focus should be on the reduction of inequality and the enforcement of formal institutions without exception or privilege.

Keywords: protection of property rights, private property, legitimacy.

In modern science and economic policy, the importance of property rights and their protection for the economic development of a country is not disputed. But today, as we review the results of the 25-year transformation of the Russian economy, some important questions remain to be analyzed [9]. Broadly speaking, they include an assessment of the “depth and severity” of the problem of insecure property rights, as well as the nature of the impact of this insecurity on socioeconomic development.

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The subject of our investigation is a fundamental aspect of the protection of property rights particularly relevant to Russia: the illegitimacy of large private property, i.e., the weakness or lack of informal institutions for the protection of property rights with regard to large private property owners. From the perspective of economic theory and practice, the following problems should be considered in the context of this situation:

- Does large private property remain illegitimate or does it cease to be illegitimate as generations change and new crises are overcome?
- What are the costs incurred by Russian society today from the illegitimacy of large private property?
- What institutional alternatives are still relevant to solving the problem of the illegitimacy of such property?

In analyzing these problems, primarily the latter, one should pay special attention to two factors: first, social inequality in a difficult situation with property and corporate control; and second, the behavior of the elites, who postpone the solution of this problem, thus delaying a possible recovery of investment. Solving macroeconomic and social problems, as well as organizational problems in management and finance, depends in large part on how property “works” in public and private business, determining the transformation of national savings into new production, infrastructure and human assets.

Insecurity of Property Rights in Russia: Modern Characteristics

The desire of people to improve their well-being is the main source of economic and social development. A high risk of involuntary loss of income or property reduces or even removes the incentives to work, invest and engage in business, which ultimately leads to economic stagnation. In this case, the problem is associated not so much with the regime or the form of ownership (public or private) as with the degree of its protection.

Both world and Russian history provides many examples of such situations. In Russia, they were observed during the transformations of the economic system in the 20th century, including the turn-of-the-century revolutions, the transformations of the 1920s and 1930s, and the reforms of the 1990s. First of all, these were periods of the state's *weakness*, particularly during uprisings, civil wars, and radical political changes. Let us note that periods of *strengthening* government institutions can also be characterized by weak protection of property rights. It makes no difference to an economic agent where the risk of expropriation of his property comes from. In this context, a weak state and a strong state in the absence of the rule of law are equally dangerous for the economic agent. A strong state without the rule of law weakens the market economy, while a strong state governed by a rule of law supports it, which is its purpose.

The *oprichnina*, a policy implemented by Ivan the Terrible, is one of the best examples in Russian history. Vladimir Kobrin points out that towards the end of that period, in the 1570s and 1580s, from 50% to 90% of Russian arable lands had

turned into wastelands. This could be partly attributed to epidemics and partly to a heavy tax burden (one of the consequences of the *oprichnina*), but the historian emphasizes that the *oprichnina* itself was of key importance: “Nevertheless, the role of the *oprichnina* in the devastation was extremely important. Evidence for this is provided by books of *obysks*, or investigations into the reasons for the desolation of various rural settlements and villages in the lands of Novgorod. In some cases, the death or flight of peasants was attributed to the *nemtsy*, i.e., the Swedish troops that invaded part of the Novgorod lands during the Livonian War. But most of the entries were of a different kind, saying that a debtor ‘was beaten to death by tax collectors from the *oprichnina*, so that his children died of hunger’; that ‘the *oprichniki* plundered the house of a peasant and slaughtered his cattle, whereupon the peasant died and his children fled and are still missing’; that they ‘tortured a peasant to death, looted his property, and burned his house,’ etc.” (see Chapter II in [25]).

The main problems regarding incentives for economic agents are created not only by the objective situation, but also by the *perception* of the insecurity of property rights, which may not provide an entirely accurate reflection of the reality but may nevertheless have a decisive impact on the behavior of agents. The results of opinion surveys reflecting people’s assessment of the degree of protection of property rights show that so far Russia has made little progress in this area.

For example, according to the annual survey conducted by the World Economic Forum (WEF) among Russian business executives, Russia’s performance in protecting property rights remains poor: despite an improvement in the situation in 2013 and 2014, it was ranked 122nd in the world out of a total of 140 countries in the 2015 survey [36]. The results of other foreign studies generally confirm the WEF’s assessments: according to the 2015 annual report of the Fraser Institute (ratings for 2013), Russia has a score of 3.9 on a 10-point scale and ranks 124th in the world on the protection of property rights (out of a total of 148 countries) [39], and the Heritage Foundation has ranked Russia 138th on property rights in 2015 out of a total of 181 countries [40].

Generally speaking, such is the view of business executives or outside observers, while the views of Russian citizens are more mixed: according to a poll conducted by the Public Opinion Foundation (FOM) on March 27, 2013 [41], 19% of the respondents said that the protection of the right to the “inviolability of home and property” was good; 21% said it was bad, and 49% said it was satisfactory. But let us note that this wording of the question actually implies protection from physical encroachments on property.

Satisfactory protection of property against physical attacks is an important element of a normal social climate. In the 2000s, many successes were achieved in this area (in the effort to end the “ruthless” fight for assets, both big and small), and today Russia obviously cannot be ranked among the backward countries.

The number of crimes against property has declined, due to both an improvement in living standards and the activities of law enforcement agencies. According to the Federal State Statistics Service of Russia (*Rosstat*), the average annual

number of thefts has steadily declined since 2006; the same applies to robbery, robbery with violence, embezzlement and misappropriation (Table 1). As a result, in the early 2010s the incidence of such crimes decreased significantly compared to the 1990s and the 2000s.

At the same time, even according to official data there has been no progress on corruption. The fraud rate remains high, which can be explained not only by a shift from violence to more sophisticated crimes, but also by the increased activity of law-enforcement agencies in registering crimes that are more difficult to identify (compared to theft or robbery) as part of criminal repression against entrepreneurs. This process in itself carries a risk for the protection of property rights.

Since the turn of the century, the nature of threats to property rights has changed: property rights are increasingly perceived as needing protection from the law-enforcement and judicial system, instead of from bandits and robbers. In this area, the situation is much worse: according to the results of the same 2013 FOM poll, only 6% of the respondents believe that the principles of citizens' equality before the law and the right to a fair trial are being observed (i.e., they think these rights are well protected); 29% believe that this protection is satisfactory; and 56% think that these rights are poorly protected. Thus, the majority of the population has come to the conclusion that their legal rights, including property rights, cannot be protected in the Russian law-enforcement and judicial system.

