

Chapter 1

The Institutional Development of Russia: Grounds of the Theory

Over the last 100 years numerous attempts were made to explain the processes of the development of Russian economy with the help of foreign theories that proved to be unsuccessful. Russia needs its own theory of the institutional development, the one explaining the logic of social processes and changes that are taking place. This theory can be formulated only with the recognition of the objective character of Russian economic and social relationships.

The basic propositions of a new theory of the institutional development of Russia are presented in Chapter 1. From the point of view of this theory, Russian economic system represents a progressively developing razdatok-economy going through a period of institutional renewal in the 1990s.

§1. Razdatok-Economy Institutions: Historical Analysis

Modern economy in Russia is a logical result of the evolutionary development of economic relations. Specific features of these economic relations, which were formed at initial stages in the history of the Russian state, were conditioned by the features of the environment and the methods of its development.

The reasons that didn't allow the development of a market economy in Russia are well-known. Historic literature has accumulated considerable evidence of impassable roads, enormous distances, and severe climate. The general conclusion about undeveloped market relations in Russia was drawn from the fact that "loss at exchange would exceed profit".¹ Under these circumstances, attention to individual gain at exchanges and in trading could not serve as the basis for economic relations as was usual in the development of a market economy.

In conditions of low fertility of cultivated lands, emergence of a *razdatok-economy* system (<Russ *razdavati*, to give) helped the ancient Russian state to survive. Over its centuries-old history, razdatok-economy provided for the restoration of the land and replenishment of other natural resources, these being the sources of public wealth.

Economic institutions unique only to the razdatok-economy system have been established in the course of its evolution. They secured the basic relationship between the people involved in the process of developing the new lands and the management of the economy.

A service-labor system was the basis for the razdatok-economy. It defined the rules of economic activity for all the members of the society who were involved in using the public resources.

Under a service-labor system, any kind of public labor, either productive, managerial, military, or any other acquired features of service-labor. It was obligatory in character and predetermined by conditions independent of any man. It meant fulfilling certain functions defined by the society. For Russia, a service-labor system meant that the state assigned certain obligations to all layers of society. Schematically these obligations were divided into two main types. Some had to be in service (economic or military), all others had to feed those who served. Thus, the service-labor system embraced all the population of the Russian state.

In the X century the first Russian grand dukes had to serve the tribes which called upon them; namely, they had to protect Russian land and acquire more land for Russia. In response, the Slavonic tribes committed themselves to the payment of tribute to provide for the grand duke and his armed force; if necessary, they were ready to serve in the armed forces themselves. Over the whole history of Russian society, the service-labor

¹ F. Braudel, *Vremya Mira* (Moscow: Progress Publishers, 1992), vol. 3, p. 19 (in Russian).

system maintained this distribution of duties. The service class and the tribute-paying population of the Russian Empire have been replaced today by the state employees and workers-and-peasants class.

Thus, the service-labor system in Russia embraced all the population, from the Emperor and landlords to the peasants and workers. From the very beginning, the service-labor system implied the idea of serving; and this idea was always shared by the majority of the Russian population. At the same time, the content of this common idea was different and changing at different stages of historic development - from Christianity to communism, from 1917-1985.

Service-labor meant that all the layers of the society put forth their labor efforts in various forms in the volume required. To perform their service all the members of the society, in their turn, received the right to use a particular part of the public resources; first in the grand duke's possession, then in the Emperor's, and finally in the state's possession.

Starting in the XI century, land was actively used by the grand dukes to enlist people into their service. From the XIV century, the connection between land and service became indistinguishable. Gradually, the rule that "the one who serves uses land" acquired the reverse side, i.e., "the one who uses land serves". This principle made Russian Emperors broaden the state borders with new land grants. Russian land of that period became both the condition and the goal of service, acquiring to the full a service nature. By the XVII century, the property was differentiated according to the rights the land possessors received with the land grants. The property was subdivided into fixed-date, estate, and allodial patrimonial lands. Fixed-date lands were apportioned for a certain period of time. Estate lands were given for life-time possession. Allodial patrimonial lands were heritable and could be either bought or sold. During the soviet period in Russian history not only land but also almost all public resources, such as factories, housing, communications, and the social sphere acquired a service nature and could not be alienated from the state into the possession of private citizens. Thus, state property with a public-service nature was formed on the territory of Russia. Centralized production systems were increasingly used to develop the territories. They helped to finally shape the communal nature of the material-technological environment.

Thus, throughout Russian history, the property of citizens and economic entities was formed as a result of *razdacha* (Russian *razdacha* giving) or distribution in the form of *grants*, *Emperor's rewards*, etc. In the past, along with *land distribution*, there also existed *bread distribution* and *money distribution*.

The rules and norms of distribution have been formed during the whole history of the formation of the Russian economic system. In the early period, distribution manifested itself in the form of a donation to the duke's armed forces who received their food, clothes, horses and arms

from the duke. Later, in the XIII-XV centuries, land became the principle object of distribution. The principles of the first land distribution had been worked out on the basis of two criteria. According to the first of them, for example, a duke's heirs could only have possessed the land formerly in the possession of their father. The second rule was stated in the chronicle: "land possession was conditioned by the status of a person on the patrimonial scale of rank". These two conditions were combined and formed the first historical name for land possession, namely *votchina* (< Russ *vot-* father + *-china* rank), ancestral lands. *Votchina* is property received according to the genealogical rank passed from the father to the son.

