We use the 2005—2012 data for Russian regions to show that higher regional institutional quality strongly benefits institutionally dependent manufacturing sectors in terms of both gross output levels and growth rates. Unlike the existing literature on this topic, which uses essentially cross-sectional specifications, we emphasize the results of panel data analysis. This approach mitigates endogeneity concerns and allows for calculating full marginal effects of institutions on manufacturing sectors with different degrees of institutional dependence. Our results imply that significant institutional improvements are needed in order for the Russian economy to diversify away from heavy reliance on oil and natural gas.

Michael Alexeev is professor of economics at Indiana University in Bloomington. He received his PhD in Economics from Duke University in 1984. His research and teaching interests lie mostly in the fields of institutional economics, resource economics, and fiscal federalism. His research has appeared in Journal of Economic Theory, Review of Economics and Statistics, European Economic Review, and other general and field journals. He has also co-edited The Oxford Handbook of the Russian Economy.