Attempts to provide informal guarantees of rights to large private property with the participation of government representatives and big businessmen have been made since the beginning of the 2000s [7]. But the effectiveness of these guarantees is undermined by the high degree of personalization of such relations, which greatly restricts the range of investors.

In the case of Russia, the logic is quite simple. No one will invest if there is a risk of losing their income. No one will leave their capital in the danger zone if there is a risk of losing it. The alternative is to take the company's reserve capital

Table 1

**Average Annual Number of Key Property Crimes
(thousands)**

	1991-2000	2001-2010	2011-2014
Theft	1,328.2	1,306.8	965.6
Robbery	136.8	237.6	101.9
Robbery with violence	35.2	45.5	17.4
Embezzlement and misappropriation	43.7*	59.8	29.2
Fraud	67.3**	152.0	158.6
Bribery	5.4**	10.2	11.0

S o u r c e : Rosstat (data from 1995; ** data from 1992).*

out of the country and start a parallel business. In this situation, small and medium-sized businesses will create reserve funds instead of reinvesting. People—human capital—choose emigration as an alternative. In the current Russian realities, capital export and/or emigration (or at least readiness to emigrate) as ways to gain relative independence are necessary for all those who have significant assets, including medium-sized and even small businesses, as well as high-ranking executives—not only “oligarchs” [12].

A high perceived risk of expropriation means that long-term investment strategies are futile. The diversion of rent reduces capital accumulation in the country, while the threat of confiscation of capital shortens timelines for planning and investment. This leads not only to an outflow of capital, but also to a low rate of accumulation in the country and to the export of ideas and people. Large private firms do not emerge, and small and medium-sized companies find it difficult to take the next step because borrowing is expensive, whereas property protection costs and hidden payments are high.

The only businesses that can afford to invest in long-term development are those affiliated with the state or some high-ranking government official. But in our conditions, such businesses have no real mass shareholders (despite the existence of formal ones), which means there is no management oversight: such companies, unlike private property owners, can spend huge amounts of money on sports, mass media and security without much concern for reinvestment, let alone investment in cost-effective long-term projects. Such a system of property rights has numerous negative side effects. The impossibility (even if only perceived) of their legal protection compels property owners either to use corruption schemes involving the same law enforcers, but on a personal basis, or to turn to members of organized crime groups and pay for “protection racket” services, with many businesspeople resorting to both options simultaneously. Persistent and increasing corruption and organized crime, which are a constant source of concern for the safety of property, inevitably lead to the degradation of moral values in society, to a loss of social capital.

Ways to Protect Property Rights

There are three basic ways to protect property rights, which may either overlap or complement each other. The first involves *independent protection of property rights*. In the simplest case, this is done by hiring security guards and purchasing special equipment. In practice, “independent” protection of property rights requires affiliation with the state or another organization with a high potential for violence—in other words, involvement in corruption schemes, in which some of the rights to control, manage and receive income from an enterprise are transferred to an appropriate agent capable of guaranteeing property rights. Naturally, the situation varies greatly depending on the type of business and the region because there is no single “alternative” system to protect business property.

At times when the state is extremely weak, this kind of independent protection at the level of an individual enterprise, a city or, at most, a region sometimes helps to maintain business activity. But the effectiveness of such protection is extremely low because there are no economies of scale: a large number of small security systems (ranging from armed security guards to contacts among the local authorities, the prosecutor's office, the police, etc.) are more costly for Russian companies than a single national system. Simultaneous payment of taxes in support of the national system for the protection of property rights and "contributions" to one's own fund for their informal protection at the level of an enterprise, city or region is even more expensive. The country cannot afford to carry this double burden, which is why the role of independent protection should be minimized.

The second way is *to protect property through the national law-enforcement and judicial system*. In a country governed by the rule of law, such protection is effective. Russia still has a long way to go in this area, although some prerequisites, such as the supremacy of federal norms over regional ones (as a rule), were created in the 2000s, which helped to form a single national legal system. It is another matter that even many federal norms, whether formal or informal, are poor examples of the rule of law.

Finally, the third way is *to protect property rights based on informal institutions*, or established social rules that prohibit the violation of property rights on both an individual and a national scale.² This option is inseparable from *the legitimacy of property rights, i.e., public recognition of their current distribution*. The level of the legitimacy of private property rights in Russia, especially when it comes to large private property, is very low, as will be shown later. But this way involves fundamental changes in values and human behavior, which means it will take a long time.

A combination of the second and third ways is probably optimal for the protection of property rights. Thus, Russia needs measures to both ensure the rule of law and legitimize existing property rights.

Large property can be divided into three types with very specific features that pertain to forms of protection and forms of property owner behavior: large state (public) property, large private property, and foreign property. Large state property has priority and is protected by the authorities and the courts, as in the USSR. Overall, its protection can be considered satisfactory, but there is a risk of implicit privatization of some state-owned assets by managers.

Large private property, which began to take shape in the early 1990s, is poorly protected in this country, in contrast to the countries of Central and Eastern Europe, which relied in their development on small and medium-sized business. This situation is also due to informal norms: when large assets are bought up and "returned to the state," this is perceived by the authorities and part of the population as success in the fight against the oligarchs, regardless of the effect on the quality of management. The transfer of assets to state ownership is seen as an economic success, although it naturally leads to other losses. These losses have occurred not because public management is often less effective than private management but because yet another change of ownership signals a continued

reallocation of assets. Whereas broad strata of the population may welcome such a transfer of ownership from the “less likeable” oligarchs to the “more likeable” state, from the standpoint of investors it is hard to imagine a more negative advertisement for the situation in the country.

Foreign property is protected “globally”—in other words, by the influence of foreign interest groups. Hence the carousel schemes where Russian offshore capital and profits are reinvested in Russia: this enhances their security at home. But repatriation of capital from offshore zones involves high transaction costs. Russia is the only country where practically all large private property is owned by offshore companies. Hence the readiness of the political elite to “bring business home,” where property is easier to control.

Property Rights in Russia: The Factor of Legitimacy

The 25-year period of market transformation in Russia has not resulted in the creation of a stable system of well-protected private property. Property rights are based on the system of formal and informal institutions existing in society. Accordingly, the protection of these rights is based on both formal institutions (such as the police and the courts) and informal enforcement mechanisms that operate through the attitudes of all or most members of society to those who break these rules.

