

# The Transformation Process in Russia and East European Countries: Institutional Matrices' Theory Standpoint

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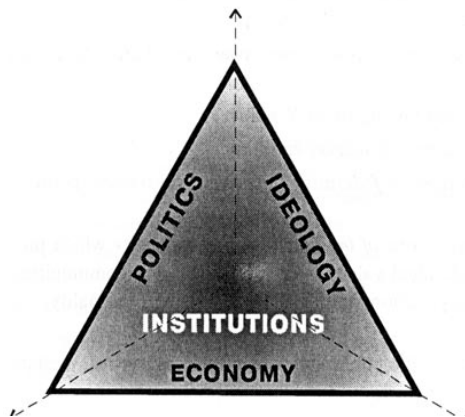
The main idea of a paper is to show the institutional framework of the differences for the transformation processes in former socialist economies of Russia and East European countries and also alternative perspectives and results of modern transformations. *The theory of institutional matrices* developed by the author<sup>1</sup> as a methodology of the analysis is used.

## The main theses of Institutional Matrices' Theory

The concept of institutional matrices deepens the principles of analysis of social systems formulized by T. Parsons<sup>2</sup>; develops the notion of institutional matrices as seen by D. North<sup>3</sup>; based on K. Polanyi's theoretical statements about market and redistribution economies<sup>4</sup>; follows the concept of social-territorial structure presented in the works by T. Zaslavskaya<sup>5</sup> (Russia) in 1970-1980-s.

This concept is based on the notion of *basic institutions*. Basic institutions are in-depth and sustainable social relations, which ensure social reproduction in various types of societies. Basic institutions exist as historic constants and provide for the self-sufficiency and unity of societies, as the latter evolve irrespective of social actors' actions. The main function of basic institutions is to regulate the key subsystems of society: *economy, politics, and ideology*. Sustainable and constant basic institutions are to be distinguished from contingent and numerous *institutional forms* they take in different times and countries.

The historically molded system of basic institutions generates the *institutional matrix* of society (**Picture 1**). As contrasted to the institutional structure, the institutional matrix is not the whole complex of some institutions, but a system of fundamental, inherently inter-related and mutually determining formal and informal social relations, which constitute the framework of the institutional structure of society.



Picture 1. Institutional matrix' scheme

<sup>1</sup> КИРДИНА С.Г. *Институциональные матрицы и развитие России*. Москва: ТЕИС, 2000 (Издание 2-е, испр. и дополн. Новосибирск: Сибирское Отделение Российской Академии наук, 2001 [KIRDINA S.G. *Institutsyonalnye matritysy i razvitie Rossii (Institutional matrices and the development of Russia)*. Moscow: TEIS, 2000. (2<sup>nd</sup> ed., revised: Novosibirsk: Siberian Branch of the Russian Academy of Sciences, 2001)]; KIRDINA S. G. Fundamental Difference in the Transformation Process between Russia and East European Countries // *Berliner Osteuropa Info*, № 16/2001.

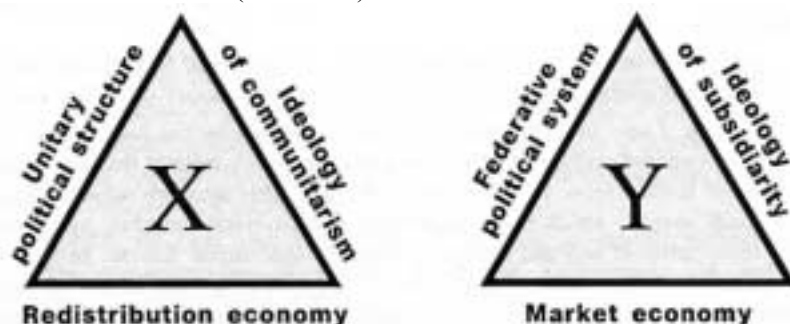
<sup>2</sup> PARSONS T. *General theory in sociology* // *Sociology today* / Ed. by R. K. Merton, L. Broom, L. S. Cottrell. N.Y.: Basic Books, 1959, Harper, 1965; PARSONS T. *Societies: Evolutionary and Comparative Perspectives*. Eglewood Gliffs/ (NJ): Prestige-Hall, 1966.

<sup>3</sup> NORTH D.C. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press, 1990.

<sup>4</sup> POLANYI K. *The Livelihood of Man*. New York. Academic Press, Inc, 1977.

<sup>5</sup> ЗАСЛАВСКАЯ Т.И. Теоретические вопросы исследования социально-территориальной структуры советского общества // *Социально-территориальная структура города и села (Опыт типологического анализа)*. Новосибирск: ИЭиОПП СО АН СССР, 1982.

The study of history of ancient and modern states allowed to single out two types of institutional matrices: *X* and *Y*-ones (Picture 2).



**Picture 2. Two types of institutional matrices**

An X-matrix is characterized by the following basic institutions:

- in the economic sphere: *redistribution economy institutions* (term coined by K. Polanyi's). Redistribution economies are characterized by a situation when the Center regulates the movement of goods and services, as well as the rights for their production and use;
- in the political sphere: *institutions of unitary (unitary-centralized) political order*;
- in the ideological sphere: *institutions of the ideology of communitarism*, the essence of which is expressed by the idea of dominance of collective, public values over individual ones, a priority of We over I.

An X-matrix is characteristic of Russia, China and most Asian and Latin American countries and some other.

The following basic institutions belong to an Y-matrix:

- in the economic sphere: *institutions of market economy*;
- in the political sphere: *institutions of federative (federative-subsidiary) political order*;
- in the ideological sphere: *institutions of the ideology of subsidiarity* which proclaims the dominance of individual values over values of larger communities, the latter bearing a subsidiary, subordinating character to the personality, i.e. a priority of I over We.