From the second half of the XV century, the rules for land distribution for possession were formed. As the great Russian historian of the XIX century, V. Klyuchevsky formulated, the amount of distribution also began to be dependent on the term and quality of service.² It could be seen from this formula that complex principles were formed in the *razdatok*-economy system to provide for its inner development and balancing. By the end of the XVIII century, when job promotion was mostly determined by the term in service, the land distribution formula became distribution only according to rank.

During the early soviet period, the normative basis for distribution in kind, i.e., in the form of goods, housing, and social services was formed. The wage scale for salary distribution was also formulated then: now the amount of goods and money distribution corresponded to the official position of employees. Thus, the rule of distribution worked out at the early stages of Russian economic evolution: "to everyone according to his rank," has not lost its universal nature in Russia and is the indispensable principle of the *razdatok*-economy system.

The rules of tribute (Russian *sdacha* handing over) in the system of public-service ownership were formed concurrent with the elaboration of the rules of distribution. Tributes formed the basis for the treasury income, first for a duke, then for an Emperor and later for the state. It is both the source for the operation of state services and for financing general economic expenses.

From the very beginning of the existence of the treasury in Russia, it was mainly formed from tribute. Its essence was a voluntary or compulsory tribute of foodstuffs or labor. When dukes came into power, the Slavonic tribes gave them honey, furs and wax as well as fulfilled various conscription.

During the XIII-XV centuries, a specific form of production tribute, "*kormlenye*" appeared. Periodically, regional officials collected meat, baked bread, and hay from people in their localities. A share of the collected tribute was sent to the treasury for the benefit of the dukes and

² V. Klyuchevsky, *A Course in Russian History*, vols. 9 (Moscow: Mysl, 1990), vol. 2, p. 210 (in Russian).

central governors. During the period of reforms of the local government system introduced by Ivan The Terrible, *kormlenye* was first standardized, and then later replaced by state *obrok*³. Up until the end of the XIX century, the Russian population was liable for different *obroks*. They were so various in form and content that their natures were a constant source for discussions. Having analyzed the essence of the discussions, P. Miluykov formulated their general feature: “obrok is a tribute on the land”⁴ collected for the right to use the land.

At different stages of reforms in the razdatok-economy of Russia, an adequate way to measure the part of the product produced to be given as tribute was sought. The reformers at any period in history were governed by the same main principle, namely, by a general levying of the population in proportion to the abilities of each and everyone in accordance with the public needs. Up until the XIX century these abilities, as a rule, were determined by the size of the distributed land allotment and the number of family members capable of work. The mechanism of reallocation through the Russian peasant community, for example, was used to adjust the volume of tribute paid by peasants under changing conditions. Analyzing the essence of the peasant community, V.

Klyuchevsky understood it as a financial mechanism exclusively, where community land was distributed in proportion to the working and tribute ability of peasants. That is, land was distributed among the homesteads according to the number of working people and it was compulsory.⁵

The productive population of the Russia Empire from the point of view of the treasury had to give tributes in return for distribution. What this meant was that everyone had to give a part of what was produced according to the distributed production conditions, i.e., according to what had been given. The planned soviet economy of the XX century was always controlled so that the production and tribute of goods to the state was proportionate to the distributed resources, both fixed and current assets, available to the primary economic organization. In other words, the same principle of tribute was observed in the planned economy; and it could be explained by the inner logic of the razdatok-economy.

In the course of spontaneous evolution, the principle of tribute and distribution relations has been worked out in the razdatok-economy system. This principle is: “from everyone according to what had been given, to everyone according to his rank.” This relationship should have provided for the effective functioning of public-service ownership

³ Obrok payment in kind of a part of the annual peasant income, was one of the relatively easy forms of peasant duties, for details see B. Rybakov, *Kievan Rus* (Moscow: Progress Publishers, 1989), p. 195.

⁴ P. Miluykov, *Russian State Economy in the First Quarter of the XVIII century. The Reform of Peter the Great* (S.-Petersburg: Balashov's Publishing House, 1892), p.45 (in Russian).

⁵ V. Klyuchevsky, *A Course in Russian History*, 9 vols. (Moscow: Mysl, 1990), vol. 3, pp.212-215 (in Russian).

because it was assumed, first, that performance of every function would be adequately rewarded, and secondly, that these functions would be performed with the required public benefit. That is why the development of distribution systems is only possible if the *law of correspondence between tribute and distribution* is observed.

The logic of this law suggests that if the amount of distribution to any branch or territory exceeded the standard level, then there would be a particularly strong desire to go to this place. These circumstances were always used by the Russian government both for the development of new lands and new branches of industry. Thus, in the XVI century, the settling on the monastic lands went on much more successfully as land grants were combined with generous privileges. The practices of the Soviet power are also widely well-known. The population was involved in the development of new lands by increasing the money and material distribution there, in comparison to the standard level elsewhere.