As noted by Karla Hoff and Joseph Stiglitz, the shock therapy ideas that prevailed in Russia had no theoretical basis: there was no theory to explain how the accompanying process of institutional evolution in the area of property rights would occur [19]. As a result, the reformers failed to predict the weakness of demand for strong protection of property rights after privatization on the part of the new owners themselves (who wanted to obtain more state assets), which might explain the institutional trap into which Russia has fallen. Similar results were obtained by other researchers in the early 2000s (see, for example: [3; 37]).

In view of this, Hoff and Stiglitz even came to recognize the fallacy of the Coasian approach (or, more precisely, its misinterpretation) when applied to privatization, if the approach is interpreted as focusing on the problem of defining property rights rather than the broader problem of creating the political conditions for the rule of law [20]. In our view, the Coasian approach should be interpreted in the opposite sense, namely: given the high transaction costs associated with the *de facto* specification of property rights in a transition economy without the rule of law, a nominal distribution of property rights may not lead to efficient allocation of resources. The first thing to do is to minimize transaction costs by creating an institutional environment in which these property rights could be freely traded without the threat of expropriation on the part of agents with a high potential for violence or their non-recognition by a significant part of the population.

However, this difference in interpretation does not contradict the main conclusions of these authors about the important role of the legitimacy of property rights after privatization: no matter how precisely illegitimate property rights are

specified, there remain areas of ambiguity, which means they carry a risk for economic agents. And, most importantly, the state cannot ensure the credibility of its commitment to protect these rights because that would require either changing their distribution or changing public beliefs about the fairness of the current distribution [20, p. 38]. In the case of redistribution, everyone would return to point zero with all its risks. Society's transition to the rule of law (with secure property rights) implies high "costs of exiting" the lawless state for many property owners due to illegitimate acquisition of property rights in earlier periods, and this can delay the establishment of the rule of law for a long time [21].

Bruno Biais and Enrico Perotti made an in-depth analysis of privatization in Chile, the United Kingdom, France and the Czech Republic, while privatization in Russia was unfortunately outside the scope of their research [2]. This is because the authors regarded privatization as a political tool used before elections in the hope of shifting voter preferences towards pro-government parties. There is no point in viewing Russian privatization from this angle because the democratic strata of Soviet society did not benefit from it in any way. The (questionable) logic of rapid privatization was political. But in the 1990s there was a lack of understanding that a revolution is only initially a matter of power and subsequently a matter of property.

A number of works on this topic were published in the early 2000s, but there was no actual scientific debate because the advocates of existing privatization practices respond sharply to such criticism, especially to questions about efficiency, corporate control, etc. Among the studies published in Russia, let us note the description of privatization in a work on the transformation of ownership published in the early 2000s [35] and a comprehensive study published in the late 2000s [38], which examines possible solutions to the problem of legitimizing private property (considered below).

The authors of some recent works have suggested ingenious (though sometimes controversial) explanations for the negative public attitude towards both private property in general and Russian privatization in particular. For example, Paul Castañeda Dower and Andrey Markevich point to the importance of the negative historical experience of liberal reforms in pre-revolutionary Russia [8]. Based on a survey of Russian firms, Andrey Kuznetsov and Olga Kuznetsova show the urgency of the problem of business legitimacy using the concept of corporate social responsibility (CSR) in Russia: the relative neglect of CSR by Russian managers, in contrast to their Western counterparts, is explained by the fact that some of the most fundamental issues of property rights for legitimizing private business in Russia have not been resolved [26]. In these conditions, it is too early to talk about corporate social responsibility because investment in it would not pay off anyway.

Naturally, illegitimacy of property rights is not a unique feature of the Russian economy. It is found in all countries of Central and Eastern Europe and the former Soviet Union, although its nature differs. According to a study by Irina Denisova et al., based on World Bank and EBRD survey data for 2006 [42], more than

half of the population in each of the 28 countries of Central and Eastern Europe and the former Soviet Union view the distribution of property rights that emerged as a result of privatization as illegitimate. In the opinion of the respondents, privatized assets should be re-nationalized with or without subsequent re-privatization—or else, they should be left with the current owners provided they pay “additional compensation” for their privatized assets. Overall, slightly more than 80% of all respondents in the 28 countries support some form of revision of privatization in order to legitimize property; in Russia, the figure is roughly the same [6].

Two conclusions drawn by the authors of this study are important in the context of the problem of how to legitimize property. First, the position of respondents on its legitimacy depends on the characteristics of their employment and human capital. Karl Kaltenthaler et al. [23] have come to a similar conclusion on the role of human capital. Consequently, as the labor market and society as a whole adjust to the new realities (including improved living standards and reduced inequality), the rejection of the current distribution of property rights may decrease. However, in an earlier work the same authors noted another significant aspect of the problem: an increase in human capital contributes to the acceptance of privatization only with a high level of democracy and the rule of law [5].

And second, although over 80% of all respondents in transition countries are willing to challenge the legitimacy of property rights, only less than 30% would like to see the assets re-nationalized and left in the hands of the state, which means that private property as an institution has gained public recognition [6]. Does this mean that a privately negotiated transfer of privatized assets to other private owners would automatically solve the problem of the legitimacy of private property? Not necessarily, because the alternatives to nationalization—an additional tax on illegitimately obtained assets or re-privatization—offered to and accepted by respondents implied a public procedure for legitimizing property rights.

Of course, public attitudes towards privatization in Eastern Europe and the former Soviet Union may have changed since the mid-2000s; based on EBRD survey data, their dynamics are difficult to trace because the second EBRD Life in Transition Survey (LiTS II), conducted in 2010, did not include a question about attitudes towards privatization, although some conclusions for Russia can be drawn from other questions.³ For example, from 2006 to 2010, the percentage of respondents who preferred a combination of a market economy and a democratic political system in Russia increased insignificantly (from 19% to 21%), remaining significantly lower than in other post-communist countries, to say nothing of Western Europe.⁴ This suggests continued skepticism in Russia towards institutions of the market economy, including private property.

Recent sociological research in Russia shows that positive expectations about the recognition of private property in the country are not being met. The results of the latest sociological studies point to a disturbing fact: even today, property rights are not very important to Russians, and the conclusions drawn by analysts in the 2000s are still relevant. This applies primarily to property rights as

such, even if sociologists consider the current attitude to them outside the context of 1990s privatization.