An Y-matrix is characteristic of the public order of most countries of Europe and the USA.

The notion of a *complementary institution* is introduced denoting an institution generated within one institutional matrix and using its characteristic institutional forms in the context of basic institutions of the alternative institutional matrix. The *principle of the dominance* of basic institutions over complementary ones is given prove to. In other words, in each particular society, basic institutions characteristic of its institutional matrix dominate over complementary institutions. The latter serve as auxiliary, additional, providing stability of the institutional environment in a particular sphere of society. Just as a dominant gene in genetics, that dominates over a recessive gene and, thus, determines the features of a living organism, so basic institutions set the framework and limitations for the action of complementary, auxiliary institutions.

The type of matrix depends on the characteristics of the environment. The material-technological environment, external to the society, is characterized by *communality* or *non-communality*.<sup>6</sup>

*Communality* denotes such a feature of the material-technological environment, which assumes that it is used as a unified, further indivisible system, parts of which cannot be taken out without a threat of its disintegration. A communal environment can function only in the form of a public good, which cannot be divided into consumption units and sold (consumed) by parts. Accordingly, joint, coordinated efforts on behalf of a considerable part of the population, and a unified centralized government are needed. Therefore, the institutions' contents of a state which is developing within a communal environment is, eventually, determined by the tasks of coordination of joint efforts towards its effective usage. Thus, an X-matrix is formed under communal conditions.

<sup>6</sup> BESSONOVA O., KIRDINA S., O'SULLIVAN R. *The Market Experiment in the Housing Economy of Russia*. Novosibirsk, 1996. P. 17-18.

Whereas *non-communality* signifies a technological dissociation, a possibility of atomization of the core elements of material infrastructure, as well as a related possibility of their independent functioning and private use. Non-communal environment is divisible into separate, disconnected elements, it is able of dispersion and can exist as an aggregate of dissociated, independent technological objects. In this case, an individual or a family can involve parts of non-communal environment in their economy, maintain their effectiveness, and use the obtained results on their own, without cooperating with other members of the society. If this is the case, the main function of the thus-forming social institutions is to assure an interaction between the atomized economic and social agents. An Y-matrix is shaped in a non-communal environment.

### **Redistribution and market economies in X- and Y-matrix societies**

The article focuses on the analysis of economic subsystems of the society and the basic institutions that regulate their operation.

The economy can be seen both as a material sphere and as a system of institutions that regulate it. Thus, on the one hand, “economic” means anything “related to the process of satisfaction of materials need”. At this level, an economy is described in terms of reproduction and movement of values, identical for different societies.

On the other hand, if the economy is regarded as a system of institutions, a single concept of the economy accepted in economics and assuming that it is a system of exchanges, or a market, is not sufficient to classify the existing economic systems. Polanyi called this the “economistic fallacy” of scholars who tend to identify human economic activity with its market form<sup>7</sup>. From the institutional standpoint, *two alternative types of economic systems* can be singled out, with qualitatively different economic institutions dominating in each of them.

As Walter Eucken argued in 1947, and now classical, book *Foundations of the National Economy*<sup>8</sup>, “A historic research in every epoch reveals two pure main forms: ideal types of non-exchange ‘centralized economy’ and exchange economy’... No evidence of economic systems other than these ones has been discovered either in modern economic reality, or in the past; it is hard to imagine that any is to be found in the future”<sup>9</sup>. Eucken explained the peculiarities of all existing economic orders in particular countries by a certain interplay of the above mentioned pure forms, which would build a different combination, be that a different time and a different place<sup>10</sup>. He stressed also that elements of a certain economic system (for instance, those of an administrative command economy) can both dominate and be simply supplementary to the general context<sup>11</sup>. Thus, Eucken was among the first scholars to point at the existence of two equally powerful economic frameworks, both molding naturally, without any all-embracing determinative perspective.

The famous historian, economist, and anthropologist Karl Polanyi further advanced the study of non-market economic systems. In his posthumous book *The Livelihood of Man*, he carefully examines the forms of integration of economic process in different historic epochs and different countries. His analysis is based both on his own research, and on the work by Bücher, Tönnies, Thurnwald, Malinovsky, Weber, Durkheim, M.Rostovtseff, and other prominent scholars.

Polanyi distinguishes between the following main forms of integration in the human economy: redistribution, exchange, and reciprocity. He does not see the latter (in other words, the symmetrical movement of goods and services, as well as of individuals, between the interacting parties, i.e. mutual assistance between relatives, villages and even states, for

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<sup>7</sup> POLANYI, p. 21.

<sup>8</sup> EUCKEN, W.. *Die Grundlagen der Nationalökonomie*. Berlin: Springer, 1965 (1950).

<sup>9</sup> EUCKEN, p. 19 (Cited from the Russian edition).

<sup>10</sup> *Ibid.*, p. 213.

<sup>11</sup> *Ibid.*, p. 108.

instance, in the form of land-lease)<sup>12</sup> as forming a specific economic type of the society. Whereas he points at exchange and redistribution as a basis for classification of a whole variety of national economies.

First, Polanyi singles out market economies with exchange as the dominating form of interaction between participants of the economic process. By exchange, Polanyi, following the classical understanding, means a “two-way movement of goods between actors oriented to the profit brought by every act of agreement”<sup>13</sup>. According to the position dominating in economics, economy is essentially exchange relations, and all economic systems are essentially market systems. Moreover, proponents of the market paradigm tend to see societies with poorly articulated market institutions as societies at a lower, “pre-market” stage of development which would inevitably move towards market and develop according to market laws.