The functioning of the law of tribute and distribution during the whole period of development of Russia also manifested itself in a search for an effective ratio between the two groups of population: those who were in service and those who had to feed those who served. In modern history it means a search for an effective ratio between the administrative and production workers. Thus, the law of tribute and distribution works both for all the economic entities and the employed workers.

Money and prices are the immanent attributes of the *razdatok*-economy that serve the tribute and distribution relations. However, money here has origins and nature different from that in a market economy.

The word “money” (Russian *dengi*) came from the Tatar language under the Tatar-Mongol yoke. It described everything that the conquered Slav tribes had to give as tribute. But even after their liberation, the term “*dengi*” was used in Russian finance as a synonym for “tribute”. Money was used both in tribute and distribution flows. *Money distribution* was quite broadly used; it was distributed according to the rank, land estate, character and the term of service.

Although, with the development of the Russian state, money started playing a more and more notable role, the tribute and distribution flows in the XVI-XIX centuries were predominantly in kind. By the XX century, the *razdatok*-economy system acquired mixed goods and money character as money distribution became a considerable addition to the distribution of goods. During the Soviet period, distributions in kind to the population took the form of free housing, medical services, education, etc.

Organizations received distribution in kind, i.e., in the form of industrial buildings, land sites and fixed assets.

The tribute and distribution flows were regulated by establishing the scale of prices. They helped to alter the distribution of resources in favor of this or that farm or territory, for example. It was first practiced by the Moscow state in the XVII century. At that time, a double scale of prices

was introduced for bread delivered to the treasury. The first scale was tribute price and the second was distribution price. Soviet pricing was also based on two types of prices. First, tribute prices, the prices at which the state bought the production, and second, distribution prices, the prices at which the production was distributed. Thus, in the course of economic evolution, the razdatok-economy system started using money as an economic instrument, i.e., tribute-distribution flows in kind were being replaced. At the same time, prices became a measure of tribute and distribution.

In the historical development of tribute and distribution relations, three stages can be distinguished in the degrees of public labor division and economy localization (within the framework of separate peasant homesteads, within a large estate or within the state economy as a whole). At the first stage, part of the production in Old Russia was given to the dukes in form of tribute with no changes in the process of community or family production. Traditionally, the process was organized and managed by the clan elders. An elected elder was in charge of employment, kept the public treasury, paid duties, distributed food and clothing, and punished wrong doings. At the second stage, during estate-land tenure, all land and part of production means i.e., livestock, sowing seeds, were distributed step-by-step from the Emperor to the landlords, and then from the landlords to the peasants. There were two flows of tribute from the producer: one flow to the state treasury in the form of tribute and labor conscription, another one to the landlord. At the third stage, under the conditions of a unified state razdatok-economy, all goods produced are tributed to the state and all production means and articles of consumption are distributed either in kind, or in monetary form. It is the case of the most complete labor division together with the dominance of state provision.

Each stage in the development of the razdatok-economy had its own *mechanism of balancing tribute and distribution*. It manifested itself in the main economic document of that time. At the first stage, the rules of tribute collection were defined in the duke's deed. At the second stage, tribute and distribution flows were coordinated at two levels, at the state level with the help of a state roster, and locally with the help of special "tribute and distribution books" which were kept by every landlord and cloister. At the third stage, the state plan became the unified state "book" of tribute and distribution.

In defining the Russian economic system as razdatok-economy, the diversity of economic relations should not be oversimplified. In the course of Russian history, relations other than razdatok-economy existed and developed as well. In a broad sense, non-distribution relations are really distribution exchanges, i.e., exchanges of what was received in distribution, or exchanges of what was produced with distributed

production means. Exchange relations of this type are often looked at as market relations, though their nature differs fundamentally. Interaction between distribution and non-distribution relations takes place in different forms: conflict, shadow, and partner. In the XVI century, for example, the government stimulated the development of bread trade by partially replacing tribute in kind with money tribute. Likewise, by giving the right to buy and sell estates, it created possibilities for land allotment trade. In XVIII-XIX centuries estate exchanges with money additions were widely spread. Housing exchanges in the sphere of state housing are today's analog to the relations of that time. But non-distributive relations only served to maintain a certain balance in the *razdatok*-economy system. The mechanisms of the operation of the *razdatok*-economy conditioned the specific features of its management bodies which began to form in the early stages of Russian history. These management bodies were called *vedomstvo*.⁶ Russian *vedomstvos* existed all the way from the duke's period, to Ivan the Terrible, Peter the Great, and to the ministries of the Soviet period. The logic of spontaneous emergence of new *vedomstvos* clearly illustrates how, with changes in Russian borders and the expansion of its foreign and domestic goals, new ministries grew and developed. It made it possible to structure the complicated economic reality of the *razdatok*-economy.