According to an FOM survey dated July 28, 2013, the right to the “inviolability of home and property” is among “the most important, significant” rights for only 35% of Russian citizens [43], ranking seventh among all rights. A survey by the Levada Center in November 2014 recorded somewhat higher figures: the “right to own property” was included among “the most important” human rights by 39% of the respondents, ranking fifth among all rights [29, p. 118]. A poll by the Russian Public Opinion Research Center (VCIOM) dated December 12, 2013, which did not use the concept of “home” and thus excluded the “my home is my castle” argument, but adjusted the concept of property rights towards private property owned by entrepreneurs, showed that only 16% of the respondents ranked the “right to private property, to entrepreneurship” among “the most important rights for you personally” [44]. This right is not among the ten most important rights enshrined in the Constitution of the Russian Federation.

If a majority (or even an overwhelming majority) of citizens do not regard property rights as important, the expected costs to their violators from informal enforcement mechanisms (the “third way”) are assessed as low. Naturally, there is a higher risk of violation of these rights.

The lack of significant progress in the attitudes of Russian citizens to private property rights in the last 10-15 years is clearly evident from the results of periodic surveys conducted by the Levada Center on people’s attitudes to public and private property and to an economic system based on market relations and private property (Tables 2 and 3). At any rate, only 2-3% of the respondents agree with the assumption that private ownership of large enterprises makes economic

Table 2

Russian Opinion Poll Question: “Which of these statements about public property in industry comes closest to your own view?”
(% of respondents)

	April 2002	December 2007	January 2009	October 2011	June 2013
All large enterprises should belong to the state	51	46	50	49	45
Enterprises of national importance should belong to the state, while the rest may be left in private hands	43	46	41	42	48
All large enterprises should be in private hands	3	2	3	2	3
Undecided	4	6	6	6	4
<i>Source</i> : [28, p. 149].					

sense, and this percentage has remained stable despite changes in the ownership structure of large and extra-large enterprises.

The data in tables 2 and 3 indicate a high degree of doubt about the efficiency of private property. Of course, the actual dependence of the efficiency of private enterprises on the initial allocation of property rights is not obvious, although it does exist—in a situation where transaction costs are far from zero. The impact of privatization on enterprise efficiency is beyond the scope of this article, but let us note that it has been studied in detail in the literature (see, for example, [33])—more so than the problem of legitimizing privatized property.

Table 3

Russian Opinion Poll Question: “Which economic system do you find more appropriate: one based on state planning and distribution or one based on private property and market relations?”
(% of respondents)

	November 2006	February 2008	March 2010	January 2012	January 2013	January 2014	March 2015
Based on state planning and distribution	55	51	57	49	51	54	55
Based on private property and market relations	31	31	30	36	29	29	27
Undecided	14	18	14	15	20	17	19
<i>Source:</i> Levada Center [48].							

Table 4

Russian Opinion Poll Question: “Which of these statements about the privatization of the 1990s do you agree with most?”
(% of respondents)

	July 2005	July 2007	October 2011
All property lost by the state at that time should be returned to it	43	37	42
This can be done only in some cases if it is proved that the privatization was illegal	32	37	33
This question should not be raised today at all	17	15	17
Undecided	8	11	9
<i>Source:</i> Levada Center [49].			

Table 5

Russian Opinion Poll Question: “In your opinion, would a revision of the results of privatization of the 1990s generally benefit or harm the Russian economy today?”
(% of respondents)

	2003	2008
Definitely benefit	12	14
Probably benefit	35	28
Probably harm	25	23
Definitely harm	6	6
Undecided	22	29
<i>Source:</i> VCIOM [50].		

The current situation in Russia is rooted in the unfortunate design of Russian privatization [14]. This is indirectly confirmed by the persistent negative attitude to privatization in the country (Tables 4-6). One would think that a significant change in ownership, including through the sale of assets owned by odious figures of the privatization period, might have changed people’s attitudes to private property, but this has not happened, with the result that “bona fide purchasers” are faced with largely the same problems as the previous owners.⁵

The results of public opinion polls show that from 2003 to 2011, between 68% and 75% of the population believed that a revision of the results of privatization was possible, with no distinct downward trend in this percentage (see Tables 4 and 6). Public attitudes about how revising the results of privatization would affect today’s economy are somewhat more mixed, but even here responses indicating positive expectations from a revision of these results are more popular than contrary

Table 6

Russian Opinion Poll Question: “Which of these statements about revising the results of 1990s privatization do you agree with?”
(% of respondents)

	2003	2008
All property lost by the state at that time should be returned to it	36	29
This can be done only in some cases if it is proved that the privatization was illegal	33	39
This question should not be raised today at all	20	21
Undecided	11	11
<i>Source:</i> VCIOM [51].		

opinions (see Table 5). But these results can also be interpreted in the sense that some citizens are willing to revise the results of privatization even if they are not certain about a positive effect for the national economy.

Let us note that although the percentage of respondents in Russia who wanted to leave illegitimately obtained property in the hands of the current owners was roughly equal to that in other transition countries, the most popular option for legitimizing property rights in Russia was to re-nationalize such property and leave it in the hands of the state unlike the sample as a whole, which favored making the current owners pay “additional compensation” for illegitimately privatized assets [6]. It is notable that such attitudes were recorded not only in Russia, but also in other countries of the former Soviet Union, except the Baltic countries, Belarus and Georgia.

This means that people question the privatization process as such, and not only its outcome: the transfer of actual enterprises into the hands of individual private owners is rapidly becoming a thing of the past. Let us note that an attempt to impose the same “tax” on heterogeneous firms a quarter of a century

Table 7

Russian Opinion Poll on the Fairness of Income Distribution
(% of respondents)

	1990	2015	
<i>In your opinion, how fair is the distribution of income and wealth between people in the country?</i>			
Mostly fair	4	8	
More fair than unfair	4	11	
More unfair than fair	41	21	
Mostly unfair	43	56	
Undecided	8	4	
<i>What do you see as unfairness in income distribution? A situation where:</i>			
Some groups of people receive unreasonably high income	23	40	
Part of the population (pensioners, disabled persons, etc.) receive unreasonably low income	32	27	
Many people receive illegal income or take bribes	23	19	
Wage leveling prevails: hard-working people and idlers get the same pay	–	7	
Other		3	
<i>Source: VCIOM [52].</i>			

after the event would lead to a situation where bona fide effective (“stationary”) owners would have to pay more than blatant asset strippers (“roving bandits”). That is why issues relating to the legitimacy of privatization remain on the agenda in Russia even after changes in asset ownership and mixed structural changes at privatized enterprises.