Polanyi holds an opposite position. Basing on results of a number of studies, he argues rather categorically that the theory of economy elaborated by A. Smith and based on market institutions and market mechanisms of demand-supply-price is but a common sense knowledge of the reality contemporary to the author<sup>14</sup>. A considerable part of his book Polanyi devotes to the efforts to prove that a market-ordered, exchange based institutional complex is not common for all world economies. Many societies, according to the results of his anthropological and historical research, are redistribution-based economic systems.

Modern scholars confirm this hypothesis of Polanyi. For example, Mario V. Llosa, in his forward to the book by Ernando de Soto *Unique development: Invisible Revolution in the Third World*<sup>15</sup> states that “there never was a market economy in Peru... This conception is applicable to the whole Latin America and, probably, to the most part of the third world countries”<sup>16</sup>.

Polanyi called economic systems different from market ones, redistribution economies. In the latter, the movement of goods and services into and from the center prevails, no matter be that physical movement or appropriational change that leaves the material allocation of the resource or product intact. Redistribution is the process of *storage-cum-redistribution*; it is through redistribution that distributed, divided labor is re-united in these societies<sup>17</sup>.

Following Eucken, Polanyi proves and gives additional arguments to the hypothesis that two equally powerful institutional complexes, the market and the redistribution ones, operate in history simultaneously and are parallel to each other. He noted that market and redistribution economies are not different time stages, rather they co-exist in time and space. Even more positively than Eucken, Polanyi argues that one form of economic relations dominates in a certain society, whereas the other occupies a subsidiary position. An important insight by Polanyi consists in his conclusions about the sustainability of market and redistribution economic systems. Taking the Roman Empire as an example, Polanyi tries to show that social actions aimed at a change in the nature of the economic system, lead to the destruction of the society as a whole.

Polanyi began to study particular institutions of redistribution economies, but did not finish his work. As his colleagues note, Polanyi did not achieve his goal of “creating an independent non-market economic theory which would provide a general conceptual

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<sup>12</sup> POLANYI, p. 36.

<sup>13</sup> Ibid., p. 42.

<sup>14</sup> POLANYI, p. 6-7.

<sup>15</sup> SOTO, E de. *Unique development: Invisible Revolution in the Third World*. New York: Harper & Row, 1989.

<sup>16</sup> SOTO. *Inoy put'. Nevidimaya revolutsia v tretyem mire*. Moscow: Catallaxy, 1995 (1989), p. 15. (Cited from the Russian edition)

<sup>17</sup> POLANYI, p. 40-41.

framework for the analysis of societies where integration is not based primarily on exchange”<sup>18</sup>.

The political economic theory of socialist reproduction attempted to solve this problem from the Marxist perspective. Many academics and politicians contributed to the elaboration of theoretical and applied aspects of this discipline, especially in the period shortly before and after the victory of the October Socialist Revolution in Russia in 1917. Its main assumptions were formulated in all textbooks on political economy published in the USSR from the 1930s to the 1990s. However, the collapse of the socialist system in Russia and East European countries proved a number of assumptions of the political economy of socialism inadequate to the real environment of economic development.

In my opinion, this is largely to be accounted for by the subjectivist approach that dominated in the discipline. Despite the declaration of the principles of historic materialism, social reality was often seen by political economists of socialism as a planned, humanly administered program of social development; objectively existing relations necessary for the functioning of a society, were ignored. This position was one of the reasons why the institutional approach developed in post-war social sciences in western countries for a long time was neglected by social scientists from the socialist camp. In the 1950-60s, institutionalists were considered the “most vicious enemies of the working class”<sup>19</sup>. The reason for this was that institutionalists examined those foundations and ties that exist irrespective of the will of the ruling parties or the political aims of the leaders; they studied those foundation of the society that are inert, non-changing, constant and that objectively determine the trajectory of its social development.

Thus, no conventional, broadly consensual institutional theory of the development of non-market economies that would be as justified and elaborated as the conception of the market economy, has been formed. Outstanding efforts of a number of scholars – and, first of all, of the Hungarian economist Janos Kornai<sup>20</sup> – to study the nature and the specifics of non-market economies, still do not examine the objective institutional foundations of such economic systems, seeing them as social mechanisms constructed by people pursuing their particular interests.

Other social scientists did not set forth any universal theoretical instruments for the study of non-market economies either. Cultural scholars, though stating the presence of two prevailing types of goods exchange (or two types of economic relations) – market (exchange) and non-market (giving and taking) ones – in the cultures of different countries, do not study these types specifically in regard to modern societies<sup>21</sup>. Sociologists also see redistribution primarily as an element of traditional and primitive societies<sup>22</sup>. Therefore, until recently, such relations in modern countries have been regarded by sociologists and cultural scientists as an element of backwardness, under-development or “bad will” of political power structures.

Attempts to elaborate a theoretical framework on the basis of which it would be possible to explain the functioning of non-market economies, have recently become noticeable in Russia. On the one hand, this is a consequence of the resurrection of the tradition of the Russian school of economic thought of the XIX – early XX centuries, broken by the post-revolution period of total dominance of Marxism-Leninism. It is well-known that an understanding of the “non-market” specificity of the national economy has always been

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<sup>18</sup> POLANYI, p. xxxv.

<sup>19</sup> *Bolshaya sovetskaya entsiklopedia* (The Big Soviet Encyclopaedia). 2<sup>nd</sup> edition. Moscow: Soviet Encyclopaedia, 1953. Vol. 12, p. 239.

<sup>20</sup> KORNAI J. *Economics of Shortage*, Amsterdam: North- Holland, 1980.

<sup>21</sup> *Companion Encyclopedia of Anthropology*. (33). Humanity, Culture and Social Life. London and New York: Routledge, 1994, p. 911.