This form of organization demanded a certain order in the coordination of the functions in each *vedomstvo* and gave birth to a managerial hierarchy. Each hierarchical level had its own set of duties and responsibilities. Managerial function was performed by different classes of society at different historical stages. During the duke's period this function was performed by the *boyars* or duke's officials. They were guided in their activity by a special list which defined the nobility of the clan and the rank within the clan. By the XVIII century, the *boyars* were replaced by the *dvoryane*, nobility. The *Table of Ranks* determined which posts they could occupy. During the Soviet period, the position of bureaucrats were determined according to the name on their roster, *nomenclatura*. This roster was a list as well and was approved at the top management level. *Vedomstvos* and the managerial hierarchy were indispensable to the management model characteristic of Russian *razdatok*-economy at all the stages of its historic development.

Complaints, being the most widely spread and active reaction to the incompatibility of tribute and distribution flows and the defects in the managerial system, played the role of feedback. If it is possible to get

⁶ *Vedomstvo* (< Russ *vedat* know) is a branch, a part of the state management making up the whole, a range of subordination and activities (V. Dal, *An Explanatory Dictionary of the Great Russian Language*, vol. 1, p.329). On the eve of perestroika, modern *vedomstvos* included ministries together with trusts and enterprises subordinated to them. Thus before the market reforms, the enterprises in Russia belonged to a particular *vedomstvo* and were subordinated to the middle-management level, trust, which, in its turn, was supervised by the ministry.

something only by distribution in the system, it means that there is a necessity to ask for it, i.e., to complain. This was exactly how the Russian population acted when it was not satisfied with a particular situation. Petitions and complaints were so commonly used during the whole history of Russia that they can serve as one of the most important historic documents of any period. Over the whole period of development of the Russian state, the feedback mechanisms typical of the Russian economic system were being perfected. The most adequate methods to inform about deviations from the norm were being looked for and found. This mechanism took the form of complaints made by all layers of society and from all the management levels.

Even the first Russian dukes with their armed forces went to the tribes subordinated to them to “carry out their duties to the population”, as S. Soloviov, a great Russian historian of the XIV century, put it.⁷ In response to the complaints of his subjects, a duke would administer justice, mete out punishment, and alter the amount of tribute. At a period when *kormlenye* existed, the order of official responsibility for complaints was worked out. There is historical evidence attesting to the fact that when the term of a local governor in office expired, people who had suffered from him could complain about his wrong doings. As a result, many local governors who lost the suit also lost not only their property but also their hereditary property to pay for the plaintiff’s loses and court fines.

At zemsky councils of the XVII century, complaints took the form of reports of petitioners’ representatives “about different needs of the brotherhood”. A special department, *reketmeysterstvo*, dealing with petitions and complaints, was established during the reign of Peter the Great. The right to complain was granted or taken away in the same way as with property tributes. Thus, during the reign of Catherine II, serfs’ right to complain against their landlord was canceled by a special verdict. During the Soviet period of razdatok-economy, complaints remained the main signaling element. Any complaint incorporates three basic components. These are: dissatisfaction with the situation, its substantiation, and a request to resolve it. Thus the whole complex of complaints at any given period gives a complete picture of the problems in any particular branch of the economy. For example, in the 1960s, while industry was developing relatively successfully, the housing and social spheres were lagging behind. Eventually the flow of complaints helped to initiate the housing reform.

The Soviet economy developed the mechanism of complaint consideration and resolution to perfection. Every individual and economic executive manager had the right to complain, but not every complaint served as a guide to action. A critical mass of complaints at every

⁷ S. Soloviov, *The History of Russia from the Ancient Times*, 18 vols. (Moscow: Mysl, 1988), vol. 1, p. 215 (in Russian).

hierarchical level was necessary for them to be considered at the next level. The higher the rank of the person who complained, the greater the authority the complaint had. The situation could be easily explained. The higher the level of management hierarchy, the greater the number of economic units that needed coordination of their tribute and distribution flows. The order of priority and the quantity of resources allocated to resolve any particular complaint depended on the weight it gained. The quantity of complaints served as an indicator of balance in the system as a whole and at its levels in particular. Their minimization was the criterion of effectiveness of a manager's activities in razdatok-economy.

Thus, complaints appear to be not only a phenomenon of common culture of the people but also the most important signaling mechanism of operation for the razdatok-economy system.

Historic analysis of the development of the Russian economy shows how the razdatok-economy system formed and developed under objective conditions. The laws of this system are 1) service-labor organization, 2) balancing tribute and distribution flows, and 3) a mechanism of complaints which played the role of feedback. At every stage in the history of the Russian razdatok-economy, a specific management system was formed. It had to provide for the effective functioning of the razdatok-economy system as a whole. Periodically, with changes in the conditions of running the economy and a complication of the social structure, the management model becomes ineffective in dealing with the problems of economic development. The Russian economy has been experiencing one such period during the 1990s, at the stage of market reforms. As before, in the current stage of development a spontaneous search for new effective organizational forms is going on. As a result, razdatok-economy institutions will be improved.

§2. Institutional Changes in the Period of the Market Reforms

Market reforms of the 1990s in Russia represent the process of institutional transformation embracing all the branches of the economy. It was expected that in the course of the reforms the basic institution of ownership would be changed and market forms and methods would be introduced into the economic practice. Schematically the directions of the market transformation in the razdatok-economy are shown in Figure 1.1. The macro-economic environment of any society is determined by the dominant type of economic system (Box 1). The Russian economy in distinction to market economies, represents a *razdatok-economy*⁸.