In terms of the legitimacy of private property as an integral part of the market economy, the answers to the question about the preferred economic system, as presented in Table 3, are particularly eloquent. The first option (actually, a centrally planned economy) is traditionally in the lead. Throughout the 2000s, more than half of the respondents invariably selected this option, usually with an advantage of at least 15 percentage points. With a more restrictive wording of the question, opinion survey results are even more biased against private property than those mentioned above [6]. In the crisis period of 2009-2010, the proportion of supporters of state property increased as expected. In early 2012, during the recovery period, before the beginning of stagnation processes, and during the election campaign, this gap narrowed, and the ratio between those who supported state and private property was 49% to 36% (in favor of state property). But the stagnation and decline must have had an effect: in early 2013, the situation changed, and the ratio was back to 51% to 29%, reaching 55% to 27% in March 2015.

It is also worth noting the results of a VCIOM opinion poll on the fairness of income distribution that does not directly relate to ownership, but is associated with it because income is generated by assets (Table 7). From 1990 to 2015, the percentage of respondents who thought that income distribution in Russia was “more unfair than fair” or “mostly unfair” somewhat declined, but this group underwent a radicalization, with the result that in 2015 more than half of the respondents were convinced of the systemic nature of the problem: they believed that income and wealth in Russia were distributed mostly unfairly. Today they think the main problem is not the poverty of vulnerable groups of the population, but the unreasonably high income of the rich. This shows there is public demand for the reduction of inequality, which, in turn, may serve to justify the fairness of the distribution of both income and assets.

Thus, it is difficult to say that the process of granting legitimacy to private property as an institution and thus to the rights of individual private property owners has taken place in Russia. The “ease and speed” (for the sake of fighting communism) of the give-away distribution of property rights without encumbrance, especially in the absence of strict corporate control, created a classic situation of “transient success.” Strategic conditions for the long-term stability of ownership—legitimacy of large private property (large Soviet assets), protection of new private businesses and of the rights of mass shareholders in large companies, and a favorable environment for small business—were not created. Hence the weakness of the stock exchange (considering the negative impact of blocking stakes) and an underdeveloped bond market. The initial general chaos and high rates of profit were replaced by pressure from various “agents” and insistence on “profit sharing.” The budgetary aspect of privatization failed: the budget costs of

maintaining a ministry of privatization exceeded the revenues from it. The resulting combination—cheaply obtained huge assets and insecure ownership—compelled the fortunate new owners to spend 20 years of their lives protecting their rights and income through offshore jurisdictions.

Based on a study of the experience of a number of countries, Cosmo Graham writes: "...the first thing to notice is that privatization is a relatively long-term programme, even in countries like the UK that have a mixed economy. Even here the core of the privatization programme ran from about 1982 to around 1993, somewhat over 10 years. When a privatization programme is introduced into a non-market economy, as in Central and Eastern Europe, it is likely to take even longer and be tied into the reform of other matters" [11, p. 98]. The time saving on privatization in Russia in the early 1990s was only superficial, leading to a longer period of economic and social adaptation to the new distribution of property rights.

Of course, the reasons for the long and difficult adaptation lie not only in the shortness of the privatization period, but also in its specific features. These include a lack of balance between the rights and possibilities of insiders and outsiders [4], majority and minority shareholders [27], and other stakeholders, as well as other factors determined by national peculiarities and the selected privatization model [13].

The transformation of property rights usually involves significant costs, imbalances and losses. This is confirmed by a large-scale study by Steven Jones et al. [22].

Using a sample of 630 enterprises in 59 countries (developed and developing) that were privatized via a public share offering, the authors analyzed the level of underpricing of assets in the course of privatization. In this case, underpricing was defined as the initial returns in share issue privatizations (SIPs) "calculated from the closing secondary market price on the first day of trading, less the offer price, as a percent of the offer price." As it turned out, the mean level of returns for initial SIPs was 34.1% (median level, 12.4%) because governments systematically limit the range of potential investors, seek to maintain control over the enterprise being privatized, and often sell shares at a fixed price instead of using competitive tender offers. The reasons for such behavior vary, and the authors classified them according to the state's objectives designed to achieve political and economic ends through privatization without using actual market mechanisms.

As Jones and his co-authors note, assets are also sometimes underpriced in private equity offerings, but privatizing governments have their own reasons for such underpricing. Moreover, William Megginson and Jeffry Netter note that privatization IPOs are, on average, more underpriced than private IPOs [30].

The problem of the legitimacy of business, that is, the recognition of its position in society, exists in developed countries as well. For example, the situation in Britain is considered in a work by Michael Moran [31]. But Russia is a special case. The low acquisition cost of state-owned assets obtained in the process of privatization was combined with high costs of maintaining control in the fight against competitors. But if they succeeded, the new owners made huge gains from privatization, which led to the emergence of a record number of billionaires

in a very short period. Moreover, these gains usually implied losses for the state, which was in the grip of a severe budget crisis throughout that period (up to the oil rent of the 2000s). Virtually the entire system of private property in the country emerged from this “original sin” [10]. In order to establish a system for the protection of property rights, it is extremely important to solve the problem of their legitimization. The situation is compounded by high socioeconomic inequality and the close connection of the elite with the process and outcome of privatization.

Legitimizing Private Property

Respect for property rights rooted in people’s minds is just as important for their protection as the existence of an effective law-enforcement and judicial system. The creation of stable informal norms in this area can not only supplement, but also partly replace the activities of law-enforcement agencies, thus helping to save public costs. But this is a long and difficult process, and Russia today is not at the best possible starting point: too little time has passed since the privatization, which was highly ambiguous in terms of both results and procedures.

Despite the 25-year experience of the market economy, it is still possible that, given (a) the emergence of an anti-market political force and (b) compliance with democratic principles and procedures, the fundamentals of the market and private property in Russia may be radically revised. The persistence of such attitudes and the threat of their materialization into actual political transformations depend to a significant extent on two characteristics of society: the level of inequality and the status and activities of the elites.

The idea of respect for property in Russia has long ceased to be a problem of the “peculiarities of the communal Russian people.” The Russian middle class respects property rights throughout the world, but crime, racketeering and corruption undermine their stability at home. That is why it is not enough simply to declare the protection of property in order to promote its “sanctity.” Private property will also have to be protected against state property in court proceedings.