<sup>22</sup> *International Encyclopedia of Sociology*, vol. 2, Salem Press Inc. London. Chicago, 1995.p. 1310.

present in Russian social sciences. For example, A.Chuprov wrote that “As contrasted to the A. Smith’s idea of the society as a simple sum of individuals, the economy of each nation is a whole unity, parts of which are in constant interplay with one another: the life in this unity is governed by its specific laws...”<sup>23</sup>. A group of scholars and philosophers united later under the category Slavophil, also stressed the peculiarity of the Russian community as the main element of the system of non-market production relations and studied it thoroughly.

Another factor contributing to the modern interpretation of Russian society in the framework of the non-market paradigm, is the understanding of the fact that market reforms, despite the will of political leaders of a country and the active involvement of international agencies, face the “backbone” of different economic relations, refracting the course of the transformation process in its own way.

The system of institutions regulating redistribution economies analyzed within the framework of the theory of institutional matrices is one more attempt to contribute to the study of non-market economic systems. The specifics of such institutions, as compared to traditionally listed institutions of market economies, is presented at **Picture 3**.

**ECONOMIC SUBSYSTEM**

| INSTITUTIONS<br>of<br>redistribution<br>economy<br><b>X-matrix</b> | INSTITUTIONS'<br>FUNCTIONS                    | INSTITUTIONS<br>of<br>market<br>economy<br><b>Y-matrix</b> |
|--|---|--|
| Public<br>ownership  | Property<br>relations                         | Private<br>ownership                                       |
| Redistribution<br>(accumulation-<br>concordance-<br>distribution)  | Ways of<br>benefits<br>reproduction           | Exchange<br>(buying-<br>selling)                           |
| Service<br>labor   | Participation<br>in labor                     | Wage<br>labor  |
| Coordination   | Interaction<br>between the<br>economic agents | Competition  |
| Proportionality  | Feedback<br>signals                           | Profit   |

**Picture 3. Basic institutions of redistribution and market economies**

<sup>23</sup> ЧУПРОВ А. И. Ученые труды (CHUPROV A. I..Uchenye trudy) – М.: Изд-во Императ. Моск. Ун-та , Ч. 3, вып. 1. № , 1911, р. 2.

What is the reason for the formation of economic systems with public property dominating in them? It is known that “public (communal) property appears when costs of specification and protection of private property rights are too high. Whereas the gains from their introduction are either zero (if the good is abundant) or by far less than the costs associated with the introduction of private property rights”<sup>24</sup>. In other words, the institutions of public property and the institutional complex based on it develop only if they become more efficient for this society as a whole in its tasks of sustainable economic development. If both material- technological and social factors provide the efficiency of private property forms, a market-ordered institutional complex develops in the economy.

### **Basic institutions of redistribution economies**

Redistribution economies, which are an X-matrix societies’ subsystem, are formed in the communal material-technological environment. Communal environment, the reproduction of which requires that it is used on a common basis, contributes (despite the will and the aims of the population in the economy) to the consolidation of collective efforts and generates adequate basic institutions and corresponding institutional forms.

The most important among the basic institutions regulating the reproduction of redistribution economies, are the institutions of **public** (or common) **property**. They determine the specifics of all the other institutions of the redistribution economic system. The institutions of public property mean that the main resources and means of production are regarded – manifestly or latently – as owned by the society as a whole. This implies, on the one hand, the possibility to use the goods produced and consumed by all members of the society, according to the rules set forth every time, and, on the other hand, the absence of border lines in property rights between these members, as contrasted to the situation with private property institutions dominating. In every historic period in different countries, representatives of this public interest, i.e. the main actors, inevitably become noticeable: first these are particular individuals (for example, princes, tsars, or emperors), then – organizations (as a rule, various state agencies, etc.). These actors, acting in accordance with written and non-written rules, are responsible for the use of the available national resources and are to take care that these resources are used for the good of the whole society. Even if public property is distributed between the economic agents who use it and is ascribed to them so that they perform certain tasks (and this cannot be otherwise in the conditions of the increasing complexity of production), their actions are always referential in regard to the interests of the society as a whole and also inter-referential in the course of inevitable, objectively needed mutual adjustments.

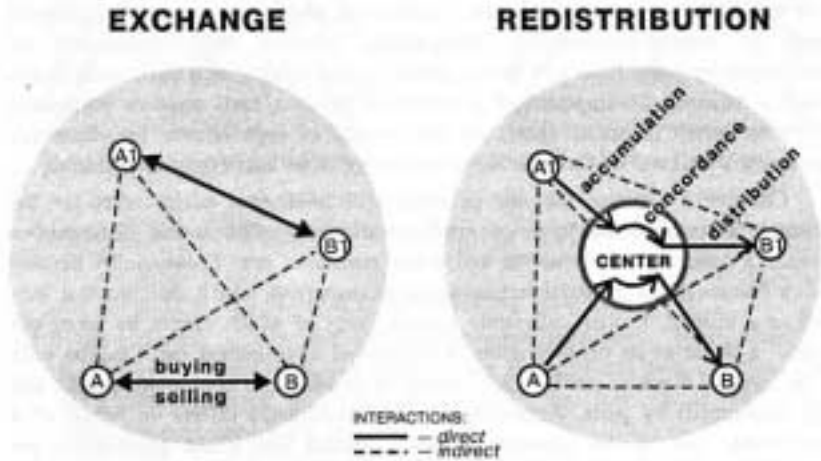
In redistribution economy, the processes of reproduction are regulated not by exchange relations, which are inefficient in the context of public distributed property, but rather performed on the basis of **redistribution**. What is the difference between redistribution and exchange? Exchange consists in horizontal flows of products and services (which have the character of goods in market economies) between economic agents, private owners. Exchange implies profit gained by the participants of transactions. Redistribution means a movement of material values and services within the framework of public, unified ownership which objectively requires mutual adjustments of economic transactions. The law of economizing transaction costs results in the fact that the adjustments are concentrated in one body which starts to perform the functions of the Center.