⁸ O. Bessonova is the author of the principle propositions and notions of the theory of razdatok-economy in Russia. The term is used instead of the term "distributive" traditionally used to describe Russian economy. The term "razdatok-economy" means its objective character, formed historically and developed under the influence of material factors. For details, see "*The Razdatok-Economy as a Russian Tradition*",

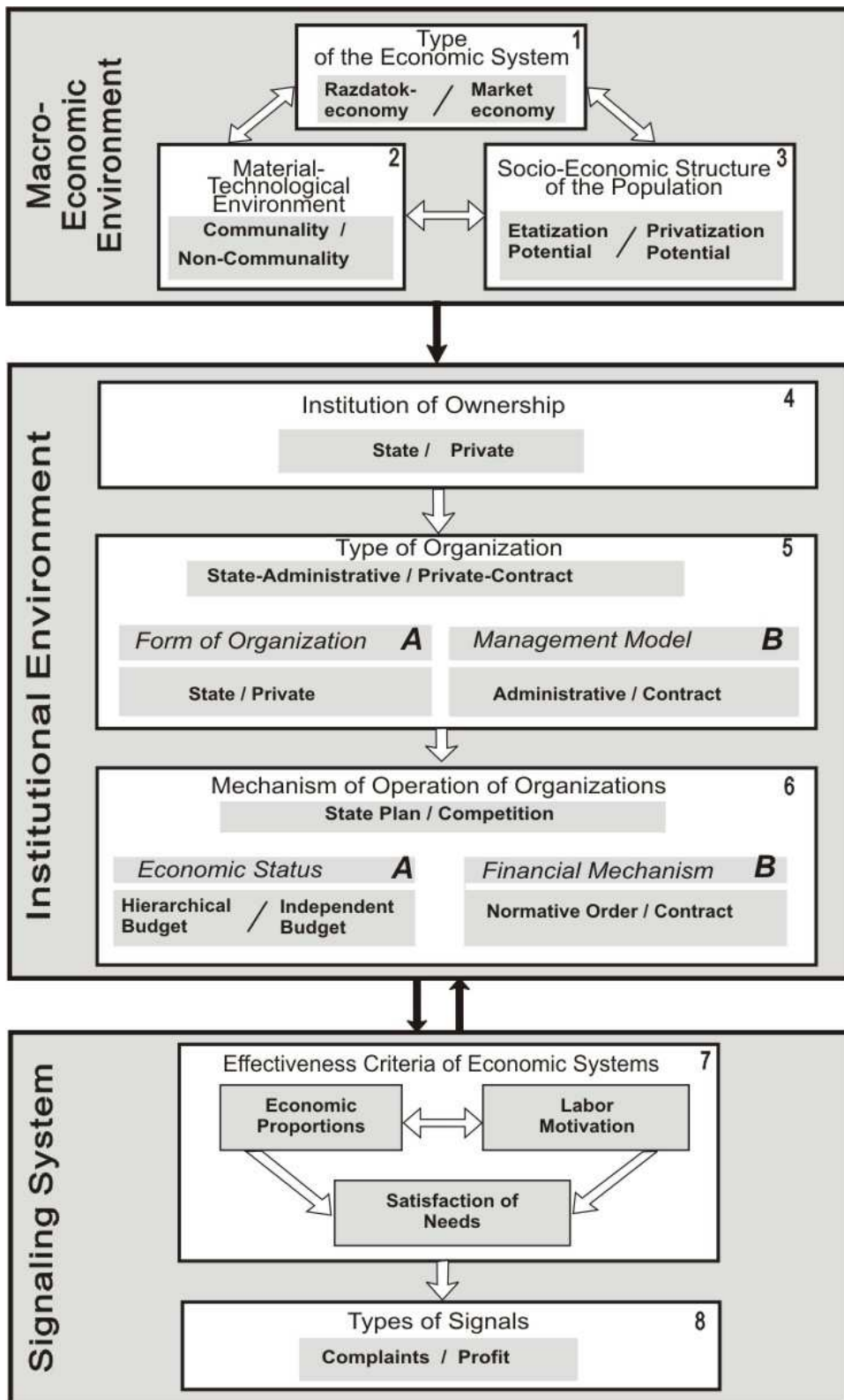


Figure 1.1. The Scheme of Institutional Changes Expected in the Razdatok-Economy in the Course of the Market Reforms

The basic law of operation for a modern razdatok-economy is the law of tribute and distribution flows, in kind and financially. A state plan based on the system of normatives and tariffs helped the central power bodies to maintain this correlation. Self-regulation of the razdatok-economy system was achieved with the mechanism of complaints playing the role of feedback. They reflected deviations in the quantity and quality of allocated resources (services) from the established normatives. Labor relations were regulated by the general law of obligatory service-labor based on staff rosters and wage levels. Such organization of the institutional environment determined the rules for the operation of all economic entities.

The razdatok-economy system is characteristic of societies with a high level of communality of the material-technological environment (Box 2).

