

# INSTITUTIONS MATTER

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**SESSION IV: RUSSIAN IDEA: CULTURE, LAW AND  
RELIGION AS FACTORS OF CONTINUITY  
RUSSIA LOST OR FOUND  
11TH OF JUNE 2009**

# **LAW NOT RESPECTED?**

**I. Why?**

**II What does it mean for business?**

# I. WHY?

## 1. Economic crime widely spread in business

privatization based on opportunism  
oligarchs building their empires  
hostile takeovers with misuse of law

Business would benefit from legalization

Yes, but too many people benefit from illegalities

Corruption the worst menace

Not because of bad and weak laws,  
but because of attitudes and "business culture"

**Natural resouces**

**A blessing and a curse**

**Sharing the cake -attitude**

level

purpose

Embeddedness.  
Informal  
institutions

Often noncalculative:  
spontaneous

7 7  
Institutional  
environment:  
formal rules

Get the institutional  
environment right

Governance:  
aligning contract  
structures with  
transactions  
structures

Get the governance  
structures right

Resource  
allocation and  
employment

Get the marginal  
conditions right

**Path shaping needed**

**Who could do that?**

**Of whose interest?**

## 2. Political elite

Getting rid of corruption impossible because of corrupted political elite

Informal institutions prevail  
Formal institutions not respected

**THE ONLY SOLUTION IS DEMOCRACY**

Political elite does everything to prevent democracy  
= managed democracy, imitation democracy  
Resorting to path dependent authoritarianism

## II What does this mean for business?

No rule of law

Private ordering

Russian social responsibility of companies

”Investing” in personal relationships

High transaction costs

**CLEAR AND PROTECTED PROPERTY RIGHTS NEEDED**

**”STRONG STATE”**

**”LAW AND ORDER”**