This is why, redistribution – unlike exchange which implies two aspects of the process, i.e. the twin categories of “buying” and “selling” – includes three invisible parts: the

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<sup>24</sup> OSNOVY EKONOMICHESKOY TEORII (The Basics of Economic Theory) / Уч.-метод. пособие / Под ред. Р.Нурева // Вопросы экономики. 1996. № 5, с. 115.

pair of economic agents and the Center mediating their relations. Such a model of relations is presented in the above mentioned formula “*storage-cum-redistribution*” meaning a ceaseless process of *collection and storage* of products produced by particular economic agents within the framework of public ownership; the Center – through the processes of *distribution and redistribution* – mediates this process and directs the resources and the new products into the production and consumption. Very schematically the difference between exchange and redistribution is sketched in **Picture 4**.



**Picture 4. Scheme of relations between economic agents (A, A', A'' and B, B', B'') in the exchange and redistribution models**

At first blush the relations appearing between two economic agents are identical both in market and redistribution economies: in both cases we see a transmission of resources or goods produced from agent A to agent B and, correspondingly, a reverse money or material compensation for the values given or services performed. However, the institutional mechanisms of these processes are different, and this is seen in the Picture.

In the market economy, the process of horizontal interaction in the form of *buying* and *selling* plays the main role (this is shown by the bold arrow connecting agents A in the model of exchange). The dashed arrows stand for the mediated connections of the agents in question with other participants of the market. These connections mean that the terms of transactions between particular agents are determined by a changeable market conjuncture, i.e. by the level of prices, costs, the presence of similar and alternative goods, etc.

In redistribution economies, the process of interaction between agents A (A', A'') and B (B', B'') is a consequence of the process of adjustments and *concordance* performed at the level of the Center (C) and determined by the processes of *accumulation* and *distribution* of values and services. Therefore, these processes are designated by bold arrows underlining the importance of relations of redistribution, whereas the immediate contacts between economic agents in this context are presented by dashed arrows implying the secondary, dependent character of these relations.

As an example illustrating this type of relations, let's take the so called “market of electrical energy” in Russia. The Federal Wholesale Electricity Market (FOREM) was created at the level of the federal Center to perform this activity. Its task is to accumulate (in terms of information, of course, rather than physically) the volume of power produced by nuclear, conventional, and hydro power stations, as well as by other producers, and to sum up the need in power of different consumers (regions, enterprises, etc.). On the basis of negotiations and concordance of this volume by special regional and federal commissions, the structure of tariffs on power and heat, including prices differentiated for different groups of producers and consumers, is set up. As a result of these adjustment procedures, power is distributed, i.e.



chains of producers and consumers are defined and volumes of energy are fixed. In other words, a variety of matching pairs of agents –  $A$  ( $A'$ ,  $A''$ ) and  $B$  ( $B'$ ,  $B''$ ), i.e. suppliers and consumers of energy who interact according to the rules set up in the course of the adjustment procedures, but actually make sure that energy is accumulated and the distributed energy is consumed within the so called common “market of power supply” – are formed on the basis of the redistribution cycle.

As economic interests in redistribution economies are mutually adjusted through the Center, these economies are often called “centralized” (Eucken was the first to use the term). Moreover, as the Center at first seems to be “the say-so”, the movement of values in redistribution economies mediated by the Center is often called vertical, and redistribution economies are called hierarchical structures.

The advantage of the term “redistribution economies”, as compared to others, in the theory of institutional matrices is that it focuses primarily on the main relation providing this type of integration of economic systems, rather than on organizations in which it is embodied. Just like Marx differentiated between capital (as a social relation by means of which economic system based on private property is reproduced) and a capitalist, so redistribution should also be understood as an “invisible hand”, an objective law regulating the reproduction of economies based on public property, rather than as a process managed by an individual or a group of individuals.

Thus, in the process of redistribution, economic agents are endowed with parts of public, united property, and rules how to use it are established, i.e. parameters of the distribution and accumulation of the necessary resources and values produced are set up. The public character of property means that it is to be used for the “good of the society”, according to certain prescribed rules that have been agreed upon in advance, and that it is to be earmarked. Like any other institution, redistribution implies sanctions for inefficient performance of a function for which it is earmarked. If the property endowed to an economic agent is not used efficiently enough, or for goals other than prescribed, or if it injures public interests, mechanisms of expropriation are set forth, as a result of which the property is returned to the main actor and then transmitted to other, more effective economic agents. In the course of redistribution, the process of formation of public wealth is regulated: economic agents transmit the products and services which they have produced using public property to appropriate consumers, and rules defining how and in what proportions the product created is to be distributed between the producer and the society are worked out.

The main mechanism determining the character of interaction between participants of economic activity in the context of public property is – inevitably – coordination implying that actions are co-adjusted, rather than competition. Development of such economies naturally generates the need to organize and coordinate actions of the participants of the economic process. Metaphorically, this process can be compared to boating with several oarsmen on board. It becomes clear very soon that for the boat to move effectively, it is necessary that all the actions of the oarsmen be coordinated. Just like this, redistribution is impossible without an **institution of coordination** of the actions of the participants of economic activity and the results of their labor supporting the operation of such economic systems. If within market economies relations between market agents are regulated by an institution of competition which controls that the necessary economic proportion be observed, an institution of coordination plays a similar role in redistribution economies. It controls that scarce resources be used effectively, that goods and services produced serve public interests; it determines the direction of material flows in the context of public property, observes inter-industry proportions, etc. The operation of the institution of coordination provides the continuity of the functioning of the economic sphere of the society, as it is through this

institution that participants of economic activity get both the necessary production resources, and conditions for their own reproduction.