Communality is an organization of the material-technological environment such that its parts present a unified inseparable system; isolation of any part could lead to the disintegration of the system as a whole. Society as a whole benefits from such communal infrastructure and it becomes a condition for the society's survival. Communal infrastructure is maintained and developed not by the totality of private entities which realize their own interests, but by the state standing for the public interests. It establishes an appropriate management system and through the central bodies determines the general rules for the use of the communal infrastructure for all economic entities.

In the course of the historical development of Russia, communality of the material-technological environment has been constantly increasing. At the same time, the center of mass was shifting more and more from the natural (land and mineral resources, forests, etc.) to the material-technical infrastructure. At present, communality is characteristic of all the branches of Russian economy. It is serviced by the unified energy system, the centralized heat and water supply systems, and the public railway transportation system.

Communality in housing manifests itself in the unified public life-support systems for the main part of the housing stock. The system is organized in such a way that established standards of service and rules of use are maintained in every part (unit) of it.

The character of the material-technological environment brings forth a certain socio-economic structure of the population (Box 3). The communal character of the environment is matched by the dominance in the structure of the population of groups recognizing the leading role of the state in providing the operation of the communal infrastructure. These groups of population comprise the **etatization**⁹ **potential** of the society.

⁹ Etatism (<Fr. *etate* state) means realization of the right for the state to actively participate in the economic life of the society.

Stability of the etatization potential is conditioned by the historic generational experience of struggling for survival. It has demonstrated that the razdatok-economy system is compatible with the communal character of the material-technological environment of the Russian society. As the majority of the population lives in the housing stock owned by the state, it determines the rules of use of the housing stock and bears the main maintenance expenses. It results in the formation of the etatization potential in housing.

A certain combination of the type of economic system, the character of the material-technological environment and the socio-economic structure of the population creates a macro-economic environment for every society which determines its economic life. The razdatok macro-economic environment with a communal infrastructure and a high etatization potential of the population are characteristic of Russia.

The market macro-economic environment is characterized by the non-communality of the material-technological environment and dominance of privatization potential of the population. **Non-communality** manifests itself in the technological independence of elements of the material infrastructure and their ability to function on their own. Market relations develop in a non-communal environment while the law of supply and demand serves as its main regulator. Under market economy conditions, groups oriented toward private means in the organization of economic life dominate in the socio-economic structure of the population. These means constitute the **privatization potential** of the population. Private housing is predominant in countries with a market economy. It takes the form of individually owned houses, a rental housing sector, or condominiums. Heat and hot water are usually supplied through the equipment installed directly in the buildings.

Both razdatok and market macro-economic environments form institutional environments corresponding to them. The nature of the institutional environment in its turn is characterized by the basic **institution of ownership** (Box 4).

State ownership is the basis for the modern razdatok-economy. The essence of the state ownership in the razdatok-economy is that the state, being the owner of the main resources, is responsible for their use in the interest of the society as a whole. The state distributes property and allots its parts to the economic entities, establishes the rules for the use of the property and the amount of production or services tribute for the economic entities. The state also establishes and adjusts all the economic relations.

Under **private ownership** in the market environment separate objects of property are owned by individuals, groups of people, or organizations which use them in their own interests; relations between economic entities are established by these entities themselves and are regulated by the laws of market economy.

The basic institution of ownership determines all the institutional elements of economic life, first of all the **forms of organization** of the economic entities (Box 5, A). State organizations dominate under **the state ownership**. The state form of organization means that it is established by the central or local power bodies that should supply it with all the necessary production resources. At the same time the state fully regulates all economic activities. In the market economy organizations established by private entities with the purpose of gaining profit dominate; in other words, the dominance of **private forms** is observed.

Management models (Box 5, B) formed both in the market and razdatok-economy institutional environment represent the means for the coordination of the economic operation of the entities which help to organize production in the most efficient way under specific historical conditions.

On the eve of the market reforms of the 1990s in Russia, the administrative management model was characteristic of the state organizations. The **administrative management model** is characterized by a hierarchical order where the lower management links are directly subordinated to the higher link accumulating all the financial and material resources.

In modern market economies a **contract model** represents the basic management model. Under this model all economic entities are independent and establish horizontal relationships between themselves on the basis of contracts.

The combination of the form of organization and the management model specifies the **type of organization** (Box 5). Each historical period in the development of the market or razdatok-economy is characterized by the dominance of a specific type of organization. **State-administrative organizations** were characteristic of the razdatok-economy in 1930-1980s. **Private-contract organizations** are characteristic of modern market economies in the West.

Institutional environments in market and razdatok-economies are characterized by different **mechanisms of operation** of organizations (Box 6). For the razdatok -economy of Russia on the eve of reforms **state plan** represented the mechanism of operation. It balanced tribute and distribution flows. The mechanism of **competition** sets the balance between supply and demand in the market economy.

The difference in the mechanisms of operation manifests itself in specific features of the economic status of organizations and operating financial mechanisms. The **economic status** characterizes the degree of economic independence of different organizations (Box 6, A).

Under state planning, a **hierarchical budget** of income and expenses is the essence of the economic status of the state-administrative organizations. This means that the budget of all lower-ranked administrative management levels was incorporated into the budget of

higher-ranked organizations. Thus within the framework of a hierarchical budget each top management link completely controlled the financial condition of its lower links. An **independent budget** is typical of private-contract organizations in the market institutional environment. Organizations implement financial policy independently within their budget.