Observance of property rights, primarily respect for private property and protection of the rights of private property owners, by all government agencies is a *sine qua non* for legitimizing private property. A constant redistribution of property through the machinations of the state cannot foster respect for private property among the citizens of the country.

The major reason for the negative attitude to the 1990s privatization and to private property is not so much the existing distribution of private property rights as the ambiguous and unfair rules of the distribution process (or the absence of such rules) [24]. But the idea that it is necessary to get rid of at least the “privatization heritage” is common not only among the general public, but also among Russia’s political, financial and intellectual elite. Indeed, the privatization processes of the 1990s are not as remote as the reforms of Peter the Great or even the October Revolution. The parties involved in privatization deals (though not all of them) are still alive, privatized enterprises continue to operate, and the proceeds

from their sale (in the event of resale) have been reinvested, so that it should at least be possible to evaluate them in terms of efficiency.

The ideas of “revenge”—or, in another interpretation, “penance”—for privatization are diverse. One of the options is that businesses should assume social obligations voluntarily. Such a possibility, given a relatively positive attitude on the part of businesses, was considered, in particular, by Timothy Frye [10]. But, first, “voluntariness” under a veiled threat of government or “popular” coercion is questionable. And second, in this case it is hard to understand who should set the tasks for the owners of privatized assets, and how they should be set. On the one hand, they should be formulated by the state acting as an agent of citizens deprived of their due share in the process of privatization. But this could actually mean a transfer of private property (at least in part) to public management (for addressing specific tasks) in return for guarantees of the safety and security of the assets privatized by business owners. In this case, there can be no question of fairness or legitimacy. Fairness is lacking because it is extremely difficult for the state to set specific tasks for each entrepreneur in accordance with the degree of their “guilt” of 20 years ago. If entrepreneurs are left to choose the tasks they themselves will have to perform, they will seek to minimize their burden. In this case, legitimacy is not guaranteed either, because solving this problem does not mean compensating the losses suffered by individual people, while an indulgence granted by the state is unlikely to change people’s attitudes to the business owner in question. This is also in conflict with the idea of an amnesty for offshore capital.

A traditional element of the communist program is a re-nationalization of assets, at least in the extractive industries. This is partly justified because mineral wealth, in the absence of other rules, intuitively should belong to the population of the territory in question. But first, a new redistribution of property, especially in such an important sphere, would once again worsen the investment climate and get many people thinking about re-nationalizing all the rest. Second, a *de facto* re-nationalization of natural resources is already underway in Russia (on a paid basis, though not always). And third, it is unclear what to do with the nationalized assets: their sale to foreigners may be in conflict with strategic goals, while their sale to the former owner (but at a higher, “fair” price) is equivalent to the much-debated tax, but with huge costs. Keeping assets in the hands of the state is questionable in terms of efficiency. In any case, transfer of assets to state ownership would probably lead to the suspension of investment projects, a drop in efficiency, an increase of investment in megaprojects of questionable effectiveness and, on the contrary, a reduction of investment in effective projects.

The idea of a compensatory tax, voiced at different times by Grigory Yavlinsky, Mikhail Delyagin, Mikhail Khodorkovsky, and a number of other politicians and economists holding different views, is quite popular (see, for example, [45; 46; 47]). But it would be difficult to agree on the amount of such a tax, the tax base, and the range of taxpayers even if the idea itself wins public support in Russia. In addition, the tax should have been levied on the initial owners of privatized assets prior to 1998, i.e., before the resale of these assets at a profit. Discrimination

against private property by means of an arbitrary tax levied on an arbitrarily determined range of persons would lead to the liquidation of businesses (possibly, “bona fide purchasers”) and to a conflict with the whole world (including endless legal battles in foreign courts).

There are a number of other proposals for granting legitimacy to privatization in Russia, but all of them have similar insurmountable flaws.⁶ The main one is that there is no guarantee of a change in public attitudes to the privatization of the 1990s and its beneficiaries whatever the form of compensation [24]. The conclusion is simple: there is no way to legitimize large private property in the eyes of the population in the foreseeable future (say, ten years). Only time and a gradual increase in “newly originated” capital will solve the problem.

The Problem of Inequality

The high level of inequality in Russia is a serious obstacle to the development of new informal institutions and new values that would make it possible to legitimize large private property. In the final analysis, towards the end of the 2000s, when Russia’s GDP reached the level of the Russian Soviet Federative Socialist Republic (RSFSR), it turned out that only 20% of the population were “successfully participating” in “the improvement of well-being made possible by the creation of a market economy,” while the third quintile (the “middle” 20%) had just reached the level of 1990, and 40% of the population were “earning less than before the start of the reforms” [1]. Let us note that these top 20% are not at all the same as the upper quintile of late Soviet society (especially the intelligentsia), which supported the market and democratic reforms of the late 1980s and early 1990s. Today it is a complex “mix” of the old nomenklatura (which has gained control of part of the assets), various “shady figures” (including members of the underworld), corrupt officials and new entrepreneurs.

According to an empirical study by Sergey Guriyev and Yekaterina Zhuravskaya, inequality has a significant negative effect on the level of life satisfaction in transition countries [18]. In this they differ radically from other countries, where there is a positive association between inequality and life satisfaction, which is explained by the “tunnel effect”: examples of economic well-being show people that it is possible to achieve success and give them hope of a better life. But this effect will work only if people see the connection between their own efforts and personal well-being. If the situation in transition countries is the opposite, inequality is perceived as unjustified, which calls into question the legitimacy of the existing economic system. Consequently, the higher the inequality, the greater the risk of illegitimacy of private property rights that underlie this system.

“Unjustified” inequality in income and wealth undermines property rights. People who look at this inequality “from below” will not be particularly concerned about a redistribution of property since, by and large, they have nothing to lose. An important point here is that this inequality emerged in a very short time, placing people who were literally “neighbors and colleagues” on different rungs of the social ladder,

and that there was no Anglo-Saxon effect (social elevator) of individual creative efforts. The “losers” now have incentives to deliberately encourage such redistribution: their own risks are significantly lower than the expected payoffs from participation in it. The incentives to invest time and effort in one’s own development are very weak because, as experience shows, the distribution of income and wealth does not depend on this (unless, of course, the individual emigrates). In the new structure of property and income distribution, there are naturally no such elevators as during the simplified one-time privatization. An important negative consequence of this is a distinctive feature of the last quarter of a century: the new large property owners are aware of the insufficient legitimacy of their acquisitions and are obliged to take their capital out of the country while seeking protection from government agencies or “independently.”