What are labor relations like in redistribution economies? As it has been noted, Polanyi believed that re-unification of the divided labor – which is an inevitable consequence of the social division of labor – occurs in this situation by means of redistribution, which is the main economic relation for such economic systems. Similarly to the institution of exchange (i.e. purchase and sale) in market economies which pervades all the aspects of social life and sets a framework for labor relations determining that labor is bought and sold through the institutions of employment, redistribution determines the way labor force is organized for labor. In redistribution economies, the possibility to use the goods produced by means of public property, is determined by the labor contribution of economically active population into its functioning and development. It means the existence of an **institution of service labor** in redistribution economies. The term was introduced by O.Bessonova<sup>25</sup> in her institutional theory of the economic development of Russia. Unlike the institution of wage labor, service labor is obligatory and necessary for all employable citizens. It is the service for the good of the society, and the main source of the means of subsistence. The service character of labor means such an order (which changes historically but preserves its essence) when labor is accumulated in the scale of the public economy and distributed on the basis of the processes of adjustments as to how to use the labor force and provide that it is reproduced.

In a market, neither economy, nor its agents can survive without the institution of profit which provides that they are reproduced as participants of the market, and that the product is consumed and produced also by other member of the society. Whereas in the context of public property, economy can exist only as a proportional economy, when products generated in one segment are consumed in another. Superfluous storage of the values produced, as well as their under-production threaten the whole production cycle in the context of communal material-technological environment. Therefore, redistribution necessarily implies the operation of the **institution of proportionality**.

### **The interplay of market and redistribution economic institutions**

Just like X- and Y- institutional matrices are but ideal types, market and redistribution economies are theoretical abstractions allowing to single out the essential features of various economic systems. However, they do not exist in their pure forms. Any real economy combines institutions of market and institutions of redistribution, and each of them means a qualitatively different social mechanism of allocation and usage of economic resources. However, the choice the society makes between them is not an “either-or” issue, but rather the choice between their different combinations and ways of the allocation of resources. In this sense, all existing economic systems are essentially mixed economies, with both market and non-market economic institutions and institutional forms co-functioning in them. Every society tries to find their optimal combination throughout its history, and the search implies a competition between the two breeds. At the same time, although institutions and institutional forms of both types are present in an economy, the essence and the main contents of the institutional structure of the economy is defined by dominant economic relations. It is basic economic institutions determining the institutional matrix of a society that set the general framework and limitations for the operation of complementary institutions and organize the “institutional format” of the society.

Thus, in an economy where market institutions dominate, the institutions of public, state property have a subsidiary character. State property and state regulation are set forth

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<sup>25</sup> BESSONOVA O. Razdatok kak nerynochnaya sistema (Handing out as a non-market system) // *Newsletter of the Siberian Branch of the Russian Academy of Sciences*. Series “Region: economics and sociology”. 1993. Vol. 1.

only when the market cannot provide an effective use of the resources. It is known that such market failures can occur either in a situation of monopoly, or in a situation of imperfect (asymmetrical) information, or public goods and effects exogenous to the participants of transactions. And the main task of complementary institutions here is to contribute to a more effective operation of market institutions making the core of the economic system. Thus, as the spontaneous character of the institutions of competition and profit leads to overproduction and crisis in the economic system, western countries increasingly turn to institutions of coordination and proportionality borrowed from redistribution economies and aimed to improve the operation of the former.

Similarly, market institutions operate in redistribution economies. Throughout their history, when public, state property was dominating in most of the industries, institutions of private entrepreneurship and market trade were nonetheless present in them. Their function here is to provide for the reproduction of those spheres of economic life, where public property forms are not efficient enough.

The institution of proportionality characteristic of redistribution economies and operating spontaneously does not only provide for the balance within the national economy, but also can lead to lower indicators of production, because the necessity of adjustments leads to the situation when general proportions are built on the basis of the minimal value of the resource through the whole chain of producers. As a result, the spontaneous operation of the institution of proportionality invites an underproduction of the necessary goods in national scale, and thus is needed to be accompanied by the operation of the institution of profit. In the USSR, such efforts, though evidently too late, were started from the mid-1960s. Market reforms of the 1980-90s catalyzed this necessary process.

The function of complementary institutions is most dramatically seen in the periods of crises or stagnations of economic systems. Thus, during the crises of the capitalist economy in the USA and Western Europe, public work, state support of certain industries and enterprises become widespread. Wage and employment policies are regulated in the scale of the whole society.

Correspondingly, in redistribution economy countries, in conditions of an economic decline, spheres of private entrepreneurship become more active, proportions of private and public forms of property change, etc. The institution of service labor, implying public guarantees of employment, stops operating in a number of industries. Instead, the institution of labor employment moves regulating labor relations within particular private organizations to the foreground. Current economic reforms in Russia, China, and Latin America illustrate this situation. All of these countries experience the growth of the non-state sector of the economy – be that related to the privatization of state enterprises (like in Russia and Latin America), or occurring by means of a more rapid development of the individual and private orders (like in China).

The operation of complementary economic institutions securing the sustainability of the system as a whole and maintaining the “institutional competition” necessary for the successful development, has a limited character, however. Moreover, even in the periods of crises, their operation is mediated by basic economic institutions specific to the original institutional matrix. No matter how deep the involvement of the state in the market economy is, it does not change its nature. Eventually, the state acts as a market agent and as a warrant of private property. In redistribution economies, on the contrary, even when the bulk of state property decreases, the state still determines the course of economic development and remains the main participant and actor of the economic process.