Financial mechanism represents the means of acquiring financial resources and the rules of their spending (Box 6, B). For the state-administrative organizations in the razdatok-economy **normative order** represents the essence of their financial mechanism. It helped to determine the main sources of acquiring capital, its accumulation and spending. Normative order represents a unified system of normatives, i.e., qualitative indices determining the values of spending of all kinds of resources for the production of goods and services for all state organizations. Normatives are approved at the top management level of the state and make up the basis of the state plan. In private-contract organizations in the institutional market environment, financial mechanism is determined by **the contract conditions**.

Self-regulation of any economic system and the adjustment of the corresponding institutional environment are exerted on the basis of the feedback (or signaling) system. The signaling system incorporates the criteria of efficiency of economic systems and the types of signals which naturally reflect the degree to which the effectiveness criteria have been achieved.

Economic effectiveness criteria (Box 7) include three interdependent groups of indicators. **Economic proportions** show the basic relationships in using the production resources to the best **satisfaction of needs**. Within any branch of an economy this is the proportion between the money spent on the management and organization of the production process, material expenditures, services, and wage expenses. The wage level together with other labor stimuli specify the **labor motivation** in organizations of different type for all categories of employees, from an ordinary worker to a manager.

While the effectiveness criteria are identical for the market and razdatok-economy systems, **types of signals** (Box 8) are different.

Profit, the excess of income over expenses, is the main type of signal in the market economy. Gaining profit for private organizations is the condition for their survival in a non-communal environment. If the majority of organizations work stable with profit, then the market economy is in a condition of sustainable development. If the majority of organizations do not gain profit and go bankrupt, then the market economy enters a period of crisis.

The system of **complaints** is the main type of signal in the razdatok-economy that serves as an indicator of the malfunctioning of the economic system. At every historical stage such an institutional mechanism is

formed that it permits complaints to best play the role of the signaling system. To this end the order of consideration of complaints submitted by economic entities or the population is determined in all the spheres of the razdatok-economy. The rules for submitting and registering complaints as well as the period of time to respond to them are determined for all the hierarchical management levels on the state level. At all the levels of the economic system there are people specifically appointed to deal with complaints. Also, in the working schedule of every manager, reception hours are set to meet with the population to deal with their complaints in his sphere of competence.

If the problems designated in complaints are being solved in a timely manner at the levels where they are made, the economic system is in a condition of sustainable development. If the level of complaints exceeds the norm, they are collected at either the level of organizations, at the branches of industry, or in the territories. Then they are either publicized in the mass-media or sent directly to the central state bodies. When such complaints become mass in scale, they indicate that the razdatok-economy is in crisis. Global socio-economic reforms are carried out during these periods to solve the existing problems. These periods represent periods of institutional changes as the institutional environment of the economic system is renewed.

A recent transformation period of institutional changes in Russia fell in the 1980-90s. Its essence was an attempt to introduce the relations of a market economy, to replace the basic institution of state ownership and the main elements of the institutional environment. Privatization and the introduction of market economic models were the mechanisms of transition to private ownership that became the content of the national market experiment in Russian razdatok-economy.

The market experiment embraced all branches of the economy. In housing, replacement of relations of razdatok-economy by market economy relations was the aim of the transformation of state housing ownership and the introduction of corresponding changes in the rules of operation of housing maintenance organizations.

First, the rules of allocation of the resources available to housing maintenance organizations had to be changed. In the razdatok-economy, the amount of material and financial resources necessary to the housing maintenance organizations was allocated by the state bodies on the basis of plan according to the share of public housing stock these organizations maintained. They were also given the facilities and the necessary equipment. In the market economy in conditions of competition the amount of necessary capital is received by selling services to the customer while the facilities and equipment are either leased or bought.

Second, in the course of the market transformation, the rules of rendering services to the residents had to be changed. In the razdatok-economy, maintenance organizations rendered a given set of services. State

resources and finance were allocated to them to this end. Costs, maintenance organizations bore, were mostly reimbursed directly from the state budget and through the housing fee. Housing fee was collected from residents of the state housing according to the unified normative proportionately to the floorspace of occupied dwelling. On the eve of the reforms the normative of housing fee amounted to 0.17 ruble per square meter of dwelling. In the market economy the range and the quality of services are determined solely by the consumers' needs. The amount of collected apartment rent should cover completely the maintenance expenses.

Third, the rules of acceptance into organizations rendering maintenance services had to be changed. In the *razdatok*-economy, workers were accepted into organizations for an unlimited term and submitted their *service record* (Russian *trudovaya knizhka*), a life-time document given to all workers by the state organization where they worked. It indicated the kinds of work performed by the worker and kinds of rewards and incentives received for the work done. Attachment to a working place gave not only the possibility to receive salary, but also the right to receive public housing, medical services, social insurance, etc. In the market economy, workers are accepted for the term stated in the contract. Usually their wages is the only remuneration they receive for their work. All other goods and services necessary for living are bought by the employee on their own.