Liberal notions of inequality as a driver of human activity are valid in definite social and historical conditions and over long periods. They are certainly true for the Anglo-Saxon model (of property rights and behavior), where social elevators operate and where career barriers can be overcome through work and talent in a single lifetime or over several generations.

Limited vertical mobility, castes and clans, corruption, over-taxation, breach of contract, and breach of faith prevent this kind of development. Climbing the social ladder takes longer, as it is hindered by institutions and “injustice.” This induces the “propertied classes” to resort to bans, control and repression against “troublemakers.” High inequality combined with low GDP, stalled social elevators, clans and repressions was characteristic of Latin American countries in the 1960s to 1980s, with low rates of economic growth, an underdeveloped middle class, populism, coups and dictatorships.

Of course, there is a difference between Russia and Latin American societies if only because inequality in Russia is not a traditional phenomenon, but one that emerged suddenly (at any rate, within living memory). But given our egalitarian traditions (even with quasi-egalitarian practices), this does not significantly improve our prospects. Naturally, the emergence of new public figures in the economic and financial sphere in the wake of the socialist leaders has significantly changed the lives of people, but has not given legitimacy to the new figures or guaranteed respect for their fortunes. As it turns out, the new social structure is tied to spontaneous privatization.

With a flatter distribution of income or strong redistributive mechanisms, there emerges the continental model of income and wealth distribution. It implies moderate opportunities for individual career development in exchange for a high level of social security until retirement. But in Russia there was no strategy and probably no practical conditions for this model, so that history bypassed this option.

The constraints on the operation of social elevators in contemporary Russia leave a choice between acceptance of the “rules of the game,” resistance (rebellion), and emigration to more developed countries. And this is exactly what we see in a country where an “open field” for the capture of property in the 1990s was followed by the formation of castes and widespread corruption, and this has

brought to a halt the social elevators—even at the level of medium-sized enterprises,—which can be created by doing honest business.

For some members of the creative class,⁷ the way out of this situation has proved to be simple: emigration to countries with an Anglo-Saxon or continental market economy (and recently to Asia as well). Fighting for one's rights and expecting growth and justice in a "Latin American-type" system are too dangerous for individuals and take a long time. Several phenomena in the social system of Russia cannot be explained rationally in terms of any existing global model, which points to mistakes in the design of the transformation and/or in the implementation of this design:

- too many millionaires in combination with impoverished teachers;
- obstacles to the social advancement of decent people (so-called "negative selection" into the elite);
- construction of numerous upscale gated communities in combination with low quality of mass housing construction and public roads;
- lack of mass share ownership in national enterprises;
- conspicuous consumption as a sign of success, promotion of the idea of "getting rich quick" combined with disregard for morality (largely Christian morality) in the middle class;
- weak support (particularly under population policy) for the educated urban population.

In the 25 years of transformation, the institutional trap has been sprung: Russia is in a state of high inequality with poorly functioning social elevators, while the elites fear competition from below and are doing nothing to improve their operation. Theoretically, a way out of this situation could be provided by a hybrid policy, but it is difficult to implement: to maintain a minimum acceptable degree of "social justice" for a part of the population while removing barriers to individual activity and demonstrating opportunities for business success during one's lifetime. When social justice is maximized through an egalitarian (or populist) policy, growth slows down and the elevators for the active part of the population come to a halt; and when social justice is neglected, there is an increase in pressure from the left. The elite could choose a more open (Anglo-Saxon) approach and propose nonuniformity as a condition for growth. But excessive inequality and corruption destroy the credibility of this option, especially since it assumes the operation of social elevators.

There are four coexisting ways of life in the country that could be to some extent institutionalized and regulated to create an acceptable social structure that would not cause excessive tension and would help build a social consensus, particularly on matters of property. This objective can be presented as follows (see [15]):

- The upper class continues to exist, but makes its consumption much less conspicuous and is prepared to comply with general laws "like everyone else";
- The middle and upper middle classes are provided with social elevators;
- The lower middle class and the national working class are assured a moderate and predictable income;

— There is a normalization (language integration) of the way of life of migrant workers taking into account their national and religious peculiarities.

In this context, government policy should address the following tasks:

— create incentives for the middle class and the poor to improve their living standards through work, without taking part in a redistribution of property;

— give small business confidence in the future;

— support redistribution processes in favor of the poor strata at the expense of rent, not at the expense of the middle (creative) class;

— encourage the upper middle class and developed regions to compete for positions in the world elite;

— increase job stability for the middle-middle class, expanding this social group;

— support the intra-family transfer of ethical norms and education of the intelligentsia (the necessary informal norms of respect for property emerge in this environment);

— ensure home ownership for the middle class;

— expand the stable middle class (with savings) from 25% of the population to 35-40% by 2030;

— create mass ownership of financial assets by the middle- and upper-middle class (25% of the population), including shares of large national enterprises (from 1-2% of shareholders to at least 15%).

Decision-Making Ability of the Elites

The Russian elites should become the source of key decisions that affect both the modernization of the law-enforcement and judicial system and changes in informal institutions. This includes a refusal to engage in a further redistribution of property and the development of a policy designed to overcome excessive inequality, including through self-limitation. But are they prepared to make and implement such long-term decisions?

Theory assumes that the ruling elite is concerned not only with its own positive programs (if any), but especially with maintaining its position. No other social stratum is more in need of gaining legitimacy (internal and external) so as to prevent a break in its reproduction. For the relatively new political and financial elite, support from the educated strata of society and recognition by external elites are important factors.

Naturally, the stronger the unity of the country's elites, the greater their overall stability. Actually, a consensus among the elites in stable societies is one of the basic rules underpinning democracy, although it does not cover the entire range of national problems, many of which remain a matter of political competition.

According to Scott Radnitz, the design of privatization in some post-Soviet countries (Belarus, Kazakhstan and Azerbaijan) was such that state resources remained in the hands of one elite group, and this ensured its stability. In other cases (Georgia, Ukraine and Kyrgyzstan), the peculiarities of privatization paved the way for inter-elite conflict [34].