## Russian economic reforms mirrored in the theory of institutional matrices

The conceptual tools of the theory of institutional matrices allow to give a different interpretation of the economic transformations in modern Russia. In my opinion, two qualitatively different stages can be singled out here.

The task of the first stage, which began in the end of the 1980-s, was to replace totally the institutional system based on state property with the system of economic institutions based on private property, i.e. privatization in the broad sense. The first state of the reforms was characterized by a general and aggressive introduction of the experience of various economic western societies, often without taking into account the specificity of the Russian state and the material-technological conditions of its existence.

As the reforms were developing, inherent objective limitations appeared in the borrowed institutional forms. It turned out that privatization did not contribute to the growth of economic efficiency to the extent that had been expected. It was most evident in the industries communal in the greatest degree. These industries became the “main bastions” that broke the waves of the total market privatization.

- First of all, it is agriculture, as the issue of private ownership of land still has not been settled. The growth of farmer economy has reached its limits. As has been noted earlier, since 1994 its share has remained at the level of 2 per cent. Collective forms of the organization of agricultural production still prevail in the country.
- There was no mass privatization of the sector of housing, as it had been expected. It was impeded by the communal character of the engineering infrastructure supporting it. It turned out impossible to manage a particular house independently, when technological systems of heating, running water, etc., are centralized. Although 40 per cent of apartments in the cities have been privatized by the population, the housing still largely remains in public (primarily, municipal) ownership, and state housing service organizations still operate.
- The plans to break down and privatize the so called “natural monopolies” did not come true. They are still managed by the state, have become the “backbone of the Russian economy” and are for the most part in federal ownership.
- In all other industries, “purely private and mixed foreign enterprises remain micro-economic in the Russian scale, and did not step out of the frame of small business”<sup>26</sup>. This meant that the declared goals of privatization were not reached, and the share of private sector did not become as significant, as it had been expected.

The disillusionment with privatization is connected also with its adverse social consequences: the rapid stratification of the population by material wealth, the despoilment of state property, the growth of organized crime by means of these stolen resources, etc.

Economists note that the first stage of the transformation of the post-soviet economy was over after the mid-1990s. L.Makarevich, an expert of the Association of the Russian Banks, argues that “having reached its peak, mass privatization was exhausted but not stopped”.<sup>27</sup>

Among the positive results of the first stage of economic reforms is the change introduced in the configuration of public property, ineffective and clumsy on the eve of the *perestroika*.

First, there appeared a new category of mixed enterprises, which sometimes is referred to as private forms of ownership, although it is more correct to treat it as modernized state ownership. Most of these enterprises fit the definition of the state enterprise given by the European Center of State Entrepreneurship in 1984: “State or partially state enterprise is

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<sup>26</sup> MAKAREVICH L. Struktura sobstvennosti i bor'ba za ee peredel v Rossii v 1992-1999 (The Structure of Property and the Struggle for its Re-Distribution in Russia, 1992-1999, *Obschestvo i ekonomika* (Society and Economy), 1999, No 10-11, p. 232.

<sup>27</sup> *Ibid.*, p. 230.

every enterprise a share of which is owned, directly or indirectly, collectively or apart, by the state, a state institution or another state enterprise, and is more than a half of the capital of the enterprise and, if less, is sufficient for the state, by the very fact of its existence or in accordance with specific rules, to exercise actual administration of the enterprise”<sup>28</sup>. This is exactly what happens at most of Russian joint-stock companies “open for the participation of the state” in a certain form – be that through the largest portion of shares, or leadership in the administration, or the “golden share”, etc. The so called mixed enterprises, becoming increasingly more powerful, have become real motors and fulcra of the Russian economy since 1996.

Second, the very structure of state property began to change in the 1990s. A search for the real “master” of production located on the territory of our large country is going on. If in 1991, 66% of production was in federal ownership, 19% in regional ownership, and 15% in municipal ownership, by the end of the decade the proportion changed for 45%, 39% and 16% correspondingly<sup>29</sup>. The subjects of the Russian Federation are most dynamic in ascertaining their status of real owners. In recent years, they have started to reclaim their shares that had been trusted to commercial banks and companies, to annul emissions “diluting” their participation in the company, to create their own state and mixed enterprises, holdings, and financial-industrial groups. Besides, regions overmaster federal and corporate property and assets.

The federal Center also becomes a more active participant of the economic process. The tendency to create large federal state companies on the basis of state-owned shares of enterprises and banks incapable of paying debt to the exchequer has become more prominent. By 1999, there were 100 financial-industrial groups with the participation of the state.<sup>30</sup>

Simultaneously, an intensive selection of appropriate institutional forms and management technologies, as well as casting out of inefficient ones, was going on during the first stage of economic reforms. As a result, advanced organizational economic forms suggested by the modern civilization were examined and tested nation-wide during a relatively short period of time; a considerable body of appropriate personnel was formed; mass computerization took place; consumer standards of the population changed qualitatively.

The completion of the first stage institutional transformation implies understanding of the limited abilities of privatization. At the second stage, new tasks in economic policy are set forth. This change was destined, as it is determined by the features of the material-technological production environment specific to our country.