Fourth, in the course of market reforms the rules of assessing the operation of housing maintenance organizations had to be changed. In the *razdatok*-economy system the absence of complaints of residents living in the housing stock serviced by the housing maintenance organizations indicates the successfulness of their operation. In the market economy, profit gained by housing maintenance organizations becomes the indicator of their success. It means that consumers pay for the services rendered to them indicating that they are satisfied with the quality of service. These changes in the rules of operation of housing maintenance organizations would mean the replacement of the *razdatok* institutional environment in housing by the market environment.

The basic institution of ownership had to change at the same time. In the housing sphere, instead of one proprietor represented by the state, a large number of private owners would appear. Thus the institutional environment would change and its elements would acquire a market nature. It would mean the emergence and growth of a new type of private-contract organization in housing maintenance.

In housing, the market experiment took the form of the Demonstration projects put into operation in several cities of Russia pursuant to the Agreement on Technical Assistance between the governments of the Russian Federation and the United States of America. On the eve and in the course of realization of the Demonstration projects from 1992 to 1996

in the city of Novosibirsk, economic-sociological monitoring of the market experiment in housing was conducted under financial support of the United States Agency for International Development. Each stage of monitoring reflected considerable changes in the character of the institutional environment connected with the emergence of new types of housing maintenance organizations (Figure 1.2).

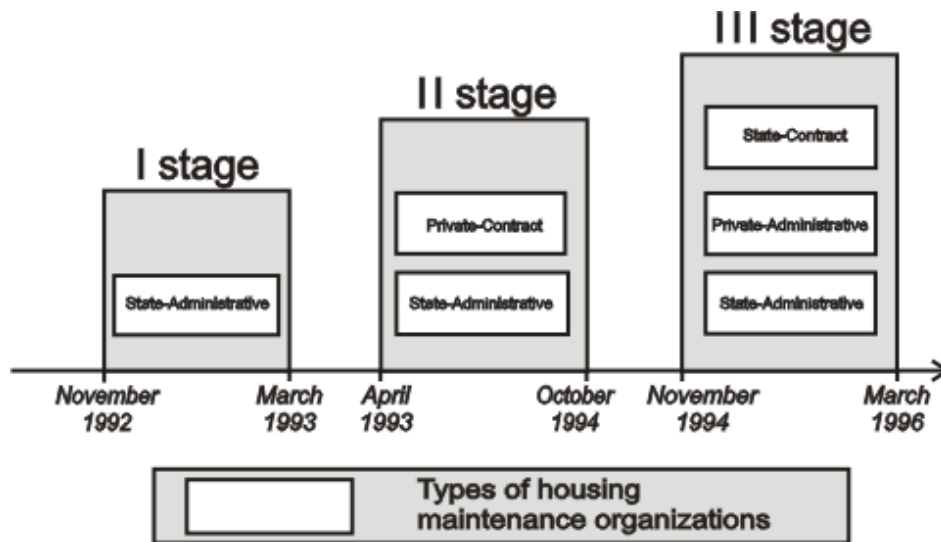


Figure 1.2. Stages of the Economic-Sociological Monitoring of the Market Experiment

Before the market reforms were started, organizations of the state-administrative type represented by housing trusts had operated in the sphere of housing maintenance. These organizations were the objects of the **first stage** of monitoring

The **second stage** of monitoring started when the market experiment in the form of the Demonstration projects was initiated. During this period, along with housing trusts, management companies became active. They were chosen on a competitive basis and entered into contracts for housing maintenance. They represented the private-contract type of organization. A contract management model and a new mechanism of operation were tested in these organizations.

The **third stage** of monitoring institutional changes was connected with the emergence of new types of organizations in housing. On the one hand, private-contract organizations working under the Demonstration projects were replaced by a type of **private-administrative organizations**. These organizations, being private in form, used the administrative management model. On the other hand, some state housing maintenance organizations of the administrative type were transformed into **state-contract organizations**. They were state in form, but began to use the new contract management model.

The goal of monitoring institutional changes in one of the branches of the razdatok-economy — housing — was to make a comparative analysis of the mechanisms of operation for organizations of all types and to find an institutionally stable type among them, one capable of effective operation at the current stage of development of economy in Russia.

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Thus the experiment realized in the form of the Demonstration projects became a part of the market reform in the public housing system and also the razdatok-economy of Russia.

The reform was oriented toward mass housing privatization and the development of private management in maintaining the housing stock in different forms of possession. If the set goals were realized, the market management forms and methods offered under the Demonstration projects would completely replace the state structure of housing management. Such a change in the institutional environment expected to occur in other branches of the economy as well would result in the development of a market economy.

To return to the old system of economic relations and restore the administrative management methods is an alternative to the above method. It would mean the rejection of the market management methods and the inability for the razdatok-economy to reform.

These two ways were, as a rule, considered to be the most probable results for the development of the market reform in Russia in the 1990s.

But how probable is a third way for the development of a reform? Is it possible that during the experimental period various institutional elements of the market economy will be tested and as a result, such management models will be found that will make it possible to effectively solve the problems of the razdatok-economy accumulated in 1930-1980s?

The answer to this question was received in the course of the economic-sociological monitoring of the market experiment in the Russian housing economy described in this book.