In Russian conditions, it would be difficult to expect unity among the elites at such a turning point in history. There are at least three traditional influential elites dating back to the USSR (the military, the security services, and the church) who are interested in a “defensive” concept of Russia’s existence in the world with corresponding budget distribution relations.

Another force that has entered the field is the new private financial oligarchy, whose property is seen as largely illegitimate by the majority of the population, especially when it comes to old Soviet assets. It openly aspired to political power, but was unable to ensure either sustainable democracy, internal security or economic growth.

In the struggle for power, the political elite needs a compromise with the financial elite, integration with it or control over it. This has proved extremely difficult in practice precisely because of the system of offshore ownership within financial groups. Once the regional elites were brought under control and the public sector strengthened, the struggle was confined to establishing control over a limited number of major exporters. Although this process is not over, Russia is the only country that has taken a step back (in part, by failing to advance from the outset) in the development of private property: it has failed to create mass share ownership or a sizeable small and medium-sized business sector, and meanwhile has returned a number of companies to the state sector and tightened bureaucratic control over economic life. This is what can be called strengthening the political-bureaucratic elite at the expense of the private financial elite. A single ruling elite (a political-financial one) has not emerged in the country.

In the last decade, the balance of power in the economy has shifted towards the bureaucracy and the power elite. In a situation of falling oil prices, economic decline and sanctions, external pressure serves to consolidate the elites, but the goals of development and the ways to ensure long-term sustainability are debatable.

The financial elite in Russia are not entirely independent for three reasons: illegitimate origin of its capital (in the opinion of many citizens); day-to-day business dependence on the state; and uncertain support in the West. The stories of the Cyprus bail-in and Western sanctions show that the Western political elite can at any moment infringe on “Russian money,” which it also appears to regard as not quite legitimate gains obtained in the form of oil rent.

As a result, there is no unity in the ruling elite, and it is only natural that the country has no long-term strategy (say, to 2050). The question is the extent to which the members of the elite are agreed on fundamental issues, as well as the intensity and methods of their competition for power, greater influence and a stable position. Let us note the need for a compromise on many issues between the elites and the creative class. Naturally, this does not mean an old-fashioned “social contract” between society and the state, but a kind of trade-off, a “social deal” with numerous groups for a certain period in order to resolve urgent problems between the main interest groups that determine the success of the country’s modernization [17].

The question of “what is to be done” has no simple answer. Of course, we need a consensus of the elites as “the foundation of liberal democracy.” Ideally, the ruling elite and the strengthening civil society should jointly “close” the

transformation era. In the context of the problem we are considering, this means establishing property rights and rules of behavior for the long term, starting from the very top of the financial and political elite. Its members should set an example of moral standards, service to the country, and non-corruption. But trust is not enough: society should control the elites, particularly through the mass media [12].

There should be three compromises: between the various clans of the ruling elite (political and financial), between the elite and the creative class, and between the Russian and world elites on key issues, including the problem of legitimizing property rights. In order to form a stable system of well-protected property rights, efforts should be made in two directions: to create a rule-of-law state *de facto*, i.e., to ensure the rule of law; and to foster sustainable respect for private property rights in society.

The Modern Way to Legitimize Private Property Rights

If large private property is to gain legitimacy in the eyes of Russian society, both the state and the owners of such property should comply with several principles of behavior. These principles do not mean concrete measures to legitimize property, but constraints that would prevent the problem from getting worse.

First, the implementation of discretionary measures by way of “recompense” for privatization—, such as a compensatory tax, partial nationalization or re-privatization—, is senseless and harmful. Even a discussion of such measures undermines the legitimacy of private property and accelerates the flight of capital.

Second, it is necessary to prevent attempts to redistribute property unlawfully. If the “foul play” characteristic of the privatization of the 1990s continues, albeit under a different slogan, insecurity in the area of property rights will persist for a long time, and respect for these vulnerable “rights” will not develop.

Third, it is necessary to reduce the level of public discontent with the distribution of property and to prevent attempts at a new redistribution. The focus should be on a policy to reduce socioeconomic inequality. It can be implemented through voluntary self-limitation of the richest strata, their investments in merit goods, and a redistribution policy designed to develop the middle class and promote mass share ownership. Naturally, economic growth and improvement of living standards are important in this context.

And fourth, it is necessary to admit that rapid legitimization of large private property is impossible; to reject the idea of radical steps in this area, and to focus on a long-term program to ensure stable property rights and expand property ownership in the country. It is not enough to protect home ownership. We need to develop legal mechanisms for protecting property rights, promote the development of small and medium-sized business as a mass basis for respect for private property, and ensure the protection of intellectual property rights.

To implement all of the above, Russia needs a strong consensus of the political, financial and intellectual elites on the system of property rights in the country. Eventually, the ideas agreed upon in this consensus should gradually spread

to society at large. Problems of this kind arise quickly, but their solution takes a long time and is achieved in other historical periods.

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Notes

- ¹ The authors thank S. Karaganov, R. Kapelyushnikov, B. Kuznetsov, A. Likhacheva, I. Makarov, L. Ovcharova, I. Pominova, T. Radchenko, A. Salmina, and A. Shastitko for a discussion of the ideas behind this article at a roundtable held by the National Research University—Higher School of Economics in April 2013. The materials of this

discussion were published in [16]. In preparing this article, we used statistical data gathered by A. Salmina. The authors are also grateful to the anonymous reviewer for helpful comments.

- ² Following D. North, J. Wallis and B. Weingast [32], an additional methodological distinction could be drawn between informal institutions, which imply enforcement of informal rules by the social group in which an economic agent is included, and shared beliefs, which do not need to be enforced because the agents themselves are convinced of the correctness of the respective norms. But these problems are beyond the scope of this article.
- ³ The results of the third Life in Transition Survey (LiTS III) were not yet published by the end of 2015.
- ⁴ EBRD. Life in Transition. A survey of people's experiences and attitudes. EBRD, 2007; EBRD. Life in Transition. After the crisis. EBRD, 2011.
- ⁵ This is especially true since the nature of the income and property of "bona fide purchasers" is also sometimes questionable.
- ⁶ For a classification of methods for legitimizing property and an analysis of their shortcomings, see [13].
- ⁷ In the "creative class" we include the intelligentsia and national medium-sized and large businesses (production and consulting) because their work in the sphere of science, culture and business is based on creative activity associated with risk and profit (in contrast to rent-seeking behavior) and leads to innovations in the country. See [17].

Translated by Yevgeniya Lipinskaya