It has become evident not only for Russian politicians, but also for experts of international foreign organizations, that the technical economic factor is crucial for the fate of the so called “natural monopolies”. The recognition of the communal character of the basic industries of the productive infrastructure is proved by the change in state policy in regard to Russian Joint Stock Company “Unified Energy System of Russia”, Russian Joint Stock Company “GazProm” (Gas Industry), the railway complex, etc. The government managed also to translate the efficiency of this policy to the International Monetary Fund. The struggle with natural monopolies, characteristic of the first stage of the reforms, is changing for the programs of restructuring that assume the impossibility to break them down. Attention is increasingly paid to the organization of management of these structures on the part of the state, so as that they become more effective in satisfying social and production needs of the whole country.

Thus, at the second stage of institutional reforms in the economy, the role of various public forms of property increases, as well as the role of the state as the main economic actor.

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<sup>28</sup> BIZAGUET A. *Le secteur public et les privatizations*. Paris: Presses universitaires de France. 1988, p. 9.

<sup>29</sup> MAKAREVICH, p. 230.

<sup>30</sup> Ibid.

As experts note, economic relations are increasingly institutionalized around the hierarchical power vertical, rules of interaction between corporate structures and central and regional administration bodies are formalized, mechanisms of the co-adjustment of their actions are tested. It is argued that “as the power vertical is becoming more ordered, and as roles of its different levels become more clearly defined, the adjustment will also be more ordered”<sup>31</sup>, which means an increased role of public structures in the process of regulation of economic relations. This is how basic economic institutions specific to the X-matrix of our state make their presence.

Therefore, the second stage of reforms is characterized by a modernization of institutional forms specific to basic economic institutions of Russia developing within the communal production and social infrastructure. This is reflected in more moderate evaluations of the efficiency of direct institutional borrowings from the experience of western countries, and in the re-orientation of the society towards an independent elaboration of norms and rules corresponding to the nature of its institutional matrix. An evidence of this is the active institutional exchange with countries based, like Russia, on the X-matrix. This is expressed in our intensive political and economic contacts in the East, first of all with the former soviet Asian republics, China, and Japan.

### **A forecast of the course of Russian economic reforms**

The prospects of institutional transformation in the Russian economy consist in the continuation of the tendencies set up in the end of the 1990s.

One can suggest that the main public effort would increasingly go not so much to the programs of privatization, but rather to the elaboration of effective models of the functioning of state property. On the one hand, the search would be furthered of an effective configuration of public ownership; definitions would be formulated specifying the rights and the responsibilities of production and social objects owned federally, regionally, or municipally. On the other hand, the operation of the new model of administration in the form of contracts would be spreading in all the spheres. Contract relations would gradually replace the economically inefficient and socially outdated administrative command model of managing the economy. The new management model has been called contract, or *transactive planning*. Unlike the so called counter plans of the soviet epoch, transactive planning implies a contract, as well as equality between counteragents (enterprise – the state) and a competition to select performers of the contract.

Definition of the structure of state property and introduction of the model of contract administration would make the first direction of the upcoming institutional transformation in the economy. Another important direction would be the search for the optimal proportion of state and non-state structures; definition and fixing of the niches for market, private forms, as well as of the measures of state regulation of their activity. The presence of private owners, or, more precisely, of commercial structures, in economic industries is an important feature of the current and prospective stage of institutional transformation of the Russian state. Only in this case it is possible to compare the effects of institutional forms specific to the institutions of private and public property, to prevent the inefficient character of the economy and consciously improve the institutional economic structure. The communal character of the material-technological environment in Russia precluding the possibility of total privatization of the economy, does not mean that tasks of the search of an effective combination of various

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<sup>31</sup> PEREGUDOV S. *Krupnaya rossiyskaya korporatsia kak sotsialno-politichesky institut (opyt kontseptualno-prikladnogo issledovaniia)* (Large Russian Corporation as a Social and Political Institution: A Conceptual and Applied Research). Moscow: Institute for World Economy and International Relations (IMEMO) of the Russian Academy of Sciences, 2000, p. 125.

forms of property and the development of economic mechanisms appropriate to them should be removed from the agenda.

At the same time, a broadening of the “legal field” corresponding to the nature of our state takes place in every public sphere in Russia, including the economy. As noted long ago, the “right itself” is not something for itself and existing by itself: unable to express the plenitude of life and truth, it has to see its limitations and remain, so to say, in a subdued position to life and the idea of the higher moral justice”<sup>32</sup>. The right is a form to articulate the public principles recognized by the society and setting limitations for social behaviour. If, during the first stage of the reforms of the 1990s, norms and principles were being formed in all the spheres of the society, at the second stage they are to be publicly recognized, i.e. to be put into a legal framework.

## Conclusions

From this perspective, transformation processes in the countries of Eastern Europe and Russia are both similar, and different. On the one hand, our states undergo the same process of an intensive introduction of institutional forms specific to the Y-matrix institutions, i.e. market economy, federative political system and subsidiarity as the main public idea. Moreover, our states have the same goals – those of achievement higher indicators of socio-economic development of the nations.

On the other hand, there is a fundamental difference. In the course of their transformation process, East European countries restore the dominant position of these institutions, which corresponds to their Y-type institutional matrix. They return to their previous path of historic development, which had been deformed by the post-war Soviet influence. As for Russia, it – irrespective of its political leaders’ preferences – on the one hand, aims at the renewal, modernization and restitution of the dominant position of the institutions historically necessary for the redistribution economy, unitary-centralized structure and communitarian ideas; and, on the other hand, it is actively introducing market, federative and subsidiary institutional forms (such as private property, competition, elections, court system etc.) necessary for the institutional balance, and adopting them to the structure of our X-matrix.

This is why paths and results of transformation processes are so different in East European countries and in Russia.

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<sup>32</sup>AKSAKOV I. *Selected Writings*. Vol 2. Moscow: Publishing House of M.Volchaninov, 1886, p. 20. (In Russian)